

OFFICIAL STATEMENT DATED MARCH 7, 2019

In the opinion of the Muller Law Group PLLC, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS HAVE **NOT** BEEN DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

BOOK-ENTRY-ONLY

Insured Rating (BAM): S&P "AA" (stable outlook)
Underlying Rating: Moody's "A1"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE" herein.

\$2,530,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 128 (A political subdivision of the State of Texas located within Fort Bend County) UNLIMITED TAX REFUNDING BONDS SERIES 2019

Dated: April 1, 2019

Due: September 1, as shown below

Principal of the Bonds will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will accrue from April 1, 2019 and will be payable on September 1 and March 1 of each year commencing September 1, 2019 (five months interest) until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

The Bonds will be registered and delivered only 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 (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. 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, as herein defined, directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM."



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 INSURANCE" herein.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

| Due (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number (b) | Due (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number (b) |
|----------------------|---------------------|------------------|------------------------------------|---------------------|----------------------|---------------------|------------------|------------------------------------|---------------------|
| 2019 | \$ 30,000 | 3.00 % | 1.75 % | 34680C GW3 | 2027 | \$ 165,000 (c) | 2.50 % | 2.73 % | 34680C HE2 |
| 2020 | 130,000 | 3.00 | 1.87 | 34680C GX1 | 2028 | 170,000 (c) | 2.75 | 2.87 | 34680C HF9 |
| 2021 | 135,000 | 3.00 | 1.91 | 34680C GY9 | 2029 | 175,000 (c) | 3.00 | 3.03 | 34680C HG7 |
| 2022 | 145,000 | 3.00 | 2.00 | 34680C GZ6 | *** | *** | *** | *** | *** |
| 2023 | 145,000 | 3.50 | 2.12 | 34680C HA0 | 2032 | 190,000 | 3.00 | 3.24 | 34680C HK8 |
| 2024 | 150,000 | 2.00 | 2.20 | 34680C HB8 | 2033 | 205,000 (c) | 3.25 | 3.39 | 34680C HL6 |
| 2025 | 155,000 | 2.25 | 2.40 | 34680C HC6 | 2034 | 210,000 (c) | 3.25 | 3.43 | 34680C HM4 |
| 2026 | 160,000 (c) | 2.25 | 2.55 | 34680C HD4 | | | | | |

\$365,000 Term Bonds due September 1, 2031 (c), 34680C HJ1 (b), 3.00% Interest Rate, 3.17% Yield (a)

- Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter for offers to the public and which may be subsequently changed by the Underwriter and is the sole responsibility of the Underwriter. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from April 1, 2019 is to be added to the price.
- CUSIP Numbers have been assigned to the Bonds by the CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- The Bonds maturing on and after September 1, 2026 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, 2025, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."

The Bonds, when issued, will constitute valid and legally binding obligations of Fort Bend County Municipal Utility District No. 128 (the "District") and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land or any entity other than the District. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by The Muller Law Group, PLLC, Sugar Land, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by McCall, Parkhurst & Horton L.L.P., Houston, Texas as Underwriter's Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about April 9, 2019.

SAMCO CAPITAL MARKETS, INC.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from The Muller Law Group, PLLC, 202 Century Square Boulevard, Sugar Land, Texas 77478, upon payment of duplication costs.

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

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

OFFICIAL STATEMENT SUMMARY

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

THE FINANCING

- The Issuer*Fort Bend County Municipal Utility District No. 128 (the “District”), a political subdivision of the State of Texas, is located within the extraterritorial jurisdiction of the City of Sugar Land, in Fort Bend County, Texas. See “THE DISTRICT.”
- The Issue*.....\$2,530,000 Fort Bend County Municipal Utility District No. 128, Unlimited Tax Refunding Bonds, Series 2019, dated April 1, 2019, are issued pursuant to a resolution (the “Bond Resolution”) of the District’s Board of Directors. The Bonds will be issued as fully registered bonds maturing serially in each of the years 2019 through 2029 and 2032 through 2034, both inclusive, and as term bonds in 2031 (the “Term Bonds”) and in the principal amounts and accruing interest at the rates shown on the cover hereof. Interest on the Bonds will accrue from April 1, 2019 and will be payable September 1 and March 1 of each year commencing September 1, 2019 (five months interest) until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months.
- The Bonds maturing on and after September 1, 2026 are subject to redemption, in whole or in part, at the option of the District, prior to their maturity dates, on September 1, 2025, or on any date thereafter. Upon redemption, the Bonds will be payable at a price of par plus accrued interest to the date of redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS.”
- Book-Entry-Only*The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY- ONLY SYSTEM.”
- Source of Payment*.....The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
- Use of Proceeds*.....Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund and defease \$2,375,000 of the District’s Outstanding Bonds in order to achieve annual and net present value savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$88,285,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING—Refunded Bonds” and “—Sources and Uses of Funds.”
- Payment Record*The District has previously issued seven series of unlimited tax bonds, of which an aggregate principal amount of \$90,660,000 is currently outstanding (the “Outstanding Bonds”). The District has never defaulted on the payment and principal and interest on the previously issued bonds. See “FINANCIAL STATEMENT.”

Tax MattersIn the opinion of the Muller Law Group PLLC, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Bond Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.”

Bond CounselThe Muller Law Group, PLLC, Bond Counsel, Sugar Land, Texas.

Underwriter’s Counsel.....McCall, Parkhurst & Horton L.L.P, Houston, Texas.

Financial Advisor.....Masterson Advisors LLC, Houston, Texas.

Paying Agent/RegistrarThe Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

Verification AgentPublic Finance Partners LLC, Rockford, Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

Municipal Bond Insurance and RatingIt is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). The Bonds also have been assigned an underlying credit rating of “A1” by Moody’s Investors Service, Inc. (“Moody’s”) without regard to credit enhancement. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”

HURRICANE HARVEY

General The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, the most recent of which was Hurricane Harvey which made landfall along the Texas Gulf Coast on August 26, 2017 and brought historic levels of rainfall during the successive four days.

Impact on the DistrictAccording to the District's Operator, the District's System sustained no material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the District's Operator and Engineer, approximately 12 homes within the District experienced flooding or other material damage as a result of Hurricane Harvey. Such damage was likely caused by rainfall accumulation in excess of design criteria required for the District's storm water conveyance system.

If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District’s tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected. See “INVESTMENT CONSIDERATIONS—Recent Weather Events; Hurricane Harvey.”

THE DISTRICT

- Description*.....Fort Bend County Municipal Utility District No. 128 (the “District”) was created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated January 17, 2006. The District presently contains approximately 1,767 acres of land located in the southwest portion of Fort Bend County approximately 21 miles southwest from downtown Houston, Texas. The District lies entirely within the extraterritorial jurisdiction of the City of Sugar Land (“Sugar Land” or the “City”) with the exception of approximately 67 acres of undevelopable land located within the corporate limits of the City of Sugar Land.
- Riverstone*.....The District is part of the approximately 3,859-acre master planned community known as “Riverstone.” The District is one of four municipal utility districts that serve Riverstone. At full development, Riverstone is projected to include single family, multi-family, townhome, institutional (churches, schools, etc.) and commercial development. Recreational amenities within Riverstone include walking trails throughout the community, three recreation centers with facilities including a 9,000 square foot clubhouse with fitness and ballroom facilities, a pool, splash pad, activity pool and playgrounds, a dog park, a pavilion, ten tennis courts and a fishing pier for use by Riverstone residents.
- Status of Development*.....Development activities in the District began in 2007. The District currently includes approximately 1,366 developed acres of single-family residential development (2,953 lots) and approximately 44 acres where utility construction is underway for 66 lots with an expected completion of September 2019. As of January 28, 2019, the District contained 2,518 single-family homes completed and occupied, 22 single-family homes completed and not occupied, 175 single-family homes in various stages of construction, 248 vacant lots.
- The remainder of the District is comprised of approximately 20 developable acres that have not been provided with water distribution, wastewater collection and storm drainage facilities, approximately 13 acres on which a 249-unit apartment complex and approximately 18 acres on which a 351-unit apartment complex has been constructed. Approximately 71 acres within the District are served with trunk utilities for commercial development including approximately 62 acres upon which multiple retail shopping centers, a CVS, a day care, a gas station/convenience store with attached retail, a self-storage facility and a 140,000 square foot shopping center anchored by a Kroger grocery store have been constructed. An elementary school has been constructed on approximately 15 acres. In addition, approximately 33 acres have been developed as a recreation center/parks and open spaces, and approximately 188 acres are undevelopable (detention and drainage facilities, street right-of-way and lift station site). See “THE DISTRICT.”
- Homebuilders* Homebuilders actively building within the District are: Darling Homes, Newmark Homes, Meritage Homes, Partners in Building, Sitterle, Taylor Morrison Homes, Westport Homes, DR Horton and Trendmaker Homes. New homes in the District range in offering prices from approximately \$400,000 to over \$1,000,000.
- Flood Protection and Drainage Facilities*..... Flood protection for all of the land within the District and the majority of Riverstone is provided by Fort Bend County Levee Improvement District No. 15 (“LID 15”). The boundaries of LID 15 encompass approximately 2,398 acres. Hillsboro Estates, L.L.C. and Sugar Land Ranch Development, L.L.C. have financed the construction of a levee system, which together with other LID 15 improvements, removed approximately 2,398 acres within the LID boundaries, including all of the land within the District, from the 100-year floodplain designation of the Brazos River.
- To date, LID 15 has issued eighteen series of bonds, of which \$103,245,000 in principal amount is outstanding. The LID 15 bonds are payable from an ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within its boundaries, which includes all of the land within the District. For 2018, LID 15 levied a tax rate of \$0.62 per \$100 assessed valuation. It is anticipated that LID 15 will issue bonds in the foreseeable future to reimburse the developers of land in its boundaries for the costs of LID 15 facilities either constructed or currently being constructed, as well as facilities to be constructed in the future. See “ESTIMATED OVERLAPPING DEBT STATEMENT.”

Additional flood protection improvements, including detention ponds and drainage outfall structures, will be necessary for development of the remaining acreage in the District and in the undeveloped portions of LID 15 that are not in the District. See “THE SYSTEM—Flood Protection.”

The Developers The original developers of land within the District were Hillsboro Estates, LLC, a Texas limited liability company (“Hillsboro Estates”), Sugar Land Ranch Development, LLC, a Texas limited liability company (“Sugar Land Ranch LLC”), Sugar Land Ranch Development II Corp., a Texas corporation (“Sugar Land Ranch II”) and Riverstone 250, Inc., a Texas corporation (“Riverstone 250, Inc.”). All of the above entities are directly or indirectly owned and/or controlled by Larry D. Johnson, Lawrence Wong and Rocky Lai. Hillsboro Estates, Sugar Land Ranch LLC, Sugar Land Ranch II and Riverstone 250, Inc, are collectively referred to herein as the “Original Developers.” The Original Developers do not own any undeveloped land in the District.

In a series of transactions beginning in 2011, Taylor Morrison of Texas Inc., a Texas corporation (“Taylor Morrison”) purchased 759 acres from the Original Developers to develop such acreage as single-family lots. Taylor Morrison began developing such acreage as Avalon at Riverstone in 2012. Taylor Morrison is also a homebuilder in Avalon at Riverstone. Taylor Morrison owns approximately 20 acres of undeveloped land in the District.

An affiliate of the Original Developers is acting as a fee developer to develop the land purchased by Taylor Morrison.

In 2011, Meritage Homes of Texas LLC, a Texas limited liability corporation (“Meritage”) purchased 55 acres from the Original Developers to develop such acreage as single-family lots. Meritage began developing such acreage as Auburn Manor in 2012.

In 2013, Meritage entered into contract to purchase an additional 140 acres from the Original Developers. Meritage is responsible for developing the 140 acres and purchases lots from CDCG once the lots are completed. Meritage has completed construction of underground facilities on such acreage, which is being marketed as Ivory Ridge and Riverstone North. Meritage does not own any undeveloped land in the District.

The Original Developers, Taylor Morrison and Meritage are collectively referred to herein as the “Developers.” See “THE DEVELOPERS.”

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment risks, and all prospective purchasers are urged to examine carefully the entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION

| | | |
|---|--------------------|-----|
| 2018 Certified Taxable Assessed Valuation..... | \$1,492,691,751 | (a) |
| Estimated Taxable Assessed Valuation as of January 1, 2019 | \$1,645,815,037 | (b) |
| Gross Direct Debt Outstanding | \$90,815,000 | (c) |
| Estimated Overlapping Debt | <u>123,851,368</u> | (d) |
| Gross Direct Debt and Estimated Overlapping Debt..... | \$214,666,368 | |
| Ratio of Gross Direct Debt to: | | |
| 2018 Certified Taxable Assessed Valuation..... | 6.08% | |
| Estimated Taxable Assessed Valuation as of January 1, 2019 | 5.52% | |
| Ratio of Gross Direct and Estimated Overlapping Debt to: | | |
| 2018 Certified Taxable Assessed Valuation..... | 14.38% | |
| Estimated Taxable Assessed Valuation as of January 1, 2019 | 13.04% | |
| Operating Fund Balance as of February 25, 2019 | \$8,105,860 | |
| Capital Projects Fund Balance as of February 25, 2019 | \$1,067,912 | |
| Debt Service Fund Balance as of February 25, 2019 | \$10,740,801 | |
| 2018 Tax Rate: | | |
| Debt Service Tax Rate | \$0.45 | |
| Maintenance Tax Rate..... | <u>0.15</u> | |
| Total District Tax Rate..... | \$0.60 | |
| LID 15 Tax Rate..... | <u>0.62</u> | (e) |
| Total Combined District and LID 15 Tax Rate..... | \$1.22 | |
| Average percentage of total tax collections (2013-2017)..... | 99.96% | |
| Average Annual Debt Service Requirement (2019-2041)..... | \$5,445,283 | (e) |
| Tax Rate Required to Pay Average Annual Debt Service (2019-2041) at a 95% Collection Rate | | |
| Based upon 2018 Certified Taxable Assessed Valuation | \$0.39 | |
| Based upon Estimated Taxable Assessed Valuation as of January 1, 2019 | \$0.35 | |
| Maximum Annual Debt Service Requirement (2019)..... | \$6,833,760 | (e) |
| Tax Rate Required to Pay Maximum Annual Debt Service (2019) at a 95% Collection Rate | | |
| Based upon 2018 Certified Taxable Assessed Valuation | \$0.49 | |
| Based upon Estimated Taxable Assessed Valuation as of January 1, 2019 | \$0.44 | |
| Water Connections as of January 28, 2019: | | |
| Single family – completed and occupied | 2,518 | |
| Single family – vacant..... | 22 | |
| Single-family residential – under construction..... | 175 | |
| Multi-Family (600 units) | 20 | |
| Commercial..... | 22 | |
| Other | <u>248</u> | |
| Total | 3,005 | |

Estimated 2019 Population – 10,013 (f)

- (a) As certified by the Fort Bend Central Appraisal District (the “Appraisal District”). See “TAX PROCEDURES.”
- (b) As estimated by the Appraisal District as of January 1, 2019 for informational purposes only. The 2018 assessed valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to January 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. Consequently, this estimate will not be used to produce tax revenue for the District, See “Tax Procedures.”
- (c) Includes the Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (d) See “ESTIMATED OVERLAPPING DEBT STATEMENT.”
- (e) See “DEBT SERVICE REQUIREMENTS.”
- (f) Based upon 3.5 persons per occupied home and 2 persons per apartment unit.

OFFICIAL STATEMENT

\$2,530,000

FORT BEND COUNTY MUNICIPAL UTILITY DISTRICT NO. 128

(A political subdivision of the State of Texas located within Fort Bend County)

UNLIMITED TAX REFUNDING BONDS, SERIES 2019

This Official Statement provides certain information in connection with the issuance by Fort Bend County Municipal Utility District No. 128 (the "District") of its \$2,530,000 Unlimited Tax Refunding Bonds, Series 2019 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), and an election held within the District.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District and the developers of land within the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from the District upon payment of the costs of duplication therefor.

PLAN OF FINANCING

Purpose

At a bond election held within the District on May 12, 2007, the voters of the District authorized the issuance of a total of \$123,450,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities and refunding of such bonds. The District currently has \$90,660,000 principal amount of bonds outstanding (the "Outstanding Bonds").

The proceeds of the Bonds are being used to currently refund and defease a portion of the District's Unlimited Tax Bonds, Series 2010 totaling \$2,375,000 (the "Refunded Bonds") in order to achieve a net savings in the District's debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See "Sources and Uses of Funds." A total of \$88,285,000 in principal amount of the Outstanding Bonds will remain outstanding after the issuance of the Bonds (the "Remaining Outstanding Bonds").

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

| Series | Original Principal Amount | Principal Amount Currently Outstanding | Refunded Bonds | Remaining Outstanding Bonds |
|---|---------------------------------|---|-------------------|-----------------------------------|
| 2010 | \$ 3,045,000 | \$ 2,475,000 | \$ 2,375,000 | \$ 100,000 |
| 2013 | 3,950,000 | 3,200,000 | - | 3,200,000 |
| 2014 | 14,220,000 | 12,800,000 | - | 12,800,000 |
| 2015 | 21,760,000 | 19,735,000 | - | 19,735,000 |
| 2016 | 26,650,000 | 24,400,000 | - | 24,400,000 |
| 2017 | 17,450,000 | 16,600,000 | - | 16,600,000 |
| 2018 | 11,450,000 | 11,450,000 | - | 11,450,000 |
| Total | \$ 98,525,000 | \$ 90,660,000 | \$ 2,375,000 | \$ 88,285,000 |
| The Bonds | | | | 2,530,000 |
| The Bonds and Remaining Outstanding Bonds | | | | \$ 90,815,000 |

Refunded Bonds

Proceeds of the Bonds will be applied to refund and defease the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

| <u>Maturity Date</u> <u>(September 1)</u> | <u>Series</u> <u>2010</u> |
|--|------------------------------|
| 2020 | \$ 105,000 |
| 2021 | 110,000 |
| 2022 | 120,000 |
| 2023 | 125,000 |
| 2024 | 130,000 |
| 2025 | 140,000 |
| 2026 | 145,000 |
| 2027 | 155,000 (a) |
| 2028 | 165,000 (a) |
| 2029 | 170,000 (a) |
| 2030 | 180,000 (a) |
| 2031 | 190,000 (b) |
| 2032 | 200,000 (b) |
| 2033 | 215,000 (b) |
| 2034 | <u>225,000 (b)</u> |
| | \$ 2,375,000 |

Redemption Date: 4/11/2019

- (a) Represents term bonds in the total principal amount of \$670,000, scheduled to mature on September 1, 2030.
(b) Represents term bonds in the total principal amount of \$830,000, scheduled to mature on September 1, 2034.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, exclusive of accrued interest, will be applied as follows:

| | |
|---|----------------|
| Sources of Funds: | |
| Principal Amount of the Bonds | \$2,530,000.00 |
| Less: Net Discount on the Bonds..... | (11,430.75) |
| Total Sources of Funds..... | \$2,518,569.25 |
| Uses of Funds: | |
| Deposit to Paying Agent for Refunded Bonds..... | \$2,387,746.39 |
| Issuance Expenses and Underwriters' Discount (a)..... | 130,822.86 |
| Total Uses of Funds | \$2,518,569.25 |

- (a) Includes municipal bond insurance premium.

