

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

**RATINGS: BAM Insured S&P “AA”**

**Moody’s Underlying Rating: “A3”**

**See “MUNICIPAL BOND RATINGS” AND “BOND INSURANCE”**

*Delivery of the Bonds is subject to the opinion of McCall, Parkhurst & Horton, LLP, Bond Counsel to the District, to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under statutes, regulations, published rulings and court decisions existing on the date thereof, subject to the matters described under "TAX MATTERS" herein. THE DISTRICT HAS DESIGNATED THE BONDS AS “QUALIFIED TAX-EXEMPT OBLIGATIONS.” See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions” herein.*

**\$4,325,000**

**Williamson County Water, Sewer, Irrigation, and Drainage District No. 3**

**(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**Dated: February 14, 2019**

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

The \$4,325,000 Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 Unlimited Tax Refunding Bonds, Series 2019 (the “Bonds”) constitute obligations solely of Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 (the “District”) and are not obligations of the State of Texas (the “State”); the City of Hutto, Texas; Williamson County, Texas; Travis County, 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 February 14, 2019, and is payable September 1, 2019, and each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds will be initially registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY-SYSTEM.” The initial Paying Agent/Registrar is UMB Bank, N.A., Austin, Texas. The Bonds are being issued to currently refund a portion of the District’s outstanding Unlimited Tax Bonds, Series 2011, and Unlimited Tax Refunding Bonds, Series 2012 to achieve a debt service savings and pay the costs of issuing the Bonds. See “PLAN OF FINANCING.”

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



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

The Bonds are offered when, as and if issued by the District, subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by McCall, Parkhurst & Horton L.L.P., Austin, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by their counsel, Hunton Andrews Kurth LLP, Houston, Texas. The Bonds in definitive form are expected to be available for delivery through DTC, on February 14, 2019.

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

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

**MATURITY SCHEDULE\***  
**(Due September 1)**

CUSIP Prefix: 970007

Due	Principal Amount	Interest Rate	Initial		Due	Principal Amount	Interest Rate	Initial		
			Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>				Reoffering Yield <sup>(b)</sup>	CUSIP Suffix <sup>(c)</sup>	
2019	\$ 70,000	3.000%	2.150%	QM5	2028 <sup>(a)</sup>	\$ 645,000	4.000%	2.860%	QW3	
2020	5,000	3.000%	2.300%	QN3	2029 <sup>(a)</sup>	245,000	4.000%	3.000%	QX1	
2021	5,000	3.000%	2.350%	QP8	2030 <sup>(a)</sup>	260,000	4.000%	3.110%	QY9	
2022	5,000	3.000%	2.400%	QQ6	2031 <sup>(a)</sup>	***	***	***	***	
2023	5,000	3.000%	2.500%	QR4	2032 <sup>(a)</sup>	***	***	***	***	
2024	5,000	3.000%	2.600%	QS2	2033 <sup>(a)</sup>	***	***	***	***	
2025	5,000	3.000%	2.700%	QT0	2034 <sup>(a)</sup>	590,000	4.000%	3.320%	RA0	
2026	580,000	4.000%	2.610%	QU7	2035 <sup>(a)</sup>	1,035,000	4.000%	3.390%	RB8	
2027 <sup>(a)</sup>	615,000	4.000%	2.730%	QV5						
\$255,000 4.000% <sup>(a)</sup> Term Bond due September 1, 2033* Yield <sup>(b)</sup> 3.290% CUSIP QZ6 <sup>(c)</sup>										

- (a) Redemption Provisions: The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, the Bonds maturing on and after September 1, 2027, in whole or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Bonds maturing September 1, 2033 (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 allowable redemption date. The initial yields at which the Bonds will be priced will be established by and will be the sole responsibility of the Underwriter (as herein defined). The yields may be changed at any time at the discretion of the Underwriter.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligences on behalf of the American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services provided by CUSIP Global Services. None of the Underwriter, the District, or the Financial Advisor is responsible for the selection or correctness of the CUSIP numbers set forth herein.

**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 C - Specimen Municipal Bond Insurance Policy”.**

**TABLE OF CONTENTS**

USE OF INFORMATION IN PRELIMINARY OFFICIAL STATEMENT .....	4	Future Development.....	36
SALE AND DISTRIBUTION OF THE BONDS.....	4	Strategic Partnership Agreement.....	36
Underwriting .....	4	THE DEVELOPERS.....	36
Prices and Marketability.....	4	Role of Developers.....	36
Securities Laws.....	4	Description of the Developers.....	36
MUNICIPAL BOND RATINGS.....	5	Utility Construction Agreements.....	38
BOND INSURANCE.....	5	Agricultural Waiver .....	39
Bond Insurance Policy.....	5	THE SYSTEM.....	39
Build America Mutual Assurance Company.....	5	Regulation.....	39
OFFICIAL STATEMENT SUMMARY.....	7	Water Supply and Distribution.....	39
THE DISTRICT.....	7	Wastewater Collection and Treatment .....	40
THE BONDS.....	8	Storm Drainage.....	40
INVESTMENT CONSIDERATIONS.....	9	100-Year Flood Plain.....	40
SELECTED FINANCIAL INFORMATION .....	10	Water and Wastewater Operations Rate and Fee Schedule - Table 1.....	41
INTRODUCTION .....	12	Operating Revenues and Expenses Statement - Table 2.....	42
PLAN OF FINANCING .....	12	DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3 .....	43
Purpose.....	12	FINANCIAL STATEMENT.....	44
The Refunded Bonds.....	13	Assessed Value - Table 4.....	44
The Remaining Outstanding Bonds.....	14	Unlimited Tax Bonds Authorized but Unissued - Table 5.....	44
The Escrow Agreement .....	14	Outstanding Bonds - Table 6.....	45
Sources and Uses of Funds.....	15	Cash and Investment Balances - Table 7.....	45
THE BONDS.....	15	Investment Authority and Investment Practices of the District.....	45
General Description.....	15	Current Investments - Table 8.....	47
Redemption.....	15	Estimated Overlapping Debt Statement .....	47
DTC Redemption Provision .....	16	Overlapping Taxes for 2018.....	48
Termination of Book-Entry-Only System.....	16	TAX DATA.....	49
Replacement Bonds.....	17	Classification of Assessed Valuation - Table 9.....	49
Authority for Issuance.....	17	Tax Collections - Table 10.....	49
Source of and Security for Payment.....	17	District Tax Rates - Table 11 .....	50
Payment Record .....	17	Tax Rate Limitation .....	50
Flow of Funds.....	17	Maintenance Tax.....	50
Defeasance of Outstanding Bonds.....	18	Principal Taxpayers - Table 12 .....	50
Paying Agent/Registrar .....	19	Tax Adequacy for Debt Service .....	51
Record Date.....	19	Debt Service Fund Management Index .....	51
Issuance of Additional Debt.....	19	TAXING PROCEDURES.....	51
Legal Investment and Eligibility to Secure Public Funds in Texas.....	19	Authority to Levy Taxes .....	51
Specific Tax Covenants.....	20	Property Tax Code and County Wide Appraisal District .....	51
Additional Covenants.....	20	Property Subject to Taxation by the District .....	52
Remedies in Event of Default.....	20	Valuation of Property for Taxation .....	52
Consolidation .....	20	District and Taxpayer Remedies .....	53
Annexation .....	21	Levy and Collection of Taxes .....	53
Alteration of Boundaries .....	21	District's Rights In The Event Of Tax Delinquencies.....	53
Approval of the Bonds.....	21	Effect of FIRREA on Tax Collections .....	54
Amendments to the Bond Order.....	21	LEGAL MATTERS.....	54
BOOK-ENTRY-ONLY SYSTEM.....	21	No-Litigation Certificate.....	54
INVESTMENT CONSIDERATIONS.....	23	VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS.....	54
General.....	23	TAX MATTERS.....	55
Factors Affecting Taxable Values and Tax Payments.....	23	Opinion .....	55
Tax Collections and Foreclosure Remedies.....	24	Federal Income Tax Accounting Treatment of Original Issue	
Registered Owners' Remedies .....	24	Discount.....	55
Bond Insurance Risks.....	24	Collateral Federal Income Tax Consequences.....	56
Bankruptcy Limitation to Registered Owners' Rights.....	25	State, Local and Foreign Taxes .....	56
The Effect of the Financial Institutions Act of 1989 on Tax		Qualified Tax-Exempt Obligations for Financial Institutions .....	56
Collections of the District.....	25	CONTINUING DISCLOSURE OF INFORMATION.....	57
Marketability .....	26	Annual Reports .....	57
Continuing Compliance with Certain Covenants.....	26	Notice of Certain Events .....	57
Future Debt.....	26	Availability of Information from MSRB.....	58
No Requirement to Build on Developed Lots.....	26	Limitations and Amendments .....	58
Forward-Looking Statements .....	26	Compliance with Prior Undertakings .....	58
Future and Proposed Legislation .....	26	FINANCIAL ADVISOR.....	58
Environmental Regulation.....	26	UNDERWRITING.....	58
Drought Conditions .....	28	OFFICIAL STATEMENT .....	58
LOCATION MAP.....	29	Preparation.....	58
THE DISTRICT.....	29	Consultants.....	59
General.....	30	Annual Audits.....	59
Management of the District .....	30	PHOTOGRAPHS.....	60
Location.....	31	APPENDIX A – Audited Financial Statements	
Historical and Current Status of Development .....	31	APPENDIX B – Form of Bond Counsel Opinion	
		APPENDIX C – Specimen Municipal Bond Insurance Policy	

## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

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

NEITHER THE DISTRICT NOR THE FINANCIAL ADVISOR OR THE UNDERWRITER MAKES ANY REPRESENTATION OR WARRANTY WITH RESPECT TO THE INFORMATION CONTAINED IN THIS OFFICIAL STATEMENT REGARDING THE DEPOSITORY TRUST COMPANY OR ITS BOOK-ENTRY-ONLY SYSTEM.

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

## SALE AND DISTRIBUTION OF THE BONDS

### Underwriting

The Underwriter listed on the cover page of this Official Statement has agreed, subject to certain conditions, to purchase the Bonds from the District for \$4,552,476.36 (an amount equal to the principal amount of the Bonds, plus an original issue premium of \$270,462.45, less an Underwriter's discount of \$42,986.09).

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

### Prices and Marketability

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

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

### Securities Laws

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

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

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

statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. See "INVESTMENT CONSIDERATIONS- Forward-Looking Statements."

### **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 delivery of the Bonds. Additionally, Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating of "A3" to the Bonds.

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

### **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 exhibit to this Official Statement.

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

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

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

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

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

### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$524 million, \$104.1 million and \$419.9 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/creditinsights/](http://buildamerica.com/creditinsights/). (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.

*(The remainder of this page intentionally left blank)*

**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 ..... Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 (the “District”), was legislatively created by House Bill 2528, Acts of the 70<sup>th</sup> Texas Legislature, Regular Session, 1987 Texas General Laws, Chapter 650, now codified as Chapter 8486, Texas Special Districts Local Laws Code, (the “Special Act”), as a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution and operates under Chapters 49 and 54, Texas Water Code, as amended.

The District was created to provide water, wastewater, irrigation and drainage services to the property within the District, which is currently being developed as a mixed-use development including single-family residential, multi-family residential, retail, commercial, as well as a golf course and clubhouse. The District has entered into utility construction agreements with certain developers within its boundaries in order to facilitate the construction of water, wastewater, irrigation and drainage facilities to serve property within its boundaries. See “THE DISTRICT – General.”

Location ..... The District includes approximately 738.32 acres of land primarily located in the extraterritorial jurisdiction of the City of Hutto and is situated in southeastern Williamson County and in northeastern Travis County, Texas. The District is located immediately north of Priem Lane and immediately west of the State Highway 130 Toll Road. The northern part of the District lies approximately two miles south of the intersection of FM 685 and US Highway 79 (US 79). See "THE DISTRICT - Location."

The Developers ..... Five entities previously developed the single-family residential property within the District including: (i) SR Investments, Ltd., a Texas limited partnership whose general partner is Commerce Texas Properties, Inc., a Texas corporation (“SRI”); (ii) KPKM II Ventures, Ltd., a Texas limited partnership (“KPKMII”); (iii) PK-Tack, Ltd., a Texas limited partnership (“PK Tack”); (iv) Len-Buf Land Acquisition of Texas, LP, a Texas limited partnership (“Len-Buf”); and (v) PH SLII, LP, a Texas limited partnership. Other entities that have completed construction or that are currently constructing either residential or commercial property within the District include: HEB Grocery Company, L.P.; KB Home Lone Star, Inc. (“KB Home”); Central Southwest Texas Development, LLC; SR Station LLC; Muirfield Townhomes, LLC; and Brushy Creek Ltd. Additionally, Star Golf Development, Inc. has completed constructing utility improvements along Muirfield Bend Drive and Klattenhoff Lane. See “THE DEVELOPERS – Description of Developers” and “THE DISTRICT – Historical and Current Status of Development.”

Status of Development ..... Development of the District commenced in 2000, and, as of January 7, 2019, approximately 615.91 acres (or 86.98% of the approximately 708 developable acres within the District) have been or are currently being developed with utility facilities. Approximately 286 acres have been developed as the single family residential subdivisions of: Star Ranch Sections 1, 2, 3, 5-1, 5-2, 7-1A, 7-1B, and Villas at Star Ranch Townhomes (131 freestanding condominium units); Forest Creek Sections 34, 35, 36, 37, 38 and 39; and Silver Leaf Section 1, Phase 1 and 2 encompassing a total of 1,101 developed single family lots and 81 developed duplex unit lots, which includes 1,101 completed single-family homes and 81 completed duplex units. Multi-family development includes the Marquis at Star Ranch Apartments (402 completed apartment units), the Links at Forest Creek Apartments (220 completed apartment units), and the Fairways at Star Ranch Apartments (396 completed apartment units).

Additional multi-family development includes the Double Eagle Townhomes (62 completed townhome units), and the Brushy Creek Townhomes (46 completed townhome units). Additional development within the District includes a daycare center, a 40,600 square foot medical/office building, a 55,951 square foot nursing home, the Longhorn Business Park office complex, and the Star Ranch Golf Course and Clubhouse. Additionally, HEB Grocery Company, L.P. completed an approximately 120,000 square foot HEB Plus grocery store on approximately 30 acres in November 2016. Two additional retail centers, called Star Ranch Plaza (1.469 acres; approximately 15,000 square feet) and Star Ranch Station (1.738 acres; approximately 15,000 square feet) have been completed within the District. Two additional retail centers, called Star B Retail (1.56 acres) and Star Ranch Market (3.88 acres) were completed in October and December 2018, respectively. Additionally, Star Golf Development, Inc. has completed utility improvements along Muirfield Bend Drive and Klattenhoff Lane. See “THE DISTRICT – Historical and Current Status of Development.”

Builder..... KB Home recently constructed freestanding townhomes in the Villas at Star Ranch Townhomes and has represented that the sales prices of townhomes constructed generally range from approximately \$206,995

to \$252,995 with square footage ranging from approximately 1,340 to 2,708.

### THE BONDS

Description .....	The Bonds in the aggregate principal amount of \$4,325,000 mature serially in varying amounts on September 1 of each of the years 2019 through 2030, inclusive, and 2034 through 2035, and as a Term Bond which matures September 1, 2033, as set forth on the inside cover page hereof. Interest accrues from the date of delivery, currently anticipated to be February 14, 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 earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS - General Description."
Redemption .....	The District reserves the right to redeem, prior to maturity, in integral multiples of \$5,000, those Bonds maturing on and after September 1, 2027, in whole or from time to time in part, on September 1, 2026, or on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bond maturing September 1, 2033 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." <b>The Bonds are obligations solely of the District and are not obligations of the City of Hutto, Texas; Williamson County, Texas; Travis County, Texas; the State of Texas; or any entity other than the District.</b> See "THE BONDS - Source of and Security for Payment."
Payment Record .....	The District has previously issued ten (10) installments of new money bonds and five (5) installments of refunding bonds. The District has never defaulted on the timely payment of principal and interest on its previously issued obligations. The proceeds of each installment of new money bonds included up to 24 months of capitalized interest. See "FINANCIAL STATEMENT - Outstanding Bonds."
Authority for Issuance .....	The Bonds are being issued pursuant to Article XVI, Section 59 of the Texas Constitution, 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, the Special Act, an order adopted by the Board of Directors of the District on August 15, 2018 and a pricing certificate executed by the pricing officer as designated in the order (the order and the pricing certificate are collectively referred to herein as the "Bond Order"). See "THE BONDS - Authority for Issuance."
Use of Proceeds .....	Proceeds from the sale of the Bonds will be used to (i) establish an escrow fund to currently refund \$1,950,000 of the District's Unlimited Tax Bonds, Series 2011 and \$2,345,000 of the District's Unlimited Tax Refunding Bonds, Series 2012 (collectively, the "Refunded Bonds"), to achieve a debt service savings; and (ii) pay the costs of issuing the Bonds. See "PLAN OF FINANCING."
Bonds Authorized But Unissued .....	At elections held within the District on November 7, 2000 and May 12, 2012, voters within the District authorized a total of \$41,150,000 in new money bonds for water, wastewater, and drainage facilities, of which none remains authorized but unissued. See "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized but Unissued" and "THE BONDS". Additionally, the District has voted authority to issue refunding bonds pursuant to the election proposition in an aggregate principal amount not to exceed one and one-half times the amount of bonds or other obligations issued. The District is therefore authorized to issue \$61,725,000 aggregate principal amount of refunding bonds. The District has previously issued five series of refunding bonds, which used \$3,716,403.81 in refunding authorization, and the issuance of the Bonds uses an additional \$2257,476.36 of the District's voted authorization of refunding bonds. After the issuance of the bonds, \$57,751,119.83 of voted authorization of refunding bonds will remain unissued.

Municipal Bond Rating

and 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 “A3” to the Bonds.

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

Qualified Tax-Exempt

Obligations ..... The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to section 265(b) of the Internal Revenue Code of 1986, as amended, and has represented that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2019 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations for Financial Institutions.”

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

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

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

**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.

*(The remainder of this page intentionally left blank)*

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

2018 Certified Assessed Valuation	\$527,298,108	(a)
Estimated Assessed Valuation as of August 23, 2018	\$542,842,772	(b)
Gross Debt Outstanding (after issuance of the Bonds)	\$ 36,180,000	(c)
Ratio of Gross Debt to 2018 Certified Assessed Valuation	6.86%	
Ratio of Gross Debt to Estimated Assessed Valuation as of August 23, 2018	6.66%	
2018 Tax Rate		
Debt Service	\$ 0.4820	
Maintenance	<u>0.2410</u>	
<b>Total 2018 Tax Rate</b>	<u>\$ 0.7230</u>	(d)
Debt Service Fund Balance (as of January 9, 2019)	\$ 1,134,778	(e)
Percentage of current tax collections (Tax Years 2005-2017)	98.62%	(f)
Percentage of total tax collections (Tax Years 2005-2017)	99.58%	(f)
Average Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Average Requirement") (2019-2035, inclusive)	\$ 2,558,746	
Tax Rate required to pay Average Requirement based upon 2018 Certified Assessed Valuation at 95% collections	\$ 0.52	/\$100 AV
Tax Rate required to pay Average Requirement based upon Estimated Assessed Valuation as of August 23, 2018 at 95% collections	\$ 0.50	/\$100 AV
Maximum Annual Debt Service Requirement of the Bonds and Outstanding Bonds ("Maximum Requirement") (2035)	\$ 2,595,463	
Tax Rate required to pay Maximum Requirement based upon 2018 Certified Assessed Valuation at 95% collections	\$ 0.52	/\$100 AV
Tax Rate required to pay Maximum Requirement based upon Estimated Assessed Valuation as of August 23, 2018 at 95% collections	\$ 0.51	/\$100 AV
Number of active connections as of December 1, 2018		
Single Family - Occupied	1180	
Single Family - Vacant	1	
Single Family - Builder	46	
Single Family - Vacant Builder	1	
Duplex/Townhome	60	
Multifamily (1,018 total units/ 967 units occupied)	225	
Commercial	32	
School	1	
Other	<u>8</u>	
<b>Total Number of Active Connections</b>	<b>1554</b>	
Estimated Population as of December 1, 2018	6,548	(g)

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

- (a) Assessed valuation of the District as of January 1, 2018 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation of the District as of August 23, 2018 as provided by WCAD and TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds, excludes the Refunded Bonds.
- (d) The District levied a 2018 tax rate of \$0.7230 at its meeting in September 2018.
- (e) Unaudited as of January 9, 2019. Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) See "TAX DATA – Tax Collections."
- (g) Based upon 3.5 residents per occupied single-family home and 2.5 residents per occupied multi-family unit, townhome unit and duplex unit. According to the leasing staff at the Fairways at Star Ranch, the apartment units, as of August 16, 2018, were 93% occupied (368 units out of 396 units). According to the leasing staff at the Links at Forest Creek, the apartment units, as of August 16, 2018, were 92% occupied (202 units out of 220 units). According to the leasing staff at the Marquis at Star Ranch, the apartment units, as of August 16, 2018, were 97% occupied (390 units out of 402 units).

*(The remainder of this page intentionally left blank)*

**OFFICIAL STATEMENT  
relating to**

**\$4,325,000**

**Williamson County Water, Sewer, Irrigation, and Drainage District No. 3  
(A Political Subdivision of the State of Texas Located in Williamson and Travis Counties, Texas)**

**UNLIMITED TAX REFUNDING BONDS, SERIES 2019**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance by Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 (the "District") of its \$4,325,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to an order adopted by the Board of Directors of the District on August 15, 2018, a pricing certificate executed by the pricing officer as designated in the order (the order and the pricing certificate are collectively referred to herein as the "Bond Order"), the Constitution and general laws of the State of Texas (the "State") including House Bill 2528, Acts of the 70<sup>th</sup> Texas Legislature, Regular Session, 1987 Texas General Laws, Chapter 650, now codified as Chapter 8486, Texas Special Districts Local Laws Code (the "Special Act"), Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District c/o Armbrust & Brown PLLC, 100 Congress Avenue, Suite 950, Austin, Texas, 78701 or from the District's Financial Advisor, Public Finance Group LLC, 900 South Capital of Texas Highway, Building IV, Suite 475, Austin, Texas, 78746, upon payment of reasonable copying, mailing and handling charges.

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

**PLAN OF FINANCING**

**Purpose**

The Bonds are being issued to achieve a debt service savings in the years 2019 through 2035, inclusive, by refunding \$1,950,000 of the District's Unlimited Tax Bonds, Series 2011 and \$2,345,000 of the District's Unlimited Tax Refunding Bonds, Series 2012 (collectively, the "Refunded Bonds"). See "DEBT SERVICE REQUIREMENTS."

*(The remainder of this page intentionally left blank)*

**The Refunded Bonds**

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

<b>Year</b>	<b>Series 2011</b>	<b>Series 2012</b>	<b>Total</b>
2019	-	-	-
2020	-	-	-
2021	-	-	-
2022	5,000	-	5,000
2023	5,000	-	5,000
2024	5,000	-	5,000
2025	5,000	-	5,000
2026	5,000	580,000	585,000
2027	5,000	615,000	620,000
2028	5,000	645,000	650,000
2029	5,000	245,000	250,000
2030	5,000	260,000	265,000
2031	5,000	-	5,000
2032	5,000	-	5,000
2033	250,000	-	250,000
2034	600,000	-	600,000
2035	1,045,000	-	1,045,000
	<b>\$ 1,950,000</b>	<b>\$ 2,345,000</b>	<b>\$ 4,295,000</b>
<b>Redemption Date:</b>	3/21/2019	3/21/2019	

At elections held within the District on November 7, 2000 and May 12, 2012, voters within the District authorized a total of \$41,150,000 in new money bonds for water, wastewater, irrigation and drainage facilities, of which none remains authorized but unissued (collectively, the “Bond Election”). See “FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized but Unissued” and “THE BONDS.” Additionally, the District has voted authority to issue refunding bonds pursuant to the election proposition in an aggregate principal amount not to exceed one and one-half times the amount of bonds or other obligations issued. All authorized new money bonds have been issued, and the District is authorized to issue \$61,725,000 aggregate principal amount of refunding bonds. The District has previously issued five (5) series of refunding bonds, which used \$3,716,403.81 in refunding authorization, and the issuance of the Bonds uses an additional \$257,476.36 of the District’s voted authorization of refunding bonds. After the issuance of the bonds, \$57,751,119.83 of voted authorization of refunding bonds will remain unissued.

*(The remainder of this page intentionally left blank)*

## The Remaining Outstanding Bonds

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

Year	Series 2010A	Series 2011	Series 2012	Series 2013	Series 2013A	Series 2013B	Series 2015	Series 2015A	Series 2016	Series 2017	The Bonds	Total
2019	5,000	5,000	685,000	10,000	10,000	5,000	220,000	5,000	85,000	275,000	70,000	1,375,000
2020	5,000	5,000	685,000	20,000	10,000	5,000	215,000	25,000	85,000	275,000	5,000	1,335,000
2021	5,000	5,000	715,000	100,000	10,000	5,000	210,000	25,000	85,000	225,000	5,000	1,390,000
2022	-	-	500,000	125,000	10,000	5,000	230,000	25,000	410,000	125,000	5,000	1,435,000
2023	-	-	530,000	125,000	10,000	5,000	230,000	25,000	415,000	125,000	5,000	1,470,000
2024	-	-	530,000	125,000	15,000	5,000	255,000	25,000	415,000	125,000	5,000	1,500,000
2025	-	-	555,000	150,000	15,000	5,000	250,000	25,000	435,000	125,000	5,000	1,565,000
2026	-	-	-	150,000	15,000	5,000	275,000	25,000	440,000	100,000	580,000	1,590,000
2027	-	-	-	150,000	15,000	5,000	270,000	25,000	465,000	100,000	615,000	1,645,000
2028	-	-	-	150,000	15,000	5,000	290,000	50,000	475,000	100,000	645,000	1,730,000
2029	-	-	-	175,000	415,000	5,000	310,000	50,000	500,000	100,000	245,000	1,800,000
2030	-	-	-	200,000	405,000	5,000	305,000	50,000	500,000	125,000	260,000	1,850,000
2031	-	-	-	225,000	425,000	5,000	325,000	50,000	530,000	350,000	5,000	1,915,000
2032	-	-	-	225,000	-	5,000	345,000	50,000	630,000	725,000	5,000	1,985,000
2033	-	-	-	225,000	-	5,000	340,000	75,000	315,000	825,000	245,000	2,030,000
2034	-	-	-	250,000	-	850,000	-	75,000	355,000	5,000	590,000	2,125,000
2035	-	-	-	250,000	-	875,000	-	75,000	-	5,000	1,035,000	2,240,000
2036	-	-	-	250,000	-	900,000	-	75,000	-	1,100,000	-	2,325,000
2037	-	-	-	-	-	950,000	-	100,000	-	1,350,000	-	2,400,000
2038	-	-	-	-	-	-	-	1,200,000	-	-	-	1,200,000
2039	-	-	-	-	-	-	-	1,275,000	-	-	-	1,275,000
2040	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 15,000</u>	<u>\$ 15,000</u>	<u>\$ 4,200,000</u>	<u>\$ 2,905,000</u>	<u>\$ 1,370,000</u>	<u>\$ 3,650,000</u>	<u>\$ 4,070,000</u>	<u>\$ 3,330,000</u>	<u>\$ 6,140,000</u>	<u>\$ 6,160,000</u>	<u>\$ 4,325,000</u>	<u>\$ 36,180,000</u>

## The Escrow Agreement

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

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

By the deposit of the cash with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the Bond Order authorizing the issuance of such Refunded Bonds and in accordance with State law and in reliance upon the Verification Report described below. It is the opinion of Bond Counsel that, as a result of such defeasance and in reliance upon the Verification Report of Grant Thornton, L.L.P., the Refunded Bonds are deemed to have been fully paid and no longer outstanding, except for the purpose of being paid from funds provided therefore in the Escrow Agreement, and the District will have no further responsibility with respect to amounts available for the payment of such defeased bonds, including any insufficiencies.

**Estimated 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	\$4,325,000.00
Original Issue Premium	<u>270,462.45</u>
Total Sources of Funds	\$4,595,462.45
Uses of Funds:	
Escrow Deposit	\$4,385,936.96
Costs of Issuance (includes insurance premium)	166,441.72
Underwriter’s Discount	42,986.09
Deposit to Debt Service Fund (Rounding Amount)	<u>97.68</u>
Total Uses of Funds	\$4,595,462.45

**THE BONDS**

**General Description**

The Bonds will bear interest from the date of delivery, currently anticipated to be February 14, 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 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 UMB Bank, N.A., Austin, Texas (the “Paying Agent”).

**Redemption**

**Optional Redemption** . . . The Bonds maturing on and after September 1, 2027, 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, 2026, or on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption.

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

<b>\$255,000 Term Bond Maturing September 1, 2033</b>	
Mandatory Redemption <u>Date</u>	Principal <u>Amount</u>
2031	\$ 5,000
2032	5,000
2033	245,000

\* Stated Maturity.

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

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

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

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

### **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 optional redemption, notice of proposed amendment to the Bond Order or other notices with respect to the Bonds only to DTC. Any failure by DTC to advise any DTC Participant, as herein defined, or of any Direct Participant or Indirect Participant, as herein defined, to notify the beneficial owner, shall not affect the validity of the redemption of Bonds called for redemption or any other action premised on any such notice. Redemption of portions of the Bonds by the District will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds and such redemption will not be conducted by the District or the Paying Agent/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**

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

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

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

**Limitation on Transfer of Bonds** . . . Neither the District nor the Paying Agent shall be required to make any transfer, conversion or exchange to an assignee of the registered owner of the Bonds (i) during the period commencing on the close of business on the fifteenth (15<sup>th</sup>) calendar day of the month (whether or not a business day) preceding each interest payment date (the "Record Date") and ending with the opening of business on

the next following principal or interest payment date or (ii) with respect to any Bond called for redemption, in whole or in part, within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the registered owner of the uncalled balance of a Bond.

### **Replacement Bonds**

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

### **Authority for Issuance**

The Bonds are issued pursuant to the Bond Order, the Bond Election, the Constitution and general laws of the State of Texas (the "State") including the Special Act, Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended.

### **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 Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax and will undertake to collect such a tax against taxable property within the District at a rate from year to year sufficient, full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide a sinking fund for the payment of principal of the Bonds when due or the redemption price at any earlier required redemption date, to pay when due any other contractual obligations of the District payable in whole or in part from taxes, and to pay the expenses of assessing and collecting such tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in a special account of the District designated its "Debt Service Fund" for the Bonds. The Bond Order provides for the termination of the pledge of taxes when and if the City of Hutto, Texas (the "City" or "Hutto") 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; Williamson County, Texas; Travis County, Texas; the State of Texas; or any political subdivision or entity other than the District.

### **Payment Record**

The District has previously issued ten (10) installments of new money unlimited tax bonds for water, wastewater, irrigation and drainage facilities and five (5) installments of refunding bonds. The District has never defaulted on the timely payment of principal and interest on its previously issued obligations entitled: \$3,875,000 Unlimited Tax Bonds, Series 2006 (the "Series 2006 Bonds"); \$6,250,000 Unlimited Tax Bonds, Series 2007 (the "Series 2007 Bonds"); \$5,225,000 Unlimited Tax Bonds, Series 2008 (the "Series 2008 Bonds"); \$4,900,000 Unlimited Tax Bonds, Series 2009 (the "Series 2009 Bonds"); \$4,350,000 Unlimited Tax Refunding Bonds, Series 2010 (the "Series 2010 Bonds"); \$2,500,000 Unlimited Tax Bonds, Series 2010A (the "Series 2010A Bonds"); \$2,000,000 Unlimited Tax Bonds, Series 2011 (the "Series 2011 Bonds"); \$8,290,000 Unlimited Tax Refunding Bonds, Series 2012 (the "Series 2012 Bonds"); \$2,950,000 Unlimited Tax Bonds, Series 2013 (the "Series 2013 Bonds"); \$2,585,000 Unlimited Tax Refunding Bonds, Series 2013A (the "Series 2013A Bonds"); \$3,675,000 Unlimited Tax Bonds, Series 2013B (the "Series 2013B Bonds"); \$4,645,000 Unlimited Tax Refunding Bonds, Series 2015 (the Series 2015 Bonds"); \$3,350,000 Unlimited Tax Bonds, Series 2015A (the "Series 2015A Bonds"); \$6,375,000 Unlimited Tax Refunding Bonds, Series 2016 (the "Series 2016 Bonds"); and \$6,425,000 Unlimited Tax Bonds, Series 2017 (the "Series 2017 Bonds") (collectively, the "Outstanding Bonds"). The proceeds of each installment of new money bonds included up to 24 months of capitalized interest.

### **Flow of Funds**

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

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

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

## **Defeasance of Outstanding Bonds**

**General** . . . The Bond Order provides for the defeasance of the Bonds and the termination of the pledge of taxes and all other general defeasance covenants in the Bond Order under certain circumstances. Any Bond and the interest thereon shall be deemed to be paid, retired, and no longer outstanding within the meaning of the Bond Order (a "Defeased Bond"), except to the extent provided below for the Paying Agent to continue payments, when the payment of all principal and interest payable with respect to such Bond to the due date or dates thereof (whether such due date or dates be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption) or (ii) shall have been provided for on or before such due date by irrevocably depositing with or making available to the Paying Agent or an eligible trust company or commercial bank for such payment (1) lawful money of the United States of America sufficient to make such payment, (2) Defeasance Securities (defined below) that mature as to principal and interest in such amounts and at such times as will ensure the availability, without reinvestment, of sufficient money to provide for such payment, or (3) any combination of (1) and (2) above, and when proper arrangements have been made by the District with the Paying Agent or an eligible trust company or commercial bank for the payment of its services until after all Defeased Bonds shall have become due and payable. At such time as a Bond shall be deemed to be a Defeased Bond, such Bond and the interest thereon shall no longer be secured by, payable from, or entitled to the benefits of, the ad valorem taxes levied and pledged, as provided in the Bond Order and such principal and interest shall be payable solely from such money or Defeasance Securities, and shall not be regarded as outstanding under the Bond Order and the District will have no further responsibility with respect to amount available to such paying agent (or other financial institution permitted by applicable law) for the payment of such defeased bonds, including any insufficiency therein (and by the failure) of such paying agent (or other financial institution permitted by applicable law) to receive payments when due on the Defeased Securities.

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

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

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

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

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

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

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

### **Paying Agent/Registrar**

Principal of and semiannual interest on the Bonds will be paid by UMB Bank, N.A., having its office for payment in Austin, Texas, the initial Paying Agent/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 Order for the District to replace the Paying Agent by a resolution of the District giving notice to the Paying Agent of the termination of the appointment, stating the effective date of the termination and appointing a successor Paying Agent. If the Paying Agent is replaced by the District, the new Paying Agent shall be required to accept the previous Paying Agent's records and act in the same capacity as the previous Paying Agent. Any successor paying agent/registrar selected by the District shall be subject to the same qualification requirements as the Paying Agent. The successor paying agent/registrar, if any, shall be determined by the Board of Directors and written notice thereof, specifying the name and address of such successor paying agent/registrar, will be sent by the District or the successor paying agent/registrar to each Registered Owner by first-class mail, postage prepaid.

### **Record Date**

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

### **Issuance of Additional Debt**

The District may issue bonds or other obligations necessary to provide those improvements and facilities for which the District was created, with the approval of the Texas Commission on Environmental Quality (the "TCEQ") and, in the case of bonds payable from taxes, the District's voters. At the Bond Election held within the District on November 7, 2000 and May 12, 2012, voters within the District authorized a total of \$41,150,000 in new money bonds for water, wastewater, irrigation and drainage facilities, of which none remains authorized but unissued. Additionally, the District has voted authority to issue refunding bonds pursuant to the Bond Election proposition in an aggregate principal amount not to exceed one and one-half times the amount of bonds or other obligations issued. The District is authorized to issue \$61,725,000 in refunding bonds. The District has previously issued five (5) series of refunding bonds, which used \$3,716,403.81 in refunding authorization, and the issuance of the Bonds uses an additional \$257,476.36 of the District's voted authorization of refunding bonds. After the issuance of the bonds, \$57,751,119.83 of voted authorization of refunding bonds will remain unissued. See "FINANCIAL STATEMENT – Unlimited Tax Bonds Authorized But Unissued."

Article XVI, Section 59 of the Texas Constitution and Chapter 49 of the Texas Water Code authorizes certain districts, such as the District, to issue bonds, subject to voter approval and the approval of the TCEQ, payable from ad valorem taxes to pay for the development and maintenance of certain park and recreational facilities (other than swimming pools and golf courses). To date, the District has not voted any bonds for park and recreational facilities. Neither Texas law nor the Bond Order imposes a limitation on the amount of additional indebtedness which may be issued by the District. Any additional indebtedness issued by the District may dilute the security of the Bonds. See "INVESTMENT CONSIDERATIONS."

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

Pursuant to Section 49.186 of the Texas Water Code, bonds, notes or other obligations issued by a district "shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State, and all agencies, subdivisions, and instrumentalities of the State, including all counties, cities, towns, villages, school districts and all other kinds and types of districts, public agencies and bodies politic." Additionally, Section 49.186 of the Texas Water Code provides that bonds, notes or other obligations issued by a district are eligible and lawful security for all deposits of public funds of the State and all agencies, subdivisions and instrumentalities of the State. For political subdivisions in Texas which have adopted investment policies and guidelines in accordance with the Public Funds Investment Act (Texas Government Code, Chapter 2256), the Bonds may have to be assigned a rating of not less than "A" or its equivalent as to investment quality by a national rating agency before such obligations are eligible investments for sinking funds and other public funds.

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

## **Specific Tax Covenants**

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

## **Additional Covenants**

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

## **Remedies in Event of Default**

The Bond Order establishes specific events of default with respect to the Bonds. If the District defaults in the payment of the principal of or interest on the Bonds when due, or the District defaults in the observance or performance of any of the covenants, conditions, or obligations of the District, the failure to perform which materially, adversely affects the rights of the owners, including but not limited to, their prospect or ability to be repaid in accordance with the Bond Order, and the continuation thereof for a period of 60 days after notice of such default is given by any owner to the District, the Bond Order and Chapter 54 of the Texas Water Code provide that any registered owner is entitled to seek a writ of mandamus from a court of proper jurisdiction requiring the District to make such payment or observe and perform such covenants, obligations, or conditions. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Bond Order and the District's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Bond Order does not provide for the appointment of a trustee to represent the interest of the Bondholders upon any failure of the District to perform in accordance with the terms of the Bond Order, or upon any other condition and accordingly all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the registered owners. On April 1, 2016, the Texas Supreme Court ruled in *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) that sovereign immunity does not imbue a city with derivative immunity when it performs proprietary, as opposed to governmental, functions in respect to contracts executed by the city. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under the authority or for the benefit of the state. On June 30, 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 49 Tex. Sup. Ct. J. 819 (Tex. 2006), that a waiver of sovereign immunity in a contractual dispute must be provided for by statute in "clear and unambiguous" language. Because it is unclear whether the Texas legislature has effectively waived the District's sovereign immunity from a suit for money damages, Bondholders may not be able to bring such a suit against the District for breach of the Bonds or Bond Order covenants. Even if a judgment against the District could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. Furthermore, the District is eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of ad valorem taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bondholders of an entity which has sought protection under Chapter 9. Therefore, should the District avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Bonds are qualified with respect to the customary rights of debtors relative to their creditors.

## **Consolidation**

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

*(The remainder of this page intentionally left blank)*

## **Annexation**

At the time of creation, the District contained approximately 368.07 acres of land. Since that time, the District has undertaken six annexations of land and one exclusion of land resulting in the current District acreage of approximately 739.91 acres.

Under prior Texas law, a municipality could annex and dissolve a municipal utility district located within its extraterritorial jurisdiction without the consent of the district or its residents. Under Senate Bill 6 approved by the 85<sup>th</sup> Texas Legislature First Special Session, amending Sections 43.001 et. seq. effective December 1, 2017 (the “Annexation Legislation”), certain municipalities (generally those municipalities wholly or partly located in a county with a population of 500,000 or more) may annex a special district only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. As of the most recent federal decennial census (2010), the population of Williamson County, in which the City partially lies, was less than 500,000, and the population of Travis County, in which the District partially lies, was more than 500,000, thus triggering the Annexation Legislation’s stricter voter approval and landowner consent requirements discussed above. However, the described election and petition process does not apply during the term of a strategic partnership agreement between a municipality and the district that specifies the procedure for full-purpose annexation of all or a portion of the district.

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

The District and the City entered into a Strategic Partnership Agreement in May 2006 pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District (approximately 116 acres) 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 limited purpose annexation, the City imposes its 2% sales and use taxes (but not its property taxes) within the area of limited purpose annexation. The City has also entered into an Economic Development Agreement with Commerce Properties, Inc. pursuant to which the City has agreed to grant 50% of the sales tax funds collected within the District to Commerce Properties or its assigns, the general partner for SRI, for the construction of certain roads necessary for further commercial and residential development within the District and the Hutto area. In addition, pursuant to the Strategic Partnership Agreement, the City has agreed not to annex the District for general purposes until the earlier of 30 years from the date of the agreement or upon the completion and issuance of District bonds for 90% of utility infrastructure by the District. The City has recently indicated a desire to amend the Strategic Partnership Agreement with the District to annex for limited purposes additional commercial property within the District. No specific details have been received from the City at this time. See “THE DISTRICT –Strategic Partnership Agreement.”

## **Alteration of Boundaries**

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

## **Approval of the Bonds**

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

## **Amendments to the Bond Order**

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

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

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by the DTC while the Bonds are registered in its nominee’s name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such*

*information to be reliable, but takes no responsibility for the accuracy or completeness thereof.*

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond (“Beneficial Owner”) is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct or Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. 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 Paying Agent/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 the Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the District as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, interest and principal payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records.

Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, 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, interest and principal payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/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. Under such circumstances, in the event that a successor securities depository is not obtained, Bonds are required to be printed and delivered to each Beneficial Owner.

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

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

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

## **INVESTMENT CONSIDERATIONS**

### **General**

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

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

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

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

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

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

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

*Impact on District Tax Rates:* Assuming no further development, the value of the land and improvements currently existing within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2018 Certified Assessed Valuation of the District is \$527,298,107. After issuance of the Bonds, the Maximum Requirement will be \$2,595,463 (2035) and the Average Requirement will be \$2,558,746 (2019 through 2035, inclusive). Assuming (1) no increase or decrease from the 2018 Certified Assessed Valuation; (2) the issuance of no additional debt; and (3) no other funds available for the payment of debt service, tax rates of \$0.52 and \$0.52 per \$100 assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the Maximum Requirement and the Average Requirement, respectively. The District's Estimated Assessed Valuation as of August 23, 2018 is \$542,842,772. Based upon the assumptions above, tax rates of \$0.51 and \$0.50 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" and "TAX DATA - Tax Adequacy for Debt Service."

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

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

### **Registered Owners' Remedies**

In the event of default in the payment of principal of or interest on the Bonds, the registered owners have the right to seek a writ of mandamus, requiring the District to levy adequate taxes each year to make such payments. Such remedy might need to be enforced on a periodic basis. Based on recent Texas court decisions, it is unclear whether Section 49.066 of the Texas Water Code effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property or to pay the principal of and interest on the Bonds. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity which permit the exercise of judicial discretion. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interest of the registered owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the registered owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the registered owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the registered owners may further be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District.

### **Bond Insurance Risks**

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

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

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

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

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

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

Neither the District nor the Underwriter has made independent investigation into the claims-paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims-paying ability of the Bond Insurer, particularly over the life of the investment. See "BOND INSURANCE" herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

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

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

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

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

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

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

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

There has been little judicial determination of the validity of the provisions of FIRREA or how they are to be construed and reconciled with respect to conflicting state laws. However, certain recent federal court decisions have held that the FDIC is not liable for statutory penalties and interest authorized by State property tax law, and that although a lien for taxes may exist against real property, such lien may not be foreclosed without the consent of the FDIC, and no liens for penalties, fines, interest, attorney's fees, costs of abstract and research fees exist against the real property for the failure of the FDIC or a prior property owner to pay ad valorem taxes when due. It is also not known whether the FDIC will attempt to claim the FIRREA exemptions

as to the time for contesting valuations and tax assessments made prior to and after the enactment of FIRREA. Accordingly, to the extent that the FIRREA provisions are valid and applicable to any property in the District, and to the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District, and may prevent the collection of penalties and interest on such taxes.

### **Marketability**

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

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

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

### **Future Debt**

The District no longer has any remaining authorized but unissued new money bonds (see "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED"), but reserves the right in the Bond Order to issue such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds.

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

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

### **Forward-Looking Statements**

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

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

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

### **Future and Proposed Legislation**

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

### **Environmental Regulation**

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

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

Compliance with environmental laws and regulations can increase the cost of planning, designing, constructing and operating water production and wastewater treatment facilities. Sanctions against a water district for failure to comply with environmental laws and regulations may include a variety of civil and criminal enforcement measures, including assessment of monetary penalties, imposition of remedial requirements, and issuance of injunctions as to future compliance and the ability to operate the District's water supply, wastewater treatment, and drainage facilities. Environmental laws and regulations can also impact an area's ability to grow and develop. The following is a discussion of certain environmental concerns that relate to the District. It should be noted that changes in environmental laws and regulations occur frequently, and any changes that result in more stringent and costly requirements could materially impact the District.

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

In 1997, the EPA adopted the "8-hour" ozone standard of 80 parts per billion ("ppb") (the "1997 Ozone Standard") to protect public health and welfare. In 2008, the EPA lowered the ozone standard to 75 ppb (the "2008 Ozone Standard"). The Austin area, 22 consisting of Williamson, Hays, Travis, Bastrop and Caldwell Counties (the "Austin Area") was not designated "nonattainment" under the 2008 Ozone Standard.

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

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

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

*Water Supply & Discharge Issues.* Water supply and discharge regulations that 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 more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

The TCEQ renewed the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on December 13, 2013. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The renewed MS4 Permit impacts a much greater number of MS4s that were not previously subject to the MS4 Permit and contains more stringent requirements than the standards contained in the previous MS4 Permit. While the District is currently not subject to the MS4 Permit, if the District's inclusion 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 renewed MS4 Permit. The TCEQ has published a notice of a proposed renewal of the Phase II (Small) MS4 Permit that is intended to be issued prior to the December 12, 2018 expiration date of the current MS4 Permit.

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

The CWR could have an adverse impact on municipal utility districts, including the District, particularly with respect to jurisdictional wetland determinations, and could increase the size and scope of activities requiring USACE permits. The CWR has been challenged in various jurisdictions, including the Southern District of Texas, and the litigation challenging the CWR is still pending.

In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.”

On February 28, 2017, the President signed an executive order ordering the EPA and USACE to modify or rescind the CWR. In response, the EPA and the USACE subsequently released a proposed rule rescinding the CWR, reinstating the regulatory text that existed prior to the adoption of the CWR and proposing the development of a revised definition of “waters of the United States.” In June 2018, the EPA and USACE issued a supplemental notice of proposed rulemaking to the 2017 proposed action to repeal the 2015 definition of “waters of the United States” to clarify that the agencies are proposing to permanently repeal the CWR in its entirety and reinstate language in place before the adoption of the CWR while developing a revised definition of “waters of the United States.”

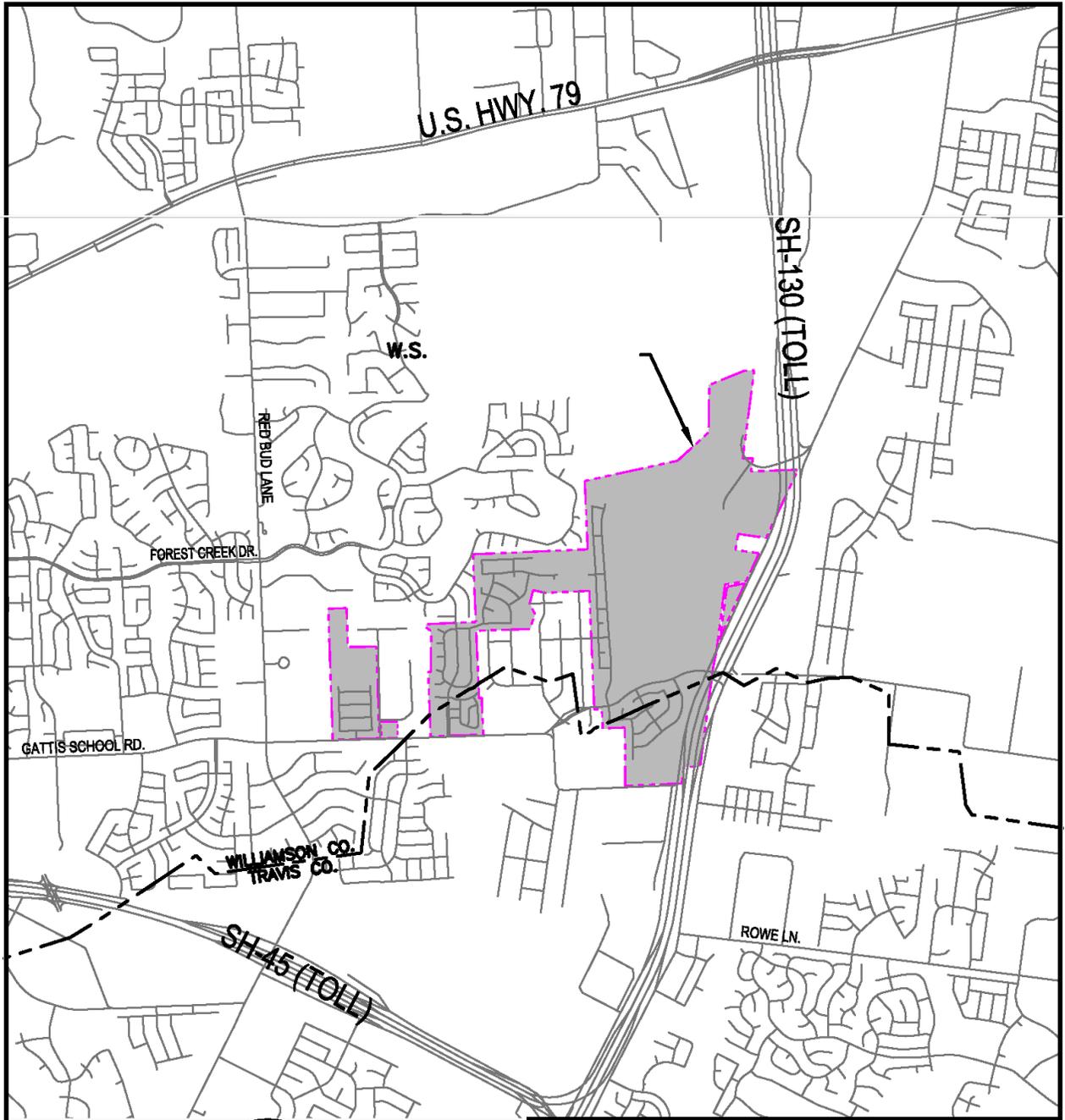
Meanwhile, in January 2018, the EPA and the USACE finalized a rule extending the effective date of the CWR until 2020 while the agencies finalize actions to repeal and replace the CWR. This rule delaying the effective date of the CWR was challenged in court and, on August 16, 2018, the U.S. District Court for the District of South Carolina issued a nation-wide injunction rendering the rule extending the effective date of the CWR void, thereby reinstating the CWR in 26 states, including Texas. However, on September 12, 2018, the U.S. District Court for the Southern District of Texas temporarily enjoined the implementation of the CWR in Texas, Louisiana and Mississippi until the case filed by the States of Texas, Louisiana and Mississippi in 2015 is finally resolved.

Due to the pending rulemaking activity and rule challenge litigation, there is significant uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. If the CWR is not rescinded and is ultimately upheld and goes into effect, 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 the expanded scope of jurisdictional “waters of the United States” under the CWR.

### **Drought Conditions**

Central Texas, like other areas of the State, is susceptible to drought conditions. The District adopted a water conservation and drought contingency plan and currently has implemented voluntary water restrictions for residents of the District. Manville Water Supply Corporation (“MWSC”) provides water to the District in amounts sufficient to service the residents of the District, however, if drought conditions continue or worsen water usage, District revenues, and rates could be impacted.

LOCATION MAP



 Murfee Engineering Company		
1101 Capital of Texas Highway South, Building D, Suite 110, Austin, Texas 78746 (512) 327-9204		
Texas Registered Engineering Firm F-353		
FILE(LAYOUT): 0:19908718598-087.85-LOC.dwg(LOC)	DATE: 7/27/2011	DRAWN: RWH

## THE DISTRICT

### General

The District was legislatively created by the Special Act as a conservation and reclamation district under Article XVI, Section 59 of the Texas Constitution and operates under the Special Act, and Chapters 49 and 54, Texas Water Code, as amended.

The District was created to provide water, wastewater, irrigation and drainage services to the property within the District currently being developed as a mixed-use development including Star Ranch, Forest Creek and Silver Leaf subdivisions as well as the Star Ranch Golf Course and Clubhouse, multi-family development, and commercial and retail development. The District has entered into utility construction agreements with the Developers in order to facilitate the construction of water, wastewater and drainage facilities to serve property within its boundaries.

### 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 of office are four years, with elections held within the District in November in each even-numbered year. All of the directors own property in the District.