Payment of Refunded Bonds

The Refunded Bonds and the interest due thereon, are to be paid on the redemption date from funds to be deposited with Wells Fargo Bank, N.A., Houston, Texas, as paying agent for the Refunded Bonds (the “Paying Agent for the Refunded Bonds”).

The Bond Resolution provides that from the proceeds of the sale of the Bonds and certain available funds of the District, the District will deposit with the Paying Agent for the Refunded Bonds the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Paying Agent for the Refunded Bonds in a segregated payment account (the “Payment Account”). At the time of delivery of the Bonds, Public Finance Partners LLC, will verify to the District, the Paying Agent for the Refunded Bonds, Bond Counsel, and the Financial Advisor that the monies held in the Payment Account are sufficient to pay, when due, the principal of and interest on the Refunded Bonds on the Redemption Date. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.” By the deposit of the cash with the Paying Agent for the Refunded Bonds and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior resolution of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of so deposited, and the amounts so deposited in the Payment Account will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$2,375,000 principal amount), plus the debt service on the Bonds.

| Year | Outstanding Bonds Debt Service Requirements | Less: Debt Service on the Refunded Bonds | Plus: Debt Service on the Bonds | | | Total Debt Service Requirements |
|-------|---|--|---------------------------------|------------|-------------|---------------------------------|
| | | | Principal | Interest | Total | |
| 2019 | \$ 6,830,890 | \$ 57,359 | \$ 30,000 | \$ 30,229 | \$ 60,229 | \$ 6,833,760 |
| 2020 | 6,780,709 | 219,718 | 130,000 | 71,650 | 201,650 | 6,762,641 |
| 2021 | 6,739,116 | 220,255 | 135,000 | 67,750 | 202,750 | 6,721,611 |
| 2022 | 6,677,896 | 225,415 | 145,000 | 63,700 | 208,700 | 6,661,181 |
| 2023 | 6,353,371 | 225,015 | 145,000 | 59,350 | 204,350 | 6,332,706 |
| 2024 | 6,296,911 | 224,265 | 150,000 | 54,275 | 204,275 | 6,276,921 |
| 2025 | 6,247,114 | 228,155 | 155,000 | 51,275 | 206,275 | 6,225,234 |
| 2026 | 6,189,494 | 226,435 | 160,000 | 47,788 | 207,788 | 6,170,846 |
| 2027 | 6,131,426 | 229,330 | 165,000 | 44,188 | 209,188 | 6,111,284 |
| 2028 | 6,075,181 | 231,735 | 170,000 | 40,063 | 210,063 | 6,053,509 |
| 2029 | 6,001,650 | 228,650 | 175,000 | 35,388 | 210,388 | 5,983,388 |
| 2030 | 5,938,325 | 230,320 | 180,000 | 30,138 | 210,138 | 5,918,143 |
| 2031 | 5,846,548 | 231,500 | 185,000 | 24,738 | 209,738 | 5,824,785 |
| 2032 | 5,754,698 | 232,000 | 190,000 | 19,188 | 209,188 | 5,731,885 |
| 2033 | 5,675,198 | 237,000 | 205,000 | 13,488 | 218,488 | 5,656,685 |
| 2034 | 5,567,048 | 236,250 | 210,000 | 6,825 | 216,825 | 5,547,623 |
| 2035 | 5,466,235 | - | - | - | - | 5,466,235 |
| 2036 | 5,341,813 | - | - | - | - | 5,341,813 |
| 2037 | 4,812,375 | - | - | - | - | 4,812,375 |
| 2038 | 4,699,883 | - | - | - | - | 4,699,883 |
| 2039 | 3,580,500 | - | - | - | - | 3,580,500 |
| 2040 | 2,060,500 | - | - | - | - | 2,060,500 |
| 2041 | 468,000 | - | - | - | - | 468,000 |
| Total | \$125,534,879 | \$ 3,483,401 | \$2,530,000 | \$ 660,029 | \$3,190,029 | \$ 125,241,507 |

Maximum Annual Debt Service Requirement (2019).....\$6,833,760
Average Annual Debt Service Requirements (2019-2041)\$5,445,283

THE BONDS

General

The Bonds are dated April 1, 2019, and mature on September 1 in each of the years and in the principal amounts shown on the cover page hereof. Interest will accrue from April 1, 2019, at the rates per annum shown on the cover hereof, will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on September 1 and March 1 of each year, commencing September 1, 2019 (five months of interest) until the earlier of maturity or redemption. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. **No physical delivery of the Bonds will be made to the owners thereof.** Initially, principal of and interest on the Bonds will be payable by The Bank of New York Mellon Trust Company, N.A. in Dallas, Texas (the “the Paying Agent/Registrar,” “Paying Agent,” or “Registrar”) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM”.

In the event the Book-Entry-Only System is discontinued, interest on the Bonds shall be payable by check on or before each interest payment date, mailed by the Paying Agent/Registrar to the registered owners (“Registered Owners”) as shown on the bond register (the “Register”) kept by the Paying Agent/Registrar at the close of business on the 15th calendar day of the month immediately preceding each interest payment date to the address of such Registered Owner as shown on the Register, or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Authority for Issuance

At a bond election held within the District on May 12, 2007, the voters of the District authorized the issuance of a total of \$123,450,000 principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities and refunding of such bonds. After sale of the Bonds, the District will have \$24,770,000 principal amount of unlimited tax bonds authorized but unissued for purposes of acquiring or constructing water, sanitary sewer and drainage facilities and refunding of such bonds authorized but unissued. See “THE BONDS—Issuance of Additional Debt.”

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution; Article XVI, Section 59 of the Texas Constitution; Chapters 49 and 54 of the Texas Water Code, as amended; and Chapter 1207 Texas Government Code, as amended. Before the Bonds can be issued, the Attorney General of Texas must pass on the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement. See “LEGAL MATTERS—Legal Opinions.”

Source and Security for Payment

The Bonds (together with the Remaining Outstanding Bonds and such additional tax bonds as may hereafter be issued by the District) are payable from and secured by a pledge of the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “TAX PROCEDURES.” The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds.

The Bonds are obligations of the District and are not obligations of the State of Texas, Fort Bend County, the City of Sugar Land, or any entity other than the District.

Funds

In the Bond Resolution, the Debt Service Fund is confirmed, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund. Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt.

No Arbitrage

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

Redemption Provisions

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2026 prior to their scheduled maturities, in whole or in part, in integral multiples of \$5,000, on September 1, 2025, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption.

Mandatory Redemption: The Bonds due on September 1, 2031 (the “Term Bonds”) also are subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years (the “Mandatory Redemption Dates”) and in the principal amounts set forth below, subject to proportionate reduction at a redemption price of par plus accrued interest to the date of redemption:

| \$365,000 Term Bonds | |
|-------------------------------|-------------------------|
| Due September 1, 2031 | |
| <u>Mandatory</u> | <u>Principal</u> |
| <u>Redemption Date</u> | <u>Amount</u> |
| 2030 | \$ 180,000 |
| 2031 (maturity) | 185,000 |

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if fewer than all the Bonds outstanding within any one maturity are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest that would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax-exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), necessary to provide and maintain improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT— General." The District's voters have authorized the issuance of a total of \$123,450,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and refunding of such bonds and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$24,770,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and refunding of such bonds authorized but unissued.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the Commission; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election to authorize fire-fighting bonds at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park projects and bonds by the Commission; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the Commission for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the Commission, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the Commission for "road powers" nor calling such an election at this time.

Annexation by the City of Sugar Land

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Sugar Land (the “City”), with the exception of approximately 67 acres of undevelopable land located within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City under certain circumstances. If the District is annexed and not dissolved within 120 days of annexation, the District will continue as a limited district, under Section 43.0751, Texas Local Government Code, until dissolved by the earlier of (i) action of the City or (ii) 10 years after the date of annexation. Upon dissolution, the City will assume the District’s assets and obligations (including any outstanding Bonds). Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt, nor does the District make any representation concerning the ability of the City to pay debt service on the District’s bonds if annexation were to occur; however, the City has agreed not to annex the District until certain conditions are met as described under “Strategic Partnership” below.

Strategic Partnership

On May 3, 2011, the City of Sugar Land (“City”) approved a Strategic Partnership Agreement (“SPA”) with the District. The SPA, as amended, sets forth general terms relating to the provisions of municipal services and annexation of the District by the City. Under the SPA, the City has agreed not to annex the District, for full or limited purposes, until 90% of the developable acreage within the District has been developed with water, wastewater, and drainage facilities and the developers within the District have been reimbursed by the District to the maximum extent permitted by the rules of the Commission, or the City assumes any obligation for such reimbursement.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District. See “INVESTMENT CONSIDERATIONS—Registered Owners’ Remedies and Bankruptcy Limitations.”

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

No representation is made that the Bonds will be suitable for or acceptable to financial or public entities for investment or collateral purposes. No representation is made concerning other laws, rules, regulations or investment criteria which apply to or which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

Defeasance

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

Upon such deposit as described above, such bonds shall no longer be regarded as outstanding or unpaid. After firm banking and financial arrangements for the discharge and final payment or redemption of the Bonds have been made as described above, all rights of the District to initiate proceedings to call the Bonds for redemption or take any other action amending the terms of the Bonds are extinguished; provided, however, that the right to call the Bonds for redemption is not extinguished if the District: (i) in the proceedings providing for the firm banking and financial arrangements, expressly reserves the right to call the Bonds for redemption; (ii) gives notice of the reservation of that right to the owners of the Bonds immediately following the making of the firm banking and financial arrangements; and (iii) directs that notice of the reservation be included in any redemption notices that it authorizes.

There is no assurance that the current law will not be changed in the future 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 Resolution does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investment quality as currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

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 or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will 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 "Procedure" of DTC to be followed in dealing with DTC Direct 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, of each series will be issued as fully-registered Bonds registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. With respect to each series of the Bonds, one fully-registered Bond certificate will be issued of each such series for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC. DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other

securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

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

THE DISTRICT

General

The District is a municipal utility district created by order of the Texas Commission on Environmental Quality (the "Commission" or "TCEQ"), dated January 17, 2006, and operates under the provisions of Chapters 49 and 54 of the Texas Water Code and other general statutes applicable to municipal utility districts. The District is located wholly within the exclusive extraterritorial jurisdiction of the City of Sugar Land, Texas with the exception of approximately 67 acres of undevelopable land located within the corporate limits of the City of Sugar Land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also empowered to establish parks and recreational facilities for the residents of the District, to contract for or employ its own peace officers and, after approval by the Commission and the voters of the District, to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts. Additionally, the District may, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. Further, the District could seek approval by the Texas Legislature to acquire road powers.

The Commission exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, and road facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to platted lots and reserves which have been approved by the Planning Commission of the City. Construction and operation of the District's system are subject to the regulatory jurisdiction of additional government agencies. See "THE SYSTEM."

Description and Location

The District contains approximately 1,767 acres of land. The District is located approximately 21 miles southwest of downtown Houston. The District is located approximately 3 miles south of U.S. Highway 59 (the "Southwest Freeway") and is accessible via the Southwest Freeway to Texas State Highway 6, and then south to the Riverstone entrances.

Riverstone

The District is part of the approximately 3,700-acre master planned community known as "Riverstone." The District is one of four municipal utility districts serving development in Riverstone. At full development, Riverstone is projected to include single family, multi family, townhome and commercial development. Development of Riverstone began in 2001 in Fort Bend County Municipal Utility District No. 115 ("MUD 115") and subsequently in Fort Bend County Municipal Utility District No. 129 ("MUD 129") in 2004 and Fort Bend County Municipal Utility District No. 149 ("MUD 149") in 2007. Development activities in the District began in 2007.

Land Use

| <u>Single-Family Residential</u> | Approximate <u>Acres</u> | <u>Lots</u> |
|----------------------------------|-----------------------------|-------------|
| Alden Springs: | | |
| Section 1 | 15 | 40 |
| Section 2 | 15 | 42 |
| Auburn Manor at Riverstone: | | |
| Section 1 | 16 | 55 |
| Section 2..... | 21 | 73 |
| Section 3..... | 23 | 70 |
| Avalon at Riverstone: | | |
| Section 1 | 47 | 86 |
| Section 2..... | 32 | 70 |
| Section 3..... | 26 | 75 |
| Section 4 | 49 | 61 |
| Section 5 | 30 | 63 |
| Section 6 | 27 | 68 |
| Section 7 | 11 | 10 |
| Section 8 | 22 | 79 |
| Section 9 | 26 | 60 |
| Section 10A | 28 | 62 |
| Section 10B..... | 15 | 33 |
| Section 11A | 10 | 10 |
| Section 11B | 40 | 67 |
| Section 12A | 11 | 31 |
| Section 12B | 14 | 50 |
| Section 12C | 12 | 42 |
| Section 14..... | 42 | 77 |
| Section 15A | 17 | 24 |
| Section 15B, Phase 1 | 4 | 7 |
| Section 15B, Phase 2 | 14 | 31 |
| Section 16A | 15 | 35 |
| Section 16B..... | 19 | 27 |
| Section 17..... | 18 | 33 |
| Section 18A | 14 | 35 |
| Section 18B..... | 23 | 62 |
| Section 19 (a)..... | 44 | 66 |
| Section 20 | 42 | 97 |
| Section 21 | 24 | 84 |
| Section 22 | 43 | 71 |
| Section 23 | 16 | 10 |
| Section 24A | 8 | 21 |

| | | |
|--|--------------|--------------|
| Edgewood at Riverstone: | | |
| Section 1..... | 15 | 44 |
| Section 2..... | 24 | 69 |
| Enclave, Section 1..... | 20 | 32 |
| Ivory Ridge at Riverstone Section 1..... | 34 | 102 |
| Ivy Bend at Riverstone..... | 11 | 10 |
| Majestic Pointe at Riverstone | 18 | 27 |
| Marble Bend at Riverstone: | | |
| Section 1..... | 25 | 26 |
| Section 2..... | 14 | 39 |
| Section 3..... | 12 | 36 |
| Olive Hill at Riverstone..... | 20 | 45 |
| Pecan Ridge at Riverstone..... | 32 | 50 |
| Prestwick..... | 48 | 62 |
| Providence at Riverstone: | | |
| Section 1..... | 8 | 27 |
| Section 2..... | 10 | 30 |
| Riverstone North: | | |
| Section 1..... | 19 | 65 |
| Section 2..... | 16 | 42 |
| Section 3..... | 18 | 63 |
| Section 4..... | 14 | 51 |
| Section 5..... | 12 | 34 |
| Section 6..... | 6 | 14 |
| Section 7..... | 9 | 8 |
| Sanders Glen at Riverstone..... | 32 | 90 |
| Silver Grove at Riverstone: | | |
| Section 1..... | 11 | 20 |
| Section 2..... | 23 | 43 |
| The Island at Riverstone..... | 53 | 9 |
| The Villas..... | 10 | 40 |
| Vintage Trail at Riverstone..... | 29 | 55 |
| Waterside at Riverstone..... | 13 | 18 |
| Whisper Rock | 21 | 41 |
| Subtotal | <u>1,410</u> | <u>3,019</u> |
| | | |
| Multi-family (b)..... | 31 | |
| Commercial (c)..... | 71 | |
| Elementary School..... | 15 | |
| Recreation Center/Parks and Open Spaces (d)..... | 33 | |
| Future Development..... | 20 | |
| Non-Developable (e)..... | <u>188</u> | |
| | | |
| Totals..... | 1,768 | 3,019 |

- (a) Construction of water, wastewater and drainage facilities recently commenced and paving is expected to be complete in fall of 2019.
- (b) Includes a 249-unit apartment complex on approximately 13 acres and a 351-unit apartment complex on approximately 18 acres.
- (c) See “Status of Development—Commercial Development.”
- (d) Includes a 17-acre recreation center. See “Status of Development—Community Facilities.”
- (e) Includes detention and drainage facilities, street right-of-way and lift station site.

Status of Development

Single-Family Residential: Home construction in the District began in January 2008, and as of January 28, 2019, the District contained 2,518 single-family homes completed and occupied, 22 single-family homes completed and not occupied, 175 single-family homes in various stages of construction and 248 vacant lots.

Homebuilding: Homebuilders actively building within the District are: Darling Homes, Newmark Homes, Meritage Homes, Partners in Building, Sitterle, Taylor Morrison Homes, Westport Homes, DR Horton and Trendmaker Homes. New homes in the District range in offering prices from approximately \$400,000 to over \$1,000,000.

Multi-Family Residential: A 249-unit apartment complex, The Retreat at Riverstone, has been constructed on approximately 13 acres in the District. Additionally, a 351-unit apartment complex has been constructed on approximately 18 acres in the District.

Commercial Development: Approximately 71 acres within the District are served with trunk utilities for commercial development including approximately 62 acres upon which multiple retail shopping centers, a CVS, a day care, a gas station/convenience store with attached retail, a self-storage facility and a 140,000 square foot shopping center anchored by a Kroger grocery store have been constructed.

Community Facilities: The Original Developers have constructed an information center and recreational amenities which include walking trails and three recreation centers with facilities, including a 9,000 square foot clubhouse with fitness and ballroom facilities, a pool, splash pad, activity pool and playgrounds, a dog park, a pavilion, ten tennis courts and a fishing pier for use by Riverstone residents.

Additional community facilities are located in the general vicinity of the District. Neighborhood shopping facilities, including supermarkets, pharmacies, cleaners, restaurants, banking facilities and other retail and service establishments are located within two miles of the District along areas adjacent to State Highway 6 and US Highway 59. Fire protection for the District is provided by the City of Sugar Land's Fire Department. Medical care for District residents is available from two hospitals which are within 10 miles of the District. The land within the District is located within the boundaries of Fort Bend Independent School District, and children within the District attend elementary, middle and high schools of Fort Bend Independent School District located within three miles of the development in the District. See "INVESTMENT CONSIDERATIONS—Recent Extreme Weather; Hurricane Harvey."

MANAGEMENT

Board of Directors

The District is governed by the Board of Directors, consisting of five directors, which has control over and management supervision of all affairs of the District. Directors are elected by the voters within the District for four-year staggered terms. Directors' elections are held only in even numbered years. The Directors and Officers of the District are listed below:

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|-----------------|-------------------------------|---------------------|
| Michael Cabiro | President | May 2020 |
| Regan Bowen | Vice President | May 2022 |
| Jeff Hogan | Secretary | May 2020 |
| Travis Van Horn | Assistant Secretary | May 2022 |
| Haley Millis | Treasurer/Assistant Secretary | May 2022 |

While the District does not employ any full-time employees, it has contracted for certain services as follows:

Tax Assessor/Collector

Land and improvements within the District are appraised for ad valorem taxation purposes by the Fort Bend Central Appraisal District. The District's Tax Assessor/Collector is appointed by the Board of Directors of the District. Tax Tech, Inc. is currently serving in this capacity for the District.

System Operator

The District contracts with Si Environmental, LLC for maintenance and operation of the District's flood protection system.

Bookkeeper

The District has engaged Municipal Accounts & Consulting, LP to serve as the District's bookkeeper.

Engineer

The consulting engineer for the District in connection with the design and construction of the District's facilities is Costello, Inc. (the "Engineer").

Auditor

The District's audited financial statements for the year ended July 31, 2018 were prepared by McGrath & Co., PLLC. See "APPENDIX A" for a copy of the District's July 31, 2018 financial statement.

Attorney

The District has engaged The Muller Law Group, PLLC, as general counsel and as Bond Counsel in connection with the issuance of the Bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are earned upon the sale and delivery of the Bonds.

Financial Advisor

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fees are contingent on the sale and delivery of the Bonds.

THE DEVELOPERS

Role of a Developer

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of roads and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the Commission to pave streets in sections being financed with proceeds of the Bonds, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. 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 a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

None of the Developers (hereinafter defined) nor any of their affiliates, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developers has a binding commitment to the District to carry out any plan of development and each of the Developers may sell or otherwise dispose of its property within the District, or any other assets, at any time, and the furnishing of information relating to the proposed development by the Developers should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect Riverstone in order to acquaint themselves with the nature of development that has occurred or is occurring within the boundaries of the District. See "INVESTMENT CONSIDERATIONS."

Hillsboro Estates, LLC. Sugar Land Ranch Development, LLC. Sugar Land Ranch Development II Corp. and Riverstone 250, Inc.

The original developers of land within the District are Hillsboro Estates, LLC, a Texas limited liability company ("Hillsboro Estates"), Sugar Land Ranch Development, LLC, a Texas limited liability company, ("Sugar Land Ranch LLC"), Sugar Land Ranch Development II Corp., a Texas corporation ("Sugar Land Ranch II") and Riverstone 250, Inc., a Texas corporation ("Riverstone 250, Inc.") All of the above entities are directly or indirectly owned and/or controlled by Larry D. Johnson, Lawrence Wong and Rocky Lai. Hillsboro Estates, Sugar Land Ranch LLC, Sugar Land Ranch II and Riverstone 250, Inc. are collectively referred to herein as the "Original Developers." These entities do not own any undeveloped land in the District.

Each of these entities was created to own and/or develop land in the Riverstone project, and all of the assets and liabilities of these entities are related solely to the Riverstone project.

Taylor Morrison of Texas, Inc. and Meritage Homes of Texas LLC

In a series of transactions beginning in 2011, Taylor Morrison of Texas Inc., a Texas corporation (“Taylor Morrison”) purchased 759 acres from the Original Developers to develop such acreage as single-family lots. Taylor Morrison began developing such acreage as Avalon at Riverstone in 2012, Taylor Morrison is also a homebuilder in Avalon at Riverstone. Taylor Morrison owns approximately 20 acres of undeveloped land in the District.

An affiliate of the Original Developers is acting as a fee developer to develop the land purchased by Taylor Morrison.

In 2011, Meritage Homes of Texas LLC, a Texas limited liability corporation (“Meritage”) purchased 55 acres from the Original Developers to develop such acreage as single-family lots. Meritage began developing such acreage as Auburn Manor in 2012.

In 2013, Meritage entered into contract to purchase an additional 140 acres from the Original Developers. Meritage is responsible for developing the 140 acres and purchases lots from CDCG once the lots are completed. Meritage has completed construction of underground facilities on such acreage, which is being marketed as Ivory Ridge and Riverstone North. Meritage does not own any undeveloped land in the District.

The Original Developers, Taylor Morrison and Meritage are collectively referred to herein as the “Developers.”

Development Management

The overall development of the Riverstone project is being managed by an affiliate of The Johnson Development Corp, Larry D. Johnson, President of The Johnson Development Corp., has over 40 years of experience in real estate development. Mr. Johnson’s real estate activities include over 77 projects resulting in the development of nearly 40,000 acres of multi-use commercial parks, office buildings, retail centers, residential subdivisions, master planned golf course communities and multi-family housing. In the Houston metropolitan area, Mr. Johnson has been involved in the development of Steeplechase, Sienna Plantation, Silverlake, Fall Creek, Tuscan Lakes, Edgewater and Woodforest.

THE SYSTEM

According to the Engineer, the District's water supply and distribution, wastewater collection, and storm drainage facilities (collectively, the “System”) have been designed in accordance with accepted engineering practices and the then-current requirements of various entities having regulatory or supervisory jurisdiction over the construction and operation of such facilities. The construction of the System was required to be accomplished in accordance with the standards and specifications of such entities and is subject to inspection by each such entity. Operation of the System must be accomplished in accordance with the standards and requirements of such entities. The Commission exercises continuing supervisory authority over the District, Discharge of treated sewage is subject to the regulatory authority of the Commission and the U.S. Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the City of Sugar Land (the “City”), Fort Bend County and, in some instances, the Commission. Fort Bend County and the City also exercise regulatory jurisdiction over the System. The regulations and requirements of entities exercising regulatory jurisdiction over the System are subject to further development and revision which, in turn, could require additional expenditures by the District in order to achieve compliance. In particular, additional or revised requirements in connection with any permit for the wastewater treatment plant in which the District owns capacity beyond the criteria existing at the time of construction of the plant could result in the need to construct additional facilities in the future. The following descriptions are based upon information supplied by the District's Engineer.

Water, Sanitary Sewer and Drainage Facilities

Construction of the District's System has been financed with funds advanced by the Developers, a portion of which will be reimbursed with proceeds from sale of the Bonds and a portion of which will be reimbursed with the proceeds from sale of future bonds.

Source of Water Supply: The District obtains wholesale water supply from the City of Sugar Land (the “City”) pursuant to a Water Supply and Wastewater Services Contract (the “Utility Agreement”) between the District and the City, All water production facilities are owned and maintained by the City, According to the City, the City's water plant facilities which serve the District consists of 32,950 gallons per minute (“gpm”) of well capacity, a 9.0 gpm surface water treatment plant, 14,450,000 gallons of ground storage tank capacity, booster pumps totaling 72,600,000 gallons per day capacity, 6,200,000 gallons of elevated storage tank capacity and appurtenant equipment. According to the Utility Agreement, the District has the right to purchase capacity from the City through connection fees as property is platted. Proceeds from the Outstanding Bonds were used to purchase 2,658 equivalent single-family connections, and a portion of the Bond proceeds will be used to purchase water supply capacity to serve an additional 548 equivalent single-family connections. Additional water supply capacity will be required for full development of the District. The District has an emergency water interconnect with Fort Bend County Municipal Utility District No. 129. The District currently serves approximately 2,705 single-family homes constructed or under construction.

The District has constructed, and conveyed to the City of Sugar Land for ownership and operation of a 2.0 million gallons per day tertiary treatment plant to produce Type I effluent for the purpose of providing irrigation water and lake make up water to property within the District. The plant consists of cloth filters and tanks, 200,000 gallons of ground storage, 2,000 gpm booster pump capacity and 10,000 gallons of hydropneumatic tank capacity with associated appurtenances.

Subsidence and Conversion to Surface Water Supply: The District is within the boundaries of the Fort Bend Subsidence District (the “Subsidence District”), which regulates groundwater withdrawal, including the water supplied to the District by the City. The City's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District's jurisdiction, including the area within the District.

The Subsidence District's regulations require the City, individually or collectively with other water users, to: (i) have prepared a groundwater reduction plan (“GRP”) and obtained certification of the GRP from the Subsidence District; (ii) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the GRP, beginning January 2014; and (iii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the GRP, beginning January 2025. The City has prepared and filed its GRP with the Subsidence District.

If the City of Sugar Land, together with the participants in its GRP, fails to comply with the above Subsidence District regulations, such entities will be subject to a \$6.50 per 1,000 gallons disincentive fee penalty imposed by the Subsidence District for any groundwater withdrawn in excess of 70% of the total annual water demand after January 2014 (40% in 2025).

The GRP fee for the District that is currently being charged by the City of Sugar Land is \$2.26 per 1,000 gallons pumped, and this fee is passed through to the District's customers as part of the District's standard monthly water and sewer bills. The rate is anticipated to increase in the future and the District cannot predict the amount or level of fees and charges which may be due to the City of Sugar Land in the future. The District may continue to pass such fees through to its customers through higher water rates or the District may pay for such fees with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the City of Sugar Land: (i) will build the necessary facilities to continue to meet the requirements of the Subsidence District for conversion to surface water, or (ii) will continue to comply with the Subsidence District's surface water conversion requirements.

Source of Wastewater Treatment: The District obtains its wastewater treatment services from the City of Sugar Land (the “City”) pursuant to the Utility Agreement between the District and the City. All wastewater treatment facilities are owned and maintained by the City. The Plant is designed to have an ultimate capacity of 10.0 million gallons per day (“GPD”), The District has contracted for 4,532 equivalent single family connections (or approximately 1.359 million GPD, which amount is, in the opinion of the District's Engineer, sufficient capacity for ultimate build-out in the District. The Plant currently has a capacity of 7.5 million GPD. Proceeds from the Outstanding Bonds were used to purchase 3,206 equivalent single-family connections.

Flood Protection: Flood protection for land within the District and the majority of Riverstone is provided by LID 15, The boundaries of LID 15 encompass approximately 2,398 acres. Hillsboro Estates and Sugar Land Ranch Development, LLC financed the construction of the levee, which together with other LID 15 improvements removed approximately 2,398 acres within LID 15's boundaries, including all of the land within the District, from the 100-year floodplain designation of the Brazos River. According to the District's Engineer and Operator, the LID 15 levee surrounding the District performed as designed throughout the weather events resulting from Hurricane Harvey. See “INVESTMENT CONSIDERATIONS—Recent Extreme Weather; Hurricane Harvey.”

An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. If substantial or frequent flooding of homes were to occur in the District, property values could be reduced and the marketing of homes and the future growth of property values in the District could be adversely affected. At the time of construction, LID 15's levee and drainage system were reviewed and approved by all entities with regulatory jurisdiction over the system. However, the system does not protect against all flooding scenarios. There are at least four instances in which flooding could occur in the District: 1) an overtopping of the levee, 2) a failure (or breach) of the levee system, (3) rainfall in excess of what the drainage system is designed for, or (4) failure of stormwater pumping facilities during coincident river events.

LID 15's levee system is part of a regional perimeter levee system that protects approximately 12,142 acres of property in Fort Bend County. The District, together with 7 other levee improvement districts and municipal utility districts, has entered into an agreement relating to the operation and maintenance of the perimeter levee system to ensure that all participants have constructed and maintain their individual levee systems to meet applicable federal, state and local criteria for flood protection. An overtopping or failure (or breach) of any participant's levee system could result in regionalized flooding for all or part of the area protected by the perimeter levee system. See “INVESTMENT CONSIDERATIONS.”

There are three pump stations currently or proposed to serve three separate watersheds within LID 15. The pump station serving the Steep Bank Creek watershed is jointly owned and operated by Fort Bend County Levee Improvement District No. 19 (“LID 19”) and LID 15. According to an independent engineer engaged by LID 19 to perform a study following Hurricane Harvey, the firm pumping capacity at this pump station may be insufficient to provide stormwater drainage from a portion of the District during a coincident river event. To address such shortfall LID 15 and LID 19 have, on an interim basis, acquired portable trailer mounted pumps and, on a long term basis, determined to design and construct additional pumping capacity at this pump station.

The design of the levee and pump station systems are subject to regulations set forth by the Fort Bend County Drainage District (“FBCDD”). The current FBCDD regulations are based on previously published rainfall data by the National Weather Service in 1961 (TP-40). Since the publication of TP-40, the National Oceanic and Atmospheric Administration in September 2018 published new rainfall data for Texas in its Atlas 14, Volume 11, report (Atlas 14). Under Atlas 14, increased rainfall frequency values may require additional drainage improvements to meet FBCDD infrastructure design requirements and floodplain regulations. At this time, FBCDD has not formally adopted Atlas 14 in its regulatory requirements, but it is anticipated that such adoption may be forthcoming. If adopted, LID 15 may evaluate its current drainage systems and chose to expand or improve its facilities to be more resilient under the new rainfall data; however, there are no current requirements that existing infrastructure be modified or improved. LID 15 has no cost estimates for such improvements.

Based upon the current Flood Insurance Rate Map panel dated April 2, 2014, Flood Insurance Rate Maps of Federal Emergency Management Agency (“FEMA”), all of the developable land within the District that is located inside the boundaries of LID 15 has been removed from the 100-year floodplain of the Brazos River,

However, an engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. If substantial or frequent flooding of homes were to occur in the District, property values could be reduced and the marketing of homes and future growth of property values in the District could be adversely affected. LID 15’s levee and drainage system has been designed and constructed to all current standards.

LID 15’s system does not protect against all flooding scenarios. There are at least three instances in which flooding could occur in the District: 1) an overtopping of the levee, or 2) a failure (or breach) of the levee system, or 3) localized rainfall in excess of the 100-year event.

LID 15’s levee system is part of a regional perimeter levee system that protects approximately 12,142 acres of property in Fort Bend County. LID 15, together with 7 other levee improvement districts and municipal utility districts, has entered into an agreement relating to the operation and maintenance of the perimeter levee system to ensure that all participants have constructed and maintain their individual levee systems to meet applicable federal, state and local criteria for flood protection. An overtopping or failure (or breach) of any participant’s levee system could result in regionalized flooding for all or part of the area protected by the perimeter levee system.

UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED

| <u>Date of Authorization</u> | <u>Purpose</u> | <u>Amount Authorized</u> | <u>Issued to Date</u> | <u>Amount Unissued</u> |
|------------------------------|--|--------------------------|-----------------------|------------------------|
| 05/12/2007 | Water, Sanitary Sewer and Drainage and Refunding | \$123,450,000 | \$98,680,000* | \$24,770,000 |

* Includes the Bonds.

FINANCIAL STATEMENT

| | |
|--|---------------------|
| 2018 Certified Taxable Assessed Valuation..... | \$1,492,691,751 (a) |
| Estimated Taxable Assessed Valuation as of January 1, 2019 | \$1,645,815,037 (b) |
| The Outstanding Bonds | \$90,660,000 |
| Less: Refunded Bonds..... | 2,375,000 |
| Plus: The Bonds | <u>2,530,000</u> |
| Gross Debt Outstanding | \$90,815,000 |
| Ratio of Gross Direct Debt to: | |
| 2018 Certified Taxable Assessed Valuation | 6.08% |
| Estimated Taxable Assessed Valuation as of January 1, 2019 | 5.52% |

Area of District—1,768 acres

Estimated 2019 Population – 10,013 (c)

- (a) As certified by the Fort Bend Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) As estimated by the Appraisal District as of January 1, 2019 for informational purposes only. The 2018 assessed valuation established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2018 to January 1, 2019. This estimate has no official status. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. Consequently, this estimate will not be used to produce tax revenue for the District. See "Tax Procedures."
- (c) Based upon 3.5 persons per occupied home and 2 persons per apartment unit.

Cash and Investment Balances (unaudited as of February 25, 2019)

| | | |
|-----------------------|--------------------------------|------------------|
| Operating Fund | Cash and Temporary Investments | \$8,105,860 |
| Capital Projects Fund | Cash and Temporary Investments | \$1,067,912 |
| Debt Service Fund | Cash and Temporary Investments | \$10,740,801 (a) |

- (a) Neither Texas law nor the Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund.

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District are invested in short-term obligations of the U.S. Treasury and federal agencies, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own or intend to purchase long-term securities or derivative products.

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 information contained in "Texas Municipal Reports" published by the Municipal Advisory Council of Texas or other publicly available information. 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 such information as being accurate or complete. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance, and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

| Taxing Jurisdiction | Outstanding Bonds | As of | Overlapping | |
|---|----------------------|-----------|-------------|----------------|
| | | | Percent | Amount |
| Fort Bend County..... | \$ 593,424,527 | 1/31/2019 | 1.74% | \$ 10,325,587 |
| Fort Bend Independent School District..... | 1,000,633,767 | 1/31/2019 | 3.35% | 33,521,231 |
| Fort Bend County LID 15..... | 103,245,000 | 1/31/2019 | 77.49% | 80,004,551 |
| Total Estimated Overlapping Debt..... | | | | \$ 123,851,368 |
| The District..... | 90,815,000 (a) | Current | 100.00% | 90,815,000 |
| Total Direct and Estimated Overlapping Debt..... | | | | \$ 214,666,368 |
| Ratio of Estimated Direct and Overlapping Debt to the 2018 Certified Taxable Assessed Valuation..... | | | | 14.38% |
| Ratio of Estimated Direct and Overlapping Debt to the Estimated Taxable Assessed Valuation as of January 1, 2019..... | | | | 13.04% |

(a) Includes the Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes for 2018

| | Tax Rate per \$100 of Taxable <u>Assessed Valuation</u> |
|---|---|
| Fort Bend County (including Drainage District)..... | \$ 0.46400 |
| Fort Bend Independent School District..... | 1.32000 |
| Fort Bend County LID 15..... | 0.62000 |
| Total Overlapping Tax Rate..... | \$ 2.40400 |
| The District..... | 0.60000 |
| Total Tax Rate..... | \$ 3.00400 |

TAX DATA

Tax Collections

The following statement of tax collections set forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to such records for further and more complete information. Differences in totals may vary slightly from other information herein due to differences in dates of data.

| Tax Year | Taxable Assessed Valuation | Tax Rate | Total Tax Levy | Total Collections as of February 2, 2019 (a) | |
|----------|----------------------------|----------|----------------|--|---------|
| | | | | Amount | Percent |
| 2014 | \$ 354,215,393 | \$ 0.70 | \$ 2,479,508 | \$ 2,479,508 | 100.00% |
| 2015 | 701,596,391 | 0.70 | 4,911,175 | 4,910,758 | 99.99% |
| 2016 | 1,033,513,544 | 0.70 | 7,234,595 | 7,230,823 | 99.95% |
| 2017 | 1,314,007,923 | 0.65 | 8,541,052 | 8,528,068 | 99.85% |
| 2018 | 1,492,691,751 | 0.60 | 8,956,150 | 8,578,200 | 95.78% |

(a) Unaudited.