<u>Name</u>	<u>Position</u>	<u>Length of Service</u>	<u>Term Expires November</u>
Rance Richter	President	19 years	2020
Jim Goldrick	Vice President	19 years	2020
Bob Dickerson	Director	9 years	2022
Daniel Bates	Secretary / Treasurer	19 years	2022
Lee Buckley	Asst. Secretary/Treasurer	19 years	2020

#### *Consultants*

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

The portion of land and improvements in the District that is located in Williamson County is being appraised by the Williamson Central Appraisal District. The Tax Assessor/Collector is appointed by the Board of Directors of the District. The Williamson County Tax Assessor/Collector, Mr. Larry Gaddes, currently serves the District in this capacity under contract for the portions of the District located in Williamson County.

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

##### **General Manager**

The District contracts with Crossroads Utility Services LLC ("Crossroads") to serve as the General Manager and Operator for the District. Crossroads serves in a similar capacity for 28 other special districts in the Austin metropolitan area.

##### **Engineer**

The District's consulting engineer is Murfee Engineering Company, Inc. Such firm serves as consulting engineer to 20 other special districts.

##### **Bookkeeper**

Bott & Douthitt, PLLC, certified public accountants, serves as bookkeeper to the District. Such firm serves as bookkeeper to 65 other special districts.

##### **Financial Advisor**

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

##### **Bond Counsel**

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

## General Counsel

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

## Location

The District is located primarily within the extraterritorial jurisdiction of the City and lies within both Williamson County and Travis County, Texas. The District is located immediately north of Priem Lane and immediately west of State Highway 130. The northern part of the District begins almost two miles south of the intersection of FM 685 and US 79.

## Historical and Current Status of Development

**Land Acquisition...** The District, as originally created by the Special Act in 1987, contained approximately 368.07 acres comprised of two contiguous tracts of land including approximately 290.22 acres (the "Original Tract") owned by Theodor Timmerman, Earl Hagn and Tim Timmerman, each owning an undivided interest and 77.85 acres owned by Timmerman Investments. From 1987 until 1999, no development or change in boundaries occurred within the District. In 1999, 29.26 acres were excluded from the District's boundaries and 275.35 acres were annexed into the District boundaries. In September 2001, approximately 64 acres owned by KPKMII were annexed into the District. In January 2006, approximately 58.46 acres owned by Len-Buf Land Acquisition of Texas, LP were annexed into the District. In July 2008, approximately 3.18 acres were annexed into the District. Finally, in January 2014, approximately 5.06 acres were annexed into the District, bringing the total acreage within the District to 738.32, as reflected on the District's most recent boundary map, which the surveyor who prepared such boundary map has certified as a more accurate description than manually adding and subtracting the land annexed and excluded from the District over time.

In June 1997, Theodor Timmerman, Earl Hagn and Tim Timmerman contributed the Original Tract and became limited partners in Brushy Creek, Ltd. ("BCL"), a Texas limited partnership whose general partner is Commerce Texas Properties, Inc. ("Commerce Properties"), a Texas corporation wholly owned by Tim Timmerman, who serves as president. Since that time, the limited partnership interests of BCL have been purchased and transferred to the Timmerman Family Limited Partnership, a Texas limited partnership comprised of Tim Timmerman and his family.

The 77.85 acre tract was purchased by PK-TACK, Ltd., a Texas limited partnership comprised of TACK Development Company, Inc. ("Tack Development"), a Texas corporation as general partner and KPKMII, a Texas limited partnership as a limited partner which is currently comprised of the estate of Russell Parker, Maxwell United Holdings, LP, Thomas and Grace Maxwell Family Partnership and Clarence J. and Bernadette M. Kellerman Trust, as limited partners and KPKM, Inc., as general partner, which is a Texas corporation owned by the estate of Russell Parker and Clarence J. Kellerman.

In 1999, Tim Timmerman entered in a contract to purchase approximately 200 acres from Earl Klattenhoff and closed on 65 acres. Timmerman contributed a portion of 65 acres to SR Investments, Ltd. ("SRI"), a Texas limited partnership comprised of Timmerman Family Limited Partnership, as the limited partner and Commerce Properties, as general partner. SRI purchased additional acreage from BCL to develop Star Ranch Section 1.

Property within the District has been developed as mixed use including single family homes, apartments, townhomes, duplexes, retail and commercial improvements as well as the Star Ranch Golf Course and Clubhouse.

**Star Ranch Golf Course and Clubhouse...** In 2000, OLY Star Ranch General Partnership constructed the Star Ranch Golf Course and Club House on approximately 180 acres within the District consisting of an 18-hole golf course and a 15,000 square foot Club House which includes a restaurant, pro shop and meeting rooms. Star Ranch Golf Course is currently owned by Star Golf Partners Ltd., a Texas limited partnership, comprised of limited partners Tack Development, Timmerman Hagn Ltd., Ray C. Wicken, MTJC Development, LLC, and Ricky Heine; and SGP Investments LLC, as general partner, a limited liability company for which Tim Timmerman is the sole member. The Star Ranch Golf Course is a daily fee golf course open to the public.

**Apartment Complex Development...** Trammell Crow Residential purchased approximately 22 acres within the District at the beginning of 2008 to develop a 396 unit apartment complex, now called the Fairways at Star Ranch Apartments. Construction began in March 2008 and was completed in May 2009. In May 2008, Trada Partners XII, LP ("Trada") completed construction on a 15.84 acre tract in Forest Creek Section 39, developed into a 55 building, 220 unit apartment project, now called the Links at Forest Creek. Western Rim Investors 2008-4, LP, a Texas limited partnership ("Western") purchased approximately 21 acres within the District in December 2008 to develop a 402 unit apartment complex now called the Marquis at Star Ranch Apartments. Construction began in January 2009 and was completed in November 2010.

**Star Ranch Golf Townhomes....** Tack Townhomes, LLC constructed a 62 unit townhome complex on approximately 6.99 acres, which was completed in the first quarter of 2015, now called the Double Eagle Townhomes.

**Villas at Star Ranch Townhomes (Parcel 23)....** KB Home Lone Star, Inc. ("KB Home") purchased 20.97 acres from Tack Development and completed the utility facilities to serve Parcel 23 in September 2015, which KB Homes developed as the Villas at Star Ranch Townhomes. Parcel 23 lies within both the District and Williamson County MUD No. 22 ("WCMUD22"). Of the 136 townhomes in Parcel 23, 131 townhomes are within the District and 5 townhomes are within WCMUD22. The total platted acreage is 20.97 acres with 19.99 acres in the District. KB Homes constructed freestanding townhomes in Parcel 23 as the Villas at Star Ranch Townhomes and has represented that the sales prices of townhomes constructed generally range from approximately \$206,995 to \$252,995 with square footage ranging from approximately 1,340 to 2,708.

**Muirfield Townhomes, LLC...** Muirfield Townhomes, LLC completed construction of a 57 unit townhome complex on approximately 10.76 acres in Star Ranch Phase 2, Section 1 in August 2018.

**Brushy Creek Townhomes...** Brushy Creek Townhomes, LLC completed construction of a 46 unit townhome complex on approximately 4.75 acres in October 2018.

**Residential Development... Star Ranch, Section 1.** In 2002 SRI completed the development of utility facilities to serve Star Ranch, Section 1 (23.85 acres, originally platted as 99 single family lots but subsequently re-platted as 59 single family lots and 18 duplex units). Star Ranch, Section 1 is completely built out and contains 59 completed homes and 18 completed duplex units.

*Star Ranch, Section 2.* BCL completed the development of utility facilities to serve Star Ranch, Section 2 (15.32 acres, platted as 64 single family lots) in the first quarter of 2005. Star Ranch, Section 2 is completely built out and contains 64 completed homes.

*Star Ranch, Section 3.* In January 2007, SRI completed the development of utility facilities to serve Star Ranch, Section 3 (8.31 acres, platted as 37 single family lots). Star Ranch, Section 3 is completely built out and contains 37 completed homes.

*Star Ranch, Section 4.* In 2006, SRI completed the development of utility facilities to serve Star Ranch, Section 4 (5.99 acres, platted as four retail/commercial lots on 5.49 acres and six residential duplex units on 0.50 acres). The residential portion of Star Ranch, Section 4 is completely built out and contains six completed duplex units. The commercial area of Star Ranch, Section 4 was completed as Star B Retail (1.56 acres) and Star Ranch Market (3.88 acres), in October 2018 and December 2018, respectively.

*Star Ranch, Section 5, Phase 1.* In July 2007, SRI completed the development of utility facilities to serve Star Ranch, Section 5, Phase 1 (24.51 acres, platted as 87 single family lots). Star Ranch, Section 5, Phase 1 is completely built out and contains 87 completed homes.

*Star Ranch, Section 5, Phase 2.* In October 2008, SRI completed the development of utility facilities to serve Star Ranch, Section 5, Phase 2 (16.06 acres, platted as 50 single family lots). Star Ranch, Section 5, Phase 2 is completely built out and contains 50 completed homes.

*Star Ranch, Section 7, Phase 1A.* In January 2012, SRI completed the development of utility facilities to serve Star Ranch, Section 7, Phase 1A. Star Ranch, Section 7, Phase 1A lies within both the District and WCMUD22. Of the 53 lots in the section, 27 lots are within the District and 26 lots are within WCMUD22. The total platted acreage is 13.58 acres with 8.49 acres in the District. Star Ranch, Section 7, Phase 1A is completely built out and contains 27 completed homes within the District.

*Star Ranch, Section 7, Phase 1B.* In June 2012, SRI completed the development of utility facilities to serve Star Ranch, Section 7, Phase 1B. Star Ranch Section 7, Phase 1B lies within both the District and WCMUD22. Of the 57 lots in the subdivision, 7 lots are within the District and 50 lots are within MUD No. 22. The total platted acreage is 13.55 acres with 1.38 acres in the District. Star Ranch Section 7, Phase 1B is completely built out and contains 7 completed homes.

*Forest Creek, Section 34.* KPKMII completed the development of utility facilities to serve Forest Creek, Section 34 (27.10 acres, platted as 105 single family lots) in the second quarter of 2005. According to KPKMII, all of the 105 single family lots in Section 34 have been purchased by Bowen Family Homes (53 lots) and Ryland Homes (52 lots). Forest Creek, Section 34 is completely built out and contains 105 completed homes.

*Forest Creek, Section 35.* PK Tack completed the development of utility facilities to serve Forest Creek, Section 35 (24.69 acres, platted as 97 single family lots) in January 2006. Forest Creek, Section 35 is completely built out and contains 97 completed homes.

*Forest Creek, Section 36.* PK Tack completed the development of utility facilities to serve Forest Creek, Section 36 (27.83 acres, platted as 95 single family lots) in 2008. Forest Creek, Section 36 is completely built out and contains 95 completed homes.

*Forest Creek, Section 37.* In January 2012, PK Tack completed the development of utility facilities to serve Forest Creek, Section 37 (23.07 acres, platted as 88 single family lots). Forest Creek, Section 37 is completely built out and contains 88 completed homes.

*Forest Creek, Section 38.* KPKMII completed the development of utility facilities to serve Forest Creek, Section 38 (16.66 acres, platted as 58 single family lots) in 2009. Forest Creek, Section 38 is completely built out and contains 58 completed homes.

*Silver Leaf, Section 1.* Len-Buf Land Acquisition of Texas, LP ("Len-Buf"), a Texas limited partnership, whose current general partner is Buffington Land Management, LLC, a Texas limited liability company, and whose only limited partner is Buffington Land, Ltd., a Texas limited partnership, completed construction of Silver Leaf, Section 1 (29.04 acres platted as 114 single family lots) in the fourth quarter of 2006. Len-Buf was originally formed by Lennar Texas Holding Company, a Texas corporation, and Buffington JV Fund Management, LLC, a Texas limited liability company, as general partners, and Lennar Homes of Texas Land and Construction, Ltd., a Texas limited partnership, and Buffington JV Fund II, Ltd., a Texas limited partnership, as limited partners. On June 1, 2008, Lennar Texas Holding Company and Lennar Homes of Texas Land and Construction Ltd. assigned their respective interests in Len-Buf to Buffington JV Fund Management, LLC and Buffington JV Fund II, Ltd.; and contemporaneous with such assignment, Buffington JV Fund Management, LLC and Buffington JV Fund II, Ltd. (together with several other real estate development entities) were merged into Buffington Land, Ltd. Silver Leaf, Section 1 is completely built out and contains 114 completed homes.

*Silver Leaf, Section 2.* PH SLII, LP ("SLII"), a Texas limited partnership, completed the development of utility facilities to serve Silver Leaf, Section 2 (29.41 acres, platted as 82 single family lots) in 2013. SLII acquired the 29.41 acres from Len-Buf on June 12, 2012 and SLII's current general partner is PH SLII Management LLC, a Texas limited liability company whose sole member is Buffington Land Group Management, LLC, a Texas limited liability company. Silver Leaf, Section 2 is completely built out and contains 82 completed homes.

*Star Ranch, Phase 2, Section 1.* SRI completed the development of utility facilities to serve Star Ranch, Phase 2, Section 1 (10.76 acres, platted as 24 duplex building lots (57 duplex units) and 1 commercial lot) in April 2016. As of July 1, 2018, Phase 2, Section 1 contained 29 completed duplex units, 28 duplex units under construction, and no vacant duplex unit lots.

**Retail/Commercial Development...** Other than the Star Ranch Golf Course and Clubhouse, to date, approximately 55.29 additional acres within the District have been developed as retail or commercial, approximately 3.21 acres are currently under construction as retail or commercial improvements, and approximately 66.71 acres remain undeveloped for retail and commercial purposes.

*Star Ranch, Section 4.* All utility facilities to serve Star Ranch, Section 4 (5.99 acres, platted as four retail/commercial lots on 5.49 acres and six residential duplex units on 0.50 acres) have been completed. The District can give no assurances whether improvements to the four retail/commercial lots within Star Ranch, Section 4 will occur. The residential portion of Star Ranch, Section 4 is completely built out and contains six completed duplex units. The commercial area Star Ranch, Section 4 – Amended Plat Block A is currently under construction. Currently, improvements within the Section 4 area are under construction, and the water, wastewater installations have been completed to be closely followed by the storm water improvements. It is anticipated the Service King extensions will be completed thereafter.

*Star Ranch, Section 6.* All utilities to serve Star Ranch, Section 6 (1.54 acres) have been completed. According to SRI, all 1.54 acres in Section 6 have been sold to IBC Bank.

*Forest Creek, Section 39 West.* All utility facilities to serve Forest Creek, Section 39 West (7.47 acres) have been completed and a 40,600 square foot medical/office center on 5.85 acres and a daycare center on 1.62 acres have been constructed.

*Longhorn Business Park.* The Longhorn Business Park, a fully developed commercial office complex on approximately 5.06 acres, was annexed into the District in January 2014.

*Hutto Nursing Center.* Tack Development completed construction of a 55,951 square foot nursing home on approximately 5.732 acres, in early 2015.

*HEB Star Ranch Commercial Center.* Approximately 30 acres at the intersection of Gattis School Road and SH 130 was sold to HEB Grocery Company, L.P. in April, 2006. HEB began construction of an approximately 120,000 square foot HEB Plus Store in February 2016, which was completed in November 2016. SRI plans to develop the balance of the site (approximately 9 acres) into additional retail and commercial pad sites.

*Star Ranch Plaza.* Central Southwest Texas Development, LLC began construction on an approximately 15,000 square foot retail center on 1.469 acres called Star Ranch Plaza in February 2017, which was completed by the third quarter of 2017. Star Ranch Plaza contains various retail stores and medical and dental offices.

*Star Ranch Station.* SR Station LLC began construction on an approximately 15,000 square foot retail center on 1.738 acres called Star Ranch Station in April 2017, which was completed in the third quarter of 2017. Star Ranch Station contains various retail stores and restaurants.

### **Status of Development**

As of January 7, 2019, development within the District included 1,101 developed single-family lots and 81 developed duplex unit lots, which included 1,101 completed single-family homes (including 131 freestanding condominium units) and 81 completed duplex units. Multi-family development includes the Marquis at Star Ranch Apartments (402 completed apartment units), the Links at Forest Creek Apartments (220 completed apartment units), and the Fairways at Star Ranch Apartments (396 completed apartment units). Additional multi-family development includes the Double Eagle Townhomes (62 completed townhome units), and Brushy Creek Townhomes (46 completed townhome units). Additional development within the District includes a daycare center, a 40,600 square foot medical/office building, a 55,951 square foot nursing home, the Longhorn Business Park office complex, and the Star Ranch Golf Course and Clubhouse. Additionally, HEB Grocery Company, L.P. completed an approximately 120,000 square foot HEB Plus grocery store on approximately 30 acres in November 2016. Two additional retail centers, called Star Ranch Plaza (1.469 acres; approximately 15,000 square feet) and Star Ranch Station (1.738 acres; approximately 15,000 square feet), have been constructed within the District. Two additional retail centers, called Star B Retail (1.56 acres) and Star Ranch Market (3.88 acres) were completed in October 2018 and December 2018, respectively. Additionally, Star Golf Development, Inc. has completed utility improvements along Muirfield Bend Drive and Klattenhoff Lane.

The following chart more completely describes the status of development within the District as of January 7, 2019:

Section	Acreage	Single Family		Completed Units		Under Construction		Vacant Units	
		Lots	Duplex Units	Single Family	Duplex	Single Family	Duplex	Single Family	Duplex
<b>A. Single Family Developed with Utility Facilities</b>									
<b>Star Ranch</b>									
Section 1	23.85	59	18	59	18	-	-	-	-
Section 2	15.32	64	-	64	-	-	-	-	-
Section 3	8.31	37	-	37	-	-	-	-	-
Section 4	0.50	-	6	-	6	-	-	-	-
Phase 2, Section 1	10.76	-	57	-	57	-	-	-	-
Section 5 Phase 1	24.51	87	-	87	-	-	-	-	-
Section 5 Phase 2	16.06	50	-	50	-	-	-	-	-
Section 7 Phase 1-A	8.49	27	-	27	-	-	-	-	-
Section 7 Phase 1-B	1.38	7	-	7	-	-	-	-	-
Villas at Star Ranch Townhomes <sup>(f)</sup>	19.99	131	-	131	-	-	-	-	-
<b>subtotal</b>	<b>129.17</b>	<b>462</b>	<b>81</b>	<b>462</b>	<b>81</b>	-	-	-	-
<b>Forest Creek</b>									
Section 34	27.10	105	-	105	-	-	-	-	-
Section 35	24.69	97	-	97	-	-	-	-	-
Section 36	27.83	95	-	95	-	-	-	-	-
Section 37	23.07	88	-	88	-	-	-	-	-
Section 38	15.06	58	-	58	-	-	-	-	-
<b>subtotal</b>	<b>117.75</b>	<b>443</b>	-	<b>443</b>	-	-	-	-	-
<b>Silver Leaf</b>									
Section 1	29.04	114	-	114	-	-	-	-	-
Section 2	29.41	82	-	82	-	-	-	-	-
<b>subtotal</b>	<b>58.45</b>	<b>196</b>	-	<b>196</b>	-	-	-	-	-
<b>Total</b>	<b>305.37</b>	<b>1,101</b>	<b>81</b>	<b>1,101</b>	<b>81</b>	-	-	-	-
<b>B. Commercial Developed with Utility Facilities</b>									
Retail <sup>(a)</sup>	14.50								
Star Ranch Plaza <sup>(g)</sup>	1.47								
Star Ranch Station <sup>(h)</sup>	1.74								
Star B Retail	1.56								
Star Ranch Market	3.88								
Goodwill	2.70								
Longhorn Business Park <sup>(b)</sup>	5.06								
Nursing Home	5.73								
Golf Course/Clubhouse	183.52								
HEB Grocery Store <sup>(c)</sup>	30.00								
<b>Total</b>	<b>250.16</b>								
<b>B. Multi-Family Developed with Utility Facilities</b>									
Apartments (1,018 Units) <sup>(d)</sup>	58.84								
Double Eagle Townhomes <sup>(e)</sup>	6.99								
Brushy Creek Townhomes <sup>(i)</sup>	4.75								
<b>Total</b>	<b>70.58</b>								
<b>Total Developed with Utility Facilities</b>	<b>626.11</b>								
<b>C. Remaining Developable Acreage</b>									
Single Family &/or Townhomes	15.31								
Retail/Commercial	66.71								
<b>Total</b>	<b>82.02</b>								
<b>D. Undevelopable Acreage</b>	<b>30.19</b>								
<b>Total District Acreage</b>	<b>738.32</b>								

- 
- (a) Includes Star Ranch Section 4 (5.99 acres, platted as four retail/commercial lots on 5.49 acres and six residential duplex units on 0.50 acres), Star Ranch Section 6 (1.54 acres) and Forest Creek Section 39 West (7.47 acres).
  - (b) In January 2014, the Longhorn Business Park, a fully developed commercial office complex on approximately 5.06 acres, was annexed into the District.
  - (c) In February 2016, HEB Grocery Company, L.P. began construction of an approximately 120,000 square foot HEB Plus grocery store, which was completed in November 2016.
  - (d) Includes the Fairways at Star Ranch Apartments (22.00 acres; 396 units), Marquis at Star Ranch Apartments (21.00 acres; 402 units), and the Links at Forest Creek (15.84 acres; 220 units).
  - (e) Formerly called The Star Ranch Golf Townhomes and contain 62 townhome units on approximately 6.99 acres.
  - (f) KB Home completed the utility facilities to serve Parcel 23 in September 2015, and developed as the Villas at Star Ranch townhomes containing 131 freestanding townhome units within the District.
  - (g) Retail center (1.47 acres; 15,000 square feet).
  - (h) Retail center (1.74 acres; 15,000 square feet).
  - (i) Contains 46 townhome units on approximately 4.75 acres.

*(The remainder of this page intentionally left blank)*

## **Future Development**

The instigation of any new development beyond that described in this Official Statement will be dependent on several factors including, to a great extent, the general and other economic conditions which would affect any party's ability to sell lots and/or other property and of any homebuilder to sell completed homes as described in this Official Statement under the caption "INVESTMENT CONSIDERATIONS." The Developers are under no obligation to complete any development, if begun, and may modify or discontinue development plans in their sole discretion. Accordingly, the District makes no representation that future development will occur.

## **Strategic Partnership Agreement**

In May 2006, the District and the City executed a Strategic Partnership Agreement pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District (approximately 116 acres) 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 limited purposes annexation, the City imposes its 2% sales and use taxes (but not its property taxes) within the area of limited purpose annexation. The City has also entered into an Economic Development Agreement with Commerce Properties, Inc. pursuant to which the City has agreed to grant 50% of the sales tax funds collected within the District to Commerce Properties or its assigns, the general partner for SRI, for the construction of certain roads necessary for further commercial and residential development within the District and the Hutto area. In addition, pursuant to the Strategic Partnership Agreement, the City has agreed not to annex the District for general purposes until the earlier of 30 years from the date of the agreement or upon the completion and issuance of District bonds for 90% of utility infrastructure by the District. The City has recently indicated a desire to amend the Strategic Partnership Agreement with the District to annex for limited purposes additional commercial property within the District. The District and the City are currently negotiating the terms of such amendment.

## **THE DEVELOPERS**

### **Role of Developers**

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

### **Description of the Developers**

As of January 7, 2019, approximately 626.11 acres within the District have been developed by thirteen development entities including SRI, BCL, KPKMII, PK Tack, Trada, Len-Buf, Trammell Crow, Western, OLY Star Ranch, Tack Development, Tack Townhomes, LLC, HEB Grocery Company, L.P., Brushy Creek Townhomes, LLC, Star Golf Development, Inc., and KB Home as Star Ranch Sections, 1, 1-2, 2, 3, 4, 5-1, 5-2, 6, 7-1A, 7-1B, Parcel 23, Forest Creek Sections 34, 35, 36, 37, 38, and 39, Silver Leaf Sections 1 and 2, and Star Ranch Golf Course and Clubhouse, respectively, as well as three apartment complexes, the Hutto Nursing Center, two townhome complexes, an HEB Plus grocery store, and various retail/commercial projects. The following chart summarizes what each development entity has developed to date:

*(Chart appears on following page)*

Entity	Sections
SRI:	Star Ranch, Section 1
	Star Ranch, Section 3
	Star Ranch, Section 4
	Star Ranch, Section 5 Phases 1 & 2
	Star Ranch, Section 6
	Star Ranch, Section 7 Phase 1A
	Retail Pads
BCL:	Star Ranch, Section 2
Brushy Creek Townhomes, LLC:	Brushy Creek Townhomes (46 townhomes)
KPKMII:	Forest Creek, Section 34
	Forest Creek, Section 38
PK Tack:	Forest Creek, Section 35
	Forest Creek Section 36
	Forest Creek Section 37
Trada:	Multi-family (220 unit apt. complex) (the Links at Forest Creek – Forest Creek, Section 39)
Len-Buf	Silver Leaf, Section 1
	Silver Leaf, Section 2
Trammell Crow:	Multi-family (396 unit apt. complex) (the Fairways at Star Ranch Apartments)
Western:	Multi-family (402 unit apt. complex) (Marquis at Star Ranch)
OLY Star Ranch:	Star Ranch Golf Course & Clubhouse
Tack Development:	Nursing Home (Hutto Nursing Center) Star Ranch Market
Tack Townhomes, LLC	Double Eagle Townhomes
HEB Grocery Company, L.P.	HEB Plus Grocery Store
KB Home	Villas at Star Ranch Townhomes (Parcel 23)

The following information describes the single-family property developed and the source of funds for acquisition and development of property within the District.

*SRI.* In 2002, Tim Timmerman contributed property to SRI and SRI purchased property from BCL which was developed into Star Ranch Section 1 (23.85 acres; platted as 59 single family lots and 18 duplex units). BCL financed the purchase of the acreage for SRI. As of January 2006, the note had been repaid and according to SRI there are no outstanding acquisition liens against this property. In 2003, SRI obtained a \$2.5 million development loan from First Texas Bank to develop Star Ranch, Section 1. According to SRI, the development loan has been repaid and there are no outstanding development liens against this property.

In 2006, SRI purchased property from BCL which was developed as Star Ranch Sections 3 (8.31 acres; platted as 37 single family lots) and 5-1 (24.51 acres; platted as 87 single family lots). In September 2006, SRI obtained a \$4 million development loan from American Bank of Commerce to develop Star Ranch, Sections 3 and 5-1. According to SRI, there is no outstanding balance on the development loan.

In 2007, SRI purchased property from BCL which was developed into Star Ranch Section 5-2 (16.06 acres; platted as 50 single family lots). In October 2007, SRI obtained a \$2.102 million development loan from American Bank of Commerce to develop Star Ranch, Section 5-2. According to SRI, there is no outstanding balance on the development loan.

In 2011, SRI purchased property from Tack Development which was developed as Star Ranch Section 7 Phase 1A (7.17 acres, platted as 27 single family lots). SRI obtained a \$900,000 development loan from First Texas Bank to develop Star Ranch Section 7 Phase 1A. According to SRI, there is no outstanding balance on the development loan.