Tax Rate Distribution

| | 2018 | 2017 | 2016 | 2015 | 2014 |
|----------------------------|----------|----------|----------|----------|----------|
| Debt Service | \$ 0.450 | \$ 0.500 | \$ 0.580 | \$ 0.605 | \$ 0.600 |
| Maintenance and Operations | 0.150 | 0.150 | 0.120 | 0.095 | 0.100 |
| Total | \$ 0.600 | \$ 0.650 | \$ 0.700 | \$ 0.700 | \$ 0.700 |

Tax Rate Limitations

Debt Service: Unlimited (no legal limit as to rate or amount)
 Maintenance: \$1.00 per \$100 of taxable assessed valuation.

Debt Service Tax

The Board covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. The District levied a debt service tax for 2018 in the amount of \$0.45 per \$100 of taxable assessed valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by vote of the District's electors. Pursuant to an election held on May 12, 2007, the Board was authorized to levy such a maintenance tax in an amount not to exceed \$1.00 per \$100 of assessed valuation for levee and drainage facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal and interest on the District's bonds. For the 2018 tax year, the Board levied a maintenance tax in the amount of \$0.15 per \$100 assessed valuation.

Tax Exemptions

As discussed in the section titled "TAX PROCEDURES" herein, certain property in the District may be exempt from taxation by the District. For tax year 2019, the District has granted a \$40,000 tax exemption on residential homesteads for persons 65 years of age or older or disabled. The Developers have executed a Waiver of Special Appraisal, waiving its right to claim any agriculture or open space exemptions, or any other type of exemption or valuation, for the property it owns within the District that would reduce the assessed value of such land below its market value for purposes of ad valorem taxation by the District. Such waiver is binding for a period of thirty years.

Additional Penalties

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

Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the taxable assessed value of such property and such property’s certified assessed value as a percentage of the 2018 Certified Taxable Assessed Valuation of \$1,492,691,751, which represents certified ownership as of January 1, 2018. Differences in totals may vary slightly from other information herein due to differences in dates of data. A list of principal taxpayers based upon the Estimated Taxable Assessed Valuation as of January 1, 2019 is not available.

| <u>Taxpayer</u> | <u>Type of Property</u> | <u>2018 Certified Taxable Assessed Valuation</u> | <u>% of 2018 Certified Taxable Assessed Valuation</u> |
|-------------------------------|-------------------------------|--|---|
| CPR/AR Riverstone Owner LP | Land & Improvements | \$ 34,649,450 | 2.32% |
| The Retreat at Riverstone LLC | Land & Improvements | 27,567,320 | 1.85% |
| Taylor Morrison of Texas Inc | Land, Improvements & Personal | 10,077,330 | 0.68% |
| Riverstone Storage LP | Land & Improvements | 9,039,990 | 0.61% |
| Individual | Land & Improvements | 5,930,360 | 0.40% |
| Darling Homes of Texas | Land & Improvements | 4,697,460 | 0.31% |
| River LJ Properties LP | Land & Improvements | 4,100,000 | 0.27% |
| Meritage Homes of Texas | Land & Improvements | 4,021,410 | 0.27% |
| Individual | Land & Improvements | 3,282,440 | 0.22% |
| LJ Parkway LLC | Land & Improvements | 3,119,239 | 0.21% |
| Total | | \$ 106,484,999 | 7.13% |

Summary of Assessed Valuation

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAX PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of certified property comprising the 2016 through 2018 Certified Taxable Assessed Valuations. A breakdown of the Estimated Taxable Assessed Valuation as of January 1, 2019 is not included herein. Differences in totals may vary slightly from other information herein due to differences in dates of data.

| | <u>2018 Certified Taxable Assessed Valuation</u> | <u>2017 Certified Taxable Assessed Valuation</u> | <u>2016 Certified Taxable Assessed Valuation</u> |
|-------------------|--|--|--|
| Land | \$ 336,484,506 | \$ 308,185,846 | \$ 255,699,189 |
| Improvements | 1,185,904,725 | 1,029,602,407 | 798,363,260 |
| Personal Property | 6,258,195 | 5,193,440 | 4,827,360 |
| Exemptions | (35,955,675) | (28,973,770) | (25,376,265) |
| Total | <u>\$ 1,492,691,751</u> | <u>\$ 1,314,007,923</u> | <u>\$ 1,033,513,544</u> |

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2018 Certified Taxable Assessed Valuation of \$1,492,691,751 or the Estimated Taxable Assessed Valuation as of January 1, 2019 of \$1,645,815,037. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "INVESTMENT CONSIDERATIONS—Factors Affecting Taxable Values and Tax Payments."

| | |
|--|-------------|
| Average Annual Debt Service Requirement (2019-2041)..... | \$5,445,283 |
| \$0.39 Tax Rate on the 2018 Certified Taxable Assessed Valuation of \$1,492,691,751 at 95% collections produces..... | \$5,530,423 |
| \$0.35 Tax Rate on the Estimated Taxable Assessed Valuation as of January 1, 2019 of \$1,645,815,037 at 95% collections produces..... | \$5,472,335 |
| Maximum Annual Debt Service Requirement (2019)..... | \$6,833,760 |
| \$0.49 Tax Rate on the 2018 Certified Taxable Assessed Valuation of \$1,492,691,751 at 95% collections produces..... | \$6,948,480 |
| \$0.44 Tax Rate on the Estimated Taxable Assessed Valuation as of January 1, 2019 of \$1,645,815,037 at 95% collections produces..... | \$6,879,507 |

TAX PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the 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 Resolution to levy such a tax from year to year as described more fully herein under "THE BONDS—Source of and Security for Payment." Under Texas law, the Board may also levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations. See "TAX DATA."

Property Tax Code and County-Wide Appraisal District

Title I of the Texas 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 here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Fort Bend Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the "Appraisal Review Board").

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles.

In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approves it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 depending on the disability rating of the veteran. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who was entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, effective January 1, 2018, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces or, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

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

Freeport Goods and Goods-in-Transit Exemptions: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

Fort Bend County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Fort Bend County, the City and the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Generally, 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. In determining market value, either the replacement cost or the income or the market data method of valuation may be used, whichever is appropriate. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a landowner of qualified open-space land is a member of the U.S. armed forces, subject to certain conditions, the appraisal of the land as qualified open-space does not change while the landowner is deployed or stationed outside of Texas. 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 (3) years for agricultural use and taxes for the previous five (5) years for open space land and timberland.

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

The Texas Tax Code provides that the governing body of a taxing unit located within an area declared to be a disaster area by the governor of the State of Texas may authorize reappraisal of all property damaged in the disaster at its market value immediately after the disaster. For reappraised property, the taxes are pro-rated for the year in which the disaster occurred. The taxing unit assesses taxes prior to the date the disaster occurred based upon market value as of January 1 of that year. Beginning on the date of the disaster and for the remainder of the year, the taxing unit assesses taxes on the reappraised market value of the property.

District and Taxpayer Remedies

Under certain circumstances taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property value, appraisals which are higher than renditions, and appraisals of property not previously on an appraisal roll.

Levy and Collection of Taxes

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

date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property as of 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 each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of such other taxing units. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates 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 subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." 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 cost of suit and sale, 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 six (6) months for commercial property and two (2) years for residential and all other types of property 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. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. See "INVESTMENT CONSIDERATIONS—Tax Collection Limitations."

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WATER AND SEWER OPERATIONS

General

The Bonds and the Remaining Outstanding Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Surplus revenues, if any, of the District's general fund are not pledged to the payment of the Remaining Outstanding Bonds and the Bonds but are available for any lawful purpose including payment of debt service on the Remaining Outstanding Bonds and the Bonds, at the discretion and upon action of the Board. Land within the District is provided water and sewer service by the entities described in "THE SYSTEM." Consequently, the District's general fund is used primarily for administration.

Waterworks and Sewer System Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's General Fund. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Such summary is based upon information obtained from the audited financial statements for the fiscal years ended July 31, 2015 through July 31, 2018 and an unaudited summary from the District's bookkeeper for the period ended December 31, 2018. Reference is made to such records and statements for further and more complete information.

| | 8/1/2018 to 12/31/2018 (a) | Fiscal Year Ended July 31 | | | |
|---|-------------------------------|---------------------------|---------------------|---------------------|---------------------|
| | | 2018 | 2017 | 2016 | 2015 |
| Revenues | | | | | |
| Water Service | \$ 345,480 | \$ 852,415 | \$ 704,640 | \$ 581,267 | \$ 401,054 |
| Sewer Service | 668,381 | 1,666,571 | 1,467,483 | 1,192,763 | 794,815 |
| Fire Service | 297,822 | 635,454 | 511,473 | 415,752 | 267,746 |
| Property Taxes | 500,000 | 1,968,594 | 1,234,945 | 665,310 | 352,439 |
| Penalty and Interest | 20,379 | 41,407 | 31,761 | 24,683 | 22,542 |
| Tap Connection and Inspection Fees | 197,281 | 740,274 | 771,673 | 684,281 | 841,653 |
| Surface Water Conversion | 411,797 | 1,098,237 | 954,218 | 842,859 | 580,799 |
| Miscellaneous | 8,748 | 35,468 | 41,198 | 42,694 | 44,096 |
| Investment Revenues | 56,007 | 73,198 | 14,383 | 3,626 | 1,497 |
| Total Revenues | \$ 2,505,895 | \$ 7,111,618 | \$ 5,731,774 | \$ 4,453,235 | \$ 3,306,641 |
| Expenditures | | | | | |
| Purchased Services | \$ 483,691 | \$ 1,225,279 | \$ 1,084,146 | \$ 788,226 | \$ 503,973 |
| Professional Fees | 53,712 | 163,770 | 199,834 | 194,398 | 107,383 |
| Contracted Services | 660,956 | 1,826,874 | 1,580,714 | 1,345,864 | 1,079,840 |
| Repairs and Maintenance | 214,280 | 333,469 | 218,442 | 317,488 | 429,986 |
| Utilities | 2,244 | 16,891 | 11,921 | 17,298 | 11,594 |
| Surface Water Conversion | 347,583 | 892,282 | 803,621 | 850,113 | 571,288 |
| Administrative Expenses | 25,216 | 74,489 | 68,525 | 57,923 | 54,334 |
| Other | 26,907 | 31,876 | 32,185 | 35,014 | 30,278 |
| Total Expenditures | \$ 1,814,589 | \$ 4,564,930 | \$ 3,999,388 | \$ 3,606,324 | \$ 2,788,676 |
| Revenues Over (Under) Expenditures | \$ 691,306 | \$ 2,546,688 | \$ 1,732,386 | \$ 846,911 | \$ 517,965 |
| Other Sources (Interfund Transfer) | \$ - | \$ - | \$ - | \$ - | \$ - |
| Fund Balance (Beginning of Year) | \$ 6,641,033 | \$ 4,094,345 | \$ 2,361,959 | \$ 1,515,048 | \$ 997,083 |
| Fund Balance (End of Year) | \$ 7,332,339 | \$ 6,641,033 | \$ 4,094,345 | \$ 2,361,959 | \$ 1,515,048 |

(a) Unaudited. Provided by the District's Bookkeeper.

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not obligations of the State of Texas, Fort Bend County, the City of Sugar Land, or any other political entity other than the District, will be secured by a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, on all taxable property within the District. The ultimate security for payment of the 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.

Recent Extreme Weather: Hurricane Harvey

The greater Houston area is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced three storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, the most recent of which was Hurricane Harvey which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the District’s Operator, the District’s System sustained no material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. According to the District’s Operator and Engineer, approximately 12 homes within the District experienced flooding or other material damage. Such damage was likely caused by rainfall accumulation in excess of design criteria required for the District’s storm water conveyance system. See “THE SYSTEM—Flood Protection.”

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

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

Specific Flood Type Risks

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

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

Flood Protection. All of the land within the boundaries of the District is protected from the Brazos River flood plain by levees constructed and maintained by LID 15. Based upon the current Flood Insurance Rate Map panel dated April 2, 2014, Flood Insurance Rate Maps of Federal Emergency Management Agency (“FEMA”), all of the developable land within the District has been removed from the 100-year floodplain of the Brazos River.

Flooding Due to Levee Breach or Overtopping. According to LID 15's engineer, at the time of construction LID 15's levee and drainage system were reviewed and approved by all entities with regulatory jurisdiction over the system. However, the levee system does not protect against all flooding scenarios. There are at least four instances in which flooding could occur in the District: 1) an overtopping of the levee, 2) a failure (or breach) of the levee system, (3) rainfall in excess of what the drainage system is designed for, or (4) failure of stormwater pumping facilities during coincident river events.

LID 15's levee system is part of a regional perimeter levee system that protects approximately 12,142 acres of property in Fort Bend County. The District, together with 7 other levee improvement districts and municipal utility districts, has entered into an agreement relating to the operation and maintenance of the perimeter levee system to ensure that all participants have constructed and maintain their individual levee systems to meet applicable federal, state and local criteria for flood protection. An overtopping or failure (or breach) of any participant's levee system could result in regionalized flooding for all or part of the area protected by the perimeter levee system.

An overtopping of the levee could occur if the Brazos River or its tributaries reach flood stages higher than the 100-year event. The "100-year event" means the river elevation which has a statistical 1% chance of occurring in any given year. Current FEMA regulations require an earthen levee to be constructed a minimum of three feet above the level of a 100-year event.

In addition to the risk of overtopping, a portion of the District would experience flooding if the levee failed (or breached) while the Brazos River (or its tributaries) were at flood state of less than the 100-year event. To mitigate the risk, LID 15's performs weekly inspections of the levee to observe any visible deterioration of the levee that is in need to repair.

There are three pump stations currently or proposed to serve three separate watersheds within LID 15. The pump station serving the Steep Bank Creek watershed is jointly owned and operated by Fort Bend County Levee Improvement District No. 19 ("LID 19") and LID 15. According to an independent engineer engaged by LID 19 to perform a study following Hurricane Harvey, the firm pumping capacity at this pump station may be insufficient to provide stormwater drainage from a portion of LID 15 during a coincident river event. To address such shortfall LID 15 and LID 19 have, on an interim basis, acquired portable trailer mounted pumps and, on a long term basis, determined to design and construct additional pumping capacity at this pump station.

The design of the levee and pump station systems are subject to regulations set forth by the Fort Bend County Drainage District ("FBCDD"). The current FBCDD regulations are based on previously published rainfall data by the National Weather Service in 1961 (TP-40). Since the publication of TP-40, the National Oceanic and Atmospheric Administration in September 2018 published new rainfall data for Texas in its Atlas 14, Volume 11, report (Atlas 14). Under Atlas 14, increased rainfall frequency values may require additional drainage improvements to meet FBCDD infrastructure design requirements and floodplain regulations. At this time, FBCDD has not formally adopted Atlas 14 in its regulatory requirements, but it is anticipated that such adoption may be forthcoming. If adopted, LID 15 may evaluate its current drainage systems and chose to expand or improve its facilities to be more resilient under the new rainfall data; however, there are no current requirements that existing infrastructure be modified or improved. LID 15 has no cost estimates for such improvements.

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and developed lots, multifamily developments, and commercial developments. The market value of such properties is related to general economic conditions in Houston, the State of Texas and the nation and those conditions can affect the demand for such properties. Demand for residential lots of this type and the construction thereon can be significantly affected by factors such as interest rates, credit availability (see "Credit Market and Liquidity in the Financial Markets") below, construction costs, and the prosperity and demographic characteristics of the urban center toward which the marketing of such properties is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 21 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth of the District's property tax base or reduce it from current levels.

Competition

The demand for and construction of single-family homes in the District, which is approximately 21 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the southwestern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the builders in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects 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.

Landowner Obligation to the District

There are no commitments from or obligations of the Developers or any landowner to the District to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds, taxable property within the District will increase or maintain its taxable value.

Overlapping Taxes

All of the land within the District is also located within and is provided flood protection by Fort Bend County Levee Improvement District No. 15 ("LID 15"). The debt service on bonds to be issued by LID 15 is paid from ad valorem taxes levied by LID 15, which taxes are in addition to the taxes levied by the District. To compare the relative tax burden on property within the District as contrasted with property located in other real estate developments, the tax rate of the District, LID 15 and other taxing jurisdictions must be combined, LID 15 levied a 2018 tax rate of \$0.62 per \$100 assessed valuation. The combined tax rate on the property in the District is higher than the combined tax rate presently being levied on property in the general vicinity of the District. See "ESTIMATED OVERLAPPING DEBT STATEMENT—Overlapping Tax Rates for 2018." The District can make no representation that taxable property values in the District will maintain value sufficient to support the continued payment of taxes by property owners. It is anticipated that LID 15 will issue bonds over the foreseeable future to reimburse the developers of land in its boundaries for the costs of LID 15 facilities currently being constructed as well as facilities to be constructed in the future. See "FINANCIAL STATEMENT" and "TAX DATA—Tax Adequacy for Debt Service."

Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of District property owners to pay their ad valorem taxes. The 2018 Certified Taxable Assessed Valuation of the District is \$1,492,691,751 and the Estimated Taxable Assessed Valuation as of January 1, 2019 of the District is \$1,645,815,037. See "FINANCIAL STATEMENT." After issuance of the Bonds, the maximum annual debt service requirement will be \$6,833,760 (2019) and the average annual debt service requirement will be \$5,445,283 (2019-2041). Assuming no increase or decrease from the 2018 Certified Taxable Assessed Valuation or the Estimated Taxable Assessed Valuation as of January 1, 2019 and no use of funds other than tax collections, a tax rate of \$0.49 and \$0.44 per \$100 assessed valuation, respectively, at a 95% collection rate would be necessary to pay the maximum annual debt service requirement of \$6,833,760 and a tax rate of \$0.39 and \$0.35 per \$100 assessed valuation, respectively, at a 95% collection rate would be necessary to pay the average annual debt service requirement of \$5,445,283. See "DEBT SERVICE REQUIREMENTS." Although calculations have been made regarding average and maximum tax rates necessary to pay the debt service on the Bonds and the Remaining Outstanding Bonds based upon the 2018 Certified Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of January 1, 2019, the District can make no representations regarding the future level of assessed valuation within the District. Increases in the tax rate may be required in the event major taxpayers do not pay their District taxes timely. See "TAX PROCEDURES" and "TAX DATA—Tax Adequacy for Debt Service."

Future Debt

Following issuance of the Bonds, the District will have \$24,770,000 principal amount of unlimited tax bonds authorized but unissued for purposes of acquiring or constructing water, sanitary sewer, and drainage facilities and refunding of such bonds. See "THE BONDS—Issuance of Additional Debt" and "THE SYSTEM." The issuance of such future obligations may adversely affect the investment security of the Bonds. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. Any bonds issued by the District to acquire or construct water, sanitary sewer and drainage facilities must be approved by the Commission.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by market conditions limiting the proceeds from a foreclosure sale of taxable property and collection procedures. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. The costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid. See "TAX PROCEDURES—District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies and Bankruptcy Limitations

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, if it fails to make payments into any fund or funds created in the Bond Resolution, or if it defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the statutory right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. 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 is (1) authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts 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 Texas law and remains unable to meet its debts and other obligations as they mature.