In 2011, SRI purchased property from Tack Development which was developed as Star Ranch Section 7 Phase 1B (1.38 acres, platted as 7 single family lots). SRI obtained a \$900,000 development loan from First Texas Bank to develop Star Ranch Section 7 Phase 1B. According to SRI, there is no outstanding balance on the development loan.

*BCL.* The 15.32 acres which have been developed by BCL as Star Ranch, Section 2 (platted as 64 single family lots) was originally owned by three individuals each with an undivided interest which was deeded to BCL in June 1997. According to BCL, Star Ranch, Section 2 was developed from the proceeds of a revolving line of credit in the amount of \$925,000 with First Texas Bank. According to BCL, the line of credit has been repaid and there are no development liens against this property.

*KPKMII.* The 27.10 acres which have been developed by KPKMII as Forest Creek, Section 34 (platted as 106 single family lots) were purchased and developed with an acquisition and development loan from Bank One in the amount of \$2,340,000. According to KPKMII, the acquisition and development loan has been repaid and there are no acquisition or development liens against this property.

In June 2008, KPKMII began construction of utility facilities to serve Forest Creek, Section 38 (16.66 acres; platted as 58 single family lots). Such construction was completed in 2008. According to KPKMII, Section 38 was developed from the proceeds of a revolving line of credit from First Texas Bank in the amount of \$1,706,854. According to KPKMII, the line of credit has been repaid and there are no development liens against this property.

*PK Tack.* The 24.69 acres which have been developed by PK Tack as Forest Creek, Section 35 (platted as 97 single family lots) were purchased and developed with an acquisition and development loan from Plains Capital Bank in the amount of \$2,325,000. According to PK Tack, the outstanding Plains Capital loan has been paid off with the proceeds of the sale of lots to builders.

The 27.83 acres which have been developed by PK Tack as Forest Creek, Section 36 (platted as 95 single family lots) were purchased and developed with a revolving line of credit from First Texas Bank in the amount of \$4,027,250. According to PK Tack, the line of credit has been repaid and there are no development liens against this property.

The 23.07 acres which have been developed by PK Tack as Forest Creek, Section 37 (platted as 88 single family lots) were purchased and developed with a revolving line of credit from First Texas Bank in the amount of \$4,027,250. According to PK Tack, the line of credit has been repaid and there are no development liens against this property.

*Len-Buf.* The 29.04 acres that have been developed by Len-Buf as Silver Leaf, Section 1 (platted as 114 single family lots) were purchased and developed with an acquisition and development loan from Texans Commercial Capital, LLC in the amount of \$6,156,000. According to Len-Buf, the development loan was paid off, in-full, in June 2010.

*SLII.* The 29.41 acres which have been developed by SLII as Silver Leaf, Section 2 (platted as 82 single family lots) were purchased and developed with an acquisition and development loan from United Development Funding IV, a Maryland REIT, in the amount of \$4,727,016. According to SLII, the development loan was paid off, in-full, in 2015.

Additionally, KB Home constructed the Villas at Star Ranch Townhomes (19.99 acres; contains a total of 131 freestanding condominium/townhome units). Central Southwest Texas Development, LLC has developed Star Ranch Plaza (a retail center on approximately 1.469 acres; approximately 15,000 square feet) and is in the process of leasing and occupying the retail sites. SR Station LLC has developed Star Ranch Station (a retail center on approximately 1.738 acres; approximately 15,000 square feet) and it will be utilized with a pet store and pizza restaurant. Muirfield Townhomes, LLC developed approximately 57 duplex and townhome units on approximately 10.76 acres in Star Ranch Phase 2, Section 1. Brushy Creek Ltd. developed approximately 46 townhome units on approximately 4.75 acres. Additionally, Star Golf Development, Inc. has completed utility improvements along Muirfield Bend Drive and Klattenhoff Lane.

### **Utility Construction Agreements**

The District has entered into several utility construction agreements with various developers governing the development of water, wastewater and drainage facilities on land within the District and the reimbursement for certain of the costs of such development through the issuance of bonds by the District. The District has entered into nine separate utility construction agreements with SRI relating to: the payment of water and wastewater impact fees; the 12" water main; the water, wastewater and drainage facilities to serve Star Ranch, Sections 1, 3, 5-1, 5-2, 7-1A 7-1B, 7-2, and Phase 2, Section 1; and Forest Creek Section 37 water line. The District has also entered into utility construction agreements, respectively, with Tack Development relating to the 24" wastewater line; Star Ranch Commercial lot 1, Block D, Star Ranch Parcel 23 and Hutto Nursing Center; Star Ranch Commercial South, Star Ranch Section 7, Phase 3, Star Ranch Market II, and Star Ranch Market III with BCL relating to the water, wastewater and drainage facilities to serve Star Ranch, Section 2; Winterfield I; and Winterfield II; with KPKMII relating to the water, wastewater and drainage facilities to serve Forest Creek, Sections 34, 36, 38 and 39; with PK Tack relating to water, wastewater and drainage facilities to serve Forest Creek, Sections 35 and 37 and a 12-inch water main; with BCL and Tack Development regarding Parcel 24, a 27.84-acre tract; with Star Ranch Golf Development, Inc, relating to the water, wastewater, and drainage facilities within

Muirfield Bend Drive and Klattenhoff Lane; Star Ranch Section 4, Block A, and with Len-Buf relating to water, wastewater and drainage facilities to serve Silver Leaf Section 1 and 2. The District has also entered into a reimbursement agreement with HEB Grocery Company, L.P. for constructing water, wastewater and drainage facilities to serve a 30-acre tract.

### **Agricultural Waiver**

Much of the undeveloped acreage within the District is subject to an agricultural exemption, however, SRI, Tack Development, KPKMII, Len-Buf, Star Golf Partners Ltd., PK Tack and BCL have executed agreements, respectively, which are recorded in the real property records of Williamson and Travis Counties, as applicable, and are covenants running with the land waiving the right to have certain portions of their respective land located in the District classified as agricultural, open-space or timberland. In addition, SRI, Tack Development, KPKMII, Len-Buf, Star Golf Partners Ltd., PK Tack and BCL have waived the right to have their lots and houses (if any) within such property classified as business inventory. Such agreements may not be modified without the approval of the TCEQ and is binding on purchasers of such land from each developer. See "TAXING PROCEDURES - Property Subject to Taxation by the District."

## **THE SYSTEM**

### **Regulation**

The water, wastewater and storm drainage facilities (the "System"), 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, Travis County, Williamson 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 US Environmental Protection Agency and the TCEQ. The rules and regulations promulgated by these agencies change periodically and are subject to further development and revision. The TCEQ makes annual inspections of the water and wastewater systems to assure compliance with their rules.

### **Water Supply and Distribution**

The District receives its potable water from Manville Water Supply Corporation ("MWSC") pursuant to a 40 year wholesale water supply agreement dated July 13, 2000 between the District, MWSC and Tack Development, which agreement was amended on August 13, 2001, August 21, 2006 and November 10, 2011 (as amended, the "Water Supply Agreement"). The Water Supply Agreement, prior to the November 10, 2011 amendment, provided for water in an amount sufficient to serve up to 2,600 living-unit-equivalents ("LUEs") based upon a phased LUE purchase schedule beginning with 250 LUEs in 2000 and the addition of 250 LUEs per fiscal year through the 2013-2014 fiscal year and the remainder paid during the 2014-2015 fiscal year. The November 10, 2011 amendment added Williamson County Municipal Utility District No. 22 ("MUD 22") as a party to the agreement, bringing additional area into the agreement for water service, and provided for water in an amount sufficient to serve up to 3,400 LUEs. The LUE purchase schedule was also changed to require payment for 100 LUEs per year through the 2026-2027 fiscal year and the remainder paid during the 2027-2028 fiscal year. Of the 3,400 LUEs, 800 LUEs are currently allocated to MUD 22 and 2,600 LUEs are allocated to the District.

Pursuant to the Water Supply Agreement, for each LUE to be purchased during a fiscal year, Tack Development, the District, or MUD 22 is required to pay MWSC a capital recovery fee for such LUE in the amount from time to time charged by MWSC to its own retail customers. A deposit in the amount of \$100 per LUE for all LUEs to be purchased during each fiscal year must be paid to MWSC at the start of each fiscal year, which is then credited against the LUE fees to be paid during that fiscal year. If Tack Development, the District, and MUD 22 fail to purchase or make deposits for water LUEs in accordance with the LUE purchase schedule, any and all LUEs not timely purchased are deemed forfeited for that fiscal year and the cumulative total commitment is reduced accordingly. Pursuant to the November 10, 2011 amendment, the District and MUD 22 allocate the LUEs to be purchased during each fiscal year between themselves. Additionally, the obligation of MWSC to continue delivery of water to the District is specifically conditioned on the District, Tack Development, or related entities contributing to MWSC a water storage facility site and two water well sites. Any defaults or disputes under the Water Supply Agreement are to be subject to arbitration by the parties.

According to MWSC's engineer, MWSC is a member owned, member controlled non-profit corporation currently serving 18,928 connections. MWSC's engineer has stated that the MWSC system consists of: 24 active production wells with a combined capacity of 17,297 gallons per minute ("gpm"), which includes 1,320 gpm from the City of Pflugerville supply and 600 gpm from a City of Austin supply, sufficient to serve 28,828 LUEs with well capacity being the limiting component. MWSC's engineer has also stated that the current MWSC system capacity is supported by 16,350,000 gallons of total storage including 3,200,000 gallons elevated storage including a 1,000,000 gallon elevated storage tank across SH 130 from the District, and 13,150,000 gallons ground storage. MWSC has made system improvements expanding its delivery and supply capacity in both physical plant improvements as well as contractual supply and purchase agreements. The MWSC engineer states that the utility has sufficient water service capabilities to provide adequate service to its present and future customers. According to the District's engineer, MWSC delivers potable water to the District through four master meters for distribution to District customers through 8-inch and 12-inch water lines.

By letter dated January 3, 2018, MWSC notified the District that MWSC was proposing to increase its monthly wholesale volumetric water rate from \$3.50 per 1,000 gallons to \$4.00 per 1,000 gallons effective with the April 2018 billing cycle. The District requested additional

information from MWSC regarding the calculation of the proposed increase and engaged a rate consultant to review that information. The District's rate consultant concluded that MWSC's proposed rate increase is not supported by MWSC's cost of service, and the District's Board of Directors has authorized the District's consultants to consult and negotiate the proposed rate increase with MWSC, as required by the Water Supply Agreement. The Water Supply Agreement provides that, if the rates cannot be established through consultations and negotiations, rate adjustments in dispute will be resolved through rate setting proceedings in arbitration.

The District currently provides water to 2,005 equivalent connections including 1,148 occupied single family homes, 84 builder connections, 1,018 apartments units (713 LUEs), 26 commercial connections and 60 duplex and townhome connections and anticipates serving 2,600 LUEs at ultimate build out of the District, under the current land use plan.

### **Wastewater Collection and Treatment**

The District receives wastewater treatment service through a 40 year wholesale contract with SWWC Utilities, Inc. ("SWWC") (as amended, the "Wastewater Agreement"). Pursuant to the Wastewater Agreement, SWWC agrees to provide wastewater treatment service for ultimate build out within the District. SWWC has stated that its wastewater treatment plant is operated pursuant to a permit issued by the TCEQ, with permitted capacity for its Forest Creek wastewater treatment plant of 990,000 gallons per day ("gpd"). Additionally, SWWC has stated that the Forest Creek wastewater treatment expansion of the wastewater treatment plant is complete, bringing its capacity up to the permitted maximum. SWWC, as of January 2017, is serving approximately 3,096 wastewater equivalent connections, including 882 equivalent connections located outside the boundaries of the District, with an average day flow of 489,000 gpd. The TCEQ approved the use of a lower flow (gallons per day) per connection design criteria for the Forest Creek WWTP based upon historical flow and connection records for the plant and service area collected from January 2006 through February 2009. The TCEQ concluded that using a flow factor of 200 gpd/ESFC is reasonable. The hydraulic capacity of the plant, as approved by the TCEQ, at 200 gallons per day per connection makes the 990,000 gpd existing plant capacity sufficient for 4,950 total connections. After excluding 882 ESFCs for customers outside the District, the existing capacity is adequate to serve the existing 2,214 ESFCs within the District plus the projected growth.

According to the District's Engineer, the ultimate build out of the District is estimated at 2,600 LUEs, under the current land plan. Additionally, SWWC has stated that it expects to be able to serve its existing and future customers, including the District at ultimate development.

The District's wastewater is collected through 8-inch and 12-inch collection lines and is then conveyed via lift stations and a 24-inch gravity trunkline to the Forest Creek wastewater treatment plant. The District intends to own and operate the collection system within its boundary with the exception of the 24-inch gravity trunkline which is owned by SWWC. The majority of the current development within the District is primarily located in the southern area of the District. Wastewater from this area is collected and conveyed by the 24-inch wastewater line.

### **Storm Drainage**

The storm drainage system that serves the District consists of curb and guttered streets and storm sewers. The collected storm water runoff is routed through detention and water quality ponds, thence into tributaries of Brushy Creek and ultimately to the Brazos River for portions of the District within Williamson County. The Travis County portions of the District drain into tributaries of Wilbarger Creek and ultimately into the Colorado River.

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

According to the District's Engineer, no acreage located within the District is located within the 100-year flood plain, as shown on the following Federal Flood Insurance Administration Rate Maps: (i) No. 48491C0515E for Williamson County, Texas, dated September 26, 2008, (ii) No. 48491C0675E for Williamson County, Texas, dated September 26, 2008 and (iii) No. 48453C0280H for Travis County, Texas, dated September 26, 2008.

*(The remainder of this page intentionally left blank)*

**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. The following schedule sets forth the rates and fees for the District's water and sewer service which were effective as of March 11, 2015.

**Water (monthly billings)**

Base Rate for 5/8" meter:

Base Rate (2,000 gallons of water service and solid waste pick-up) .....	\$ 34.70 (minimum)
2,001 – 15,000 gallons of water used .....	\$ 4.00 per 1,000 gallons
Over 15,001 gallons of water used .....	\$ 5.25 per 1,000 gallons

**Wastewater Usage Charge (monthly billings)**

Single Family:

Base Rate: .....	\$ 56.74
------------------	----------

**Tap Connection Fees:**

Water 5/8" Meter .....	\$ 350.00
Water 3/4" Meter .....	\$ 425.00
Water 1" Meter .....	\$ 650.00
Water 1-1/2" Meter .....	\$ 1,750.00
Over Water 1-1/2" Meter .....	to be installed by District at cost times three
Wastewater Residential .....	\$ 350.00
Wastewater Commercial .....	to be installed by District at cost times three

**Capital Expenditure Fees:**

Water and wastewater capacity charges are also charged by the District and payable to the District for wholesale water from MWSC and wastewater service from SWWC.

Water .....	\$ 2,800.00 per LUE
Wastewater .....	\$ 1,931.00 per LUE

*(The remainder of this page intentionally left blank)*

## Operating Revenues and Expenses Statement - Table 2

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

	9/30/2018 <sup>(a)</sup>	9/30/2017 <sup>(a)</sup>	9/30/2016 <sup>(a)</sup>	9/30/2015 <sup>(a)</sup>	9/30/2014 <sup>(a)</sup>	9/30/2013 <sup>(a)</sup>
<b>REVENUES</b>						
Property taxes, including penalties	\$ 900,251	\$ 909,191	\$ 674,880	\$ 598,879	\$ 400,313	\$ 312,024
Service Revenues	2,585,651	2,419,003	2,155,020	2,121,371	1,960,893	1,775,209
System Connection Fees	104,025	96,825	130,275	48,200	128,950	158,550
Interest	49,545	15,573	10,478	8,295	7,670	6,969
Other	277	570	430	344	1,412	125
<b>TOTAL REVENUES</b>	<b>\$ 3,639,749</b>	<b>\$ 3,441,162</b>	<b>\$ 2,971,083</b>	<b>\$ 2,777,089</b>	<b>\$2,499,238</b>	<b>\$ 2,252,877</b>
<b>EXPENDITURES</b>						
Water/wastewater purchases	\$ 1,834,368	\$ 1,695,755	\$ 1,514,045	\$ 1,442,905	\$ 1,336,973	\$ 1,170,023
Garbage Collection Fees	241,102	212,081	187,040	180,496	163,936	137,376
Repairs/Maintenance	174,077	168,897	198,068	156,212	142,579	92,104
Tap Inspection Fees	43,653	43,676	31,655	30,661	51,959	65,099
Utilities	43,126	40,129	39,457	37,163	35,299	32,238
Director Fees	7,912	7,428	7,589	8,397	9,204	7,751
Legal Fees	88,486	74,395	78,038	77,721	72,166	50,366
Engineering Fees	82,173	90,873	96,811	108,137	75,963	39,756
Management Fees	179,150	165,861	151,270	142,829	132,843	119,146
Bookkeeping Fees	25,500	24,750	24,750	24,750	24,750	24,750
Audit Fees	15,000	14,500	14,500	14,500	14,500	14,500
Insurance	9,204	7,935	6,044	5,928	3,046	2,706
Tax Appraisal/Collection Fees	5,611	5,994	4,796	4,417	2,944	2,340
Financial Advisor Fees	605	672	529	525	426	382
Other	97,138	41,308	42,004	8,551	5,286	7,428
Capital Outlay	-	23,548	1,433,938	183,226	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$ 2,847,105</b>	<b>\$ 2,617,802</b>	<b>\$ 3,830,534</b>	<b>\$ 2,426,418</b>	<b>\$2,071,874</b>	<b>\$ 1,765,965</b>
<b>NET REVENUES (DEFICIT)</b>	<b>\$ 792,644</b>	<b>\$ 823,360</b>	<b>\$ (859,451)</b>	<b>\$ 350,671</b>	<b>\$ 427,364</b>	<b>\$ 486,912</b>
<b>Beginning Fund Balance</b>	<b>\$ 2,635,162</b>	<b>\$ 1,811,802</b>	<b>\$ 2,671,253</b>	<b>\$ 2,320,582</b>	<b>\$1,921,218</b>	<b>\$ 1,434,306</b>
<b>Plus / (Less): Fund Transfer</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>(28,000)</b>	<b>-</b>
<b>Ending Fund Balance</b>	<b>\$ 3,427,806</b>	<b>\$ 2,635,162</b>	<b>\$ 1,811,802</b>	<b>\$ 2,671,253</b>	<b>\$2,320,582</b>	<b>\$ 1,921,218</b>

(a) Audited.

**DEBT SERVICE REQUIREMENTS SCHEDULE – TABLE 3**  
**Williamson County Water, Sewer, Irrigation, and Drainage District No. 3**  
**\$4,325,000**

**Unlimited Tax Refunding Bonds, Series 2019**

**Dated Date: February 14, 2019**

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

Year Ending 31-Dec	Outstanding Debt	Less: Refunded Debt	Total Debt	The Bonds				Principal and Interest	Total Debt Service Requirements
				Principal (Due 9/01)	Interest (Due 3/01)      (Due 9/01)		Total		
2019	2,551,125	181,331	2,369,794	70,000	-	94,122	94,122	164,122	2,533,916
2020	2,542,600	181,331	2,361,269	5,000	84,950	84,950	169,900	174,900	2,536,169
2021	2,561,125	181,331	2,379,794	5,000	84,875	84,875	169,750	174,750	2,554,544
2022	2,571,638	186,331	2,385,306	5,000	84,800	84,800	169,600	174,600	2,559,906
2023	2,564,825	186,144	2,378,681	5,000	84,725	84,725	169,450	174,450	2,553,131
2024	2,551,900	185,956	2,365,944	5,000	84,650	84,650	169,300	174,300	2,540,244
2025	2,572,825	185,769	2,387,056	5,000	84,575	84,575	169,150	174,150	2,561,206
2026	2,556,800	765,581	1,791,219	580,000	84,500	84,500	169,000	749,000	2,540,219
2027	2,556,625	777,194	1,779,431	615,000	72,900	72,900	145,800	760,800	2,540,231
2028	2,581,469	782,375	1,799,094	645,000	60,600	60,600	121,200	766,200	2,565,294
2029	2,588,238	356,356	2,231,881	245,000	47,700	47,700	95,400	340,400	2,572,281
2030	2,576,156	361,338	2,214,819	260,000	42,800	42,800	85,600	345,600	2,560,419
2031	2,572,169	90,719	2,481,450	5,000	37,600	37,600	75,200	80,200	2,561,650
2032	2,577,719	90,500	2,487,219	5,000	37,500	37,500	75,000	80,000	2,567,219
2033	2,560,644	335,275	2,225,369	245,000	37,400	37,400	74,800	319,800	2,545,169
2034	2,590,506	674,025	1,916,481	590,000	32,500	32,500	65,000	655,000	2,571,481
2035	2,611,088	1,092,025	1,519,063	1,035,000	20,700	20,700	41,400	1,076,400	2,595,463
2036	2,584,594	-	2,584,594	-	-	-	-	-	2,584,594
2037	2,573,031	-	2,573,031	-	-	-	-	-	2,573,031
2038	1,283,531	-	1,283,531	-	-	-	-	-	1,283,531
2039	1,318,031	-	1,318,031	-	-	-	-	-	1,318,031
	<b><u>\$ 51,446,638</u></b>	<b><u>\$ 6,613,581</u></b>	<b><u>\$ 44,833,056</u></b>	<b><u>\$ 4,325,000</u></b>	<b><u>\$ 982,775</u></b>	<b><u>\$ 1,076,897</u></b>	<b><u>\$ 2,059,672</u></b>	<b><u>\$ 6,384,672</u></b>	<b><u>\$ 51,217,728</u></b>

**FINANCIAL STATEMENT  
(Unaudited)**

**Assessed Value - Table 4**

2018 Certified Assessed Valuation		\$ 527,298,108 <sup>(a)</sup>
Estimated Assessed Valuation as of August 23, 2018		\$ 542,842,772 <sup>(b)</sup>
Gross Debt Outstanding (after issuance of the Bonds)		\$ 36,165,000 <sup>(c)</sup>
Ratio of Gross Debt to 2018 Certified Assessed Valuation		6.86%
Ratio of Gross Debt to Estimated Assessed Valuation as of August 23, 2018		6.66%
2018 Tax Rate		
Debt Service	\$	0.4820
Maintenance		<u>0.2410</u>
<b>Total 2018 Tax Rate</b>		<u><u>\$ 0.7230</u></u> <sup>(d)</sup>
Debt Service Fund Balance (as of January 9, 2019)		\$ 1,134,778 <sup>(e)</sup>

Estimated Population as of December 1, 2018..... 6,548 <sup>(f)</sup>  
 Area of District: 739.91 acres

- (a) Assessed valuation of the District as of January 1, 2018 as certified by the Williamson Central Appraisal District ("WCAD") and the Travis Central Appraisal District ("TCAD"). See "TAXING PROCEDURES."
- (b) Estimated assessed valuation of the District as of August 23, 2018 as provided by WCAD and TCAD. See "TAXING PROCEDURES."
- (c) Includes the Bonds, excludes the Refunded Bonds.
- (d) 2018 Tax Rate levied in September 2018.
- (e) January 9, 2019. Neither Texas Law nor the Bond Order requires the District to maintain any particular sum in the debt service fund.
- (f) Based upon 3.5 residents per occupied single-family home and 2.5 residents per occupied multi-family unit.

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

Date of Authorization	Purpose	Amount Authorized	Issued to Date	Unissued
11/7/2000	Water, Sanitary Sewer & Drainage	\$ 31,345,000.00	\$ 31,345,000.00	\$ -
5/12/2012	Water, Sanitary Sewer & Drainage	<u>9,805,000.00</u>	<u>9,805,000.00</u>	<u>-</u>
	Total	\$ 41,150,000.00	\$ 41,150,000.00	\$ -
11/7/2000	Refunding	47,017,500.00	3,958,880.17	43,058,619.83
5/12/2012	Refunding	<u>14,707,500.00</u>	<u>-</u>	<u>14,707,500.00</u>
	Total	\$ 61,725,000.00 <sup>(a)</sup>	\$ 3,958,880.17 <sup>(b)</sup>	\$ 57,766,119.83 <sup>(b)</sup>

- (a) The propositions also authorize the issuance of refunding bonds in an amount not to exceed one and one-half (1.5) times the principal amount of bonds issued assuming that the total amount of bonds authorized by the voters will be issued. All new money bonds have been issued.
- (b) The calculation of the amount of remaining unissued refunding authorization is based on administrative guidance from the Attorney General. To the extent the par amount of the refunding bonds exceeds the par amount of the refunded bonds, the difference is counted against the refunding authorization. Additionally, any net premium received by the District from the sale of refunding bonds, after deducting the Underwriter's discount, is also counted against the District's refunding authorization. The District has previously issued five series of refunding bonds, which used \$3,716,403.81 in refunding authorization, and the issuance of the Bonds uses an additional \$257,476.36 of the District's voted authorization of refunding bonds. After the issuance of the bonds, \$57,751,119.83 of voted authorization of refunding bonds will remain unissued (assuming the District issues its full amount of voter authorized new money bonds). In the event that the District does not issue the total amount of bonds authorized, the amount of authorized refunding bonds could be limited to one and one-half (1.5) times the principal amount of bonds then issued.

**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>				
03/01/06	Water, Sanitary Sewer & Drainage	2006	\$ 3,875,000	\$ -
12/01/07	Water, Sanitary Sewer & Drainage	2007	6,250,000	-
12/01/08	Water, Sanitary Sewer & Drainage	2008	5,225,000	-
12/01/09	Water, Sanitary Sewer & Drainage	2009	4,900,000	-
12/01/10	Water, Sanitary Sewer & Drainage	2010A	2,500,000	15,000
12/01/11	Water, Sanitary Sewer & Drainage	2011	2,000,000	15,000
01/01/13	Water, Sanitary Sewer & Drainage	2013	2,950,000	2,905,000
12/01/13	Water, Sanitary Sewer & Drainage	2013B	3,675,000	3,650,000
01/01/15	Water, Sanitary Sewer & Drainage	2015A	3,350,000	3,330,000
09/13/17	Water, Sanitary Sewer & Drainage	2017	6,425,000	6,160,000
	<b>Subtotal</b>		<b>\$ 41,150,000</b>	<b>\$ 16,075,000</b>
<b>B. Refunding Bonds</b>				
06/01/10	Refunding	2010	\$ 4,350,000	\$ -
03/01/12	Refunding	2012	8,290,000	4,200,000
02/01/13	Refunding	2013A	2,585,000	1,370,000
01/01/15	Refunding	2015	4,645,000	4,070,000
06/08/16	Refunding	2016	6,375,000	6,140,000
01/09/19	Refunding	2019	4,325,000	4,325,000 <sup>(b)</sup>
	Subtotal		<b>\$ 30,570,000</b>	<b>\$ 20,105,000</b>
	<b>Total</b>		<b>\$ 71,720,000</b>	<b>\$ 36,180,000</b>

(a) Includes the Bonds; excludes the Refunded Bonds

(b) The Bonds.

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

General Fund	\$ 3,403,829
Debt Service Fund	1,134,778 <sup>(b)</sup>
Capital Projects Fund	2,676,354

(a) Unaudited as of January 9, 2019. Includes cash and investments.

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

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

Under Texas law, the District is authorized to invest in (1) obligations of the United States or its agencies and instrumentalities, including letters of credit; (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of the State of Texas or the United States or their respective agencies and instrumentalities including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (“FDIC”) or by explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the FDIC or the National Credit Union Share Insurance Fund or their respective successors; (8) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended) (the “PFIA”) (i) that are issued by or through an institution that has its main office or a branch office in Texas and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by

obligations described in clauses (1) through (7) or in any other manner and amount provided by law for District deposits; or (ii) that are invested by the District through a depository institution that has its main office or a branch office in the State of Texas and otherwise meets the requirements of the PFIA; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas; (10) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that complies with Securities and Exchange Commission Rule 2a-7; (13) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, and either has a duration of one year or more and is invested exclusively in obligations described in 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 January 9, 2019 is invested in Money Market, TexPool, L.O.G.I.C, and Certificates of Deposit, as shown below. This investment portfolio is generally representative of the District's investment practices. GASB Statement No. 3 requires the District to assign risk categories for its investments except those in which securities are not used as evidence of the investment. TexPool and L.O.G.I.C. are public funds investment pools. TexPool and L.O.G.I.C. have not been assigned a risk category since securities are not issued to evidence the investment, but rather it owns an undivided beneficial interest in the assets of TexPool and L.O.G.I.C. 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 January 9, 2019</b>	
Cash	\$ 176,703
Money Market	2,056,209
TexPool	2,455,177
Certificates of Deposit	<u>2,526,873</u>
<b>Total Investments</b>	<b>\$ 7,214,961</b>

**Estimated Overlapping Debt Statement**

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

*(Chart appears on following page)*

Taxing Body <sup>(a)</sup>	Gross Debt		% of Overlapping Gross Debt	Amount of Overlapping Gross Debt
	Amount	As of		
Williamson County	878,234,942	12/31/2018	0.60%	5,269,410
Travis County	685,851,423	12/31/2018	0.03%	205,755
Travis Co Healthcare District	-	12/31/2018	0.03%	-
Hutto ISD	280,536,915	12/31/2018	6.11%	17,140,806
Pflugerville ISD	417,770,000	12/31/2018	0.51%	2,130,627
Round Rock ISD	648,305,000	12/31/2018	0.51%	3,306,356
Austin Community College	418,335,000	12/31/2018	0.08%	334,668
<b>TOTAL ESTIMATED OVERLAPPING DEBT</b>				<b>\$ 28,387,621</b>
The District <sup>(b)</sup>	\$ 36,180,000	2/13/2019	100.00%	\$ 36,180,000
<b>TOTAL ESTIMATED DIRECT AND OVERLAPPING DEBT</b>				<b>\$ 64,567,621</b>
<b>Ratio of Estimated and Overlapping Debt to Certified 2018 Assessed Valuation</b>				<b>12.24%</b>
<b>Ratio of Estimated and Overlapping Debt to Estimated Assessed Valuation as of August 23, 2018</b>				<b>11.89%</b>

(a) A resident of the District can reside only in one county.

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

#### Overlapping Taxes for 2018

Overlapping Entity	2018 Tax Rates			Average Tax Bill <sup>(a)</sup>		
	Travis County	Williamson County		Travis County	Williamson County	
	Pflugerville ISD	Round Rock ISD	Hutto ISD	Pflugerville ISD	Round Rock ISD	Hutto ISD
District	\$0.723000	\$0.723000	\$0.723000	\$ 2,078	\$ 2,078	\$ 2,078
Williamson County		0.419029	0.419029	-	1,205	1,205
Travis County	0.354200			1,018	-	-
Round Rock ISD		1.304800		-	3,751	-
Hutto ISD			1.600000	-	-	4,599
Pflugerville ISD	1.520000			4,369	-	-
Travis County Healthcare District	0.105221			302	-	-
Austin Community College District	0.104800	0.104800	0.104800	301	301	301
Williamson Co FM/RD District		0.040000	0.040000	-	115	115
Williamson County ESD No. 3		0.096374	0.096374	-	277	277
Upper Brushy Creek WC&ID No. 1A		0.020000	0.020000	-	57	57
<b>TOTAL</b>	<b>\$2.807221</b>	<b>\$2.708003</b>	<b>\$3.003203</b>	<b>\$8,069.69</b>	<b>\$7,784.48</b>	<b>\$8,633.07</b>

(a) Based upon 2018 average single-family home value of \$287,462, as provided by TCAD and WCAD.

**TAX DATA**

**Classification of Assessed Valuation - Table 9**

Type Property	2018 <sup>(a)</sup>		2017 <sup>(a)</sup>		2016 <sup>(a)</sup>	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 321,202,430	60.48%	\$ 294,503,115	61.56%	\$ 279,128,006	64.36%
Multi Family	130,282,450	24.53%	122,266,964	25.56%	117,993,438	27.21%
Vacant Land	7,067,968	1.33%	4,257,969	0.89%	6,153,760	1.42%
Acreage	5,599,211	1.05%	7,609,791	1.59%	9,275,357	2.14%
Rural Land Non-Qualified	639,692	0.12%	1,266,964	0.26%	878,618	0.20%
Commercial Real Property	66,776,310	12.57%	52,228,104	10.92%	33,907,957	7.82%
Utilities	2,969,354	0.56%	2,757,596	0.58%	2,795,531	0.64%
Tangible Personal Property	14,797,115	2.79%	9,521,462	1.99%	4,300,373	0.99%
Real Inventory	3,660,189	0.69%	4,427,986	0.93%	3,527,564	0.81%
Exempt	934,984	0.18%	788,520	0.16%	728,379	0.17%
Less: Adjustment	(22,833,585)	-4.30%	(21,192,293)	-4.43%	(24,976,188)	-5.76%
<b>Total</b>	<b>\$ 531,096,118</b>	<b>100.00%</b>	<b>\$ 478,436,178</b>	<b>100.00%</b>	<b>\$ 433,712,795</b>	<b>100.00%</b>

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

**Tax Collections - Table 10**

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

Tax Year	Assessed Valuation	Tax Rate	Tax Levy	Current Collections		Total Collections		Year Ending
				Amount	%	Amount	%	
2002	8,249,546 <sup>(a)</sup>	0.8500	70,121	59,680	85.11%	59,680	85.11%	9/30/2003 <sup>(b)</sup>
2003	8,809,100 <sup>(a)</sup>	0.8500	74,877	22,129	29.55%	32,378	43.24%	9/30/2004 <sup>(c)</sup>
2004	14,545,301 <sup>(a)</sup>	0.8500	123,635	120,920	97.80%	172,703	139.69%	9/30/2005 <sup>(c)</sup>
2005	20,073,754 <sup>(a)</sup>	0.8500	170,627	169,110	99.11%	172,982	101.38%	9/30/2006 <sup>(b)</sup>
2006	32,779,715 <sup>(a)</sup>	0.8500	278,627	275,153	98.75%	278,324	99.89%	9/30/2007 <sup>(b)</sup>
2007	73,687,950 <sup>(a)</sup>	0.7730	569,607	524,379	92.06%	527,854	92.67%	9/30/2008 <sup>(b)</sup>
2008	100,538,759 <sup>(a)</sup>	0.7730	777,165	776,114	99.86%	786,851	101.25%	9/30/2009 <sup>(b)</sup>
2009	153,860,574 <sup>(a)</sup>	0.7999	1,230,730	1,223,645	99.42%	1,264,345	102.73%	9/30/2010 <sup>(b)</sup>
2010	181,663,535 <sup>(a)</sup>	0.8150	1,524,785	1,475,872	96.79%	1,486,809	97.51%	9/30/2011 <sup>(b)</sup>
2011	209,800,052 <sup>(a)</sup>	0.8150	1,715,484	1,704,264	99.35%	1,707,380	99.53%	9/30/2012 <sup>(b)</sup>
2012	241,530,178 <sup>(a)</sup>	0.8150	1,962,169	1,959,305	99.85%	1,964,087	100.10%	9/30/2013 <sup>(b)</sup>
2013	272,272,656 <sup>(a)</sup>	0.8150	2,219,022	2,215,519	99.84%	2,231,064	100.54%	9/30/2014 <sup>(b)</sup>
2014	326,403,023 <sup>(a)</sup>	0.8082	2,637,989	2,635,351	99.90%	2,635,351	99.90%	9/30/2015 <sup>(b)</sup>
2015	391,863,780 <sup>(a)</sup>	0.7306	2,862,957	2,860,094	99.90%	2,860,094	99.90%	9/30/2016 <sup>(b)</sup>
2016	434,823,429 <sup>(a)</sup>	0.7230	3,135,744	3,134,341	99.96%	3,134,341	99.96%	9/30/2017 <sup>(b)</sup>
2017	478,436,178 <sup>(a)</sup>	0.7230	3,461,318	3,457,032	99.88%	3,501,521	101.16%	9/30/2018 <sup>(b)</sup>
2018	527,298,108 <sup>(a)</sup>	0.7230	3,812,365	<i>In the process of collection</i>				9/30/2019 <sup>(d)</sup>

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

(b) Audited.

(c) Audited. The golf course constituted the initial development within the District and thus represented the majority of the assessed value. On March 31, 2004, Oly Star Ranch G. P. sold the golf course to Tack Development, Ltd. and Timmerman & Hagn Ltd.; which, in turn, conveyed the golf course to Star Golf Partners, Ltd. Taxes due on the golf course for 2002 and 2003 were not paid until the property was sold in 2004.

(d) Unaudited. Taxes are due with no penalty by January 31, 2018.

**District Tax Rates - Table 11**

<b>Tax Rate per \$100 Assessed Valuation</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>	<b>2015</b>	<b>2014</b>	<b>2013</b>
Debt Service	\$ 0.4820	\$ 0.5354	\$ 0.5145	\$ 0.5606	\$ 0.6262	\$ 0.6703
Maintenance	<u>0.2410</u>	<u>0.1876</u>	<u>0.2085</u>	<u>0.1700</u>	<u>0.1820</u>	<u>0.1447</u>
<b>Total</b>	<b><u>\$ 0.7230</u></b>	<b><u>\$ 0.7230</u></b>	<b><u>\$ 0.7230</u></b>	<b><u>\$ 0.7306</u></b>	<b><u>\$ 0.8082</u></b>	<b><u>\$ 0.8150</u></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 Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, constructing, acquiring, maintaining, repairing or operating the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future. At an election held on November 7, 2000, voters within the District authorized a maintenance tax not to exceed \$1.00/\$100 assessed valuation. As shown above under "District Tax Rates," the District levied 2018 maintenance and operations tax of \$0.2410/\$100 assessed valuation.

**Principal Taxpayers - Table 12**

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

<b>Name</b>	<b>Type of Property</b>	<b>2018</b>	<b>2017</b>	<b>2016</b>
BRE MF Star Ranch LLC <sup>(b)</sup>	Apartments	(a)	(a)	\$ 47,000,000
CWS Star Ranch SAF VIII et al	Apartments	50,565,219	48,290,836	(a)
Fairways at Star Ranch I LLC & Fairways at Star Ranch II LLC <sup>(c)</sup>	Apartments	45,406,057	44,738,073	44,626,582
Round Rock M3-05 LLC	Apartments	9,873,087	9,900,857	10,043,121
Forest Creek Medical Center	Office Building	11,544,469	11,321,835	10,669,612
Williamson Health Realty LLC	Nursing Home	8,388,955	10,115,071	9,561,683
Tack Townhomes LLC	Townhomes	9,950,000	9,766,745	9,710,382
Muirfield Townhomes LLC	Townhomes	6,664,138	3,540,314	(a)
Brushy Creek LTD	Acreage	(a)	(a)	(a)
HEB Grocery Company LP	Acreage	32,454,394	24,344,679	4,573,800
Parth Capital Group LLC	Office Building	6,400,000	5,100,000	4,810,917
VEB TX I LLC & VEB TX II LLC	Developer	(a)	(a)	(a)
Star Golf Partners	Golf Course and Clubhouse	(a)	(a)	5,239,017
Star Golf Development Inc	Developer	(a)	(a)	(a)
SR Station LLC	Developer	(a)	(a)	(a)
Bettina Properties LLC	Private School	(a)	(a)	(a)
SWWC Utilities Inc.	Utility	(a)	(a)	(a)
Individual Homeowners	Homeowners	(a)	(a)	(a)
Tack Development LTD	Vacant Lots and Acreage	(a)	(a)	(a)
PH SLII LP	Vacant Lots and Acreage	(a)	(a)	(a)
KB Home Lone Star Inc.	Homebuilder	(a)	(a)	4,135,616
Meritage Homes of Texas LLC	Homebuilder	(a)	(a)	(a)
<b>Total</b>		<b><u>\$ 181,246,319</u></b>	<b><u>\$ 167,118,410</u></b>	<b><u>\$ 150,370,730</u></b>
<b>Percent of 2018 Certified Assessed Valuation</b>		<b>34.37%</b>	<b>31.69%</b>	<b>34.58%</b>

(a) Not a principal taxpayer for respective year.

(b) Formerly called AMFP II Fairways Star Ranch LLC and Star Ranch Apartments LP.

(c) Formerly called Western Rim Investors 4 LP

**Tax Adequacy for Debt Service**

The calculations shown below assume, solely for purposes of illustration, no increase or decrease in assessed valuation from the 2018 Certified Assessed Valuation and Estimated Assessed Valuation as of August 23, 2018, and utilize tax rates adequate to service the District's total debt service requirements, including the Bonds. No available debt service funds are reflected in these computations. See "INVESTMENT CONSIDERATIONS - Impact on District Tax Rates."

Average Requirement on the Bonds and the Outstanding Bonds (2019 through 2037) .....	\$2,558,746
\$0.52 Tax Rate on 2018 Certified Assessed Valuation of \$527,298,107 @ 95% collections produces .....	\$2,604,853
\$0.50 Tax Rate on Estimated Assessed Valuation as of August 23, 2018 of \$542,842,772 @ 95% collections produces .....	\$2,578,503
Maximum Requirement on the Bonds (2035) .....	\$2,595,463
\$0.52 Tax Rate on 2018 Certified Assessed Valuation of \$527,298,107 @ 95% collections produces .....	\$2,654,946
\$0.51 Tax Rate on Estimated Assessed Valuation as of August 23, 2018 of \$542,842,772 @ 95% collections produces .....	\$2,630,073

**Debt Service Fund Management Index**

Debt Service Requirements for year ending 12/31/19 .....	\$2,533,916 <sup>(a)</sup>
Audited Debt Service Fund Balance as of 9/30/2018 .....	\$ 1,056,769 <sup>(b)</sup>
Projected 2018 Tax Levy @ 95% collections produces .....	<u>\$ 2,414,493 <sup>(c)</sup></u>
Total Available for Debt Service .....	<u>\$3,471,267</u>
Projected Debt Service Fund Balance 9/30/19 .....	\$937,351

- (a) Interest payments on the Bonds begin September 1, 2019.
- (b) Audited debt service fund balance as of September 30, 2018; 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 \$0.4820 at its September 2018 meeting.

**TAXING PROCEDURES**

**Authority to Levy Taxes**

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

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

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

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

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

**General:** Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the appraisal district to include on a tax roll tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt property include but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; income producing tangible personal property or mineral interest with a taxable value of less than \$500; certain property used for the control of air, water or land pollution; solar and wind powered energy devices; certain non-profit cemeteries, farm products owned by the producer; and certain property owned by qualified charitable, religious, veterans, youth development, or fraternal organizations; designated historical sites; travel trailers; and most individually owned automobiles. Property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty is partially exempt to between \$5,000 and \$12,000 of assessed value depending upon the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation on the same or subsequently qualified homestead of the total appraised value of the same property to which the disabled veteran's exemption applied. The surviving spouse of a member of the armed services who was killed in action is entitled to an exemption from taxation of the total appraised value of the surviving spouse's residence homestead where certain conditions are met and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. Furthermore, qualifying surviving spouses of person 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Also partially exempt, if approved by the Board or at an election called by the Board upon petition of at least 20% of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old, not less than \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. Furthermore, the surviving spouse of a person 65 or older is entitled to an exemption for the same property in an amount equal to that which the deceased spouse was qualified, subject to certain conditions. The District's tax assessor/collectors are authorized by statute to disregard such exemptions for the elderly and disabled if granting the exemptions would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemptions by the District.

**Residential Homestead Exemptions:** The Property Tax Code authorizes the governing body of each political subdivision in the State to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation, if the exemption is adopted by the governing body of the political subdivision before July 1. 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 District has never adopted a general homestead exemption.

**Tax Abatement:** Williamson and/or Travis County and the District may enter into tax abatement agreements with owners of real property within such tax abatement zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. To date, the District has not executed any abatement agreements.

**Freeport Goods and Goods-in-Transit Exemption:** Article VIII, Section 1-j of the Texas Constitution provides for an exemption from ad valorem taxation for "freeport property," which is defined as goods detained in the state for 175 days or less for the purpose of assembly, storage, manufacturing, processing or fabrication. Taxing units that took action prior to April 1, 1990 may continue to tax freeport property and decisions to continue to tax freeport property may be reversed in the future. However, decisions to exempt freeport property are not subject to reversal. In addition, effective for tax years 2008 and thereafter, Article VIII, Section 1-n of the Texas Constitution provides for an exemption from taxation for "goods-in-transit," which are defined as personal property acquired or imported into the state and transported to another location inside or outside the state within 175 days of the date the property was acquired or imported into the state. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory, including motor vehicle, vessel and outboard motor, heavy equipment and manufactured housing inventory. After holding a public hearing, a taxing unit may take action by January 1 of the year preceding a tax year to tax goods-in-transit during the following tax year. A taxpayer may obtain only a freeport exemption or a goods-in-transit exemption for items of personal property. Freeport goods are exempt from taxation by the District. The District has not taken action to tax goods-in-transit.

**Pollution Control Property:** Article VIII, Section 1-l, provides for the exemption from ad valorem taxation of certain property used to control the pollution of air, water, or land. A person is entitled to an exemption from taxation of all or part of real and personal property that the person owns and that is used wholly or partly as a facility, device or method for the control of air, water or land pollution.

## **Valuation of Property for Taxation**

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

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

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

### **District and Taxpayer Remedies**

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

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

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer the collection functions to another governmental entity. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board based upon the valuation of property within the District as of the preceding January 1. Taxes are due October 1 or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to fifteen percent (15%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances.

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 (8%) percent. If a rollback election is called and passes, the rollback tax rate is the current year's debt service and contract tax rate plus 1.08 times the previous year's operation and maintenance tax rate. Thus, debt service and contract tax rates cannot be changed by a rollback election.

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

Taxes levied by the District are a personal obligation of the owner of the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "FINANCIAL STATEMENT - Overlapping Taxes

for 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 (a taxpayer may redeem property within two years after the purchaser's deed issued at the foreclosure sale is filed in the county records) or by bankruptcy proceedings which restrict the collection of taxpayer debts. See "INVESTMENT CONSIDERATIONS - General - Tax Collections and Foreclosure Remedies."

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

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

## **LEGAL MATTERS**

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

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

### **No-Litigation Certificate**

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

## **VERIFICATION OF ESCROW SUFFICIENCY AND YIELDS**

Grant Thornton LLP, a firm of independent certified public accountants, upon delivery of the Bonds, will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified, in accordance with the Statement on Standards for Consulting Services established by the American Institute of Certified Public Accountants, 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.

Grant Thornton LLP 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, Grant Thornton LLP has relied on any information provided to it by the District's retained advisors, consultants, or legal counsel. Grant Thornton LLP was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

## **TAX MATTERS**

### **Opinion**

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

## CONTINUING DISCLOSURE OF INFORMATION

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

### Annual Reports

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

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

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

### Notice of Certain Events

The District will provide notice to the MSRB of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws: (i) non-payment related defaults; (ii) modifications to rights of Bondholders; (iii) Bond calls; (iv) release, substitution, or sale of property securing repayment of the Bonds; (v) the consummation of a merger, consolidation, or acquisition involving an obligated person or the sale of all or substantially all of the assets of the obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms; and (vi) appointment of a successor or additional trustee or the change of name of a trustee.

The District will also provide notice to the MSRB of any of the following events with respect to the Bonds without regard to whether such event is considered material within the meaning of the federal securities laws: (i) principal and interest payment delinquencies; (ii) unscheduled draws on debt service reserves reflecting financial difficulties; (iii) unscheduled draws on credit enhancements reflecting financial difficulties; (iv) substitution of credit or liquidity providers, or their failure to perform; (v) adverse tax opinions or the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701–TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (vi) tender offers; (vii) defeasances; (viii) rating changes; and (ix) bankruptcy, insolvency, receivership or similar event of the District (which 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 has assumed jurisdiction over substantially all of the assets or business of the District, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of 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).

The District will provide notice of the aforementioned events to the MSRB in a timely manner (but not in excess of ten business days after the occurrence of the event). The District will also provide timely notice of any failure by the District to provide annual financial information in accordance with their 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 "Notice of Certain Events" will be in an electronic format and accompanied by identifying information as prescribed by the MSRB.

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

### **Limitations and Amendments**

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

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

### **Compliance with Prior Undertakings**

During the past five years, the District has been in compliance with all material provisions of its continuing disclosure undertaking in accordance with SEC Rule 15c2-12.

## **FINANCIAL ADVISOR**

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

## **UNDERWRITING**

The Underwriter of the Bonds have agreed, subject to certain customary conditions to delivery, to purchase the Bonds from the District at an underwriting discount of \$42,986.09 from the initial public offering prices therefore set forth on the inside cover page of this Official Statement. The Underwriter will be obligated to purchase all of the Bonds, if any Bonds are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than such public offering prices and such public offering prices may be charged from time to time by the Underwriter.

## **OFFICIAL STATEMENT**

### **Preparation**

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

"THE DISTRICT" and "THE SYSTEM" – District Engineer and Crossroads; "THE DEVELOPERS" – SRI, KPKM II, PK Tack, Len-Buf, BCL, HEB Grocery Company L.P., KB Home, Central Southwest Texas Development, LLC, SR Station LLC, Muirfield Townhomes, Brushy Creek Townhomes, LLC, Star Golf Development, Inc., and Crossroads; "FINANCIAL STATEMENT - Unlimited Tax Bonds Authorized But Unissued" - Records of the District, "FINANCIAL STATEMENT" – Williamson Central Appraisal District and Travis

Central 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" - Records; "THE DISTRICT - Management of the District" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS" (except "Payment Record"), "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" - McCall, Parkhurst & Horton L.L.P.

### Consultants

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

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

**The Auditor:** The District's financial statements for the fiscal year ended September 30, 2018 were prepared by Maxwell, Locke & Ritter LLP ("Maxwell, Locke & Ritter"), Certified Public Accountants. Maxwell, Locke & Ritter serves as auditor to 35 other special districts. See "Appendix A" for a copy of the District's Audited Financial Statements as of September 30, 2018.

**Appraisal Districts:** 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 Williamson Central Appraisal District and Travis Central Appraisal District, in reliance upon their authority in the field of appraising and tax assessing.

**Tax Assessor/Collector:** The information contained in this Official Statement relating to tax collection rates, and principal taxpayers has been provided by Mr. Larry Gaddes, A/C (Williamson County) and Mr. Bruce Elfant, A/C (Travis County) in reliance upon their authority in the field of tax assessing and collecting.

### Annual Audits

Under State Law, the District must keep its fiscal records in accordance with generally accepted accounting principles. It must also have its financial accounts and records audited by a certified or permitted public accountant within 120 days after the close of each fiscal year of the District, and must file each audit report with the TCEQ within 135 days after the close of the fiscal year once the District has issued bonds or has assets or receipts in excess of \$250,000. Prior to selling bonds or having assets over \$250,000, the District is allowed under State law to file a financial report in lieu of an audit. Copies of each audit report must also be filed in the office of the District. The District's fiscal records and audit reports are available for public inspection during regular business hours, and the District is required by law to provide a copy of the District's audit reports to any registered owner or other member of the public within a reasonable time on request, upon payment of prescribed charges.

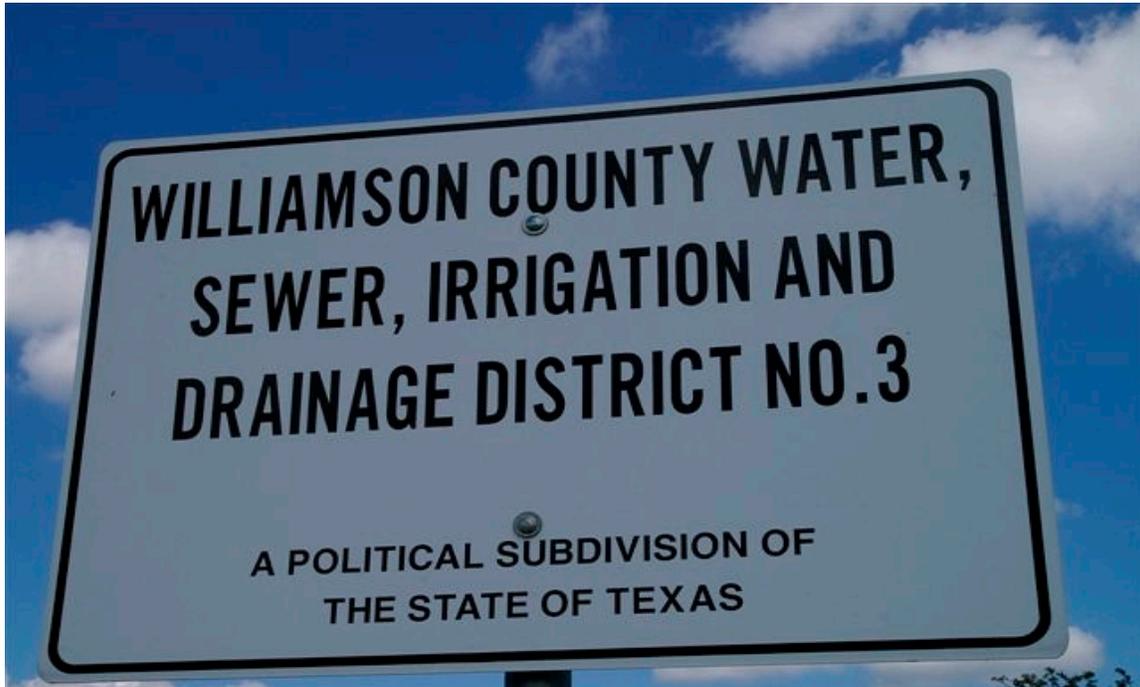
This Official Statement was approved by the Board of Directors of Williamson County Water, Sewer, Irrigation, and Drainage District No. 3, as of the date shown on the first page hereof.