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

If 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 Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating the collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district.

The District may not be placed into bankruptcy involuntarily.

Environmental and Air Quality Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the Texas Commission on Environmental Quality (the “TCEQ”) may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston Galveston area (“HGB area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”)) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (“the 1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (“the 2015 Ozone Standard”). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

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

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

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

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

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) 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 issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. 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, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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.

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 suspending 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 states not otherwise subject to the injunction relief. 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.

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income for federal income tax purposes of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Resolution on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “TAX MATTERS.”

Marketability

The District has no agreement 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 of 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 generally bought, sold or traded in the secondary market.

Changes in Tax Legislation

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

2019 Legislative Session

The 86th Regular Legislative Session convened on January 8, 2019, and will conclude on May 27, 2019. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, including rollback elections for maintenance tax increases, and other matters which could adversely affect the marketability or market value of the Bonds. The Governor of Texas has declared property tax reform as an emergency item for the legislative session, with the result that any property tax reform legislation may become effective within the first 60 days of the legislative session. In addition, the Governor may call one or more additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has entered into an agreement with BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the Insurer and its claim paying ability. The 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 Insurer and of the ratings on the Bonds insured by the 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 RATING” and “MUNICIPAL BOND INSURANCE.”

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

LEGAL MATTERS

Legal Proceedings

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “PLAN OF FINANCING—Payment of Refunded Bonds,” “THE BONDS,” “THE DISTRICT—General,” “TAX PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

In the opinion of the Muller Law Group PLLC, Bond Counsel (“Bond Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Bond Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The District has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Bond Counsel's attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner's federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner's other items of income or deduction. Bond Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislative proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Bond Counsel is expected to express no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the District or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The District has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the District or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the District and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the District legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the District or the Beneficial Owners to incur significant expense.

Not Qualified Tax-Exempt Obligations

The Bonds will not be designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody's Investors Service ("Moody's") has assigned an underlying credit rating of "A1" to the Bonds without regard to credit enhancement. An explanation of the rating may be obtained from Moody's.

There is no assurance that such ratings will continue for any given period of time or that they will not be revised or withdrawn entirely by S&P or Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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. 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 December 31, 2018 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$526 million, \$113 million and \$414 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, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM’s analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM’s website at buildamerica.com/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/. 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.

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a bond purchase agreement with the District (the "Bond Purchase Agreement") at a price of \$2,491,816.81 (representing the par amount of the Bonds of \$2,530,000, less a net discount on the Bonds of \$11,430.75, less an Underwriter's discount of \$26,752.44) plus accrued interest. The Underwriter's obligation is to purchase all of the Bonds, if any are purchased. See "PLAN OF FINANCING—Sources and Uses of Funds."

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 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 municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission (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 and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification 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.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the mathematical computations of the adequacy of the funds deposited with the Paying Agent for the Refunded Bonds, to pay, when due, the maturing principal of, interest on and related call premium requirements, if any, of the Refunded Bonds and (b) the mathematical computations of yield used by Bond Counsel to support its opinion that interest on the Bonds will be excluded from gross income for federal income tax purposes.

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the District's records, the Developers, the Engineer, the Tax Assessor/Collector, the Appraisal District and information from certain other sources. All of these sources are believed to be reliable, but no guarantee is made by the District as to the accuracy or completeness of the information derived from sources other than the District, and its inclusion herein is not to be construed as a representation on the part of the District except as described below under "Certification of Official Statement." Furthermore, there is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, including the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this Official Statement. In addition to compiling and editing, the Financial Advisor has obtained the information set forth herein under the caption indicated from the following sources:

"THE DISTRICT" – the Developers, Costello, Inc. ("Engineer"), and Records of the District ("Records");
"THE DEVELOPERS" – the Developers; "THE SYSTEM" – Engineer; "UNLIMITED TAX BONDS AUTHORIZED BUT UNISSUED" - Records; "FINANCIAL STATEMENT" - Fort Bend Central Appraisal District, Tax Assessor/Collector; "ESTIMATED OVERLAPPING DEBT STATEMENT" - Municipal Advisory Council of Texas and Financial Advisor; "TAX DATA" - Tax Tech, Inc.; "MANAGEMENT" - District Directors; "DEBT SERVICE REQUIREMENTS" - Financial Advisor; "THE BONDS," "TAX PROCEDURES," "LEGAL MATTERS," and "TAX MATTERS" – The Muller Law Group, PLLC

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to the District and, if applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

Engineer: The information contained in this Official Statement relating to engineering matters and to the description of the flood protection and in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Costello, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Appraisal District: The information contained in this Official Statement relating to the assessed valuations has been provided by the Fort Bend Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Fort Bend County, including the District.

Tax Assessor Collector: The information contained in this Official Statement relating to the historical breakdown of the Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Tax Tech, Inc., and is included herein in reliance upon his authority as an expert in assessing and collecting taxes.

Auditor: The District's audited financial statements for the year ended July 31, 2018 and the independent auditor's report of McGrath & Co., PLLC, have been included herein as "APPENDIX A."

Bookkeeper: The information related to the "unaudited" summary of the District's Waterworks and Sewer System Operating Statement as it appears in "WATER AND SEWER OPERATIONS" has been provided by Municipal Accounts & Consulting, LP and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating of Official Statement

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

Certification of Official Statement

The District, acting through its Board in its official capacity and in reliance upon the experts listed above, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this Official Statement other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the registered 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 (the "MSRB"), or any successor to its functions as a repository through its Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings "THE SYSTEM," "FINANCIAL STATEMENT," "TAX DATA," "WATER AND SEWER OPERATIONS," "DEBT SERVICE REQUIREMENTS," and "APPENDIX A" (Annual Financial Report and supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2019. Any financial statements so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit of such financial statements is not complete within such period, then the District will provide unaudited financial statements, and audited financial statements when and if such audited financial statements become available.

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

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c2-12 (the “Rule”); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or any obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or any obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or any obligated person, any of which reflect financial difficulties. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified 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 or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

During the last five years, the District has no known failures to comply in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

All estimates, statements and assumptions in this Official Statement and the Appendix hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this Official Statement involving matters of opinion or estimates, whether or not expressly so stated, are intended as such and not as representations of fact, and no representation is made that any such statements will be realized.

This Official Statement was approved by the Board of Directors of Fort Bend County Municipal Utility District No. 128, as of the date shown on the cover page.

/s/ Michael Cabiro
President, Board of Directors

ATTEST:

/s/ Jeff Hogan
Secretary, Board of Directors

APPENDIX A

District Audited Financial Statements for the fiscal year ended July 31, 2018

**FORT BEND COUNTY MUNICIPAL
UTILITY DISTRICT NO. 128**

FORT BEND COUNTY, TEXAS

FINANCIAL REPORT

July 31, 2018

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Fort Bend County Municipal Utility District No. 128
Fort Bend County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 128, as of and for the year ended July 31, 2018, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

***Board of Directors
Fort Bend County Municipal Utility District No. 128
Fort Bend County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fort Bend County Municipal Utility District No. 128, as of July 31, 2018, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

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

Houston, Texas
November 27, 2018

Management's Discussion and Analysis

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***Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018***

Using this Annual Report

Within this section of the financial report of Fort Bend County Municipal Utility District No. 128 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended July 31, 2018. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at July 31, 2018, was negative \$4,418,880. A comparative summary of the District's overall financial position, as of July 31, 2018 and 2017, is as follows:

| | 2018 | 2017 |
|----------------------------------|-----------------------|-----------------------|
| Current and other assets | \$ 19,633,425 | \$ 14,900,205 |
| Capital assets | 70,447,348 | 65,630,405 |
| Total assets | <u>90,080,773</u> | <u>80,530,610</u> |
| Current liabilities | 12,376,203 | 14,497,118 |
| Long-term liabilities | 82,123,450 | 73,533,275 |
| Total liabilities | <u>94,499,653</u> | <u>88,030,393</u> |
| Net position | | |
| Net investment in capital assets | (16,166,197) | (14,108,253) |
| Restricted | 9,615,059 | 7,815,246 |
| Unrestricted | 2,132,258 | (1,206,776) |
| Total net position | <u>\$ (4,418,880)</u> | <u>\$ (7,499,783)</u> |

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

The total net position of the District increased during the current fiscal year by \$3,080,903. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

| | <u>2018</u> | <u>2017</u> |
|--|-----------------------|-----------------------|
| Revenues | | |
| Property taxes, penalties and interest | \$ 8,633,031 | \$ 7,316,642 |
| Water and sewer service | 2,518,986 | 2,172,123 |
| Tap connection and inspection | 740,274 | 771,673 |
| Other | 1,974,742 | 1,566,714 |
| Total revenues | <u>13,867,033</u> | <u>11,827,152</u> |
| Expenses | | |
| Current service operations | 4,697,251 | 4,231,540 |
| Interest and fees | 2,512,420 | 2,146,154 |
| Developer interest | 1,113,285 | 918,299 |
| Debt issuance costs | 975,754 | 1,594,194 |
| Depreciation and amortization | 2,124,676 | 1,863,710 |
| Total expenses | <u>11,423,386</u> | <u>10,753,897</u> |
| Change in net position before other item | 2,443,647 | 1,073,255 |
| Other item | | |
| Change in estimate of due to developer | 637,256 | |
| Transfers to other governments | | (629,367) |
| Change in net position | 3,080,903 | 443,888 |
| Net position, beginning of year | (7,499,783) | (7,943,671) |
| Net position, end of year | <u>\$ (4,418,880)</u> | <u>\$ (7,499,783)</u> |

Financial Analysis of the District's Funds

The District's combined fund balances, as of July 31, 2018, were \$19,024,032, which consists of \$6,641,033 in the General Fund, \$10,627,950 in the Debt Service Fund and \$1,755,049 in the Capital Projects Fund.

***Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018***

General Fund

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

| | 2018 | 2017 |
|--|---------------------|---------------------|
| Total assets | <u>\$ 7,149,027</u> | <u>\$ 4,205,048</u> |
| Total liabilities | \$ 496,421 | \$ 101,662 |
| Total deferred inflows | 11,573 | 9,041 |
| Total fund balance | <u>6,641,033</u> | <u>4,094,345</u> |
| Total liabilities, deferred inflows and fund balance | <u>\$ 7,149,027</u> | <u>\$ 4,205,048</u> |

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

| | 2018 | 2017 |
|----------------------------|---------------------|---------------------|
| Total revenues | \$ 7,111,618 | \$ 5,731,774 |
| Total expenditures | <u>(4,564,930)</u> | <u>(3,999,388)</u> |
| Revenues over expenditures | <u>\$ 2,546,688</u> | <u>\$ 1,732,386</u> |

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

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because the District increased the maintenance and operations component of the levy and because assessed values increased from prior year.
- Water, sewer and surface water revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Revenues from providing fire protection services are based on the number of connections in the District and increases as the number of connections increases.
- Tap connection fees fluctuate with homebuilding activity within the District.

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

Debt Service Fund

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

| | 2018 | 2017 |
|--|----------------------|---------------------|
| Total assets | <u>\$ 10,729,066</u> | <u>\$ 8,695,415</u> |
| Total liabilities | \$ 44,088 | \$ 3,181 |
| Total deferred inflows | 57,028 | 57,974 |
| Total fund balance | <u>10,627,950</u> | <u>8,634,260</u> |
| Total liabilities, deferred inflows and fund balance | <u>\$ 10,729,066</u> | <u>\$ 8,695,415</u> |

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

| | 2018 | 2017 |
|----------------------------|---------------------|---------------------|
| Total revenues | \$ 6,731,693 | \$ 6,105,138 |
| Total expenditures | <u>(4,738,003)</u> | <u>(3,143,283)</u> |
| Revenues over expenditures | <u>\$ 1,993,690</u> | <u>\$ 2,961,855</u> |

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

Capital Projects Fund

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

| | 2018 | 2017 |
|------------------------------------|---------------------|---------------------|
| Total assets | <u>\$ 1,755,332</u> | <u>\$ 1,999,742</u> |
| Total liabilities | \$ 283 | \$ 708 |
| Total fund balance | <u>1,755,049</u> | <u>1,999,034</u> |
| Total liabilities and fund balance | <u>\$ 1,755,332</u> | <u>\$ 1,999,742</u> |

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

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

| | <u>2018</u> | <u>2017</u> |
|-------------------------------|---------------------|---------------------|
| Total revenues | \$ 22,135 | \$ 9,404 |
| Total expenditures | <u>(14,116,120)</u> | <u>(20,218,293)</u> |
| Revenues under expenditures | (14,093,985) | (20,208,889) |
| Other changes in fund balance | <u>13,850,000</u> | <u>21,650,000</u> |
| Net change in fund balance | <u>\$ (243,985)</u> | <u>\$ 1,441,111</u> |

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its \$17,450,000 Series 2017 Unlimited Tax Bonds and \$7,450,000 Series 2018 Bond Anticipation Note in the current year and issuance of its \$26,650,000 Series 2016 Unlimited Tax Bonds and \$11,050,000 Series 2017 Bond Anticipation Note in the prior year.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$2,042,472 greater than budgeted. The *Budgetary Comparison Schedule* on page 36 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

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

| | <u>2018</u> | <u>2017</u> |
|--|----------------------|----------------------|
| Capital assets not being depreciated | | |
| Land and improvements | \$ 30,312 | \$ 30,312 |
| Capital assets being depreciated/amortized | | |
| Infrastructure | 60,311,534 | 57,963,126 |
| Capital connection fees | 18,749,789 | 14,156,578 |
| | <u>79,061,323</u> | <u>72,119,704</u> |
| Less accumulated depreciation/amortization | | |
| Infrastructure | (6,371,245) | (5,030,989) |
| Capital connection fees | (2,273,042) | (1,488,622) |
| | <u>(8,644,287)</u> | <u>(6,519,611)</u> |
| Depreciable capital assets, net | <u>70,417,036</u> | <u>65,600,093</u> |
| Capital assets, net | <u>\$ 70,447,348</u> | <u>\$ 65,630,405</u> |

Capital asset additions during the current year include the following:

- Avalon at Riverstone Section 12C – water, sewer and drainage improvements
- Avalon at Riverstone Section 18B – water, sewer and drainage improvements
- Cabrera Drive (University to LJ Parkway) – water, sewer and drainage improvements

Long-Term Debt and Related Liabilities

As of July 31, 2018, the District owes \$3,807,786 to developers for completed projects. As discussed in Note 7, the District has an additional commitment in the amount of \$1,718,465 for projects under construction by the developers. As previously mentioned, the District will owe its developers for these projects upon completion of construction, at which time the capital assets and related liability will be recorded on the District's financial statements. The District intends to reimburse the developers from proceeds of future bond issues.

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

| <u>Series</u> | <u>2018</u> | <u>2017</u> |
|---------------|----------------------|----------------------|
| 2010 | \$ 2,570,000 | \$ 2,660,000 |
| 2013 | 3,350,000 | 3,500,000 |
| 2014 | 13,180,000 | 13,545,000 |
| 2015 | 20,435,000 | 21,110,000 |
| 2016 | 25,525,000 | 26,650,000 |
| 2017 | 17,450,000 | |
| | <u>\$ 82,510,000</u> | <u>\$ 67,465,000</u> |

Fort Bend County Municipal Utility District No. 128
Management's Discussion and Analysis
July 31, 2018

During the year, the District issued \$17,450,000 in unlimited tax bonds. At July 31, 2018, the District had \$36,375,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and \$0 for refunding purposes.

During the year, the District issued a \$7,450,000 bond anticipation note (BAN) to provide short term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

Next Year's Budget

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

| | <u>2018 Actual</u> | <u>2019 Budget</u> |
|----------------------------|---------------------|---------------------|
| Total revenues | \$ 7,111,618 | \$ 7,210,674 |
| Total expenditures | <u>(4,564,930)</u> | <u>(4,736,613)</u> |
| Revenues over expenditures | 2,546,688 | 2,474,061 |
| Beginning fund balance | 4,094,345 | 6,641,033 |
| Ending fund balance | <u>\$ 6,641,033</u> | <u>\$ 9,115,094</u> |

Property Taxes

The District's property tax base increased approximately \$175,729,000 for the 2018 tax year from \$1,314,074,591 to \$1,489,804,007. This increase was primarily due to new construction in the District and increased property values. For the 2018 tax year, the District has levied a maintenance tax rate of \$0.15 per \$100 of assessed value and a debt service tax rate of \$0.45 per \$100 of assessed value, for a total combined tax rate of \$0.60 per \$100. Tax rates for the 2017 tax year were \$0.15 per \$100 for maintenance and operations and \$0.50 per \$100 for debt service for a combined total of \$0.65 per \$100 of assessed value.

Basic Financial Statements

Fort Bend County Municipal Utility District No. 128
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|----------------------|-----------------------|------------------------------|
| Assets | | | | | | |
| Cash | \$ 630,310 | \$ 90,734 | \$ 12,816 | \$ 733,860 | \$ - | \$ 733,860 |
| Investments | 5,910,504 | 10,581,097 | 1,781,376 | 18,272,977 | | 18,272,977 |
| Taxes receivable | 11,573 | 57,028 | | 68,601 | | 68,601 |
| Customer service receivables, net | 523,655 | | | 523,655 | | 523,655 |
| Prepaid items | 29,091 | | | 29,091 | | 29,091 |
| Internal balances | 38,653 | 207 | (38,860) | | | |
| Other receivables | 5,241 | | | 5,241 | | 5,241 |
| Capital assets not being depreciated | | | | | 30,312 | 30,312 |
| Capital assets, net | | | | | 70,417,036 | 70,417,036 |
| Total Assets | \$ 7,149,027 | \$ 10,729,066 | \$ 1,755,332 | \$ 19,633,425 | 70,447,348 | 90,080,773 |
| Liabilities | | | | | | |
| Accounts payable | \$ 477,496 | \$ - | \$ 283 | \$ 477,779 | | 477,779 |
| Other payables | | 3,120 | | 3,120 | | 3,120 |
| Customer deposits | 10,950 | | | 10,950 | | 10,950 |
| Unearned revenue | 7,975 | 40,968 | | 48,943 | | 48,943 |
| Accrued interest payable | | | | | 1,085,411 | 1,085,411 |
| Bond anticipation note payable | | | | | 7,450,000 | 7,450,000 |
| Due to developers | | | | | 3,807,786 | 3,807,786 |
| Long-term debt | | | | | | |
| Due within one year | | | | | 3,300,000 | 3,300,000 |
| Due after one year | | | | | 78,315,664 | 78,315,664 |
| Total Liabilities | 496,421 | 44,088 | 283 | 540,792 | 93,958,861 | 94,499,653 |
| Deferred Inflows of Resources | | | | | | |
| Deferred property taxes | 11,573 | 57,028 | | 68,601 | (68,601) | |
| Fund Balances/Net Position | | | | | | |
| Fund Balances | | | | | | |
| Nonspendable | 29,091 | | | 29,091 | (29,091) | |
| Restricted | | 10,627,950 | 1,755,049 | 12,382,999 | (12,382,999) | |
| Unassigned | 6,611,942 | | | 6,611,942 | (6,611,942) | |
| Total Fund Balances | 6,641,033 | 10,627,950 | 1,755,049 | 19,024,032 | (19,024,032) | |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 7,149,027 | \$ 10,729,066 | \$ 1,755,332 | \$ 19,633,425 | | |
| Net Position | | | | | | |
| Net investment in capital assets | | | | | (16,166,197) | (16,166,197) |
| Restricted for debt service | | | | | 9,615,059 | 9,615,059 |
| Unrestricted | | | | | 2,132,258 | 2,132,258 |
| Total Net Position | | | | | \$ (4,418,880) | \$ (4,418,880) |

See notes to basic financial statements.