/s/Rance Richter  
President, Board of Directors  
Williamson County Water, Sewer, Irrigation, and  
Drainage District No. 3

/s/Daniel Bates  
Secretary/Treasurer, Board of Directors  
Williamson County Water, Sewer, Irrigation, and  
Drainage District No. 3

## PHOTOGRAPHS

The following photographs were taken in the District in 2017. The homes and commercial establishments shown in the photographs are representative of the type of construction presently located within the District, and these photographs are presented solely to illustrate such construction. The District makes no representation that any additional construction such as that as illustrated in the following photographs will occur in the District. See "THE DISTRICT."







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

The information contained in this appendix has been excerpted from the audited financial statement of Williamson County Water, Sewer, Irrigation, and Drainage District No. 3 for the fiscal year ended September 30, 2018. Certain information not considered to be relevant to this financing has been omitted; however, complete audit reports are available upon request.

**WILLIAMSON COUNTY  
WATER, SEWER, IRRIGATION  
AND DRAINAGE DISTRICT  
NO. 3**

**Financial Statements and  
Supplemental Information  
as of and for the Year Ended  
September 30, 2018 and  
Independent Auditors' Report**



# WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3

## TABLE OF CONTENTS

	<u>Page</u>
<i>Annual Filing Affidavit</i> .....	1
<i>Independent Auditors' Report</i> .....	2
<i>Management's Discussion and Analysis</i> .....	MDA-1
<b><i>Basic Financial Statements</i></b>	
Statement of Net Position and Governmental Funds Balance Sheet .....	FS-1
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances .....	FS-2
<i>Notes to the Basic Financial Statements</i> .....	FS-3
<b><i>Required Supplementary Information</i></b>	
Budgetary Comparison Schedule - General Fund .....	FS-21
<b><i>Texas Supplemental Information (TSI)</i></b>	
Services and Rates .....	TSI-1
General Fund Expenditures .....	TSI-2
Temporary Investments .....	TSI-3
Taxes Levied and Receivable .....	TSI-4
Long-Term Debt Service Requirements - By Years .....	TSI-5
Changes in Long-Term Bonded Debt .....	TSI-6
Comparative Schedule of Revenues and Expenditures General Fund and Debt Service Fund - Five Years .....	TSI-7
Board Members, Key Personnel and Consultants .....	TSI-8
<b><i>Other Supplemental Information (OSI)</i></b>	
Top Ten Taxpayers .....	OSI-1
Assessed Value by Classification .....	OSI-2

**ANNUAL FILING AFFIDAVIT**

# ANNUAL FILING AFFIDAVIT

STATE OF TEXAS  
COUNTY OF WILLIAMSON

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

**WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3**  
(Name of District)

hereby swear, or affirm, that the District above has reviewed and approved at a meeting of the District's Board of Directors on the **9th day of January, 2019**, its annual audit report for the fiscal year ended **September 30, 2018** and that copies of the annual audit report have been filed in the District's office, located at:

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

The annual filing affidavit and the attached copy of the audit report are being submitted to the Texas Commission on Environmental Quality in satisfaction of all annual filing requirements within Section 49.194 of the Texas Water Code and to the Texas Comptroller of Public Accounts in satisfaction of the annual filing requirements of Section 140.008 of the Texas Local Government Code.

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

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

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

(SEAL)

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

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

**INDEPENDENT AUDITORS' REPORT**



MAXWELL LOCKE & RITTER LLP

*Accountants and Consultants*

*An Affiliate of CPAmerica International*

tel (512) 370 3200 fax (512) 370 3250  
www.mlrpc.com

Austin: 401 Congress Avenue, Suite 1100  
Austin, TX 78701

Round Rock: 411 West Main Street, Suite 300  
Round Rock, TX 78664

## **INDEPENDENT AUDITORS' REPORT**

To the Board of Directors of  
Williamson County Water, Sewer, Irrigation and Drainage District No. 3:

### **Report on the Financial Statements**

We have audited the accompanying financial statements of the governmental activities and each major fund of Williamson County Water, Sewer, Irrigation and Drainage District No. 3 (the "District"), as of and for the year ended September 30, 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.

### **Auditors' Responsibility**

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

Affiliated Company

ML&R WEALTH MANAGEMENT LLC

*"A Registered Investment Advisor"  
This firm is not a CPA firm*

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

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

## **Opinions**

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2018, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## **Other Matters**

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information on pages MDA-1 through MDA-7 and FS-21, respectively, be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

### *Other Information*

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas supplemental information and other supplemental information listed in the table of contents are presented for purposes of additional analysis and are not a required part of the basic financial statements.

The Texas supplemental information listed in the table of contents is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. Such information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the Texas supplemental information listed in the table of contents is fairly stated, in all material respects, in relation to the basic financial statements as a whole.

The other supplemental information listed in the table of contents has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

*Maxwell Locke + Ritter LLP*

Austin, Texas  
January 9, 2019

**MANAGEMENT'S DISCUSSION  
AND ANALYSIS**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

---

In accordance with Governmental Accounting Standards Board (“GASB”) Statement No. 34 the management of Williamson County Water, Sewer, Irrigation and Drainage District No. 3 (the “District”) offers the following discussion and analysis to provide an overview of the District’s financial activities for the year ended September 30, 2018. Since this information is designed to focus on the current year’s activities, resulting changes, and currently known facts, it should be read in conjunction with the District’s financial statements that follow.

**FINANCIAL HIGHLIGHTS**

- *General Fund:* At the end of the current fiscal year, the fund balance in the General Fund was \$3,427,806, an increase of \$792,644 from the previous fiscal year. General Fund revenues increased from \$3,441,162 in the previous fiscal year to \$3,639,749 in the current fiscal year due to an increase in service revenues and property taxes resulting from an increase in the property valuation of the District.
- *Debt Service Fund:* Fund balance restricted for debt service increased from \$981,128 at the end of the previous fiscal year to \$1,056,769 in the current fiscal year. Debt Service Fund revenues increased from \$2,267,601 in the previous fiscal year to \$2,615,434 in the current fiscal year due to an increase in the District’s assessed valuation. The District made bond principal payments of \$1,250,000 and bond interest payments of \$1,265,753 during the current fiscal year.
- *Capital Projects Fund:* Fund balance restricted for capital projects decreased from \$3,695,159 in the previous fiscal year to \$2,644,551 in the current fiscal year. The Capital Projects Fund expended \$1,050,450 for the purchase of infrastructure and \$35,358 for the costs of bond issuance.
- *Governmental Activities:* On a government-wide basis for governmental activities, the District had revenues net of expenses of \$1,379,477 during the current fiscal year. Net position increased from a deficit balance of \$655,048 at September 30, 2017 to \$724,429 at September 30, 2018.

**OVERVIEW OF THE DISTRICT**

The District is a political subdivision of the State of Texas created effective June 18, 1987 by House Bill 2528, Acts of the 70<sup>th</sup> Texas Legislature, Regular Session, which has since been codified as Chapter 8486 of the Texas Special District Local Laws Code. The District operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 751 acres of land. The District is located in southeast Williamson County and northeast Travis County and lies primarily within the extraterritorial jurisdiction of the City of Hutto. The District is divided among three school districts, Hutto Independent School District, Pflugerville Independent School District and Round Rock Independent School District. Access to the District is provided along FM 685 and State Highway 130. The District was created to provide water, wastewater and drainage services to the lands within the District.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT’S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**USING THIS ANNUAL REPORT**

This annual report consists of six parts:

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

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

**OVERVIEW OF THE BASIC FINANCIAL STATEMENTS**

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

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

The *Notes to the Basic Financial Statements* provide additional information that is essential to a full understanding of the information presented in 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*.

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE**

**Statement of Net Position:**

The following table reflects the condensed Statement of Net Position:

Summary Statement of Net Position

	Governmental Activities		Change Increase
	2018	2017	(Decrease)
Current and Other Assets	\$ 7,984,796	\$ 10,026,922	\$ (2,042,126)
Capital Assets	28,707,290	28,326,170	381,120
Total Assets	36,692,086	38,353,092	(1,661,006)
Deferred Outflows of Resources	1,645,248	1,795,441	(150,193)
Current Liabilities	2,206,442	4,051,898	(1,845,456)
Long-term Liabilities	35,406,463	36,751,683	(1,345,220)
Total Liabilities	37,612,905	40,803,581	(3,190,676)
Net Investment in Capital Assets	(3,714,374)	(4,184,913)	470,539
Restricted	998,798	891,308	107,490
Unrestricted	3,440,005	2,638,557	801,448
Total Net Position	<u>\$ 724,429</u>	<u>\$ (655,048)</u>	<u>\$ 1,379,477</u>

The District's net position increased from a deficit balance of \$655,048 in the previous fiscal year to \$724,429 in the current fiscal year. The District's unrestricted net position at September 30, 2018, which can be used to finance day to day operations, totaled \$3,440,005.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

**FINANCIAL ANALYSIS OF THE DISTRICT AS A WHOLE (continued) -**

**Revenues and Expenses:**

Summary Statement of Activities

	Governmental Activities		Change Increase (Decrease)
	2018	2017	
Service revenues, including penalties	\$ 2,585,651	\$ 2,419,003	\$ 166,648
Property taxes, including penalties	3,513,302	3,174,972	338,330
Other	230,987	131,869	99,118
<b>Total Revenues</b>	<b>6,329,940</b>	<b>5,725,844</b>	<b>604,096</b>
Water/wastewater/garbage	2,075,470	1,907,836	167,634
Professional fees	392,639	372,709	19,930
Other	397,236	331,176	66,060
Debt service	1,305,815	1,538,062	(232,247)
Depreciation/amortization	779,303	725,285	54,018
<b>Total Expenses</b>	<b>4,950,463</b>	<b>4,875,068</b>	<b>75,395</b>
<b>Change in Net Position</b>	<b>1,379,477</b>	<b>850,776</b>	<b>528,701</b>
Beginning Net Position	(655,048)	(1,505,824)	850,776
<b>Ending Net Position</b>	<b>\$ 724,429</b>	<b>\$ (655,048)</b>	<b>\$ 1,379,477</b>

Revenues were \$6,329,940 for the fiscal year ended September 30, 2018 while expenses were \$4,950,463. Net position increased by \$1,379,477 during the current fiscal year.

Property taxes totaled \$3,513,302 in the current fiscal year. Included in these taxes are real and personal property taxes which are assessed October 1 and payable before the following January 31.

The District's assessed value in fiscal year 2018 (the 2017 tax year) was approximately \$478 million compared to \$434 million in fiscal year 2017 (the 2016 tax year). The tax rate is set after reviewing the operating and debt service requirements and appraised values determined by Williamson and Travis Central Appraisal Districts. The ad valorem tax rate for fiscal years 2018 and 2017 was \$0.7230 per \$100 of assessed valuation for both fiscal years. The District's primary revenue sources are service account fees and property taxes.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

**ANALYSIS OF GOVERNMENTAL FUNDS**

	<u>Governmental Funds by Year</u>			
	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Cash	\$ 728,426	\$ 624,804	\$ 388,049	\$ 510,577
Cash equivalents/investments	6,858,427	9,042,027	2,704,575	4,815,837
Receivables	436,776	377,125	320,175	358,233
Prepaid expenditures	1,199	2,066	26,775	-
<b>Total Assets</b>	<b>\$ 8,024,828</b>	<b>\$10,046,022</b>	<b>\$ 3,439,574</b>	<b>\$ 5,684,647</b>
Accounts payable	404,351	379,543	280,501	269,725
Other payables	437,295	2,340,531	391,951	317,625
<b>Total Liabilities</b>	<b>841,646</b>	<b>2,720,074</b>	<b>672,452</b>	<b>587,350</b>
Deferred inflows of resources	54,056	14,499	654	49,698
Nonspendable	1,199	2,066	-	-
Restricted	3,701,320	4,676,287	954,666	2,376,346
Unassigned	3,426,607	2,633,096	1,811,802	2,671,253
<b>Total Fund Balances</b>	<b>7,129,126</b>	<b>7,311,449</b>	<b>2,766,468</b>	<b>5,047,599</b>
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 8,024,828</b>	<b>\$10,046,022</b>	<b>\$ 3,439,574</b>	<b>\$ 5,684,647</b>

For the fiscal year ended September 30, 2018, the District's governmental funds reflect a fund balance of \$7,129,126. This fund balance includes an \$792,644 increase to the General Fund.

The Debt Service Fund reflects an increase of \$75,641 in fund balance during fiscal year 2018. The Debt Service Fund remitted bond principal of \$1,250,000 and interest of \$1,265,753 during fiscal year 2018. More detailed information about the District's debt is presented in the *Notes to the Basic Financial Statements*.

The Capital Projects Fund purchases the District's infrastructure. The Capital Projects Fund had a \$1,050,608 decrease in fund balance for fiscal year 2018. The Capital Projects Fund expended \$1,050,450 for the purchase of infrastructure and \$35,358 for bond issuance costs.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**BUDGETARY HIGHLIGHTS**

The General Fund pays for daily operating expenditures. The Board of Directors adopted a budget on September 13, 2017. The budget included revenues of \$3,120,723 as compared to expenditures of \$3,063,830 during the current fiscal year. When comparing actual to the budget, the District had a positive variance of \$735,751 that was primarily attributable to service revenues in excess of the budget and budgeted capital outlay delayed until a subsequent fiscal year. More detailed information about the District's budgetary comparison is presented in the *Required Supplementary Information*.

**CAPITAL ASSETS**

As of September 30, 2018, the District's governmental activities had invested \$28,707,290 in infrastructure. The detail is reflected in the following schedule:

Summary of Capital Assets, net

	<u>9/30/2018</u>	<u>9/30/2017</u>
Capital Assets:		
Land	\$ 23,603	\$ 23,603
Water/Wastewater/Drainage Facilities	33,575,095	32,524,645
Equipment	18,747	18,747
Less: Accumulated Depreciation	<u>(4,910,155)</u>	<u>(4,240,825)</u>
Total Net Capital Assets	<u>\$ 28,707,290</u>	<u>\$ 28,326,170</u>

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**LONG TERM DEBT**

As of September 30, 2018, the District had the following balances outstanding on unlimited tax and refunding bonds:

	<u>Bonds Payable</u>
Series 2010A	\$ 15,000
Series 2011	1,965,000
Series 2012	6,545,000
Series 2013	2,905,000
Series 2013A	1,370,000
Series 2013B	3,650,000
Series 2015	4,070,000
Series 2015A	3,330,000
Series 2016	6,140,000
Series 2017	6,160,000
Total bonds payable	\$ 36,150,000

The District owes approximately \$36 million to bond holders. During the year, the principal balance was reduced by \$1,250,000. The ratio of the District's long term debt to the total taxable assessed valuation for the 2017 tax year (\$478,436,178) is 7.6%. The District's estimated population, as provided by the District as of September 30, 2018, is 6,528. More detailed information about the District's long-term debt is presented in the *Notes to the Basic Financial Statements*.

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

The property tax assessed value for fiscal year 2019 (the 2018 tax year) is approximately \$531 million. The fiscal year 2019 tax rate is \$0.723 on each \$100 of taxable value. Approximately 33% of the property tax will fund general operating expenses, and approximately 67% of the property tax will be set aside for debt service.

The adopted budget for fiscal year 2019 projects an operating fund balance increase of \$34,813. Compared to the fiscal year 2018 budget, revenues are expected to increase by approximately \$557,000 and expenditures are expected to increase by approximately \$579,000.

**REQUESTS FOR INFORMATION**

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

**BASIC  
FINANCIAL STATEMENTS**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
STATEMENT OF NET POSITION AND GOVERNMENTAL  
FUNDS BALANCE SHEET  
SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Net Position
<b><u>ASSETS</u></b>						
Cash and cash equivalents:						
Cash on deposit	\$ 728,426	\$ -	\$ -	\$ 728,426	\$ -	\$ 728,426
Cash equivalents	3,113,206	1,076,107	617,899	4,807,212	-	4,807,212
Restricted investments	-	-	2,051,215	2,051,215	-	2,051,215
Receivables:						
Property taxes	12,199	41,857	-	54,056	-	54,056
Service accounts, no provision for uncollectible accounts	337,641	-	-	337,641	-	337,641
Interfund	38,832	-	1,200	40,032	(40,032)	-
Other	5,047	-	-	5,047	-	5,047
Prepaid expenditures	1,199	-	-	1,199	-	1,199
Capital assets, net of accumulated depreciation:						
Land	-	-	-	-	23,603	23,603
Water/wastewater/drainage facilities	-	-	-	-	28,668,674	28,668,674
Equipment	-	-	-	-	15,013	15,013
<b>TOTAL ASSETS</b>	<b>\$ 4,236,550</b>	<b>\$ 1,117,964</b>	<b>\$ 2,670,314</b>	<b>\$ 8,024,828</b>	<b>28,667,258</b>	<b>36,692,086</b>
<b><u>DEFERRED OUTFLOWS OF RESOURCES</u></b>						
Deferred charges on refundings	-	-	-	-	1,645,248	1,645,248
<b>TOTAL DEFERRED OUTFLOWS OF RESOURCES</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>-</b>	<b>1,645,248</b>	<b>1,645,248</b>
<b>TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES</b>	<b>\$ 4,236,550</b>	<b>\$ 1,117,964</b>	<b>\$ 2,670,314</b>	<b>\$ 8,024,828</b>	<b>30,312,506</b>	<b>38,337,334</b>
<b><u>LIABILITIES</u></b>						
Accounts payable	\$ 399,282	\$ 5,069	\$ -	\$ 404,351	-	404,351
Accrued interest payable	-	-	-	-	99,828	99,828
Refundable deposits	368,958	-	-	368,958	-	368,958
Interfund payables	-	14,269	25,763	40,032	(40,032)	-
Intergovernmental payable	28,305	-	-	28,305	-	28,305
Bonds payable:						
Due within one year	-	-	-	-	1,305,000	1,305,000
Due after one year	-	-	-	-	35,406,463	35,406,463
<b>TOTAL LIABILITIES</b>	<b>796,545</b>	<b>19,338</b>	<b>25,763</b>	<b>841,646</b>	<b>36,771,259</b>	<b>37,612,905</b>
<b><u>DEFERRED INFLOWS OF RESOURCES</u></b>						
Deferred revenue - property taxes	12,199	41,857	-	54,056	(54,056)	-
<b>TOTAL DEFERRED INFLOWS OF RESOURCES</b>	<b>12,199</b>	<b>41,857</b>	<b>-</b>	<b>54,056</b>	<b>(54,056)</b>	<b>-</b>
<b><u>FUND BALANCES / NET POSITION</u></b>						
Fund balances:						
Nonspendable	1,199	-	-	1,199	(1,199)	-
Restricted for:						
Debt service	-	1,056,769	-	1,056,769	(1,056,769)	-
Capital projects	-	-	2,644,551	2,644,551	(2,644,551)	-
Unassigned	3,426,607	-	-	3,426,607	(3,426,607)	-
<b>TOTAL FUND BALANCES</b>	<b>3,427,806</b>	<b>1,056,769</b>	<b>2,644,551</b>	<b>7,129,126</b>	<b>(7,129,126)</b>	<b>-</b>
<b>TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES</b>	<b>\$ 4,236,550</b>	<b>\$ 1,117,964</b>	<b>\$ 2,670,314</b>	<b>\$ 8,024,828</b>		
Net position:						
Net investment in capital assets					(3,714,374)	(3,714,374)
Restricted for debt service					998,798	998,798
Unrestricted					3,440,005	3,440,005
<b>TOTAL NET POSITION</b>					<b>\$ 724,429</b>	<b>\$ 724,429</b>

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES,  
EXPENDITURES AND CHANGES IN FUND BALANCES  
YEAR ENDED SEPTEMBER 30, 2018**

	General Fund	Debt Service Fund	Capital Projects Fund	Governmental Funds Total	Adjustments Note 2	Government - Wide Statement of Activities
<b>REVENUES:</b>						
Service revenues, including penalties	\$ 2,585,651	\$ -	\$ -	\$ 2,585,651	\$ -	\$ 2,585,651
System connection / inspection fees	104,025	-	-	104,025	-	104,025
Property taxes, including penalties	900,251	2,573,494	-	3,473,745	39,557	3,513,302
Interest	49,545	41,940	35,200	126,685	-	126,685
Other	277	-	-	277	-	277
<b>TOTAL REVENUES</b>	<b>3,639,749</b>	<b>2,615,434</b>	<b>35,200</b>	<b>6,290,383</b>	<b>39,557</b>	<b>6,329,940</b>
<b>EXPENDITURES / EXPENSES:</b>						
Current:						
Water / wastewater purchases	1,834,368	-	-	1,834,368	-	1,834,368
Garbage collection fees	241,102	-	-	241,102	-	241,102
Tap connection / inspection fees	43,653	-	-	43,653	-	43,653
Repairs and maintenance	174,077	-	-	174,077	-	174,077
Security services	48,960	-	-	48,960	-	48,960
Utilities	43,126	-	-	43,126	-	43,126
Director fees, including payroll taxes and reimbursements	7,912	-	-	7,912	-	7,912
Legal fees	88,486	-	-	88,486	-	88,486
Engineering fees	82,173	-	-	82,173	-	82,173
Operations / management fees	179,150	-	-	179,150	-	179,150
Bookkeeping fees	25,500	-	-	25,500	-	25,500
Audit fees	15,000	-	-	15,000	-	15,000
Insurance	9,204	-	-	9,204	-	9,204
Tax appraisal / collection	5,611	16,015	-	21,626	-	21,626
Financial advisor fees	605	1,725	-	2,330	-	2,330
Bank fees	39,919	-	-	39,919	-	39,919
Other professional fees	5,912	-	-	5,912	-	5,912
Public notice	632	-	-	632	-	632
Other	1,715	500	-	2,215	-	2,215
Debt service:						
Principal	-	1,250,000	-	1,250,000	(1,250,000)	-
Interest	-	1,265,753	-	1,265,753	(1,096)	1,264,657
Fiscal agent fees and other	-	5,800	-	5,800	-	5,800
Bond issuance costs	-	-	35,358	35,358	-	35,358
Capital outlay	-	-	1,050,450	1,050,450	(1,050,450)	-
Depreciation	-	-	-	-	669,330	669,330
Amortization	-	-	-	-	109,973	109,973
<b>TOTAL EXPENDITURES / EXPENSES</b>	<b>2,847,105</b>	<b>2,539,793</b>	<b>1,085,808</b>	<b>6,472,706</b>	<b>(1,522,243)</b>	<b>4,950,463</b>
<b>CHANGE IN FUND BALANCES/ NET POSITION</b>	<b>792,644</b>	<b>75,641</b>	<b>(1,050,608)</b>	<b>(182,323)</b>	<b>1,561,800</b>	<b>1,379,477</b>
<b>FUND BALANCES / NET POSITION:</b>						
Beginning of the year	2,635,162	981,128	3,695,159	7,311,449	(7,966,497)	(655,048)
End of the year	<u>\$ 3,427,806</u>	<u>\$ 1,056,769</u>	<u>\$ 2,644,551</u>	<u>\$ 7,129,126</u>	<u>\$ (6,404,697)</u>	<u>\$ 724,429</u>

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

**NOTES TO THE BASIC  
FINANCIAL STATEMENTS**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**1. SIGNIFICANT ACCOUNTING POLICIES**

The accounting and reporting policies of Williamson County Water, Sewer, Irrigation and Drainage District No. 3 (the “District”) relating to the funds included in the accompanying financial statements conform to generally accepted accounting principles (“GAAP”) as applied to governmental entities. GAAP for local governments include those principles prescribed by the *Governmental Accounting Standards Board* (“GASB”), which constitutes the primary source of GAAP for governmental units. The more significant of these accounting policies are described below and, where appropriate, subsequent pronouncements will be referenced.

**Reporting Entity** - The District was created effective June 18, 1987 by House Bill 2528, Acts of the 70<sup>th</sup> Texas Legislature, Regular Session, which has since been codified as Chapter 8486 of the Texas Special District Local Laws Code. The District operates under Chapters 49 and 54 of the Texas Water Code pursuant to Article 16, Section 59 of the Texas Constitution. The reporting entity of the District encompasses those activities and functions over which the District’s elected officials exercise significant oversight or control. The District is governed by a five member Board of Directors (the “Board”) which has been elected by District residents or appointed by the Board. The District is not included in any other governmental “reporting entity” as defined by GASB, since Board members are elected by the public and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters. In addition, there are no component units included in the District’s reporting entity.

**Basis of Presentation - Government-Wide and Fund Financial Statements** - The basic financial statements are prepared in conformity with GASB Statement No. 34, and include a column for government-wide (based upon the District as a whole) and fund financial statement presentations. GASB Statement No. 34 also requires as supplementary information the Management’s Discussion and Analysis, which includes an analytical overview of the District’s financial activities. In addition, a budgetary comparison statement is presented that compares the final amended General Fund budget with actual results.

- **Government-Wide Financial Statements**

The District’s Statement of Net Position includes both non-current assets and non-current liabilities of the District, which were previously recorded in the General Fixed Assets Account Group and the General Long-Term Debt Account Group. In addition, the government-wide Statement of Activities column reflects amortization and depreciation expense on the District’s capital assets, including infrastructure, original issue discounts, and deferred charges on refunding bonds.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

- **Government-Wide Statements (continued) -**

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

- **Fund Financial Statements**

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

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

*Basis of Accounting*

- **Governmental Funds**

- **Government-Wide Statements** - The government-wide financial statement column is reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of the related cash flows. Property taxes are recognized as revenues in the year for which they are levied.
- **Fund Financial Statements** - The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental fund types are accounted for using a current financial resources measurement focus. With this measurement focus, only current assets, deferred outflows of resources, current liabilities, and deferred inflows of resources generally are included on the balance sheet. Operating statements of these funds present increases (i.e., revenues and other financing sources) and decreases (i.e., expenditures and other financing uses) in the net fund balance. Governmental funds are accounted for on the modified accrual basis of accounting. Under the modified accrual basis of accounting, revenues are recorded when susceptible to accrual (i.e., both measurable and available).

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

*Basis of Accounting*

- **Governmental Funds (continued)**

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

**Budgets and Budgetary Accounting** - A budget was adopted on September 13, 2017 for the General Fund on a basis consistent with GAAP. The District’s Board utilizes the budget as a management tool for planning and cost control purposes. The budget was not amended during the current fiscal year.

**Cash, Cash Equivalents and Investments** - Cash and cash equivalents include cash on deposit as well as investments with original maturities of three months or less. The investments, consisting of external investment pools and a trust account, are recorded at amortized cost. Restricted investments consist of escrowed bond proceeds.