Fort Bend County Municipal Utility District No. 128

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

For the Year Ended July 31, 2018

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|---|---------------------|-------------------------|-----------------------------|----------------------|------------------------|----------------------------|
| Revenues | | | | | | |
| Water service | \$ 852,415 | \$ - | \$ - | \$ 852,415 | \$ - | \$ 852,415 |
| Sewer service | 1,666,571 | | | 1,666,571 | | 1,666,571 |
| Fire service | 635,454 | | | 635,454 | | 635,454 |
| Property taxes | 1,968,594 | 6,572,923 | | 8,541,517 | 232 | 8,541,749 |
| Penalties and interest | 41,407 | 48,520 | | 89,927 | 1,355 | 91,282 |
| Tap connection and inspection | 740,274 | | | 740,274 | | 740,274 |
| Surface water | 1,098,237 | | | 1,098,237 | | 1,098,237 |
| Miscellaneous | 35,468 | | | 35,468 | | 35,468 |
| Investment earnings | 73,198 | 110,250 | 22,135 | 205,583 | | 205,583 |
| Total Revenues | 7,111,618 | 6,731,693 | 22,135 | 13,865,446 | 1,587 | 13,867,033 |
| Expenditures/Expenses | | | | | | |
| Current service operations | | | | | | |
| Purchased services | 1,225,279 | | | 1,225,279 | | 1,225,279 |
| Professional fees | 163,770 | | 11,716 | 175,486 | | 175,486 |
| Contracted services | 1,826,874 | 104,018 | | 1,930,892 | | 1,930,892 |
| Repairs and maintenance | 333,469 | | | 333,469 | | 333,469 |
| Utilities | 16,891 | | | 16,891 | | 16,891 |
| Surface water fees | 892,282 | | | 892,282 | | 892,282 |
| Administrative | 74,489 | 16,536 | | 91,025 | | 91,025 |
| Other | 31,876 | | 51 | 31,927 | | 31,927 |
| Capital outlay | | | 11,906,812 | 11,906,812 | (11,906,812) | |
| Debt service | | | | | | |
| Principal | | 2,405,000 | | 2,405,000 | (2,405,000) | |
| Interest and fees | | 2,212,449 | 108,502 | 2,320,951 | 191,469 | 2,512,420 |
| Developer interest | | | 1,113,285 | 1,113,285 | | 1,113,285 |
| Debt issuance costs | | | 975,754 | 975,754 | | 975,754 |
| Depreciation and amortization | | | | | 2,124,676 | 2,124,676 |
| Total Expenditures/Expenses | 4,564,930 | 4,738,003 | 14,116,120 | 23,419,053 | (11,995,667) | 11,423,386 |
| Revenues Over (Under) | | | | | | |
| Expenditures/Expenses | 2,546,688 | 1,993,690 | (14,093,985) | (9,553,607) | 11,997,254 | 2,443,647 |
| Other Financing Sources/(Uses) | | | | | | |
| Proceeds from sale of bonds | | | 17,450,000 | 17,450,000 | (17,450,000) | |
| Bond anticipation note proceeds | | | 7,450,000 | 7,450,000 | (7,450,000) | |
| Repayment of bond anticipation note | | | (11,050,000) | (11,050,000) | 11,050,000 | |
| Other Item | | | | | | |
| Change in estimate of due to developers | | | | | | 637,256 |
| Net Change in Fund Balances | 2,546,688 | 1,993,690 | (243,985) | 4,296,393 | (4,296,393) | |
| Change in Net Position | | | | | 3,080,903 | 3,080,903 |
| Fund Balance/Net Position | | | | | | |
| Beginning of the year | 4,094,345 | 8,634,260 | 1,999,034 | 14,727,639 | (22,227,422) | (7,499,783) |
| End of the year | \$ 6,641,033 | \$ 10,627,950 | \$ 1,755,049 | \$ 19,024,032 | \$ (23,442,912) | \$ (4,418,880) |

See notes to basic financial statements.

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Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Fort Bend County Municipal Utility District No. 128 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board. The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated January 17, 2006 and operates in accordance with the Texas Water Code, Chapters 49 and 54 and other general laws of the State of Texas. The Board of Directors held its first meeting on July 20, 2006 and the first bonds were sold on November 23, 2010.

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Note 1 – Summary of Significant Accounting Policies (continued)

Prepaid Items

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At July 31, 2018, an allowance of \$26,700 was provided for possible uncollectible water/sewer accounts. An allowance for uncollectible property taxes was not considered necessary.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities and capital connection fees paid to the City of Sugar Land, are depreciated or amortized using the straight-line method as follows:

| Assets | Useful Life |
|-------------------------|----------------------------|
| Infrastructure | 45 years |
| Capital connection fees | Remaining life of contract |

Deferred Inflows and Outflows of Financial Resources

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

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources (continued)

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

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District’s nonspendable fund balance consists of prepaid items.

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

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

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

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis

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

| | | |
|--|----|------------|
| Total fund balance, governmental funds | \$ | 19,024,032 |
|--|----|------------|

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

| | | |
|--|--------------------|------------|
| Historical cost | \$ 79,091,635 | |
| Less accumulated depreciation/amortization | <u>(8,644,287)</u> | |
| Change due to capital assets | | 70,447,348 |

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:

| | | |
|--------------------------------|--------------------|--------------|
| Bonds payable, net | (81,615,664) | |
| Bond anticipation note payable | (7,450,000) | |
| Interest payable on bonds | <u>(1,085,411)</u> | |
| Change due to long-term debt | | (90,151,075) |

| | | |
|---|--|-------------|
| Amounts due to the District's developers for prefunded construction are recorded as a liability in the <i>Statement of Net Position</i> . | | (3,807,786) |
|---|--|-------------|

Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

| | | |
|---------------------------------|---------------|--------|
| Property taxes receivable | 55,601 | |
| Penalty and interest receivable | <u>13,000</u> | |
| Change due to property taxes | | 68,601 |

| | | |
|--|--|------------------------------|
| Total net position - governmental activities | | <u><u>\$ (4,418,880)</u></u> |
|--|--|------------------------------|

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

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

| | | |
|--|--------------------|----------------------------|
| | \$ | 4,296,393 |
| Net change in fund balances - total governmental funds | | |
| <p>Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.</p> | | |
| | | 1,587 |
| <p>Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the <i>Statement of Activities</i>, the cost of capital assets is charged to expense over the estimated useful life of the asset.</p> | | |
| Capital outlays | \$ 11,906,812 | |
| Depreciation/amortization expense | <u>(2,124,676)</u> | |
| | | 9,782,136 |
| <p>The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.</p> | | |
| Issuance of long term debt | (17,450,000) | |
| Principal payments | 2,405,000 | |
| Bond anticipation note proceeds | (7,450,000) | |
| Repayment of bond anticipation note | 11,050,000 | |
| Interest expense accrual | <u>(191,469)</u> | |
| | | (11,636,469) |
| <p>Revisions in the estimate of due to developer do not provide financial resources in the funds; but result in an gain in <i>Statement of Activities</i>.</p> | | |
| | | 637,256 |
| Change in net position of governmental activities | | <u><u>\$ 3,080,903</u></u> |

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Investments

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

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

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 3 – Deposits and Investments (continued)

As of July 31, 2018, the District’s investments consist of the following:

| <u>Type</u> | <u>Fund</u> | <u>Carrying Value</u> | <u>Percentage of Total</u> | <u>Rating</u> | <u>Weighted Average Maturity</u> |
|-------------|------------------|-----------------------|----------------------------|---------------|----------------------------------|
| TexPool | General | \$ 2,936,653 | | | |
| | Debt Service | 10,581,097 | | | |
| | Capital Projects | 1,781,376 | | | |
| | | <u>15,299,126</u> | 84% | AAAm | 24 days |
| Texas CLASS | General | <u>2,973,851</u> | <u>16%</u> | AAAm | 54 days |
| Total | | <u>\$ 18,272,977</u> | <u>100%</u> | | |

TexPool

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

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

Texas CLASS

The District also participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administrator and Wells Fargo Bank as the custodian.

The District’s investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District’s investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 3 – Deposits and Investments (continued)

Texas CLASS (continued)

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

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

Note 4 – Interfund Balances and Transactions

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

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> | <u>Purpose</u> |
|------------------------|-----------------------|----------------|---|
| Debt Service Fund | General Fund | \$ 207 | Maintenance tax transfers not remitted as of year end |
| General Fund | Capital Projects Fund | 38,860 | Bond application fees and capital outlay paid by the General Fund |

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

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 5 – Capital Assets

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

| | Beginning Balances | Additions/ Adjustments | Ending Balances |
|--|-----------------------|---------------------------|----------------------|
| Capital assets not being depreciated | | | |
| Land and improvements | \$ 30,312 | \$ - | \$ 30,312 |
| Capital assets being depreciated/amortized | | | |
| Infrastructure | 57,963,126 | 2,348,408 | 60,311,534 |
| Capital connection fees | 14,156,578 | 4,593,211 | 18,749,789 |
| | <u>72,119,704</u> | <u>6,941,619</u> | <u>79,061,323</u> |
| Less accumulated depreciation/amortization | | | |
| Infrastructure | (5,030,989) | (1,340,256) | (6,371,245) |
| Capital connection fees | (1,488,622) | (784,420) | (2,273,042) |
| | <u>(6,519,611)</u> | <u>(2,124,676)</u> | <u>(8,644,287)</u> |
| Subtotal depreciable capital assets, net | <u>65,600,093</u> | <u>4,816,943</u> | <u>70,417,036</u> |
| Capital assets, net | <u>\$ 65,630,405</u> | <u>\$ 4,816,943</u> | <u>\$ 70,447,348</u> |

Depreciation/amortization expense for the current year was \$2,124,676.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short term financing for reimbursements to its developers. Despite its short term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$11,050,000. This BAN was repaid on November 9, 2017 with proceeds from the issuance of the District’s Series 2017 Unlimited Tax Bonds.

On June 28, 2018, the District issued a \$7,450,000 BAN with an interest rate of 2.30%, which is due on June 27, 2019. This BAN will be repaid subsequent to year end. See Note 14 for additional information.

The effect of this transaction on the District’s short term obligations are as follows:

| | |
|-------------------|---------------------|
| Beginning balance | \$ 11,050,000 |
| Amounts borrowed | 7,450,000 |
| Amounts repaid | <u>(11,050,000)</u> |
| Ending balance | <u>\$ 7,450,000</u> |

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 7 – Due to Developers

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

Changes in amounts due to developers during the year are as follows:

| | |
|---|----------------------------|
| Due to developers, beginning of year | \$ 9,410,236 |
| Developer reimbursements | (11,906,812) |
| Developer funded construction and adjustments | 6,718,499 |
| Change in estimate | <u>(637,257)</u> |
| Due to developers, end of year | <u><u>\$ 3,584,666</u></u> |

During the year, the District revised its estimate of the amounts due to developers for certain capital assets transferred to the City of Sugar Land in previous fiscal years. As a result, \$637,256 was recognized as a change of estimate of due to developers, which reduced the amount due to developer on the *Statement of Net Position* and resulted in a gain on the *Statement of Activities*.

In addition, the District will owe the developers approximately \$1,718,465, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

| | Contract Amount | Amounts Paid | Remaining Commitment |
|--|----------------------------|--------------------------|--------------------------|
| Utilities to search Avalon at Riverstone, Section 14 | \$ 1,095,389 | \$ 296,854 | \$ 798,535 |
| Utilities to serve Avalon at Riverstone, Section 17 | 623,076 | 538,486 | 84,590 |
| | <u><u>\$ 1,718,465</u></u> | <u><u>\$ 835,340</u></u> | <u><u>\$ 883,125</u></u> |

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

| | |
|-----------------------|-----------------------------|
| Bonds payable | \$ 82,510,000 |
| Unamortized discounts | <u>(894,336)</u> |
| | <u><u>\$ 81,615,664</u></u> |
| Due within one year | <u><u>\$ 3,300,000</u></u> |

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 8 – Long-Term Debt (continued)

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

| Series | Amounts Outstanding | Original Issue | Interest Rates | Maturity Date, Serially, Beginning/ Ending | Interest Payment Dates | Call Dates |
|--------|------------------------|-------------------|-------------------|---|------------------------------|----------------------|
| 2010 | \$ 2,570,000 | \$ 3,045,000 | 3.25% - 5.00% | September 1, 2012-2034 | September 1, March 1 | September 1, 2018 |
| 2013 | 3,350,000 | 3,950,000 | 2.00% - 3.75% | September 1, 2014-2036 | September 1, March 1 | September 1, 2020 |
| 2014 | 13,180,000 | 14,220,000 | 2.00% - 4.00% | September 1, 2015-2038 | September 1, March 1 | September 1, 2022 |
| 2015 | 20,435,000 | 21,760,000 | 2.20% - 4.20% | September 1, 2016-2039 | September 1, March 1 | September 1, 2022 |
| 2016 | 25,525,000 | 26,650,000 | 2.00% - 4.00% | September 1, 2017-2040 | September 1, March 1 | September 1, 2023 |
| 2017 | 17,450,000 | 17,450,000 | 2.00% - 3.50% | September 1, 2018-2040 | September 1, March 1 | September 1, 2024 |
| | <u>\$ 82,510,000</u> | | | | | |

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

At July 31, 2018, the District had authorized but unissued bonds in the amount of \$36,375,000 for water, sewer, and drainage facilities and for refunding purposes.

On November 9, 2017, the District issued its \$17,450,000 Series 2017 Unlimited Tax Bonds at a net effective interest rate of 3.188833%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering, and other costs associated with the construction of capital assets; the acquisition of land for certain District facilities; and capital recovery fees, (2) to repay a \$11,050,000 BAN issued in the previous fiscal year and (3) to pay developer interest at the net effective interest rate of the bonds.

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

| | |
|----------------------------------|----------------------|
| Bonds payable, beginning of year | \$ 67,465,000 |
| Bonds issued | 17,450,000 |
| Bonds retired | (2,405,000) |
| Bonds payable, end of year | <u>\$ 82,510,000</u> |

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 8 – Long-Term Debt (continued)

As of July 31, 2018, annual debt service requirements on bonds outstanding are as follows:

| <u>Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Totals</u> |
|-------------|----------------------|----------------------|-----------------------|
| 2019 | \$ 3,300,000 | \$ 2,499,689 | \$ 5,799,689 |
| 2020 | 3,350,000 | 2,430,222 | 5,780,222 |
| 2021 | 3,295,000 | 2,360,163 | 5,655,163 |
| 2022 | 3,345,000 | 2,278,007 | 5,623,007 |
| 2023 | 3,400,000 | 2,189,385 | 5,589,385 |
| 2024 | 3,455,000 | 2,101,518 | 5,556,518 |
| 2025 | 3,505,000 | 2,006,889 | 5,511,889 |
| 2026 | 3,565,000 | 1,909,179 | 5,474,179 |
| 2027 | 3,620,000 | 1,807,337 | 5,427,337 |
| 2028 | 3,680,000 | 1,701,178 | 5,381,178 |
| 2029 | 3,745,000 | 1,590,073 | 5,335,073 |
| 2030 | 3,800,000 | 1,473,487 | 5,273,487 |
| 2031 | 3,870,000 | 1,350,843 | 5,220,843 |
| 2032 | 3,920,000 | 1,221,998 | 5,141,998 |
| 2033 | 3,975,000 | 1,087,072 | 5,062,072 |
| 2034 | 4,050,000 | 946,779 | 4,996,779 |
| 2035 | 4,100,000 | 803,891 | 4,903,891 |
| 2036 | 4,160,000 | 658,149 | 4,818,149 |
| 2037 | 4,200,000 | 508,375 | 4,708,375 |
| 2038 | 3,840,000 | 362,629 | 4,202,629 |
| 2039 | 3,885,000 | 222,191 | 4,107,191 |
| 2040 | 2,925,000 | 100,500 | 3,025,500 |
| 2041 | 1,525,000 | 24,750 | 1,549,750 |
| | <u>\$ 82,510,000</u> | <u>\$ 31,634,302</u> | <u>\$ 114,144,302</u> |

Note 9 – Property Taxes

On May 12, 2007, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.00 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 9 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2018 fiscal year was financed through the 2017 tax levy, pursuant to which the District levied property taxes of \$0.65 per \$100 of assessed value, of which \$0.15 was allocated to maintenance and operations and \$0.50 was allocated to debt service. The resulting tax levy was \$8,541,485 on the adjusted taxable value of \$1,314,074,591.

Property taxes receivable, at July 31, 2018, consisted of the following:

| | |
|---------------------------------|------------------------|
| Current year taxes receivable | \$ 38,549 |
| Prior years taxes receivable | 17,052 |
| | <hr/> 55,601 |
| Penalty and interest receivable | 13,000 |
| Property taxes receivable | <hr/> <u>\$ 68,601</u> |

Note 10 – Utility Agreement with the City of Sugar Land

On December 5, 2009, the District entered into a thirty year agreement (the “Utility Agreement”) with the City of Sugar Land (the “City”) whereby the City agrees to provide water supply and wastewater collection and treatment services to the District. In order to cover the capital costs incurred by the City related to providing these services, the District is obligated to pay to the City a one-time connection fee per equivalent single family connection. The District is also required to pay a monthly fee for the amount of services used by the District, which totaled \$1,225,279 for the current year.

Pursuant to the Utility Agreement, the District shall design, construct, own, operate, and maintain, at its sole cost and expense, a water distribution system, a wastewater collection system and a storm drainage system to serve the District. The District was also required to design, construct and convey to the City, certain wastewater trunk facilities necessary to connect the District’s system with the City’s. The City credited the cost of constructing these facilities against connection fees to be paid by the District.

Surface Water Conversion

The Texas Legislature created the Fort Bend Subsidence District (the "Subsidence District") to reduce subsidence by regulating the withdrawal of groundwater in Fort Bend County. The Subsidence District has mandated that water well permit holders must acquire no more than 70% of their total water supply from groundwater by the year 2013 and no more than 40% of the total water supply from groundwater by the year 2025. In order to achieve these objectives, water well permit holders may enter into agreements with other permit holders to develop a joint solution that reduces groundwater usage across the group as a whole, instead of for each individual permit holder.

Note 10 – Utility Agreement with the City of Sugar Land (continued)

The City anticipates that in the future they will be required to convert, in whole or part, to the use of surface water for their water systems by the Subsidence District, and the District agrees to be part of the ground water reduction plan ("GRP") that includes the City and will not undertake to develop the District's own GRP. In order for the City to recover the costs associated with implementing the GRP, all participants pay the City a surface water conversion fee. The amount of the fee is periodically reviewed and adjusted by the City. As of July 31, 2018, the fee imposed by the City for surface water conversion was \$1.88 per 1,000 gallons plus a 20% surcharge for a total of \$2.26 per 1,000 gallons. The District passes this fee to its customers as part of the District's standard monthly water and sewer bills. During the current fiscal year, the District recorded \$1,098,237 in revenues and \$892,282 in expenditures in the General Fund.

Note 11 – Agreement Regarding Reclaimed Water with the City of Sugar Land

On December 19, 2014 the District and the City entered into an Agreement Regarding Reclaimed Water whereby the District was authorized at its sole cost to design and construct a Reclaimed Water Facility (the "Reclaimed Water Facility"), which will be used for both parties benefit. The Reclaimed Water Facility was constructed during the prior fiscal year and was conveyed to the City of Sugar Land.

The District will own 100% capacity of the Reclaimed Water Facility for twenty-four consecutive months after the District begins to take water from the Reclaimed Water Facility. At that time, the City may pay to purchase all or part of the unused capacity in the Reclaimed Water Facility. If the District needs additional capacity than what was anticipated, the District may request from the City a onetime expansion of the Reclaimed Water Facility of which the District will be solely responsible for all costs in the expansion unless the City participates in the expansion. If the City participates in the expansion, the costs will be allocated based on the City and the District's capacity. The District agrees to pay a reclaimed water fee to the City for reclaimed water delivered within the District. The City may make annual adjustments to the reclaimed water fee based on expense incurred by the City. During the current year, the District received 76,780,000 gallons of reclaimed water from the Reclaimed Water Facility.

Note 12 – Strategic Partnership Agreement with the City of Sugar Land

The District has entered into a Strategic Partnership Agreement (the "Agreement") with the City of Sugar Land (the "City") dated May 3, 2011, which stipulates the City's regulatory authority over the District and stipulates a formula for determining the time of annexation of land within the District by the City and identifies and establishes a master plan for the development of the District. In the Agreement, the City agrees not to annex the property in the District before such time as (i) as least 90% of the developable acreage within the District has been developed with water, wastewater treatment and drainage facilities; and (ii) the Developers have been reimbursed for the maximum extent permitted by the rules of the Texas Commission on Environmental Quality or the City assumes any obligation for such reimbursement.

Fort Bend County Municipal Utility District No. 128
Notes to Basic Financial Statements
July 31, 2018

Note 13 – Risk Management

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

Note 14 – Subsequent Event

On November 27, 2018, the District issued its \$11,450,000 Series 2018 Unlimited Tax Bonds at a net effective rate of 3.808499%. Proceeds from the bonds will be used to reimburse the District's developers for infrastructure improvements in the District and to repay the Series 2018 BAN.

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Required Supplementary Information

*Fort Bend County Municipal Utility District No. 128
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended July 31, 2018*

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|-----------------------------------|------------------------------|---------------------|------------------------------------|
| Revenues | | | |
| Water service | \$ 600,000 | \$ 852,415 | \$ 252,415 |
| Sewer service | 1,020,000 | 1,666,571 | 646,571 |
| Fire service | 521,613 | 635,454 | 113,841 |
| Property taxes | 1,201,000 | 1,968,594 | 767,594 |
| Penalties and interest | 24,000 | 41,407 | 17,407 |
| Tap connection and inspection | 474,540 | 740,274 | 265,734 |
| Surface water | 960,000 | 1,098,237 | 138,237 |
| Miscellaneous | 45,936 | 35,468 | (10,468) |
| Investment earnings | 1,440 | 73,198 | 71,758 |
| Total Revenues | <u>4,848,529</u> | <u>7,111,618</u> | <u>2,263,089</u> |
| Expenditures | | | |
| Current service operations | | | |
| Purchased services | 1,044,000 | 1,225,279 | (181,279) |
| Professional fees | 197,532 | 163,770 | 33,762 |
| Contracted services | 1,524,357 | 1,826,874 | (302,517) |
| Repairs and maintenance | 491,216 | 333,469 | 157,747 |
| Utilities | 19,200 | 16,891 | 2,309 |
| Surface water fees | 960,000 | 892,282 | 67,718 |
| Administrative | 71,478 | 74,489 | (3,011) |
| Other | 36,530 | 31,876 | 4,654 |
| Total Expenditures | <u>4,344,313</u> | <u>4,564,930</u> | <u>(220,617)</u> |
| Revenues Over Expenditures | 504,216 | 2,546,688 | 2,042,472 |
| Fund Balance | | | |
| Beginning of the year | <u>4,094,345</u> | <u>4,094,345</u> | |
| End of the year | <u>\$ 4,598,561</u> | <u>\$ 6,641,033</u> | <u>\$ 2,042,472</u> |

Fort Bend County Municipal Utility District No. 128
Notes to Required Supplementary Information
July 31, 2018

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. There were no amendments to the budget during the year.

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Texas Supplementary Information

Fort Bend County Municipal Utility District No. 128
TSI-1. Services and Rates
July 31, 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"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input checked="" type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks/Recreation | <input checked="" type="checkbox"/> Fire Protection | <input type="checkbox"/> Roads | <input checked="" type="checkbox"/> Security |
| <input checked="" type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect) | | | |
| <input type="checkbox"/> Other (Specify): _____ | | | |

2. Retail Service Providers

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

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate per 1000 Gallons Over Minimum Use | Usage Levels |
|--------|----------------|---------------|---------------|--|--------------------|
| Water: | \$ 1.08 | 0 | N | \$ 1.08 | 0 to 3,000 |
| | | | | 1.24 | 3,001 to 10,000 |
| | | | | 1.43 | 10,001 to 20,000 |
| | | | | 1.64 | 20,001 to no limit |

In addition, the District charges the following fee:

| Meter size: | Fee | Meter size: | Fee |
|-------------|---------|-------------|----------|
| 5/8 and 3/4 | \$7.43 | 3 | \$103.59 |
| 1 | \$11.60 | 4 | \$286.56 |
| 1 1/2 | \$30.83 | 6 | \$560.98 |
| 2 | \$47.99 | 8 | \$700.78 |

| | | | | | |
|-------------|---------|---|---|---------|---------------|
| Wastewater: | \$ 2.80 | 0 | N | \$ 2.80 | 0 to no limit |
|-------------|---------|---|---|---------|---------------|

In addition to the rate of \$2.80 per 1,000 gallons, the District charges the following fee:

| Meter size: | Fee | Meter size: | Fee |
|-------------|----------|-------------|------------|
| 5/8 and 3/4 | \$29.88 | 3 | \$206.02 |
| 1 | \$37.59 | 4 | \$542.10 |
| 1 1/2 | \$73.23 | 6 | \$1,051.26 |
| 2 | \$104.45 | 8 | \$1,309.28 |

District employs winter averaging for wastewater usage? Yes No

| | | | | | |
|------------|---------|---|---|---------|---------------|
| Surcharge: | \$ 2.26 | 0 | N | \$ 2.26 | 0 to no limit |
|------------|---------|---|---|---------|---------------|

| | | | | |
|---|--------|----------|-------------|----------|
| Total charges per 10,000 gallons usage: | Water: | \$ 41.95 | Wastewater: | \$ 57.88 |
|---|--------|----------|-------------|----------|

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-1. Services and Rates
July 31, 2018

2. Retail Service Providers (continued)
 b. Water and Wastewater Retail Connections:

| <u>Meter Size</u> | <u>Total Connections</u> | <u>Active Connections</u> | <u>ESFC</u> | <u>Active ESFCs</u> |
|-------------------|--------------------------|---------------------------|-------------|---------------------|
| Unmetered | | | x 1.0 | |
| less than 3/4" | 1,275 | 1,269 | x 1.0 | 1,269 |
| 1" | 1,478 | 1,469 | x 2.5 | 3,673 |
| 1.5" | 36 | 36 | x 5.0 | 180 |
| 2" | 117 | 116 | x 8.0 | 928 |
| 3" | 2 | 2 | x 15.0 | 30 |
| 4" | 2 | 2 | x 25.0 | 50 |
| 6" | | | x 50.0 | |
| 8" | 1 | 1 | x 80.0 | 80 |
| 10" | 2 | 2 | x 115.0 | 230 |
| Total Water | 2,913 | 2,897 | | 6,440 |
| Total Wastewater | 2,678 | 2,662 | x 1.0 | |

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

| | | |
|------------------------------|--------------------|------------------------------------|
| *Gallons purchased | <u>492,535,000</u> | Water Accountability Ratio: |
| Gallons billed to customers: | <u>492,347,000</u> | (Gallons billed/Gallons purchased) |
| | | <u>99.96%</u> |

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

Does the District have Debt Service standby fees? Yes No

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-1. Services and Rates
July 31, 2018

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

Is the District located entirely within one county?

Yes No

County(ies) in which the District is located:

Fort Bend County

Is the District located within a city?

Entirely Partly Not at all

City(ies) in which the District is located:

City of Sugar Land

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

Entirely Partly Not at all

ETJs in which the District is located:

City of Sugar Land

Are Board members appointed by an office outside the district?

Yes No

If Yes, by whom?

* Purchased from the City of Sugar Land

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 128
 TSI-2 General Fund Expenditures
 For the Year Ended July 31, 2018*

| | |
|-------------------------------|---------------------|
| Purchased services | <u>\$ 1,225,279</u> |
| Professional fees | |
| Legal | 81,134 |
| Audit | 12,000 |
| Engineering | 70,636 |
| | <u>163,770</u> |
| Contracted services | |
| Bookkeeping | 22,919 |
| Operator | 81,892 |
| Garbage collection | 480,114 |
| Tap connection and inspection | 392,327 |
| Security service | 189,710 |
| Fire service | 659,912 |
| | <u>1,826,874</u> |
| Repairs and maintenance | <u>333,469</u> |
| Utilities | <u>16,891</u> |
| Surface water fees | <u>892,282</u> |
| Administrative | |
| Directors fees | 7,950 |
| Printing and office supplies | 38,849 |
| Insurance | 11,138 |
| Other | 16,552 |
| | <u>74,489</u> |
| Other | <u>31,876</u> |
| Total expenditures | <u>\$ 4,564,930</u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-3. Investments
July 31, 2018

| <u>Fund</u> | <u>Identification or Certificate Number</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> |
|-------------------|---|--------------------------|--------------------------|-----------------------------------|
| General | | | | |
| TexPool | 7924200001 | Variable | N/A | \$ 2,936,653 |
| Texas CLASS | 01-0641-0001 | Variable | N/A | <u>2,973,851</u> |
| | | | | <u>5,910,504</u> |
| Debt Service | | | | |
| TexPool | 7924200004 | Variable | N/A | 10,581,097 |
| Capital Projects | | | | |
| TexPool | 7924200003 | Variable | N/A | <u>1,781,376</u> |
| | | | | |
| Total - All Funds | | | | <u><u>\$ 18,272,977</u></u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-4. Taxes Levied and Receivable
July 31, 2018

| | Maintenance Taxes | Debt Service Taxes | Totals | |
|---|----------------------|-----------------------|----------------|----------------|
| Taxes Receivable, Beginning of Year | \$ 9,041 | \$ 46,329 | \$ 55,370 | |
| Adjustments | (224) | (1,268) | (1,492) | |
| Adjusted Receivable | 8,817 | 45,061 | 53,878 | |
| 2017 Original Tax Levy | 1,860,929 | 6,203,095 | 8,064,024 | |
| Adjustments | 110,183 | 367,278 | 477,461 | |
| Adjusted Tax Levy | 1,971,112 | 6,570,373 | 8,541,485 | |
| Total to be accounted for | 1,979,929 | 6,615,434 | 8,595,363 | |
| Tax collections: | | | | |
| Current year | 1,962,216 | 6,540,720 | 8,502,936 | |
| Prior years | 6,140 | 30,686 | 36,826 | |
| Total Collections | 1,968,356 | 6,571,406 | 8,539,762 | |
| Taxes Receivable, End of Year | \$ 11,573 | \$ 44,028 | \$ 55,601 | |
| Taxes Receivable, By Years | | | | |
| 2017 | \$ 8,896 | \$ 29,653 | \$ 38,549 | |
| 2016 | 1,715 | 8,283 | 9,998 | |
| 2015 | 845 | 5,382 | 6,227 | |
| 2014 | 117 | 710 | 827 | |
| Taxes Receivable, End of Year | \$ 11,573 | \$ 44,028 | \$ 55,601 | |
| | 2017 | 2016 | 2015 | 2014 |
| Property Valuations | | | | |
| Land | \$ 308,185,846 | \$ 255,699,189 | \$ 193,021,309 | \$ 123,912,210 |
| Improvements | 1,032,581,613 | 805,931,156 | 526,528,460 | 234,461,680 |
| Personal Property | 5,193,440 | 4,827,360 | 3,520,280 | 1,640,065 |
| Exemptions | (31,886,308) | (32,907,094) | (21,475,996) | (5,798,562) |
| Total Property Valuations | \$ 1,314,074,591 | \$ 1,033,550,611 | \$ 701,594,053 | \$ 354,215,393 |
| Tax Rates per \$100 Valuation | | | | |
| Maintenance tax rates | \$ 0.15 | \$ 0.12 | \$ 0.095 | \$ 0.10 |
| Debt service tax rates | 0.50 | 0.58 | 0.605 | 0.60 |
| Total Tax Rates per \$100 Valuation | \$ 0.65 | \$ 0.70 | \$ 0.700 | \$ 0.70 |
| Adjusted Tax Levy | \$ 8,541,485 | \$ 7,234,854 | 4,911,158 | \$ 2,479,508 |
| Percentage of Taxes Collected to Taxes Levied ** | 99.55% | 99.86% | 99.87% | 99.97% |

* Maximum Maintenance Tax Rate Approved by Voters: \$1.00 on May 12, 2007

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

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 128
 TSI-5. Long-Term Debt Service Requirements
 Series 2010--by Years
 July 31, 2018*

| Due During Fiscal Years Ending | Principal Due September 1 | Interest Due September 1, March 1 | Total |
|-----------------------------------|------------------------------|---|---------------------|
| 2019 | \$ 95,000 | \$ 120,718 | \$ 215,718 |
| 2020 | 100,000 | 116,768 | 216,768 |
| 2021 | 105,000 | 112,486 | 217,486 |
| 2022 | 110,000 | 107,835 | 217,835 |
| 2023 | 120,000 | 102,715 | 222,715 |
| 2024 | 125,000 | 97,140 | 222,140 |
| 2025 | 130,000 | 91,210 | 221,210 |
| 2026 | 140,000 | 84,795 | 224,795 |
| 2027 | 145,000 | 77,883 | 222,883 |
| 2028 | 155,000 | 70,533 | 225,533 |
| 2029 | 165,000 | 62,693 | 227,693 |
| 2030 | 170,000 | 54,485 | 224,485 |
| 2031 | 180,000 | 45,910 | 225,910 |
| 2032 | 190,000 | 36,750 | 226,750 |
| 2033 | 200,000 | 27,000 | 227,000 |
| 2034 | 215,000 | 16,625 | 231,625 |
| 2035 | 225,000 | 5,625 | 230,625 |
| | <u>\$ 2,570,000</u> | <u>\$ 1,231,169</u> | <u>\$ 3,801,169</u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
July 31, 2018

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|---------------------|
| 2019 | \$ 150,000 | \$ 113,562 | \$ 263,562 |
| 2020 | 150,000 | 110,375 | 260,375 |
| 2021 | 150,000 | 106,812 | 256,812 |
| 2022 | 150,000 | 102,875 | 252,875 |
| 2023 | 150,000 | 98,562 | 248,562 |
| 2024 | 150,000 | 94,063 | 244,063 |
| 2025 | 150,000 | 89,469 | 239,469 |
| 2026 | 150,000 | 84,687 | 234,687 |
| 2027 | 150,000 | 79,719 | 229,719 |
| 2028 | 150,000 | 74,562 | 224,562 |
| 2029 | 150,000 | 69,313 | 219,313 |
| 2030 | 150,000 | 63,969 | 213,969 |
| 2031 | 150,000 | 58,438 | 208,438 |
| 2032 | 150,000 | 52,813 | 202,813 |
| 2033 | 150,000 | 47,000 | 197,000 |
| 2034 | 150,000 | 41,000 | 191,000 |
| 2035 | 150,000 | 35,000 | 185,000 |
| 2036 | 400,000 | 24,000 | 424,000 |
| 2037 | 400,000 | 8,000 | 408,000 |
| | <u>\$ 3,350,000</u> | <u>\$ 1,354,219</u> | <u>\$ 4,704,219</u> |

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 128
 TSI-5. Long-Term Debt Service Requirements
 Series 2014--by Years
 July 31, 2018*

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|----------------------|
| 2019 | \$ 380,000 | \$ 463,515 | \$ 843,515 |
| 2020 | 400,000 | 454,935 | 854,935 |
| 2021 | 415,000 | 445,970 | 860,970 |
| 2022 | 435,000 | 436,402 | 871,402 |
| 2023 | 455,000 | 425,713 | 880,713 |
| 2024 | 480,000 | 413,545 | 893,545 |
| 2025 | 500,000 | 399,565 | 899,565 |
| 2026 | 525,000 | 383,927 | 908,927 |
| 2027 | 550,000 | 366,715 | 916,715 |
| 2028 | 575,000 | 347,721 | 922,721 |
| 2029 | 605,000 | 327,064 | 932,064 |
| 2030 | 630,000 | 304,827 | 934,827 |
| 2031 | 665,000 | 280,695 | 945,695 |
| 2032 | 695,000 | 254,160 | 949,160 |
| 2033 | 725,000 | 225,760 | 950,760 |
| 2034 | 760,000 | 196,060 | 956,060 |
| 2035 | 800,000 | 164,860 | 964,860 |
| 2036 | 835,000 | 131,743 | 966,743 |
| 2037 | 875,000 | 96,688 | 971,688 |
| 2038 | 915,000 | 59,535 | 974,535 |
| 2039 | 960,000 | 20,160 | 980,160 |
| | <u>\$ 13,180,000</u> | <u>\$ 6,199,560</u> | <u>\$ 19,379,560</u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-5. Long-Term Debt Service Requirements
Series 2015--by Years
July 31, 2018

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|----------------------|
| 2019 | \$ 700,000 | \$ 679,238 | \$ 1,379,238 |
| 2020 | 725,000 | 664,988 | 1,389,988 |
| 2021 | 750,000 | 650,238 | 1,400,238 |
| 2022 | 775,000 | 634,988 | 1,409,988 |
| 2023 | 800,000 | 615,238 | 1,415,238 |
| 2024 | 825,000 | 590,863 | 1,415,863 |
| 2025 | 850,000 | 565,738 | 1,415,738 |
| 2026 | 875,000 | 539,863 | 1,414,863 |
| 2027 | 900,000 | 512,113 | 1,412,113 |
| 2028 | 925,000 | 482,456 | 1,407,456 |
| 2029 | 950,000 | 450,800 | 1,400,800 |
| 2030 | 975,000 | 417,113 | 1,392,113 |
| 2031 | 1,000,000 | 381,925 | 1,381,925 |
| 2032 | 1,010,000 | 345,494 | 1,355,494 |
| 2033 | 1,025,000 | 307,969 | 1,332,969 |
| 2034 | 1,050,000 | 269,063 | 1,319,063 |
| 2035 | 1,050,000 | 229,688 | 1,279,688 |
| 2036 | 1,050,000 | 189,000 | 1,239,000 |
| 2037 | 1,050,000 | 147,000 | 1,197,000 |
| 2038 | 1,050,000 | 105,000 | 1,155,000 |
| 2039 | 1,050,000 | 63,000 | 1,113,000 |
| 2040 | 1,050,000 | 21,000 | 1,071,000 |
| | <u>\$ 20,435,000</u> | <u>\$ 8,862,775</u> | <u>\$ 29,297,775</u> |

See accompanying auditors' report.