**Accounts Receivable** - The District provides for uncollectible accounts receivable using the allowance method of accounting for bad debts. Under this method of accounting, a provision for uncollectible accounts is charged to earnings. The allowance account is increased or decreased based on past collection history and management’s evaluation of accounts receivable. All amounts considered uncollectible are charged against the allowance account, and recoveries of previously charged off accounts are added to the allowance. The District believes all accounts were collectible at September 30, 2018.

**Prepaid Expenditures** - Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid expenditures in both the government-wide and fund financial statements. Prepaid expenditures shall be charged to expenditures when consumed.

**Ad Valorem Property Taxes** - Property taxes, penalties, and interest are reported as revenue in the fiscal year in which they become available to finance expenditures of the District. Allowances for uncollectible property taxes are based upon historical experience in collecting property taxes. Uncollectible personal property taxes are periodically reviewed and written off, but the District is prohibited from writing off real property taxes without specific statutory authority from the Texas Legislature.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

**Capital Assets** - Capital assets, which include land, equipment and water, wastewater and drainage facilities, are reported in the government-wide column in the Statement of Net Position. Public domain (“infrastructure”) capital assets including equipment and water, wastewater and drainage facilities, are capitalized. Items purchased or acquired are reported at historical cost or estimated historical cost. Contributed fixed assets are recorded as capital assets at estimated acquisition value at the time received.

Capital assets (other than land) are depreciated using the straight-line method over the following estimated useful lives:

Asset	Years
Water, Wastewater and Drainage Facilities	10 - 50
Equipment	10 - 20

**Interfund Transactions** - Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay that amount and if the debtor fund has the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

**Long-Term Debt** - In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities Statement of Net Position. Bond premiums and original issue discounts are deferred over the life of the bonds. Bonds payable are reported net of the applicable bond premiums or discounts.

In the fund financial statements, governmental fund types recognize bond premiums and discounts during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses.

Bond issuance costs, whether or not withheld from the actual debt proceeds received, are reported as debt service expenditures in both the government-wide and the fund financial statements.

**Deferred Outflows and Deferred Inflows of Resources** - The District complies with GASB Statement No. 63, *Financial Reporting of Deferred Outflows of Resources, Deferred Inflows of Resources, and Net Position*, which provides guidance for reporting the financial statement elements of deferred outflows of resources, which represent the consumption of the District’s net position that is applicable to a future reporting period, and deferred inflows of resources, which represent the District’s acquisition of net position applicable to a future reporting period.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

The District complies with GASB Statement No. 65, *Items Previously Reported as Assets and Liabilities*, which establishes accounting and financial reporting standards that reclassify, as deferred outflows of resources or deferred inflows of resources, certain items that were previously reported as assets and liabilities and recognizes, as outflows of resources or inflows of resources, certain items that were previously reported as assets and liabilities. See Note 7 for additional information on deferred outflows of resources.

**Fund Equity** - The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. See Note 12 for additional information on those fund balance classifications.

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

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

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

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

**Recently Issued Accounting Pronouncements** - In June 2017, the GASB issued GASB Statement No. 87, *Leases*, effective for fiscal years beginning after December 15, 2019. The objective of GASB Statement No. 87 is to improve accounting and financial reporting for leases by governments by requiring recognition of certain lease assets and liabilities that previously were classified as operating leases and recognized as inflows of resources or outflows of resources based on the payment provisions of the contract. GASB Statement No. 87 establishes a single model for lease accounting based on the foundational principle that leases are financings of the right to use an underlying asset. Under GASB Statement No. 87, a lessee is required to recognize a lease liability and an intangible right-to-use asset, and a lessor is required to recognize a lease receivable and deferred inflow of resources. Management is evaluating the effects that the full implementation of GASB Statement No. 87 will have on its financial statements for the year ended September 30, 2021.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS**

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

Fund balances - total governmental funds		\$ 7,129,126
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the governmental funds.		
Capital assets	\$ 33,617,445	
Less: Accumulated depreciation	<u>(4,910,155)</u>	28,707,290
Revenue is recognized when earned in the government-wide statements, regardless of availability.		
Governmental funds report deferred inflows of resources for revenues earned but not available.		54,056
Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the governmental funds.		
Bonds payable	(36,150,000)	
Bond discounts	115,481	
Bond premiums	(676,944)	
Deferred charges on refundings, net	1,645,248	
Accrued bond interest payable	<u>(99,828)</u>	<u>(35,166,043)</u>
Total net position		<u>\$ 724,429</u>

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**2. RECONCILIATION OF THE GOVERNMENTAL FUNDS (continued) -**

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

Changes in fund balances - governmental funds		\$ (182,323)
Amounts reported for governmental activities in the Statement of Activities are different because:		
Governmental funds report:		
Capital expenditures in year paid	\$ 1,050,450	
Bond principal in year paid	1,250,000	
Interest expenditures in year paid	1,096	
Tax revenue when collected	<u>39,557</u>	2,341,103
Governmental funds do not report:		
Depreciation	(669,330)	
Amortization of bond discounts	(6,142)	
Amortization of bond premiums	46,362	
Amortization of deferred charges on refundings	<u>(150,193)</u>	<u>(779,303)</u>
Change in net position		<u><u>\$ 1,379,477</u></u>

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS**

The investment policies of the District are governed by Section 2256 of the Texas Government Code (the "Public Funds Investment Act") and an adopted District investment policy that includes depository contract provisions and custodial contract provisions. Major provisions of the District's investment policy, which complies with the Public Funds Investment Act, include: depositories must be Federal Deposit Insurance Corporation ("FDIC") insured Texas banking institutions; depositories must fully insure or collateralize all demand and time deposits; and securities collateralizing time deposits must be held by independent third party trustees.

**Cash** - At September 30, 2018, the carrying amount of the District's deposits was \$728,426 and the bank balance was \$751,122. The bank balance was covered by FDIC insurance and other pledged collateral.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -**

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

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

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

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -**

At September 30, 2018, the District held the following cash equivalents and investments:

Investment	Fair Value at 9/30/2018	Weighted Average Maturity (Days)	Investment Rating	
			Rating	Rating Agency
TexPool	\$ 2,441,887	1	AAAm	Standard & Poors
LOGIC	2,365,325	1	AAAm	Standard & Poors
Trust Account	2,051,215	1	Various	Various
	<u>\$ 6,858,427</u>			

The Comptroller of Public Accounts is the sole officer and director of the Texas Treasury Safekeeping Trust Company, which is authorized to operate the Texas Local Government Investment Pool (“TexPool”). Although TexPool is not registered with the SEC as an investment company, they operate in a manner consistent with the SEC’s Rule 2a-7 of the Investment Company Act of 1940. TexPool also has an advisory board to advise on TexPool’s investment policy. This board is made up equally of participants and nonparticipants who do not have a business relationship with TexPool. Federated Investors is the investment manager for the pool and manages daily operations of TexPool under a contract with the Comptroller. TexPool’s investment policy stipulates that it must invest in accordance with the Public Funds Investment Act.

Local Government Investment Cooperative (“LOGIC”) is a local government investment pool organized under the authority of the Interlocal Cooperation Act, chapter 791, of the Texas Government Code, and the Public Funds Investment Act, chapter 2256, of the Texas Government Code. The pool was created in April 1994 through a contract among its participating governmental units, and is governed by a board of directors to provide for the joint investments of participant’s public funds and funds under their control. LOGIC’s investment policy seeks to invest pooled assets in a manner that will provide for safety of principal, liquidity in accordance with the operating requirements of the participants, and a competitive rate of return by utilizing economies of scale and professional investment expertise. J.P. Morgan Investment Management Inc. serves as investment adviser to LOGIC and is an SEC registered investment adviser.

The Trust Account funds are valued using Level 1 inputs and are based on market data obtained from independent sources. The investments are reported by the District at fair value in accordance with GASB Statement No. 72, *Fair Value Measurement and Application*. The TexPool and LOGIC investments are stated at amortized cost in accordance with GASB Statement No. 31, *Accounting and Financial Reporting for Certain Investments and for External Investment Pools*.

In accordance with GASB Statement No. 79, the external local government investment pools do not have any limitations and restrictions on withdrawals such as notice periods or maximum transaction amounts. These pools do not impose any liquidity fees or redemption gates.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**3. CASH, CASH EQUIVALENTS AND INVESTMENTS (continued) -**

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

**Custodial credit risk** - Custodial credit risk is the risk that in the event of a bank failure, the District's deposits may not be returned to it. The government's investment policy requires that the District's deposits be fully insured by FDIC insurance or collateralized with obligations of the United States or its agencies and instrumentalities. As of September 30, 2018, the District's bank deposits were covered by FDIC insurance and other pledged collateral.

**4. PROPERTY TAXES**

Property taxes attach as an enforceable lien on January 1. Taxes are levied on or about October 1, are due on November 1, and are past due the following February 1. The Williamson Central Appraisal District and Travis Central Appraisal District established appraisal values in accordance with requirements of the Texas Legislature. The District levies taxes based upon the appraised values. The Williamson County Tax Assessor Collector and Travis County Tax Assessor Collector bill and collect the District's property taxes. The Board set the tax rates for the 2018 fiscal year (2017 tax year) on September 13, 2017.

The property tax rates, established in accordance with state law, were based on 100% of the net assessed valuation of real property within the District on the 2017 tax roll. The 2017 tax rate, based on total taxable assessed valuation of \$478,436,178 was \$0.723 on each \$100 valuation and was allocated to the General Fund and Debt Service Fund at \$0.1876 and \$0.5354, respectively. The maximum allowable maintenance tax of \$1.00 was established by the voters on November 7, 2000.

Property taxes receivable at September 30, 2018, consisted of the following:

	General Fund	Debt Service Fund	Total
Current year levy	\$ 1,112	\$ 3,174	\$ 4,286
Prior years' levies	11,087	38,683	49,770
	\$ 12,199	\$ 41,857	\$ 54,056

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

**5. INTERFUND ACCOUNTS**

A summary of interfund accounts, which resulted from the time lag between dates that payments are made between funds, is as follows at September 30, 2018:

	Interfund	
	Receivables	Payables
General Fund:		
Debt Service Fund	\$ 13,069	\$ -
Capital Projects Fund	25,763	-
Debt Service Fund:		
General Fund	-	13,069
Capital Projects Fund	-	1,200
Capital Projects Fund:		
General Fund	-	25,763
Debt Service Fund	1,200	-
	\$ 40,032	\$ 40,032

**6. CHANGES IN CAPITAL ASSETS**

A summary of changes in capital assets follows:

	Balance 9/30/2017	Additions	Deletions	Balance 9/30/2018
Capital assets not being depreciated-				
Land	\$ 23,603	\$ -	\$ -	\$ 23,603
Capital assets being depreciated:				
Water/Wastewater/Drainage Facilities	32,524,645	1,050,450	-	33,575,095
Equipment	18,747	-	-	18,747
Total capital assets being depreciated	32,543,392	1,050,450	-	33,593,842
Less accumulated depreciation for:				
Water/Wastewater/Drainage Facilities	(4,238,253)	(668,168)	-	(4,906,421)
Equipment	(2,572)	(1,162)	-	(3,734)
Total accumulated depreciation	(4,240,825)	(669,330)	-	(4,910,155)
Capital assets being depreciated, net	28,302,567	381,120	-	28,683,687
Total capital assets, net of accumulated depreciation	\$28,326,170	\$ 381,120	\$ -	\$28,707,290

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**7. DEFERRED OUTFLOWS OF RESOURCES**

The following is a summary of changes in deferred outflows of resources for the year ended September 30, 2018:

Deferred charges on refundings - September 30, 2017	\$ 1,795,441
Retirements from Series 2010, 2012, 2013, 2015 and 2016 refundings	(150,193)
	\$ 1,645,248
	\$ 1,645,248

**8. LONG-TERM DEBT**

The following is a summary of bond transactions of the District as of and for the year ended September 30, 2018:

	Unlimited Tax and Tax Refunding Bonds
Bonds payable at September 30, 2017	\$ 37,400,000
Bonds retired	(1,250,000)
Bonds discounts, net of accumulated amortization	(115,481)
Bonds premiums, net of accumulated amortization	676,944
	\$ 36,711,463
	\$ 36,711,463

Bonds payable at September 30, 2018, were comprised of the following issues:

**Unlimited Tax Bonds:**

\$15,000 - 2010A Unlimited Tax Bonds payable serially through the year 2021 at interest rates which range from 2.00% to 5.10%.

\$1,965,000 - 2011 Unlimited Tax Bonds payable serially through the year 2035 at interest rates which range from 2.75% to 4.50%.

\$2,905,000 - 2013 Unlimited Tax Bonds payable serially through the year 2036 at interest rates which range from 3.00% to 4.00%.

\$3,650,000 - 2013B Unlimited Tax Bonds payable serially through the year 2037 at interest rates which range from 4.625% to 6.25%.

\$3,330,000 - 2015A Unlimited Tax Bonds payable serially through the year 2039 at interest rates which range from 2.00% to 3.375%.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**8. LONG-TERM DEBT (continued) -**

\$6,160,000 - 2017 Unlimited Tax Bonds payable serially through the year 2037 at interest rates which range from 2.00% to 3.125%.

**Unlimited Tax Refunding Bonds:**

\$6,545,000 - 2012 Unlimited Tax Refunding Bonds payable serially through the year 2030 at interest rates which range from 2.00% to 4.00%.

\$1,370,000 - 2013A Unlimited Tax Refunding Bonds payable serially through the year 2031 at interest rates which range from 2.00% to 3.125%.

\$4,070,000 - 2015 Unlimited Tax Refunding Bonds payable serially through the year 2033 at interest rates which range from 2.00% to 3.375%.

\$6,140,000 - 2016 Unlimited Tax Refunding Bonds payable serially through the year 2034 at interest rates which range from 2.00% to 4.00%.

The annual requirements to amortize all bonded debt at September 30, 2018, including interest, are as follows:

Year Ended September 30,	Annual Requirements for All Series		
	Principal	Interest	Total
2019	\$ 1,305,000	\$ 1,246,126	\$ 2,551,126
2020	1,330,000	1,212,601	2,542,601
2021	1,385,000	1,176,126	2,561,126
2022	1,435,000	1,136,639	2,571,639
2023	1,470,000	1,094,826	2,564,826
2024 - 2028	8,045,000	4,774,624	12,819,624
2029 - 2033	9,595,000	3,279,932	12,874,932
2034 - 2038	10,310,000	1,332,751	11,642,751
2039	1,275,000	43,031	1,318,031
	<b>\$ 36,150,000</b>	<b>\$ 15,296,656</b>	<b>\$ 51,446,656</b>

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**8. LONG-TERM DEBT (continued) -**

\$1,056,769 is available in the Debt Service Fund to service the bonded debt as of September 30, 2018. All authorized tax bonds have been issued by the District at September 30, 2018.

**9. COMMITMENTS AND CONTINGENCIES**

The developers of the land within the District have incurred costs for construction of facilities, as well as costs pertaining to the creation and operation of the District. Claims for reimbursement of construction costs and operational advances will be evaluated upon receipt of adequate supporting documentation and proof of contractual obligation. Such costs may be reimbursable to the developer by the District from cash and investments held in the Capital Projects Fund, subject to approval by the Texas Commission on Environmental Quality, or from operations. On November 7, 2000, a bond election held within the District approved authorization to issue \$31,345,000 of bonds to fund costs of proposed works, improvements, facilities, plants, equipment, appliances and non-construction costs based upon the District's engineer report. On May 12, 2012, a bond election held within the District approved authorization to issue an additional \$9,805,000 of bonds to fund system facilities. As of September 30, 2018, the District has issued \$41,150,000 of Unlimited Tax Bonds to reimburse the developer for water, wastewater and drainage improvements.

**10. RISK MANAGEMENT**

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**10. RISK MANAGEMENT (continued)**

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

**11. INTERLOCAL AGREEMENTS**

On February 22, 2012, the District entered into an “Agreement Concerning Management and Operation of District Facilities” with Williamson County Municipal Utility District No. 22 (“District No. 22”). Pursuant to this agreement, the District agreed to operate and maintain the water, wastewater, and drainage facilities within both Districts and to provide retail water and wastewater service to customers within the boundaries of both Districts. The District agreed to maintain separate accounting for revenues received from District No. 22 customers. Such revenues are used to compensate the District for the costs of providing services to District No. 22 customers. As of September 30, 2018, the District owed District No. 22 \$28,305 for collected revenues, net of allocated operating expenses.

In May 2006, the District and the City of Hutto (the “City”) executed a strategic partnership agreement pursuant to Section 43.0751, Texas Local Government Code, whereby the commercial portion of the District (approximately 116 acres) 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 limited purposes annexation, the City imposes its 2% sales and use taxes (but not its property taxes) within the area of limited purpose annexation. The City has also agreed to grant 50% of such sales tax funds collected within the District to the developers for the construction of certain roads necessary for further commercial and residential development within the District and the Hutto area. In addition, pursuant to the strategic partnership agreement, the City has agreed not to annex the District for general purposes until the earlier of 30 years from the date of the agreement or upon the completion and issuance of District bonds for 90% of utility infrastructure by the District.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
NOTES TO THE BASIC FINANCIAL STATEMENTS  
YEAR ENDED SEPTEMBER 30, 2018**

---

**12. FUND BALANCES**

The District complies with GASB Statement No. 54, *Fund Balance Reporting and Governmental Fund Type Definitions*, which establishes fund balance classifications that comprise a hierarchy based primarily on the extent to which a government is bound to observe constraints imposed upon the use of the resources reported in governmental funds. Those fund balance classifications are described below.

- Nonspendable - Amounts that cannot be spent because they are either not in a spendable form or are legally or contractually required to be maintained intact.
- Restricted - Amounts that can be spent only for specific purposes because of constraints imposed by external providers, or imposed by constitutional provisions or enabling legislation.
- Committed - Amounts that can only be used for specific purposes pursuant to approval by formal action by the Board. The District had no such amounts.
- Assigned - For the General Fund, amounts that are appropriated by the Board that are to be used for specific purposes. For all other governmental funds, any remaining positive amounts not previously classified as nonspendable, restricted or committed. The District had no such amounts.
- Unassigned - Amounts that are available for any purpose; these amounts can be reported only in the District's General Fund.

The detail of the fund balances are included in the Governmental Funds Balance Sheet on page FS-1.

Fund balance of the District may be committed for a specific purpose by formal action of the Board, the District's highest level of decision-making authority. Commitments may be established, modified, or rescinded only through a resolution approved by the Board. The Board may also assign fund balance for a specific purpose.

In circumstances where an expenditure is to be made for a purpose for which amounts are available in multiple fund balance classifications, the order in which resources will be expended is as follows: restricted fund balance, committed fund balance, assigned fund balance, and lastly, unassigned fund balance.

**REQUIRED  
SUPPLEMENTARY INFORMATION**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
BUDGETARY COMPARISON SCHEDULE - GENERAL FUND  
YEAR ENDED SEPTEMBER 30, 2018**

	<u>Actual</u>	<u>Original and Final Budget</u>	<u>Variance Positive (Negative)</u>
<b>REVENUES:</b>			
Service revenues, including penalties	\$ 2,585,651	\$ 2,211,587	\$ 374,064
System connection / inspection fees	104,025	24,000	80,025
Property taxes, including penalties	900,251	876,636	23,615
Interest	49,545	6,000	43,545
Other	277	2,500	(2,223)
<b>TOTAL REVENUES</b>	<u>3,639,749</u>	<u>3,120,723</u>	<u>519,026</u>
<b>EXPENDITURES:</b>			
Current:			
Water / wastewater purchases	1,834,368	1,644,329	(190,039)
Garbage collection fees	241,102	217,578	(23,524)
Tap connection / inspection fees	43,653	9,000	(34,653)
Repairs and maintenance	174,077	250,500	76,423
Security services	48,960	48,000	(960)
Utilities	43,126	40,500	(2,626)
Director fees, including payroll taxes and reimbursements	7,912	9,779	1,867
Legal fees	88,486	81,000	(7,486)
Engineering fees	82,173	96,000	13,827
Operations / management fees	179,150	167,244	(11,906)
Bookkeeping fees	25,500	24,750	(750)
Audit fees	15,000	15,000	-
Insurance	9,204	2,500	(6,704)
Tax appraisal / collection	5,611	4,000	(1,611)
Financial advisor fees	605	650	45
Bank fees	39,919	30,000	(9,919)
Other professional fees	5,912	20,000	14,088
Public notice	632	-	(632)
Other	1,715	3,000	1,285
Capital outlay	-	400,000	400,000
<b>TOTAL EXPENDITURES</b>	<u>2,847,105</u>	<u>3,063,830</u>	<u>216,725</u>
Excess of revenues over expenditures	792,644	<u>\$ 56,893</u>	<u>\$ 735,751</u>
<b>FUND BALANCE:</b>			
Beginning of the year	<u>2,635,162</u>		
End of the year	<u>\$ 3,427,806</u>		

**TEXAS**  
**SUPPLEMENTAL INFORMATION**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2018**

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

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

**2. Retail Service Providers**

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER (RES.):	\$ 34.70 <sup>(1)</sup>	2,000	N	\$ 4.00	2,001 - 15,000
				\$ 5.25	Over 15,001
WATER (COM.):	\$ 15.00 <sup>(1)</sup>	-	N	\$ 4.00	0 - 15,000
				\$ 5.25	Over 15,001
WASTEWATER (RES.):	\$ 56.74	-	Y	N/A	Unlimited
WASTEWATER (COM.):	\$ 56.74	-	N	\$ 5.03	Unlimited

District employs winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage:

	Residential:	Water	\$ 66.70 <sup>(1)</sup>	Wastewater	\$ 56.74
	Commercial:	Water	\$ 55.00 <sup>(1)</sup>	Wastewater	\$ 107.04

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

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC's</u>
Unmetered	-	-	1.0	-
< 3/4"	1,518.0	1,510.0	1.0	1,510.0
1"	9.0	9.0	2.5	22.5
1 1/2"	6.0	6.0	5.0	30.0
2"	9.0	9.0	8.0	72.0
3"	7.0	7.0	15.0	105.0
4"	1.0	1.0	25.0	25.0
6"	-	-	50.0	-
8"	-	-	80.0	-
10"	-	-	115.0	-
Total Water	1,550.0	1,542.0		1,764.5
Total Wastewater	1,546.0	1,536.0	1.0	1,536.0

<sup>(1)</sup> Water Usage and Solid Waste Pick-Up Charge Per Fee Unit.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-1. SERVICES AND RATES  
SEPTEMBER 30, 2018**

---

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

Gallons pumped into system: 217,712  
Gallons billed to customers: 202,471

<b>Water Accountability Ratio</b> (Gallons billed / Gallons Pumped) 93.0%
---

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

Does the District assess standby fees? Yes  No

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

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

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

**5. Location of District**

County(ies) in which district is located: Travis, Williamson

Is the District located entirely within one county? Yes  No

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

City(ies) in which district is located: City of Hutto, Texas (1)

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

Entirely  Partly  Not at all

ETJ's in which district is located: City of Hutto, Texas (1)

Are Board members appointed by an office outside the district?

Yes  No

If Yes, by whom? N/A

(1) - The commercial acreage within the District has been annexed by the City of Hutto, Texas for limited purposes.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-2. GENERAL FUND EXPENDITURES  
SEPTEMBER 30, 2018**

Personnel Expenditures (including benefits)	\$	-
Professional Fees:		
Auditing		15,000
Legal		88,486
Engineering		82,173
Financial Advisor		605
Purchased Services for Resale-		
Bulk Water and Wastewater Purchases		1,834,368
Contracted Services:		
Bookkeeping		25,500
General Manager		179,150
Appraisal District/Tax Collector		5,611
Other Contracted Services		54,872
Utilities		43,126
Repairs and Maintenance		174,077
Administrative Expenditures:		
Directors' Fees		7,912
Office Supplies		-
Insurance		9,204
Other Administrative Expenditures		40,551
Capital Outlay:		
Capitalized Assets		-
Expenditures not Capitalized		-
Tap Connection Expenditures		43,653
Solid Waste Disposal		241,102
Fire Fighting		-
Parks and Recreation		-
Other Expenditures		1,715
		1,715
<b>TOTAL EXPENDITURES</b>	<b>\$</b>	<b>2,847,105</b>

Number of persons employed by the District:

Full-Time     Part-Time

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-3. TEMPORARY INVESTMENTS  
SEPTEMBER 30, 2018**

Funds	Identification or Certificate Number	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest Receivable at End of Year
<b>General Fund:</b>					
TexPool	XXX0001	Varies	Daily	\$ 1,802,525	\$ -
LOGIC	XXX6001	Varies	Daily	1,310,681	-
Total General Fund				<u>3,113,206</u>	<u>-</u>
<b>Debt Service Fund:</b>					
TexPool	XXX0002	Varies	Daily	9,976	-
TexPool	XXX0003	Varies	Daily	11,487	-
LOGIC	XXX6002	Varies	Daily	1,054,644	-
Total Debt Service Fund				<u>1,076,107</u>	<u>-</u>
<b>Capital Projects Fund:</b>					
TexPool	XXX0021	Varies	Daily	118,457	-
TexPool	XXX0023	Varies	Daily	499,442	-
Trust Account	XXX3015	Varies	Daily	2,051,215	-
Total Capital Projects Fund				<u>2,669,114</u>	<u>-</u>
Total - All Funds				<u>\$ 6,858,427</u>	<u>\$ -</u>

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-4. TAXES LEVIED AND RECEIVABLE  
SEPTEMBER 30, 2018**

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>		
<b>Taxes Receivable, Beginning of Year</b>	\$ 7,692	\$ 29,974		
2017 Original tax levy, less abatements	898,705	2,564,851		
Tax adjustments	(582)	(1,656)		
Tax adjustments - prior years	<u>12,507</u>	<u>44,086</u>		
Total to be accounted for	<u>918,322</u>	<u>2,637,255</u>		
Tax collections:				
Current year	897,011	2,560,021		
Prior years	<u>9,112</u>	<u>35,377</u>		
Total collections	<u>906,123</u>	<u>2,595,398</u>		
<b>Taxes Receivable, End of Year</b>	<u>\$ 12,199</u>	<u>\$ 41,857</u>		
<b>Taxes Receivable, by Years</b>				
2016 and prior	\$ 11,087	\$ 38,683		
2017	<u>1,112</u>	<u>3,174</u>		
<b>Taxes Receivable, End of Year</b>	<u>\$ 12,199</u>	<u>\$ 41,857</u>		
<b>Property Valuations:</b>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Land and improvements	<u>\$ 478,436,178</u> (a)	<u>\$ 433,712,795</u> (a)	<u>\$ 391,863,780</u> (a)	<u>\$ 326,403,023</u> (a)
<b>Total Property Valuations</b>	<u>\$ 478,436,178</u>	<u>\$ 433,712,795</u>	<u>\$ 391,863,780</u>	<u>\$ 326,403,023</u>
<b>Tax Rates per \$100 Valuation:</b>				
Maintenance tax rates	\$ 0.1876	\$ 0.2085	\$ 0.1700	\$ 0.1820
Debt Service tax rates	<u>0.5354</u>	<u>0.5145</u>	<u>0.5606</u>	<u>0.6262</u>
<b>Total Tax Rates per \$100 Valuation:</b>	<u>\$ 0.7230</u>	<u>\$ 0.7230</u>	<u>\$ 0.7306</u>	<u>\$ 0.8082</u>
<b>Original Tax Levy</b>	<u>\$ 3,459,094</u>	<u>\$ 3,135,744</u>	<u>\$ 2,862,957</u>	<u>\$ 2,637,989</u>
<b>Percent of Taxes Collected to Taxes Levied **</b>	<u>99.9%</u>	<u>99.7%</u>	<u>99.5%</u>	<u>99.7%</u>
<b>Maximum Maintenance Tax Rate Approved by Voters:</b>	<u>\$ 1.00 on 11/7/2000</u>			

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

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

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2018**

Fiscal Year Ending	Unlimited Tax Bonds Series 2010A			Unlimited Tax Bonds Series 2011			Unlimited Tax Refunding Bonds Series 2012			Unlimited Tax Bonds Series 2013		
	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total
2019	\$ 5,000	\$ 638	\$ 5,638	\$ 5,000	\$ 87,981	\$ 92,981	\$ 685,000	\$ 219,800	\$ 904,800	\$ 10,000	\$ 90,888	\$ 100,888
2020	5,000	425	5,425	5,000	87,831	92,831	685,000	199,250	884,250	20,000	90,488	110,488
2021	5,000	213	5,213	5,000	87,681	92,681	715,000	178,700	893,700	100,000	89,688	189,688
2022	-	-	-	5,000	87,531	92,531	500,000	157,250	657,250	125,000	85,688	210,688
2023	-	-	-	5,000	87,344	92,344	530,000	142,250	672,250	125,000	81,938	206,938
2024	-	-	-	5,000	87,156	92,156	530,000	126,350	656,350	125,000	78,188	203,188
2025	-	-	-	5,000	86,969	91,969	555,000	110,450	665,450	150,000	74,438	224,438
2026	-	-	-	5,000	86,781	91,781	580,000	93,800	673,800	150,000	69,938	219,938
2027	-	-	-	5,000	86,594	91,594	615,000	70,600	685,600	150,000	65,438	215,438
2028	-	-	-	5,000	86,375	91,375	645,000	46,000	691,000	150,000	60,938	210,938
2029	-	-	-	5,000	86,156	91,156	245,000	20,200	265,200	175,000	56,438	231,438
2030	-	-	-	5,000	85,938	90,938	260,000	10,400	270,400	200,000	51,188	251,188
2031	-	-	-	5,000	85,719	90,719	-	-	-	225,000	45,188	270,188
2032	-	-	-	5,000	85,500	90,500	-	-	-	225,000	38,438	263,438
2033	-	-	-	250,000	85,275	335,275	-	-	-	225,000	31,688	256,688
2034	-	-	-	600,000	74,025	674,025	-	-	-	250,000	24,375	274,375
2035	-	-	-	1,045,000	47,025	1,092,025	-	-	-	250,000	16,250	266,250
2036	-	-	-	-	-	-	-	-	-	250,000	8,125	258,125
2037	-	-	-	-	-	-	-	-	-	-	-	-
2038	-	-	-	-	-	-	-	-	-	-	-	-
2039	-	-	-	-	-	-	-	-	-	-	-	-
	<u>\$ 15,000</u>	<u>\$ 1,276</u>	<u>\$ 16,276</u>	<u>\$ 1,965,000</u>	<u>\$ 1,421,881</u>	<u>\$ 3,386,881</u>	<u>\$ 6,545,000</u>	<u>\$ 1,375,050</u>	<u>\$ 7,920,050</u>	<u>\$ 2,905,000</u>	<u>\$ 1,059,320</u>	<u>\$ 3,964,320</u>

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2018**

Fiscal Year Ending	Unlimited Tax Refunding Bonds Series 2013A			Unlimited Tax Bonds Series 2013B			Unlimited Tax Refunding Bonds Series 2015			Unlimited Tax Bonds Series 2015A		
	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total
2019	\$ 10,000	\$ 41,531	\$ 51,531	\$ 5,000	\$ 176,500	\$ 181,500	\$ 220,000	\$ 123,231	\$ 343,231	\$ 5,000	\$ 110,881	\$ 115,881
2020	10,000	41,331	51,331	5,000	176,188	181,188	215,000	118,831	333,831	25,000	110,781	135,781
2021	10,000	41,031	51,031	5,000	175,875	180,875	210,000	112,381	322,381	25,000	110,281	135,281
2022	10,000	40,731	50,731	5,000	175,563	180,563	230,000	106,081	336,081	25,000	109,719	134,719
2023	10,000	40,431	50,431	5,000	175,250	180,250	230,000	99,181	329,181	25,000	109,156	134,156
2024	15,000	40,131	55,131	5,000	174,938	179,938	255,000	92,281	347,281	25,000	108,531	133,531
2025	15,000	39,681	54,681	5,000	174,625	179,625	250,000	84,631	334,631	25,000	107,656	132,656
2026	15,000	39,231	54,231	5,000	174,313	179,313	275,000	77,131	352,131	25,000	106,781	131,781
2027	15,000	38,781	53,781	5,000	174,000	179,000	270,000	68,881	338,881	25,000	105,906	130,906
2028	15,000	38,331	53,331	5,000	173,688	178,688	290,000	60,781	350,781	50,000	105,031	155,031
2029	415,000	37,881	452,881	5,000	173,375	178,375	310,000	52,081	362,081	50,000	103,281	153,281
2030	405,000	25,431	430,431	5,000	173,063	178,063	305,000	42,781	347,781	50,000	101,531	151,531
2031	425,000	13,281	438,281	5,000	172,750	177,750	325,000	33,250	358,250	50,000	99,906	149,906
2032	-	-	-	5,000	172,438	177,438	345,000	22,688	367,688	50,000	98,281	148,281
2033	-	-	-	5,000	172,125	177,125	340,000	11,475	351,475	75,000	96,656	171,656
2034	-	-	-	850,000	171,813	1,021,813	-	-	-	75,000	94,218	169,218
2035	-	-	-	875,000	129,313	1,004,313	-	-	-	75,000	91,781	166,781
2036	-	-	-	900,000	85,563	985,563	-	-	-	75,000	89,344	164,344
2037	-	-	-	950,000	43,938	993,938	-	-	-	100,000	86,906	186,906
2038	-	-	-	-	-	-	-	-	-	1,200,000	83,531	1,283,531
2039	-	-	-	-	-	-	-	-	-	1,275,000	43,031	1,318,031
	<u>\$ 1,370,000</u>	<u>\$ 477,803</u>	<u>\$ 1,847,803</u>	<u>\$ 3,650,000</u>	<u>\$ 3,045,318</u>	<u>\$ 6,695,318</u>	<u>\$ 4,070,000</u>	<u>\$ 1,105,685</u>	<u>\$ 5,175,685</u>	<u>\$ 3,330,000</u>	<u>\$ 2,073,189</u>	<u>\$ 5,403,189</u>

**WILLIAMSON COUNTY WATER, SEWER  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-5. LONG-TERM DEBT SERVICE REQUIREMENTS - BY YEARS  
SEPTEMBER 30, 2018**

Fiscal Year Ending	Unlimited Tax Refunding Bonds Series 2016			Unlimited Tax Bonds Series 2017			Annual Requirements for All Series		
	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total	Principal Due 9/01	Interest Due 3/01, 9/01	Total
	2019	\$ 85,000	\$ 221,550	\$ 306,550	\$ 275,000	\$ 173,126	\$ 448,126	\$ 1,305,000	\$ 1,246,126
2020	85,000	219,850	304,850	275,000	167,626	442,626	1,330,000	1,212,601	2,542,601
2021	85,000	218,150	303,150	225,000	162,126	387,126	1,385,000	1,176,126	2,561,126
2022	410,000	216,450	626,450	125,000	157,626	282,626	1,435,000	1,136,639	2,571,639
2023	415,000	204,150	619,150	125,000	155,126	280,126	1,470,000	1,094,826	2,564,826
2024	415,000	191,700	606,700	125,000	152,626	277,626	1,500,000	1,051,901	2,551,901
2025	435,000	179,250	614,250	125,000	150,126	275,126	1,565,000	1,007,826	2,572,826
2026	440,000	166,200	606,200	100,000	147,626	247,626	1,595,000	961,801	2,556,801
2027	465,000	150,800	615,800	100,000	145,626	245,626	1,650,000	906,626	2,556,626
2028	475,000	132,200	607,200	100,000	143,126	243,126	1,735,000	846,470	2,581,470
2029	500,000	113,200	613,200	100,000	140,626	240,626	1,805,000	783,238	2,588,238
2030	500,000	93,200	593,200	125,000	137,626	262,626	1,855,000	721,158	2,576,158
2031	530,000	73,200	603,200	350,000	133,876	483,876	1,915,000	657,170	2,572,170
2032	630,000	52,000	682,000	725,000	123,376	848,376	1,985,000	592,721	2,577,721
2033	315,000	26,800	341,800	825,000	101,626	926,626	2,035,000	525,645	2,560,645
2034	355,000	14,200	369,200	5,000	76,876	81,876	2,135,000	455,507	2,590,507
2035	-	-	-	5,000	76,718	81,718	2,250,000	361,087	2,611,087
2036	-	-	-	1,100,000	76,562	1,176,562	2,325,000	259,594	2,584,594
2037	-	-	-	1,350,000	42,188	1,392,188	2,400,000	173,032	2,573,032
2038	-	-	-	-	-	-	1,200,000	83,531	1,283,531
2039	-	-	-	-	-	-	1,275,000	43,031	1,318,031
	<u>\$ 6,140,000</u>	<u>\$ 2,272,900</u>	<u>\$ 8,412,900</u>	<u>\$ 6,160,000</u>	<u>\$ 2,464,234</u>	<u>\$ 8,624,234</u>	<u>\$ 36,150,000</u>	<u>\$ 15,296,656</u>	<u>\$ 51,446,656</u>

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-6. CHANGES IN LONG-TERM BONDED DEBT  
SEPTEMBER 30, 2018**

	Bond Issue										Total
	Series 2010A	Series 2011	Series 2012	Series 2013	Series 2013A	Series 2013B	Series 2015	Series 2015A	Series 2016	Series 2017	
Interest Rate	2.00% - 5.10%	2.75% - 4.50%	2.00% - 4.00%	3.00% - 4.00%	2.00% - 3.125%	4.625% - 6.250%	2.00% - 3.375%	2.00% - 3.375%	2.00% - 4.00%	2.00% - 3.125%	
Dates Interest Payable	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	3/1, 9/1	
Maturity Dates	9/1/2021	9/1/2035	9/1/2030	9/1/2036	9/1/2031	9/1/2037	9/1/2033	9/1/2039	9/1/2034	9/1/2037	
Bonds Outstanding at Beginning of Current Fiscal Year	\$ 20,000	\$ 1,970,000	\$ 7,200,000	\$ 2,915,000	\$ 1,380,000	\$ 3,655,000	\$ 4,275,000	\$ 3,335,000	\$ 6,225,000	\$ 6,425,000	\$ 37,400,000
Bonds Sold During the Current Fiscal Year	-	-	-	-	-	-	-	-	-	-	-
Retirements During the Current Fiscal Year:											
Refunded	-	-	-	-	-	-	-	-	-	-	-
Principal	(5,000)	(5,000)	(655,000)	(10,000)	(10,000)	(5,000)	(205,000)	(5,000)	(85,000)	(265,000)	(1,250,000)
Bonds Outstanding at End of Current Fiscal Year	<u>\$ 15,000</u>	<u>\$ 1,965,000</u>	<u>\$ 6,545,000</u>	<u>\$ 2,905,000</u>	<u>\$ 1,370,000</u>	<u>\$ 3,650,000</u>	<u>\$ 4,070,000</u>	<u>\$ 3,330,000</u>	<u>\$ 6,140,000</u>	<u>\$ 6,160,000</u>	<u>\$ 36,150,000</u>
Interest Paid During the Current Fiscal Year	<u>\$ 850</u>	<u>\$ 88,132</u>	<u>\$ 232,900</u>	<u>\$ 91,287</u>	<u>\$ 41,732</u>	<u>\$ 176,812</u>	<u>\$ 127,332</u>	<u>\$ 110,981</u>	<u>\$ 223,250</u>	<u>\$ 172,477</u>	<u>\$ 1,265,753</u>
Paying Agent's Name & Address:	<u>Bank of Texas</u> <u>Austin, TX</u>										
Bond Authority:	Tax Bonds*	Other Bonds	Refunding Bonds								
Amount Authorized by Voters	\$ 41,150,000	\$ -	\$ 61,725,000								
Amount Issued	<u>(41,150,000)</u>	-	<u>(3,716,404)</u>								
Remaining to be Issued	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 58,008,596</u>								

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

Debt Service Fund Cash and Temporary Investments balances  
as of September 30, 2018: \$ 1,076,107

Average Annual Debt Service Payment (Principal & Interest)  
for the remaining term of all debt: \$ 2,449,841

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-7. COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES  
GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS  
SEPTEMBER 30, 2018**

	Amounts					Percent of Fund Total Revenues				
	2018	2017	2016	2015	2014	2018	2017	2016	2015	2014
	<b>GENERAL FUND REVENUES:</b>									
Property taxes, including penalties	\$ 900,251	\$ 909,191	\$ 674,880	\$ 598,879	\$ 400,313	24.7%	26.4%	22.7%	21.6%	16.0%
Service revenues, including penalties	2,585,651	2,419,003	2,155,020	2,121,371	1,960,893	71.0%	70.3%	72.5%	76.4%	78.5%
System connection / inspection fees	104,025	96,825	130,275	48,200	128,950	2.9%	2.8%	4.4%	1.7%	5.2%
Interest	49,545	15,573	10,478	8,295	7,670	1.4%	0.5%	0.4%	0.3%	0.3%
Other	277	570	430	344	1,412	-	-	-	-	-
<b>TOTAL GENERAL FUND REVENUES</b>	<b>3,639,749</b>	<b>3,441,162</b>	<b>2,971,083</b>	<b>2,777,089</b>	<b>2,499,238</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>GENERAL FUND EXPENDITURES &amp; OTHER FINANCING USES:</b>										
Current:										
Water / wastewater purchases	1,834,368	1,695,755	1,514,045	1,442,905	1,336,973	50.4%	49.3%	51.0%	52.0%	53.5%
Garbage collection fees	241,102	212,081	187,040	180,496	163,936	6.6%	6.2%	6.3%	6.5%	6.6%
Repairs and maintenance	174,077	168,897	198,068	156,212	142,579	4.8%	4.9%	6.7%	5.6%	5.7%
Security services	48,960	-	-	-	-	1.3%	-	-	-	-
Tap connection / inspection fees	43,653	43,676	31,655	30,661	51,959	1.2%	1.3%	1.1%	1.1%	2.1%
Utilities	43,126	40,129	39,457	37,163	35,299	1.2%	1.2%	1.3%	1.3%	1.4%
Director fees, including payroll taxes and reimbursements	7,912	7,428	7,589	8,397	9,204	0.2%	0.2%	0.3%	0.3%	0.4%
Legal fees	88,486	74,395	78,038	77,721	72,166	2.4%	2.2%	2.6%	2.8%	2.9%
Engineering fees	82,173	90,873	96,811	108,137	75,963	2.3%	2.6%	3.3%	3.9%	3.0%
Operations / management fees	179,150	165,861	151,270	142,829	132,843	4.9%	4.8%	5.1%	5.1%	5.3%
Bookkeeping fees	25,500	24,750	24,750	24,750	24,750	0.7%	0.7%	0.8%	0.9%	1.0%
Audit fees	15,000	14,500	14,500	14,500	14,500	0.4%	0.4%	0.5%	0.5%	0.6%
Insurance	9,204	7,935	6,044	5,928	3,046	0.3%	0.2%	0.2%	0.2%	0.1%
Tax appraisal / collection	5,611	5,994	4,796	4,417	2,944	0.2%	0.2%	0.2%	0.2%	0.1%
Financial advisor fees	605	672	529	525	426	-	-	-	0.1%	-
Bank fees	39,919	33,412	28,669	-	-	1.1%	1.0%	1.0%	-	-
Other professional fees	5,912	3,950	9,527	-	-	0.2%	0.1%	0.3%	-	-
Public notice	632	-	-	-	-	-	-	-	-	-
Other	1,715	3,946	3,808	8,551	5,286	-	0.1%	0.1%	0.3%	0.2%
Capital outlay	-	23,548	1,433,938	183,226	-	-	0.7%	48.3%	6.6%	-
Operating transfer	-	-	-	-	28,000	-	-	-	-	1.1%
<b>TOTAL GENERAL FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>2,847,105</b>	<b>2,617,802</b>	<b>3,830,534</b>	<b>2,426,418</b>	<b>2,099,874</b>	<b>78.2%</b>	<b>76.1%</b>	<b>128.9%</b>	<b>87.4%</b>	<b>84.0%</b>
<b>EXCESS (DEFICIT) OF GENERAL FUND REVENUES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES:</b>	<b>\$ 792,644</b>	<b>\$ 823,360</b>	<b>\$ (859,451)</b>	<b>\$ 350,671</b>	<b>\$ 399,364</b>	<b>21.8%</b>	<b>23.9%</b>	<b>-28.9%</b>	<b>12.6%</b>	<b>16.0%</b>
<b>DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES:</b>										
Property taxes, including penalties	\$ 2,573,494	\$ 2,251,936	\$ 2,241,644	\$ 2,073,979	\$ 1,835,165	98.4%	99.3%	111.9%	83.0%	91.2%
Interest	41,940	15,665	6,835	2,780	3,098	1.6%	0.7%	0.3%	0.1%	0.1%
Proceeds from refunding, net of payment to escrow agent	-	-	(244,988)	188,651	-	-	-	-12.2%	7.6%	0.0%
Operating transfer	-	-	-	-	28,000	-	-	-	0.0%	1.4%
Bond proceeds	-	-	-	232,536	147,000	-	-	-	9.3%	7.3%
<b>TOTAL DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES</b>	<b>2,615,434</b>	<b>2,267,601</b>	<b>2,003,491</b>	<b>2,497,946</b>	<b>2,013,263</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>	<b>100.0%</b>
<b>DEBT SERVICE FUND EXPENDITURES &amp; OTHER FINANCING USES:</b>										
Tax appraisal / collection	16,015	14,789	15,815	15,197	13,638	0.6%	0.7%	0.8%	0.6%	0.7%
Financial advisor fees	1,725	1,658	1,746	1,805	1,975	0.1%	0.1%	0.1%	0.1%	0.1%
Principal	1,250,000	990,000	1,005,000	945,000	790,000	47.8%	43.7%	50.2%	37.8%	39.2%
Interest	1,265,753	1,113,650	1,112,487	1,144,115	1,193,004	48.4%	49.1%	55.5%	45.8%	59.3%
Fiscal agent fees and other	6,300	5,020	7,000	12,400	5,100	0.2%	0.2%	0.3%	0.5%	0.3%
Bond issuance costs	-	-	303,878	197,549	934	-	-	15.2%	7.9%	-
Bond premium	-	-	(549,551)	(14,285)	-	-	-	-27.4%	-0.6%	-
<b>TOTAL DEBT SERVICE FUND EXPENDITURES &amp; OTHER FINANCING USES</b>	<b>\$ 2,539,793</b>	<b>\$ 2,125,117</b>	<b>\$ 1,896,375</b>	<b>\$ 2,301,781</b>	<b>\$ 2,004,651</b>	<b>97.1%</b>	<b>93.8%</b>	<b>94.7%</b>	<b>92.1%</b>	<b>99.6%</b>
<b>EXCESS (DEFICIT) OF DEBT SERVICE FUND REVENUES &amp; OTHER FINANCING SOURCES OVER (UNDER) EXPENDITURES &amp; OTHER FINANCING USES:</b>	<b>\$ 75,641</b>	<b>\$ 142,484</b>	<b>\$ 107,116</b>	<b>\$ 196,165</b>	<b>\$ 8,612</b>	<b>2.9%</b>	<b>6.2%</b>	<b>5.3%</b>	<b>7.9%</b>	<b>0.4%</b>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<b>1,542</b>	<b>1,451</b>	<b>1,344</b>	<b>1,282</b>	<b>1,194</b>					
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<b>1,536</b>	<b>1,444</b>	<b>1,347</b>	<b>1,285</b>	<b>1,210</b>					

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
TSI-8. BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS  
SEPTEMBER 30, 2018**

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

**District Business Telephone Number:** (512) 435-2300

**Submission Date of the most recent District  
Registration Form TWC Sections 36.054 & 49.054):** November 14, 2018

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

<u>Name and Address:</u>	<u>Term of Office (Elected or Appointed) or Date Hired</u>	<u>Fees of Office Paid * 09/30/18</u>	<u>Expense Reimbursements 09/30/18</u>	<u>Title at Year End</u>
<b><u>Board Members :</u></b>				
Rance Richter	Elected 11/8/2016 - 11/3/2020	\$ 1,500	\$ 108	President
Jim Goldrick	Elected 11/8/2016 - 11/3/2020	\$ 1,800	\$ 391	Vice-President
Daniel Bates	Elected 11/6/2018 - 11/8/2022	\$ 1,500	\$ 337	Secretary / Treasurer
Lee Buckley	Elected 11/8/2016 - 11/3/2020	\$ 1,050	\$ 266	Assistant Sec. / Treasurer
Bob Dickerson	Elected 11/6/2018 - 11/8/2022	\$ 1,500	\$ 304	Director
<b><u>Consultants :</u></b>				
Crossroads Utility Services LLC	11/8/2010	\$ 383,925	\$ -	District Manager
Armbrust & Brown, PLLC	10/19/1999	\$ 83,196	\$ -	Attorney
Murfee Engineering Company, Inc.	10/19/1999	\$ 167,163	\$ -	Engineer
Bott & Douthitt, PLLC	10/01/2009	\$ 30,050	\$ 309	Bookkeeper
Maxwell Locke & Ritter LLP	02/09/2011	\$ 17,500	\$ -	Auditor
Public Finance Group LLC	04/9/2014	\$ 2,330	\$ -	Financial Advisor
McCall, Parkhurst & Horton, LLP	10/19/1999	\$ -	\$ 906	Bond Related Services
Williamson Co. Tax Collector	10/19/1999	\$ 416	\$ -	Tax Collector
Travis Co. Tax Collector	09/23/2008	\$ 300	\$ -	Tax Collector

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

**OTHER  
SUPPLEMENTAL INFORMATION**

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
OSI-1. TOP TEN TAXPAYERS  
SEPTEMBER 30, 2018**

Taxpayer	Type of Property	Tax Roll Year		
		2018	2017	2016
CWS Star Ranch SAF VIII et al	*	\$ 50,565,219	\$ 48,290,836	\$ -
Fairways at Star Ranch I LLC et al	*	45,406,057	44,738,073	44,626,582
HEB Grocery Company LP	*	26,876,435	20,259,020	4,573,800
Forest Creek Medical Center LP	*	11,544,469	11,321,835	10,669,612
Tack Townhomes LLC	*	9,950,000	9,766,745	9,710,382
Round Rock M3-05 LLC	*	9,873,087	9,900,857	10,043,121
Williamson Health Realty LLC	*	8,388,955	10,115,071	9,561,683
Muirfield Townhomes LLC	*	6,664,138	3,540,314	-
Parth Capital Group LLC	*	6,400,000	5,100,000	4,810,917
HEB Grocery Company LP	*	5,577,959	4,085,659	-
BRE MF Star Ranch LLC	*	-	-	47,000,000
Star Golf Partners Ltd.	*	-	-	5,239,017
KB Home Lone Star Inc.	*	-	-	4,135,616
<b>Total</b>		<b>\$ 181,246,319</b>	<b>\$ 167,118,410</b>	<b>\$ 150,370,730</b>
Percent of Assessed Valuation		<b>34.1%</b>	34.9%	34.7%

\* Not provided. Total represents total assessed value for taxpayer.

**WILLIAMSON COUNTY WATER, SEWER,  
IRRIGATION AND DRAINAGE DISTRICT NO. 3  
OSI-2. ASSESSED VALUE BY CLASSIFICATION  
SEPTEMBER 30, 2018**

Type of Property	Tax Roll Year					
	2018		2017		2016	
	Amount	%	Amount	%	Amount	%
Single Family	\$ 321,202,430	60.5%	\$ 294,503,115	61.6%	\$ 279,128,006	64.4%
Multi Family	130,282,450	24.5%	122,266,964	25.6%	117,993,438	27.2%
Vacant Land	7,067,968	1.3%	4,257,969	0.9%	6,153,760	1.4%
Acreage	5,599,211	1.1%	7,609,791	1.6%	9,275,357	2.1%
Rural Land Non Qualified	639,692	0.1%	1,266,964	0.3%	878,618	0.2%
Commercial Real Property	66,776,310	12.6%	52,228,104	10.9%	33,907,957	7.8%
Utilities	2,969,354	0.6%	2,757,596	0.6%	2,795,531	0.6%
Tangible Personal Property	14,797,115	2.8%	9,521,462	2.0%	4,300,373	1.0%
Real Inventory	3,660,189	0.7%	4,427,986	0.9%	3,527,564	0.8%
Exempt	934,984	0.2%	788,520	0.2%	728,379	0.2%
Less: Adjustments	(22,833,585)	-4.3%	(21,192,293)	-4.4%	(24,976,188)	-5.8%
Total Taxable Value	<u>\$ 531,096,118</u>	<u>100%</u>	<u>\$ 478,436,178</u>	<u>100%</u>	<u>\$ 433,712,795</u>	<u>100%</u>

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

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

**WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE  
DISTRICT NO. 3  
UNLIMITED TAX REFUNDING BONDS, SERIES 2019  
IN THE AGGREGATE PRINCIPAL AMOUNT OF \$4,325,000**

**AS BOND COUNSEL FOR WILLIAMSON COUNTY WATER, SEWER, IRRIGATION AND DRAINAGE DISTRICT NO. 3** (the "District") of the bonds described above (the "Bonds"), we have examined into the legality and validity of the Bonds, which bear interest from the dates specified in the text of the Bonds, until maturity or redemption, at the rates and payable on the dates specified in the text of the Bonds all in accordance with the order of the Board of Directors of the District adopted on August 15, 2018 authorizing the issuance of the Bonds and the pricing certificate of the pricing officer as authorized in the order (collectively, the "Order").

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

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



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

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

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

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



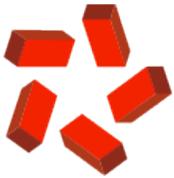
**WE EXPRESS NO OPINION** as to any insurance policies issued with respect to the payments due for the principal of and interest on the Bonds, nor as to any such insurance policies issued in the future.

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

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

Respectfully,

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



**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