*Fort Bend County Municipal Utility District No. 128
 TSI-5. Long-Term Debt Service Requirements
 Series 2016--by Years
 July 31, 2018*

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due September 1</u> | <u>Interest Due September 1, March 1</u> | <u>Total</u> |
|---|--------------------------------------|--|----------------------|
| 2019 | \$ 1,125,000 | \$ 623,718 | \$ 1,748,718 |
| 2020 | 1,125,000 | 601,218 | 1,726,218 |
| 2021 | 1,125,000 | 578,719 | 1,703,719 |
| 2022 | 1,125,000 | 544,969 | 1,669,969 |
| 2023 | 1,125,000 | 511,219 | 1,636,219 |
| 2024 | 1,125,000 | 488,719 | 1,613,719 |
| 2025 | 1,125,000 | 466,219 | 1,591,219 |
| 2026 | 1,125,000 | 443,719 | 1,568,719 |
| 2027 | 1,125,000 | 421,219 | 1,546,219 |
| 2028 | 1,125,000 | 398,719 | 1,523,719 |
| 2029 | 1,125,000 | 375,516 | 1,500,516 |
| 2030 | 1,125,000 | 350,906 | 1,475,906 |
| 2031 | 1,125,000 | 324,188 | 1,449,188 |
| 2032 | 1,125,000 | 296,062 | 1,421,062 |
| 2033 | 1,125,000 | 266,531 | 1,391,531 |
| 2034 | 1,125,000 | 235,594 | 1,360,594 |
| 2035 | 1,125,000 | 204,656 | 1,329,656 |
| 2036 | 1,125,000 | 173,719 | 1,298,719 |
| 2037 | 1,125,000 | 141,375 | 1,266,375 |
| 2038 | 1,125,000 | 107,625 | 1,232,625 |
| 2039 | 1,125,000 | 73,875 | 1,198,875 |
| 2040 | 1,125,000 | 40,125 | 1,165,125 |
| 2041 | 775,000 | 11,625 | 786,625 |
| | <u>\$ 25,525,000</u> | <u>\$ 7,680,235</u> | <u>\$ 33,205,235</u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
July 31, 2018

| Due During Fiscal Years Ending | Principal Due September 1 | Interest Due September 1, March 1 | Total |
|-----------------------------------|------------------------------|---|----------------------|
| 2019 | \$ 850,000 | \$ 498,938 | \$ 1,348,938 |
| 2020 | 850,000 | 481,938 | 1,331,938 |
| 2021 | 750,000 | 465,938 | 1,215,938 |
| 2022 | 750,000 | 450,938 | 1,200,938 |
| 2023 | 750,000 | 435,938 | 1,185,938 |
| 2024 | 750,000 | 417,188 | 1,167,188 |
| 2025 | 750,000 | 394,688 | 1,144,688 |
| 2026 | 750,000 | 372,188 | 1,122,188 |
| 2027 | 750,000 | 349,688 | 1,099,688 |
| 2028 | 750,000 | 327,187 | 1,077,187 |
| 2029 | 750,000 | 304,687 | 1,054,687 |
| 2030 | 750,000 | 282,187 | 1,032,187 |
| 2031 | 750,000 | 259,687 | 1,009,687 |
| 2032 | 750,000 | 236,719 | 986,719 |
| 2033 | 750,000 | 212,812 | 962,812 |
| 2034 | 750,000 | 188,437 | 938,437 |
| 2035 | 750,000 | 164,062 | 914,062 |
| 2036 | 750,000 | 139,687 | 889,687 |
| 2037 | 750,000 | 115,312 | 865,312 |
| 2038 | 750,000 | 90,469 | 840,469 |
| 2039 | 750,000 | 65,156 | 815,156 |
| 2040 | 750,000 | 39,375 | 789,375 |
| 2041 | 750,000 | 13,125 | 763,125 |
| | <u>\$ 17,450,000</u> | <u>\$ 6,306,344</u> | <u>\$ 23,756,344</u> |

See accompanying auditors' report.

Fort Bend County Municipal Utility District No. 128
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
July 31, 2018

| Due During Fiscal Years Ending | Principal Due September 1 | Interest Due September 1, March 1 | Total |
|-----------------------------------|------------------------------|---|-----------------------|
| 2019 | \$ 3,300,000 | \$ 2,499,689 | \$ 5,799,689 |
| 2020 | 3,350,000 | 2,430,222 | 5,780,222 |
| 2021 | 3,295,000 | 2,360,163 | 5,655,163 |
| 2022 | 3,345,000 | 2,278,007 | 5,623,007 |
| 2023 | 3,400,000 | 2,189,385 | 5,589,385 |
| 2024 | 3,455,000 | 2,101,518 | 5,556,518 |
| 2025 | 3,505,000 | 2,006,889 | 5,511,889 |
| 2026 | 3,565,000 | 1,909,179 | 5,474,179 |
| 2027 | 3,620,000 | 1,807,337 | 5,427,337 |
| 2028 | 3,680,000 | 1,701,178 | 5,381,178 |
| 2029 | 3,745,000 | 1,590,073 | 5,335,073 |
| 2030 | 3,800,000 | 1,473,487 | 5,273,487 |
| 2031 | 3,870,000 | 1,350,843 | 5,220,843 |
| 2032 | 3,920,000 | 1,221,998 | 5,141,998 |
| 2033 | 3,975,000 | 1,087,072 | 5,062,072 |
| 2034 | 4,050,000 | 946,779 | 4,996,779 |
| 2035 | 4,100,000 | 803,891 | 4,903,891 |
| 2036 | 4,160,000 | 658,149 | 4,818,149 |
| 2037 | 4,200,000 | 508,375 | 4,708,375 |
| 2038 | 3,840,000 | 362,629 | 4,202,629 |
| 2039 | 3,885,000 | 222,191 | 4,107,191 |
| 2040 | 2,925,000 | 100,500 | 3,025,500 |
| 2041 | 1,525,000 | 24,750 | 1,549,750 |
| | <u>\$ 82,510,000</u> | <u>\$ 31,634,302</u> | <u>\$ 114,144,302</u> |

See accompanying auditors' report.

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Fort Bend County Municipal Utility District No. 128
TSI-6. Change in Long-Term Bonded Debt
July 31, 2018

| | Bond Issue | | | |
|--|--|---------------------|----------------------|----------------------|
| | Series 2010 | Series 2013 | Series 2014 | Series 2015 |
| Interest rate | 3.25% - 5.00% | 2.00% - 4.00% | 2.20% - 4.20% | 2.00% - 4.00% |
| Dates interest payable | 9/1; 3/1 | 9/1; 3/1 | 9/1; 3/1 | 9/1; 3/1 |
| Maturity dates | 9/1/12 - 9/1/34 | 9/1/13 - 9/1/36 | 9/1/15 - 9/1/38 | 9/1/16 - 9/1/39 |
| Beginning bonds outstanding | \$ 2,660,000 | \$ 3,500,000 | \$ 13,545,000 | \$ 21,110,000 |
| Bonds issued | | | | |
| Bonds retired | (90,000) | (150,000) | (365,000) | (675,000) |
| Ending bonds outstanding | <u>\$ 2,570,000</u> | <u>\$ 3,350,000</u> | <u>\$ 13,180,000</u> | <u>\$ 20,435,000</u> |
| Interest paid during fiscal year | <u>\$ 124,350</u> | <u>\$ 116,563</u> | <u>\$ 471,710</u> | <u>\$ 692,988</u> |
| Paying agent's name and city | | | | |
| Series 2010 | Wells Fargo Bank, Houston, Texas | | | |
| Series 2013, 2014, 2015, 2016 and 2017 | The Bank of New York Mellon Trust Company, N.A., Dallas, Texas | | | |
| Bond Authority: | Water, Sewer, Drainage and Refunding Bonds | | | |
| Amount Authorized by Voters | <u>\$ 123,450,000</u> | | | |
| Amount Issued | <u>(87,075,000)</u> | | | |
| Remaining To Be Issued | <u>\$ 36,375,000</u> | | | |

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

Debt Service Fund cash and investments balances as of July 31, 2018: \$ 10,671,831

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 4,962,796

See accompanying auditors' report.

| Bond Issue | | |
|----------------------|----------------------|----------------------|
| Series 2016 | Series 2017 | Totals |
| 2.00% - 4.00% | 2.00% - 3.50% | |
| 9/1; 3/1 | 9/1; 3/1 | |
| 9/1/17 - | 9/1/18 - | |
| 9/1/40 | 9/1/40 | |
| \$ 26,650,000 | \$ - | \$ 67,465,000 |
| | 17,450,000 | 17,450,000 |
| (1,125,000) | | (2,405,000) |
| <u>\$ 25,525,000</u> | <u>\$ 17,450,000</u> | <u>\$ 82,510,000</u> |
| <u>\$ 646,219</u> | <u>\$ 157,870</u> | <u>\$ 2,209,699</u> |

Fort Bend County Municipal Utility District No. 128
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

| | Amounts | | | | |
|-----------------------------------|---------------------|---------------------|-------------------|-------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Revenues | | | | | |
| Water service | \$ 852,415 | \$ 704,640 | \$ 581,267 | \$ 401,054 | \$ 256,714 |
| Sewer service | 1,666,571 | 1,467,483 | 1,192,763 | 794,815 | 468,750 |
| Fire service | 635,454 | 511,473 | 415,752 | 267,746 | 169,222 |
| Property taxes | 1,968,594 | 1,234,945 | 665,310 | 352,439 | 170,361 |
| Penalties and interest | 41,407 | 31,761 | 24,683 | 22,542 | 15,768 |
| Tap connection and inspection | 740,274 | 771,673 | 684,281 | 841,653 | 790,669 |
| Surface water | 1,098,237 | 954,218 | 842,859 | 580,799 | 390,673 |
| Miscellaneous | 35,468 | 41,198 | 42,694 | 44,096 | 38,404 |
| Investment earnings | 73,198 | 14,383 | 3,626 | 1,497 | 1,429 |
| Total Revenues | 7,111,618 | 5,731,774 | 4,453,235 | 3,306,641 | 2,301,990 |
| Expenditures | | | | | |
| Current service operations | | | | | |
| Purchased services | 1,225,279 | 1,084,146 | 788,226 | 503,973 | 390,108 |
| Professional fees | 163,770 | 199,834 | 194,398 | 107,383 | 149,252 |
| Contracted services | 1,826,874 | 1,580,714 | 1,345,864 | 1,079,840 | 890,505 |
| Repairs and maintenance | 333,469 | 218,442 | 317,488 | 429,986 | 180,001 |
| Utilities | 16,891 | 11,921 | 17,298 | 11,594 | 4,811 |
| Surface water fees | 892,282 | 803,621 | 850,113 | 571,288 | 387,087 |
| Administrative | 74,489 | 68,525 | 57,923 | 54,334 | 34,234 |
| Other | 31,876 | 32,185 | 35,014 | 30,278 | 29,109 |
| Total Expenditures | 4,564,930 | 3,999,388 | 3,606,324 | 2,788,676 | 2,065,107 |
| Revenues Over Expenditures | \$ 2,546,688 | \$ 1,732,386 | \$ 846,911 | \$ 517,965 | \$ 236,883 |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|------|------|------|------|------|
| 12% | 11% | 13% | 12% | 11% |
| 23% | 26% | 27% | 24% | 20% |
| 9% | 9% | 9% | 8% | 7% |
| 28% | 22% | 15% | 11% | 7% |
| 1% | 1% | 1% | 1% | 1% |
| 10% | 13% | 15% | 25% | 35% |
| 15% | 17% | 19% | 18% | 17% |
| * | 1% | 1% | 1% | 2% |
| 1% | * | * | * | * |
| 99% | 100% | 100% | 100% | 100% |
| 17% | 19% | 18% | 15% | 17% |
| 2% | 3% | 4% | 3% | 6% |
| 26% | 28% | 30% | 33% | 39% |
| 5% | 4% | 7% | 13% | 8% |
| * | * | * | * | * |
| 13% | 14% | 19% | 17% | 17% |
| 1% | 1% | 1% | 2% | 1% |
| * | 1% | 1% | 1% | 1% |
| 64% | 70% | 80% | 84% | 89% |
| 35% | 30% | 20% | 16% | 11% |

Fort Bend County Municipal Utility District No. 128

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Last Five Fiscal Years*

| | Amounts | | | | |
|--|---------------------|---------------------|---------------------|---------------------|-------------------|
| | 2018 | 2017 | 2016 | 2015 | 2014 |
| Revenues | | | | | |
| Property taxes | \$ 6,572,923 | \$ 5,971,850 | \$ 4,236,109 | \$ 2,114,632 | \$ 1,015,945 |
| Penalties and interest | 48,520 | 44,287 | 31,614 | 9,553 | 8,451 |
| Accrued interest on bonds sold | | 52,963 | | 43,556 | 31,342 |
| Miscellaneous | - | | | | |
| Investment earnings | 110,250 | 36,038 | 10,218 | 2,053 | 1,178 |
| Total Revenues | <u>6,731,693</u> | <u>6,105,138</u> | <u>4,277,941</u> | <u>2,169,794</u> | <u>1,056,916</u> |
| Expenditures | | | | | |
| Tax collection services | 120,554 | 940,306 | 68,476 | 34,428 | 19,916 |
| Debt service | | | | | |
| Principal | 2,405,000 | 1,230,000 | 560,000 | 225,000 | 75,000 |
| Interest and fees | 2,212,449 | 1,818,977 | 1,276,356 | 628,509 | 253,536 |
| Total Expenditures | <u>4,738,003</u> | <u>3,989,283</u> | <u>1,904,832</u> | <u>887,937</u> | <u>348,452</u> |
| Revenues Over Expenditures | <u>\$ 1,993,690</u> | <u>\$ 2,115,855</u> | <u>\$ 2,373,109</u> | <u>\$ 1,281,857</u> | <u>\$ 708,464</u> |
| Total Active Retail Water Connections | <u>2,897</u> | <u>2,630</u> | <u>2,226</u> | <u>1,796</u> | <u>1,252</u> |
| Total Active Retail Wastewater Connections | <u>2,662</u> | <u>2,411</u> | <u>2,037</u> | <u>1,643</u> | <u>1,158</u> |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2018 | 2017 | 2016 | 2015 | 2014 |
|------|------|------|------|------|
| 97% | 97% | 99% | 98% | 96% |
| 1% | 1% | 1% | * | 1% |
| | 1% | | 2% | 3% |
| 2% | 1% | * | * | * |
| 100% | 100% | 100% | 100% | 100% |
| 2% | 15% | 2% | 2% | 2% |
| 36% | 20% | 13% | 10% | 7% |
| 33% | 30% | 30% | 29% | 24% |
| 71% | 65% | 45% | 41% | 33% |
| 29% | 35% | 55% | 59% | 67% |

Fort Bend County Municipal Utility District No. 128
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended July 31, 2018

Complete District Mailing Address: 202 Century Square Blvd, Sugar Land, TX 77478
District Business Telephone Number: (281) 500-6050
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): June 25, 2018
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

| Names: | Term of Office (Elected or Appointed) or Date Hired | Fees of Office Paid * | Expense Reimburse- ments | Title at Year End |
|--|--|-----------------------------|--------------------------------|-----------------------------------|
| Board Members | | | | |
| Michael Cabiro | 05/16 - 05/20 | \$ 1,650 | \$ 154 | President |
| Regan Bowen | 03/18 - 05/22 | 900 | 95 | Vice President |
| Haley Millis | 05/18 - 05/22 | 1,350 | 162 | Treasurer/ Assistant Secretary |
| Jeffrey P Hogan | 05/16 - 05/20 | 1,650 | 42 | Secretary |
| Travis Van Horn | 05/18 - 05/22 | 1,650 | 178 | Assistant Secretary |
| John E. Whitmore, III | 05/14 - 03/18 | 750 | 32 | Former Director |
| Consultants | | | | |
| | | <u>Amounts Paid</u> | | |
| The Muller Law Group, PLLC | 04/14 | \$ 521,942 | | Attorney |
| Si Environmental, LLC | 05/12 | 833,957 | | Operator |
| Municipal Accounts & Consulting, LP | 12/17 | 11,282 | | Bookkeeper |
| McLennan & Associates, LP | 03/07 | 11,763 | | Former Bookkeeper |
| Esther Flores, R.T.A, d/b/a Tax Tech Inc. | 03/07 | 49,194 | | Tax Collector |
| Fort Bend Central Appraisal District | Legislation | 54,734 | | Property Valuation |
| Perdue, Brandon, Fielder, Collins & Mott LLP | 08/09 | 7,187 | | Delinquent Tax Attorney |
| Costello, Inc. | 03/07 | | | Engineer |
| <i>Amounts paid directly by district</i> | | 114,280 | | |
| <i>Amounts paid through developer reimbursements</i> | | 2,133,431 | | |
| McGrath & Co., PLLC | 07/13 | | | Auditor |
| <i>Annual audit</i> | | 12,000 | | |
| <i>Developer reimbursement report</i> | | 24,000 | | |
| Masterson Advisors, LLC | 04/18 | 68,500 | | Financial Advisor |
| FirstSouthwest, a Division of Hilltop Securities | 03/07 | 291,338 | | Former Financial Advisor |

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

APPENDIX B

Specimen Municipal Bond Insurance Policy



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN