

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

The Bonds are designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 41429K

RATINGS: Insured “AA” (stable outlook) S&P
See “BOND INSURANCE” and “MUNICIPAL BOND RATING” herein

\$6,110,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT No. 423

(A political subdivision of the State of Texas, located in Harris County, Texas)

UNLIMITED TAX ROAD BONDS

SERIES 2020

Dated: April 1, 2020

Due: April 1 (as shown below)

Interest on the Bonds (the “Bonds” or the “Series 2020 Bonds”) will accrue from April 1, 2020, and will be payable on April 1 and October 1 of each year, commencing October 1, 2020. The definitive Bonds 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. 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 owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/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” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.” **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 (“BAM”).**



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>
\$135,000	2024	4.500%	1.000%	\$175,000	2029(b)	4.500%	1.090%
\$150,000	2025	4.500%	1.050%	\$175,000	2030(b)	2.000%	1.600%
\$150,000	2026(b)	4.500%	1.060%	\$175,000	2031(b)	2.000%	1.700%
\$150,000	2027(b)	4.500%	1.070%	\$200,000	2032(b)	2.000%	1.800%
\$175,000	2028(b)	4.500%	1.080%	\$200,000	2033(b)	2.000%	1.900%

\$400,000 2.000% Term Bond Due April 1, 2035 to Yield 2.000% (a) (b) (c)

\$425,000 2.000% Term Bond Due April 1, 2037 to Yield 2.050% (a) (b) (c)

\$450,000 2.000% Term Bond Due April 1, 2039 to Yield 2.100% (a) (b) (c)

\$500,000 2.125% Term Bond Due April 1, 2041 to Yield 2.200% (a) (b) (c)

\$800,000 2.250% Term Bond Due April 1, 2044 to Yield 2.310% (a) (b) (c)

\$875,000 2.250% Term Bond Due April 1, 2047 to Yield 2.357% (a) (b) (c)

\$975,000 2.250% Term Bond Due April 1, 2050 to Yield 2.391% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2026, are subject to redemption in whole or from time to time in part, at the option of the District, on April 1, 2025, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 423 (the “District”) to: (1) refund the principal and accrued interest on the District’s outstanding Bond Anticipation Note, Series 2019, which was used to fund certain road improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional road expenditures for road facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of interest on the Bonds; and (4) pay bond issuance expenses. See “USE OF BOND PROCEEDS.” The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston is pledged to the payment of the principal of, or interest on, the Bonds. **The Bonds are subject to certain investment considerations described under the caption “RISK FACTORS.”**

The Bonds are offered when, as, and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. The Issuer will be advised on certain legal matters concerning disclosure by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about April 1, 2020.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement is not to be used in connection with an offer to sell or the solicitation of an offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not registered or 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, 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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, 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 Initial Purchaser.

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds:

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.000000% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.453656%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

The Underwriter may offer and sell the Bonds to certain dealers (including dealers depositing Bonds into unit investment trusts) and others at prices lower than the public offering price stated on the cover page hereof. The initial offering price may be changed from time to time by the Underwriter.

The Underwriter has reviewed the information in this Official Statement in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriter does not guarantee the accuracy or completeness of such information.

Prices and Marketability

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

THE PRICES AND OTHER TERMS RESPECTING 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 THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. 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.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified 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 updated financial information and operating data to the MSRB via EMMA. The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "APPENDIX A" (Auditor's Report and Financial Statements of the District) of this Official Statement. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2020.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("Rule"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolutions or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is 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 EMMA of the change.

Event Notices

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

This is the District's first bond issue. The District has never entered into a continuing disclosure agreement in accordance with the Rule.

INSURED MUNICIPAL BOND RATING

Standard & Poor's Rating Group ("S&P") has assigned 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 BAM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

The address of the principal executive offices of BAM is: 200 Liberty Street, 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, 2019, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$534.9 million, \$132.5 million and \$402.4 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 "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.

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information appearing elsewhere in this Official Statement. The reader should refer particularly to sections that are indicated for more complete information.

THE BONDS

Description:	The Unlimited Tax Road Bonds, Series 2020, are dated April 1, 2020. The Bonds represent the first series of bonds to be issued by the District. See "THE BONDS."
Source of Payment:	The Bonds are payable from a continuing direct annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision or agency. See "THE BONDS."
Redemption Provisions:	The Bonds maturing on or after April 1, 2026, are subject to early redemption, in whole or in part, on April 1, 2025, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. The Bond maturing on April 1, 2035, 2037, 2039, 2041, 2044, 2047, 2050 are Term Bond and is subject to a mandatory sinking fund redemption on April 1, 2034, 2036, 2038, 2040, 2042, 2045, and 2048, respectively. See "THE BONDS – Optional Redemption," and "– Mandatory Redemption."
Book-Entry-Only System:	The Bonds will be initially registered 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 thereof. Principal of, and interest on, the Bonds will be payable by the Paying Agent/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."
Use of Proceeds:	Proceeds from the sale of the Bonds will be used to: (1) refund the principal and accrued interest on the District's outstanding Bond Anticipation Note, Series 2019, which was used to fund certain road improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional road expenditures for road facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of interest on the Bonds; and (4) pay bond issuance expenses.. See "USE OF BOND PROCEEDS."
Legal Opinion:	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
Paying Agent/Registrar:	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
Payment Record:	This is the District's first bond issue. Therefore, the District has never defaulted in the payment of principal or interest on any bonds or outstanding obligations.
Risk Factors:	The Bonds are subject to certain investment considerations as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "RISK FACTORS" and "LEGAL MATTERS."
Qualified Tax Exempt Obligations:	The Bonds are designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
Municipal Bond Insurance and Rating:	Standard & Poor's Rating Group ("S&P") has assigned 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 BAM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "INSURED MUNICIPAL BOND RATING," "BOND INSURANCE," and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

THE DISTRICT

Description:

The District is a municipal utility district created by order of the Texas Commission on Environmental Quality ("TCEQ") dated December 12, 2006. The District was created pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District was created with certain road and park powers. See "THE DISTRICT."

The District contains approximately 399 acres of land. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas. The District is located entirely within the Humble Independent School District. The District is located approximately 13 miles northeast of the central business district of the City of Houston. The District is immediately to the north side of Beltway 8 (North Sam Houston Parkway) and lies approximately 3 miles east of U.S. Highway 59. According to the District's Engineer, none of the developed land within the District would be subject to flooding during a hypothetical 100-year flood event. See "THE DISTRICT."

Status of Land Development:

A summary of the approximate land use in the District appears in the following table:

<u>Type of Land Use</u>	<u>Approximate Acres</u>	
Developed Acres	192	(a)
Under Development	50	(b)
Remaining Developable Acreage	132	
Undevelopable Acreage	<u>25</u>	(c)
Total Approximate Acres	399	

(a) Represents the developable acres located in Balmoral, Sections 4, 5, 6, 7, 8, 15, 18, 21, 22, and Balmoral Crystal Lagoon; such sections include 685 lots.

(b) Represents acres in Balmoral, Sections 19, 20, and 24 which is approximately 50 acres currently under development into 384 lots.

(c) Includes street rights-of-way, detention ponds, drainage easements, parks and recreation, open spaces, District plant sites, and drilling sites.

Home Building Development:

As of February 10, 2020, residential development in the District included 204 completed homes, 51 homes under construction, and 430 vacant developed lots. Homes are currently being constructed by Westin Homes, Ashton Wood Homes, Empire Homes, Highland Homes, Lennar Homes, Trendmaker Homes, Taylor Morrison Homes, and Shea Homes; and being marketed in the \$250,000 - \$450,000 price range.

The Developer:

The Developer in the District is Balmoral LT LLC (the "Developer"), a special purpose entity created by Land Tejas Companies, Ltd. solely for the purpose of developing land located within the District. The General Partner of the Developer is L.T. Partnership, Ltd., which includes Mr. Al P. Brende who is also the President of Land Tejas Company, Ltd.

A portion of the development financing has been provided by Varde Mortgage Fund II Sub Reit LLC. The development loan documents include a Loan Agreement, a Note, a Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al Brende. The development loan is secured by the land in the District owned by the Developer, lot sale revenues, and future District receivables to be paid by the District to the Developer from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan with a maturity date of November 1, 2021. According to representatives of the Developer, as of December 31, 2019, the development loan had an outstanding balance of \$27,000,000. According to the Developer, the development loan is presently current and has never been in default.

The development financing for 168 acres located on the eastern side of the District, has been provided by Flagstar Bank. The development loan documents include a Loan Agreement, a Note, a Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al Brende. The development loan is secured by the land in the District owned by the Developer, lot sale revenues, and future District receivables to be paid by the District to the Developer from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan with a maturity date of February 28, 2020. According to representatives of the Developer, as of December 31, 2019, the Flagstar Bank development loan had an outstanding balance of \$5,794,503. According to the Developer, the Flagstar Bank development loan is presently current and has never been in default. See "THE DEVELOPER."

The System:

The System currently obtains all of its water from Harris County Municipal Utility District No. 400 ("MUD 400"). The area served by MUD 400 Water Plant No. 2, including the System, is served by a water interconnect to an existing 16-inch City of Houston surface water line located at John Ralston Road. MUD 400 Water Plant No. 2 is capable of serving 1,000 connections based on TCEQ minimum requirements and is currently under construction to expand the facility to serve 2,500 connections. Per the Water Facilities Supply Agreement dated December 18, 2017, between Harris County MUD No. 423 and Harris County MUD No. 400, Harris County MUD No. 423 owns 16.96% or 424 connections of the 2,500 ESFC facility.

The Amended and Restated WWTP Agreement dated July 1, 2013 and the First Amendment dated October 5, 2016, provide that MUD 400 Wastewater Treatment Plant No. 2 is a shared facility with Harris County MUD Nos. 400, 422, 423, and 499, as well as Harris County Fresh Water Supply District No. 48. The first and second phases of the plant have been constructed and are operational (0.6 MGD). The current capacity, based on TCEQ standards (300 gpd/ESFC), is 2,000 ESFCs. Phase I & II of the plant have been funded by the partner districts. The District's share of the existing capacity is 270 ESFCs. The District has entered into a Phase III expansion agreement (the WWTP Agreement dated December 18, 2017) with Harris County MUD Nos. 422 and 423 to expand the shared facility an additional 0.7 MGD to provide additional wastewater capacity. This expansion will provide an additional 538 ESFCs capacity to the District, for a total capacity of 808 ESFCs. See "THE SYSTEM."

100-Year Flood Plain

The District currently has approximately 3.9 acres within the shaded Zone X, or 500-Year Flood Zone as determined by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM), Map Numbers 48201C0505M, Harris County, Texas, and Incorporated Areas, dated June 9, 2014. None of the District currently lies within the 100-year flood plain. See "THE SYSTEM."

SELECTED FINANCIAL INFORMATION
(Unaudited)

1/15/2020 Estimated Taxable Value	\$88,999,030	(a)
9/15/2019 Estimated Taxable Value	\$68,113,329	(a)
2019 Certified Taxable Value	\$25,051,175	(b)

Direct Debt	
Outstanding Bonds	\$0
The Bonds	<u>\$6,110,000</u>
Total Direct Debt	\$6,110,000

Estimated Overlapping Debt	<u>\$1,243,728</u>
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Direct and Estimated Overlapping Debt	\$7,353,728
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Percentage of Direct Debt to:	
1/15/2020 Estimated Taxable Value	6.87%
2019 Certified Taxable Value	24.39%
See "DISTRICT DEBT"	

Percentage of Direct and Estimated Overlapping Debt to:	
1/15/2020 Estimated Taxable Value	8.26%
2019 Certified Taxable Value	29.35%
See "DISTRICT DEBT"	

2019 Tax Rate Per \$100 of Assessed Value	
Debt Service Tax	\$0.00
Road Debt Service Tax	\$0.00
Maintenance Tax	<u>\$1.36</u>
Total 2019 Tax Rate	\$1.36

Cash and Temporary Investment Balances as of February 14, 2020	
General Fund	\$222,124
Road Debt Service Fund Cash Balance	\$152,825 (c)

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- (a) Reflects data supplied by Harris County Appraisal District ("HCAD"). The Estimated Taxable Values as of 9/15/2019 and 1/15/2020 were prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA."
- (b) Reflects the 2019 Certified Taxable Value according to data supplied by HCAD. See "DISTRICT TAX DATA - Analysis of Tax Base."
- (c) The cash and investment balance in the Road Debt Service Fund includes 12 months of capitalized interest to be funded with the proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Road Debt Service Fund. See "DISTRICT TAX DATA - Tax Adequacy of Tax Revenue."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the District's Bonds.

<u>Year</u>	<u>Debt Service on the 2020 Road Bonds</u>		<u>Total Debt Service Requirements</u>
	<u>Principal</u>	<u>Interest</u>	
2020		\$76,412	\$76,412
2021		\$152,825	\$152,825
2022		\$152,825	\$152,825
2023		\$152,825	\$152,825
2024	\$135,000	\$149,787	\$284,787
2025	\$150,000	\$143,375	\$293,375
2026	\$150,000	\$136,625	\$286,625
2027	\$150,000	\$129,875	\$279,875
2028	\$175,000	\$122,562	\$297,562
2029	\$175,000	\$114,687	\$289,687
2030	\$175,000	\$109,000	\$284,000
2031	\$175,000	\$105,500	\$280,500
2032	\$200,000	\$101,750	\$301,750
2033	\$200,000	\$97,750	\$297,750
2034	\$200,000	\$93,750	\$293,750
2035	\$200,000	\$89,750	\$289,750
2036	\$200,000	\$85,750	\$285,750
2037	\$225,000	\$81,500	\$306,500
2038	\$225,000	\$77,000	\$302,000
2039	\$225,000	\$72,500	\$297,500
2040	\$250,000	\$67,593	\$317,593
2041	\$250,000	\$62,281	\$312,281
2042	\$250,000	\$56,812	\$306,812
2043	\$275,000	\$50,906	\$325,906
2044	\$275,000	\$44,718	\$319,718
2045	\$275,000	\$38,531	\$313,531
2046	\$300,000	\$32,062	\$332,062
2047	\$300,000	\$25,312	\$325,312
2048	\$325,000	\$18,281	\$343,281
2049	\$325,000	\$10,968	\$335,968
2050	<u>\$325,000</u>	<u>\$3,656</u>	<u>\$328,656</u>
TOTALS	\$6,110,000	\$2,657,168	\$8,767,168

Maximum Annual Debt Service Requirements (2048) \$343,281

\$0.41 tax rate on the 1/15/2020 Estimated Taxable Value of \$88,999,030

@ 95% collections produces.....\$346,651

\$1.45 tax rate on 2019 Certified Taxable Valuation of \$25,051,175

@ 95% collections produces.....\$345,080

See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

OFFICIAL STATEMENT

Relating to

\$6,110,000

Harris County Municipal Utility District No. 423

(A political subdivision of the State of Texas located within Harris County, Texas)

UNLIMITED TAX ROAD BONDS

SERIES 2020

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$6,110,000 Harris County Municipal Utility District No. 423 Unlimited Tax Road Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, as amended, pursuant to a resolution (the "Bond Resolution") adopted by the Board of Directors of Harris County Municipal Utility District No. 423 (the "District"), and an election held within the District.

This Official Statement includes descriptions of the Bonds, the Bond Resolution, certain information about the District and its financial condition, and the Developer in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Bond Counsel upon payment of duplication costs thereof.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision. The Bonds are payable from a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District. See "THE BONDS – Source of and Security for Payment." The investment quality of the Bonds depends on the ability of the District to collect all taxes levied against the taxable property within the District and, in the event of foreclosure of the District's tax lien, on the marketability of the property and the ability of the District to sell the property at a price sufficient to pay taxes levied by the District and by other overlapping taxing authorities. The District cannot and does not make any representations that over the life of the Bonds the taxable property within the District will accumulate or maintain taxable values sufficient to generate property taxes to pay debt service at current levels.

Marketability

The District has no understanding (other than the initial reoffering yields) 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 spread between the bid and asked price of more traditional issuers as such bonds are generally bought, sold, or traded in the secondary market.

Tax Collections

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 impaired by (a) repetitive, annual, expensive collection procedures, (b) a federal bankruptcy court's stay of tax collection procedures, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. See "TAXING PROCEDURES – District's Right in the Event of Tax Delinquencies".

Registered Owners' Remedies

If the District defaults in the payment of principal of, interest on, 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 observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the 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 do 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. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of the Registered Owners may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Specifically, the District may voluntarily file a petition for protection from creditors under the federal bankruptcy laws. During the pendency of the bankruptcy proceedings, the remedy of mandamus would not be available to the Registered Owners unless authorized by a federal bankruptcy judge.

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) 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. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if the 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 Owners could potentially and adversely impair the value of the Registered Owners' 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 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 the District.

A District cannot be placed into bankruptcy involuntarily.

Approval of the Bonds

As required by law, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the safety of the Bonds as an investment or the adequacy or accuracy of the information contained in this Official Statement.

Economic Factors

The Houston area economy is particularly tied to the energy industry, and continuing low oil and natural gas prices could adversely affect the demand for housing and the assessed values of properties located in the District.

The continued growth of taxable values in the District is directly related to the housing and building industry. The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for new homes, hence reducing demand by homebuilders for lots within the District.

Interest rates and the availability of mortgage and development funds have a direct impact on construction activity, particularly the short-term interest rates at which developers and builders are able to obtain financing for development or building costs. Interest rate levels may affect the developers' or builders' ability to complete development or building plans. Long-term interest rates affect home purchasers' ability to qualify for and afford the total financing costs of a new home. The continuation of long-term interest rates at higher levels may negatively affect home sales and the rate of growth of taxable values in the District.

The Houston metropolitan area has, in the past, experienced increased unemployment, business failures, and slow absorption of office space. These factors, if they recur, could affect the demand for new residential home construction and commercial development and hence the growth of property values in the District. An oversupply of homes, along with a decreased demand in new housing because of general economic conditions or relatively high interest rates, may have an adverse impact on sale prices for homes and, consequently, may materially adversely affect property values or, in some instances, cause builders to abandon homebuilding plans altogether.

The housing industry in the Houston area is competitive and the District can give no assurance that current building programs will be completed. The competitive position of the Developer in the sale of its developed lots or, respectively, that of present and prospective builders in the construction of single-family residential houses, is affected by most of the factors discussed herein. Such a competitive position is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

Nationally, there was a significant downturn in new housing construction in 2007 - 2011 caused in part by increasing foreclosures, reduced builder financing, the unavailability of mortgage funds and slower growth, and contraction in the national economy, resulting in a decline in the market value of homes. The downturn did not have an effect on the value of homes in the District, as the District had not yet been created at that time. However, the Houston area, which includes Harris County, experienced reduced levels of home construction in 2009, 2010, 2011, and 2012 versus similar periods in prior years, i.e., 2004 - 2006.

Alternative sites are available for the construction of single-family residential improvements and within the market area in which the District is located. Such sites could pose competition to the continued homebuilding development and commercial development on comparable sites within the District.

Landowners/Developer under No Obligation to the District

Neither the Developer nor any other landowner within the District has any commitments or obligations to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Currently, there is no restriction on any landowner's right (including the Developer) to sell its land. Failure to construct taxable improvements on developed lots (anticipated to be created by the Developer) and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon certain principal taxpayers for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such conditions may have on their ability to pay taxes. See "DISTRICT TAX DATA – Principal Taxpayers."

Dependence on Principal Taxpayers

Based upon the 2019 certified tax rolls, the top ten taxpayers were responsible for approximately 77% of the District's 2019 taxes. The ability of the principal taxpayers to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, the principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to use other funds available for debt service purposes to the extent available. The District has no understanding with any of the principal taxpayers regarding their future level of operations in the District. The District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Road Debt Service Fund or any other funds. Therefore, failure by the principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. See "THE DISTRICT'S DEVELOPER" and "DISTRICT TAX DATA – Principal Taxpayers."

Dependence on Future Development and Potential Impact on District Tax Rates

The District's 2019 tax rate of \$1.36 per \$100 of assessed valuation is slightly higher than the tax rate that is common among many other similar utility districts providing water, sanitary sewer, and storm drainage services in Harris County. An increase in the District's tax rate substantially above such a level could have an adverse impact on future development in the District and on the District's ability to collect such tax.

Assuming no further residential building development within the District, other than that which has been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay ad valorem taxes levied by the District. After the issuance of the Bonds, the maximum annual debt service requirement will be \$343,281 (2048). The District's 1/15/2020 Estimated Taxable Value is \$88,999,030, assuming no increase or decrease from the 1/15/2020 Estimated Taxable Value and no use of other District funds, a tax rate of \$0.41 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the maximum annual debt service requirement. The District's 2019 certified taxable value is \$25,051,175. Assuming no increase or decrease from the 2019 certified taxable value and no use of other District funds, a tax rate of \$1.45 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

Future Debt

The District's voters have authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<u>Amount</u>	<u>Purpose</u>
\$182,000,000	For certain water, sanitary sewer, and storm water facilities and for refunding
\$65,000,000	For certain road facilities and for refunding
\$19,500,000	For certain parks and recreational facilities and for refunding

After the issuance of the Bonds, the District will have \$182,000,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$65,000,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$19,500,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

The District has the right to issue additional bonds as may hereafter be approved by both the Board and the voters of the District. Such additional bonds would be issued on a parity with the Bonds. Any future new money bonds (except for new money road bonds) to be issued by the District must also be approved by the TCEQ.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for said purpose, 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) amendment of the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board is not considering issuing any fire-fighting unlimited tax bonds at this time. The District has no information concerning any determination by the City of Houston to modify its consent ordinance. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Financing Parks and Recreational Facilities

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) approval of the park project and bonds by the TCEQ; and (b) 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 District held a park and recreational facilities bond election on May 6, 2017, that authorized \$19,500,000 of park bonds.

Current law may be changed in a manner to increase the amount of bonds that may be issued as related to a percentage of the value of taxable property or to allow a higher or lower maintenance tax rate for such purposes. The levy of taxes for such purposes may dilute the security for the Bonds.

Continuing Compliance with Certain Covenants

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

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

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

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

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

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

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

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

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

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

Texas Pollutant Discharge Elimination System ("TPDES") permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain nonstormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the 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 District's stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the "Current Permit") issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ's General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit"), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District's inclusion in the MS4 Permit were required at a future date, the District could incur substantial costs to develop, 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.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR will become effective 60 days after the date of its publication in the Federal Register, and will likely become the subject of further litigation.

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

Changes in Tax Legislation

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

Hurricane Harvey

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the observations of the District's Operator and the District's Engineer, the District's System did not sustain any significant damage and there was no interruption of water and sewer service to District customers as a result of Hurricane Harvey. According to the observations of the District's Engineer and members of the District's Board of Directors, no homes in the District experienced flooding as a result of Hurricane Harvey.

Inclement Weather

The District is located approximately 90 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a 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.

Ponding (or Pluvial) Flooding - 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.

Delinquent Tax Payments for Disaster Areas

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

Tax Payment Installments

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. See "TAXING PROCEDURES."

Harris County and City of Houston Floodplain Regulations

As a direct result of Hurricane Harvey, Harris County and the City of Houston adopted new rules and amended existing regulations relating to minimizing the potential impact of new development on drainage and mitigating flooding risks. The new and amended Harris County regulations took effect on January 1, 2018, and the new and amended City of Houston regulations took effect on September 1, 2018.

The Harris County floodplain regulations govern construction projects in unincorporated Harris County and include regulations governing the elevation of structures in the 100-year and 500-year floodplains. Additionally, the Harris County regulations govern the minimum finished floor elevations as well as specific foundation construction requirements and windstorm construction requirements for properties located both above and below the 100-year flood elevation.

The City of Houston floodplain regulations govern construction projects in the corporate jurisdiction of the City of Houston and include regulations governing the elevation of structures in the 100-year and 500-year floodplains and the elevation of residential additions greater than one-third the footprint of the existing structure and non-residential additions. Additionally, the City of Houston regulations require an improved structure whose new market value exceeds 50% of the market value of the structure prior to the start of improvements meet the new and amended City of Houston regulations.

The new and amended Harris County and City of Houston regulations may have a negative impact on new development in those subdivisions in the District that are within Harris County or in the City of Houston's extraterritorial jurisdiction.

Storm Water

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to: (1) refund the principal and accrued interest on the District's outstanding Road Bond Anticipation Note, Series 2019 which were used to fund certain road improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional road expenditures for road facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of interest on the Bonds; and (4) pay bond issuance expenses.

The Engineer has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

DISTRICT ITEMS / CONSTRUCTION COSTS	<u>Total Amount</u>
Construction of Paving Facilities in Victoria Reach and Balmoral Bay Drive, Balmoral Section 7, and Balmoral Harbor in Balmoral Section 6	\$1,300,424 (a)
Construction of Paving Facilities of Green Road in Balmoral Section 4	\$679,721
Construction of Paving Facilities in Balmoral Section 6	\$413,164
Construction of Paving Facilities in Balmoral Hills, Balmoral Bend & Greens Road Balmoral Section 15	\$780,974
Roadway Land Cost	\$709,149
Engineering	\$769,557
TOTAL CONSTRUCTION COSTS:	<u>\$386,958</u>
	\$5,039,947
 NON-PROJECT COSTS:	
Legal Fees	\$162,200
Financial Agent Fees	\$122,200
Interest Costs	
BAN Interest	\$165,000
Developer Interest	\$82,737
Capitalized Interest	\$152,825
Bond Anticipation Note Issuance Expense	\$103,092
Bond Discount	\$183,300
Bond Reporting Engineering Fee	\$20,000
Attorney General Fee	\$6,110
Bond Issuance Expenses	\$23,784
Contingency	<u>\$48,805</u> (b)
TOTAL NON-CONSTRUCTION COSTS	\$1,070,053
 TOTAL BOND ISSUE REQUIREMENT	 \$6,110,000

(a) The TCEQ has no rules regarding district reimbursement of road costs to developers. The above costs represent reimbursement to the Developer for certain road construction costs. The District has engaged its Auditor to do a review of the Developer's documentation of the payments of such costs. The Auditor has presented the Board with a report indicating the project costs noted in the table above appear to be accurate.

(b) The District will designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the estimated rate as a contingency line item. Such funds will be used by the District for road-related costs only after approval by the Board of Directors.

THE DISTRICT

Authority

The District is a municipal utility district created by order of the TCEQ dated December 12, 2006. The District was created pursuant to the authority of Article XVI, Section 59 of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District was created with certain road and park powers.

Under certain limited circumstances, the District is authorized to construct, develop, and maintain park and recreational facilities, and to construct roads. In addition, the District is authorized to establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to provide such facilities and services to the customers of the District.

In order to obtain the consent of the City of Houston ("the City") to the creation of the District (within whose extraterritorial jurisdiction the District lies) the District has agreed to observe certain City requirements. These requirements limit the purposes for which the District may sell bonds for the acquisition and improvement of waterworks, wastewater, and drainage facilities, road facilities, and park and recreational facilities; limit the net effective interest rate on such bonds and other terms of such bonds; and require the City's approval of certain of the District's construction plans and specifications.

Description

The District contains approximately 399 acres of land which includes the sections in the District known as Balmoral Sections 4 – 8, 15, 18, 19 – 22, 25 and 26 as well as a section known as Balcara at Balmoral (Balmoral, Section 24), as well as approximately 30 acres of land that will be used for potential commercial development. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City. The District is located entirely within the Humble Independent School District. The District is located approximately 13 miles northeast of the central business district of the City. The District is immediately to the north side of Beltway 8 (North Sam Houston Parkway) and lies approximately 3 miles east of U.S. Highway 59. According to the District's Engineer, none of the developed land within the District would be subject to flooding during a hypothetical 100-year flood event.

Status of Land Development/Land Uses in the District

<u>Type of Land Use</u>	<u>Approximate Acres</u>	
Developed Acres	192	(a)
Under Development	50	(b)
Remaining Developable Acreage	132	
Undevelopable Acreage	<u>25</u>	(c)
Total Approximate Acres	399	

-
- (a) Represents the developable acres located in Balmoral, Sections 4, 5, 6, 7, 8, 15, 18, 21, 22, and Balmoral Crystal Lagoon; such sections include 685 lots.
- (b) Represents acres in Balmoral, Sections 19, 20, and 24 which is approximately 50 acres currently under development into 384 lots.
- (c) Includes street rights-of-way, detention ponds, drainage easements, parks and recreation, open spaces, District plant sites, and drilling sites.

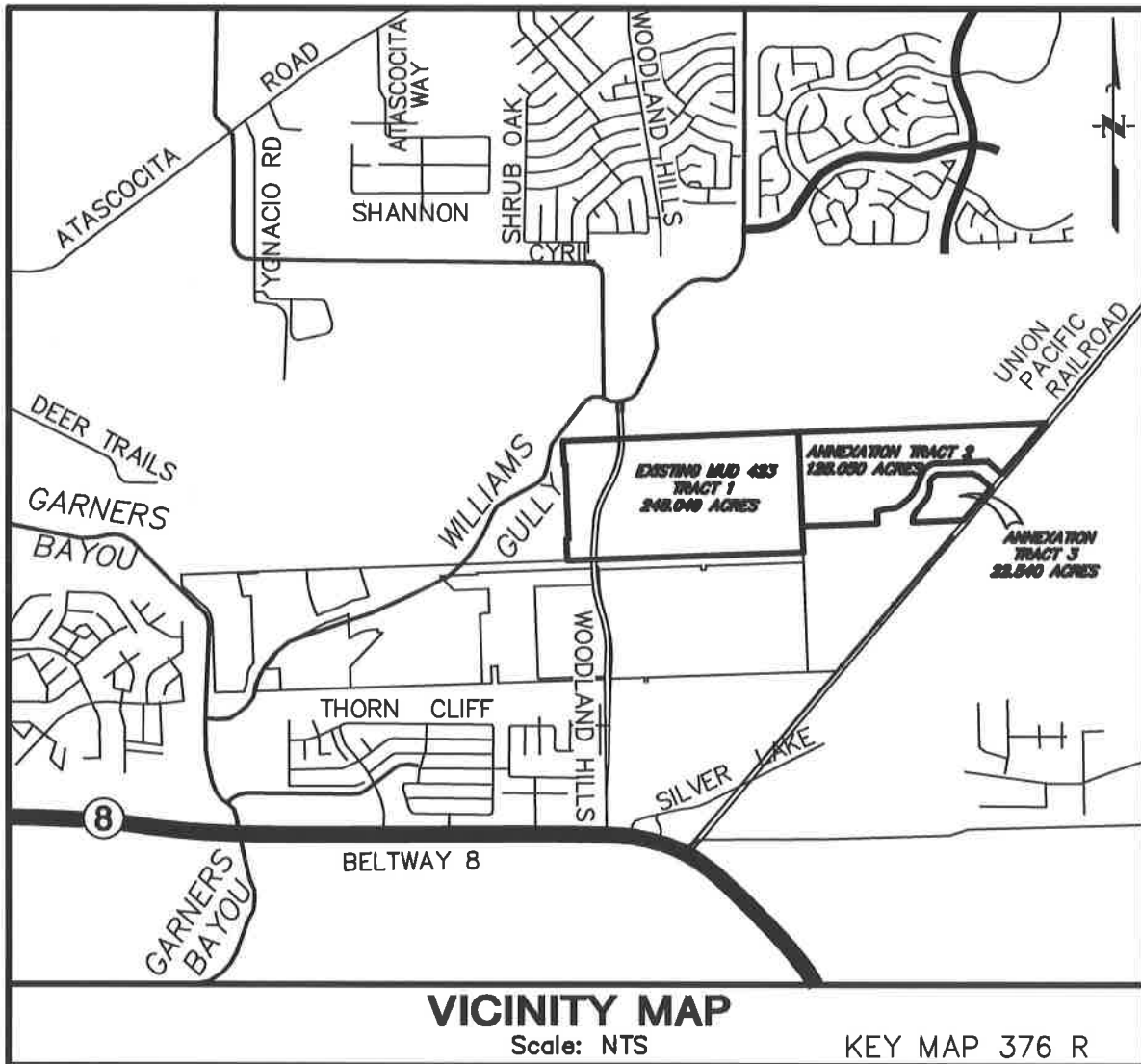
Homebuilding Development

A tabulation of the single family development and potential future commercial development within the District as of January 15, 2020, is approximately as follows:

<u>Section</u>	<u>Acreage</u>	<u>Total Lots</u>	<u>Completed</u>	<u>Under Construction</u>	<u>Vacant Developed Lots</u>
Balmoral, Section 4 (a)	37	112	41	11	60
Balmoral, Section 5 (b)	22	112	92	6	14
Balmoral, Section 6 (c)	27	66	37	3	26
Balmoral, Section 7 (d)	5	13	6	2	5
Balmoral, Section 8 (e)	22	89	20	5	64
Balmoral, Section 15 (f)	21	86	8	20	58
Balmoral, Section 18 (g)	12	44	0	4	40
Balmoral, Section 21 (h)	21	90	0	0	90
Balmoral, Section 22 (h)	15	<u>73</u>	<u>0</u>	<u>0</u>	<u>73</u>
Other Balmoral Sections (i)	30				
Balcara at Balmoral (j)	20				
Potential Commercial Reserves (k)	<u>30</u>				
TOTAL	262	685	204	51	430

- (a) Homes in Balmoral, Section 4 are being constructed by Westin Homes and Ashton Woods Homes. Homes in this section are currently being marketed in the \$330,000 to \$450,000 price range.
- (b) Homes in Balmoral, Section 5 are being constructed by Empire Homes and Highland Homes. Homes in this section are currently being marketed in the \$250,000 to \$310,000 price range.
- (c) Homes in Balmoral, Section 6 are being constructed by Lennar Homes. Homes in this section are currently being marketed in the \$230,000 to \$270,000 price range.
- (d) Homes in Balmoral, Section 7 are being constructed as a model home court.
- (e) Homes in Balmoral, Section 8 are being constructed by Trendmaker Homes and Taylor Morrison Homes. Homes in this section are currently being marketed in the \$250,000 to \$350,000 price range.
- (f) Homes in Balmoral, Section 15 are being constructed by Westin Homes and Shea Homes. Homes in this section are currently being marketed in the \$250,000 to \$320,000 price range.
- (g) Homes in Balmoral, Section 18 are being constructed by Westin Homes and Shea Homes. Homes in this section are currently being marketed in the \$300,000 price range.
- (h) The lots in Balmoral, Sections 21 and 22 were substantially complete as of February 10, 2020. Homes in these sections will be constructed by Ashton Woods, Empire, and Highland and according to the Developer it is presently anticipated that homes in these sections will be marketed in the \$275,000 to \$325,000 price range.
- (i) Includes approximately 30 acres currently under development in the sections known as Balmoral, Sections 19 and 20. Such land is being developed by the Developer into approximately 221 lots. It is currently anticipated that such lots will be available for homebuilding during the third and fourth quarters of 2020 and that such lots will be sold to HistoryMaker Homes and William Lyon Homes. According to the Developer, it is presently anticipated that homes in these sections will be marketed in the \$275,000 - \$325,000 price range.
- (j) Balcara at Balmoral (also known as Balmoral, Section 24) is currently under development and will be developed by affiliates of the Balcara Group, LLC into approximately 163 single family lots to develop as a rental home community. It is currently anticipated that such lots will be available for homebuilding development during the third quarter of calendar year 2020.
- (k) Includes 6 tracts of land totaling approximately 30 acres that may be developed for commercial purposes at some point in time in the future; the District can make no recommendations that such tracts will ever be developed for any purpose.

LOCATION MAP



Existing HCMUD No. 423
Annexation Tract 2
Annexation Tract 3
Total

248.049 Ac.
126.050 Ac.
22.540 Ac.
396.639 Ac.

VICINITY MAP
OF
HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT No. 423
AND
ANNEXATION TRACTS
HARRIS COUNTY, TEXAS
NOVEMBER 2018



AERIAL PHOTOGRAPH

727.520.8181
www.aerophoto.com

Balmoral & Etteridge

Image # 99
Date 12.23.19

THE DISTRICT'S DEVELOPER

Role of a Developer

In general, the activities of a developer in a municipal utility district, such as the District, include purchasing the land within a district, designing the streets in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities, and selling improved lots and commercial reserves to builders, other developers, or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing certain water, wastewater, and drainage facilities in the utility district exclusive of water and sewage treatment plants unless a waiver from this requirement is requested and obtained from the TCEQ by the District, pursuant to the rules of the TCEQ. In addition, a developer is ordinarily the major taxpayer within a utility district during the property development phase and the developer's inability to pay the taxes assessed on its property within a district would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by the district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a district.

The Developer

The Developer in the District is Balmoral LT LLC (the "Developer"), a special purpose entity created by Land Tejas Companies, Ltd. solely for the purpose of developing land located within the District. The General Partner of the Developer is L.T. Partnership, Ltd., which includes Mr. Al P. Brende who is also the President of Land Tejas Company, Ltd.

A portion of the development financing has been provided by Varde Mortgage Fund II Sub Reit LLC. The development loan documents include a Loan Agreement, Note, Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al Brende. The development loan is secured by the land in the District owned by the Developer, lot sale revenues, and future District receivables to be paid by the District to the Developer from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan with a maturity date of November 1, 2021. According to representatives of the Developer, as of December 31, 2019, the development loan had an outstanding balance of \$27,000,000. According to the Developer, the development loan is presently current and has never been in default.

The development financing for 168 acres located on the eastern side of the District, has been provided by Flagstar Bank. The development loan documents include a Loan Agreement, Note, Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al Brende. The development loan is secured by the land in the District owned by the Developer, lot sale revenues, and future District receivables to be paid by the District to the Developer from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan that currently has a maturity date of February 28, 2020. The developers at Flagstar are in the process of extending the maturity date of the loan to August 31, 2020. According to representatives of the Developer, as of December 31, 2019, the Flagstar Bank development loan had an outstanding balance of \$5,794,503. According to the Developer, the Flagstar Bank development loan is presently current and has never been in default.

THE SYSTEM

Regulation

Construction and operation of the District's water, wastewater and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the TCEQ and the United States Environmental Protection Agency. Harris County, the City, Harris County Flood Control District, and the Texas Department of Health also exercise regulatory jurisdiction over the District's System.

Water Supply

The System currently obtains all of its water from MUD 400. The area served by MUD 400 Water Plant No. 2, including the System, is served by a water interconnect to an existing 16-inch City of Houston surface water line located at John Ralston Road. MUD 400 Water Plant No. 2 is capable of serving 1,000 connections based on TCEQ minimum requirements and is currently under construction to expand the facility to serve 2,500 connections. Per the Water Facilities Supply Agreement dated December 18, 2017, between Harris County MUD No. 423 and Harris County MUD No. 400, Harris County MUD No. 423 owns 16.96% or 424 connections of the 2,500 ESFC facility. It should be noted that the District will have to expand its water supply capacity in the future in order to serve the buildout of the District.

The Amended and Restated WWTP Agreement dated July 1, 2013 and the First Amendment dated October 5, 2016, provide that MUD 400 lies in an area which, according to the Harris-Galveston Subsidence District, must reduce ground water withdrawal to 20% of total water use by the year 2030. MUD 400 has entered into a water supply and groundwater reduction plan contract with the City of Houston, effective June 30, 2005, under which MUD 400 is included in the City's groundwater reduction plan.

Wastewater Treatment

MUD 400 Wastewater Treatment Plant No. 2 is a shared facility with Harris County MUD Nos. 400, 422, 423, and 499, as well as Harris County Fresh Water Supply District No. 48. The first and second phases of the plant have been constructed and are operational (0.6 MGD). The current capacity, based on TCEQ standards (300 gpd/ESFC), is 2,000 ESFCs. Phase I & II of the plant have been funded by the partner districts. The District's share of the existing capacity is 270 ESFCs. The District has entered into a Phase III expansion agreement (the WWTP Agreement dated December 18, 2017) with Harris County MUD Nos. 422 and 423 to expand the shared facility an additional 0.7 MGD to provide additional wastewater capacity. This expansion will provide an additional 538 ESFCs capacity to the District, for a total capacity of 808 ESFCs. This expansion is not yet warranted as existing flows do not meet the 75% of permitted daily average flow as required in the current discharge permit.

Storm Drainage Facilities

Land within the District is in the San Jacinto River watershed and naturally drains towards Lake Houston, which drains south to the Houston Ship Channel, which ultimately outfalls into the Gulf of Mexico. The District has a storm sewer collector system which drains into a drainage/detention channel that is located near the southern boundary. This drainage/detention channel outfalls into Lake Houston.

The District did not receive any damage to its facilities and there was no flooding of homes in the District during Hurricane Harvey. See "RISK FACTORS – Hurricane Harvey".

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection, and storm drainage facilities have been constructed to serve 522 lots in the District.

100-Year Flood Plain

The District currently has approximately 3.9 acres within the shaded Zone X, or 500-Year Flood Zone as determined by the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM), Map Numbers 48201C0505M, Harris County, Texas, and Incorporated Areas, dated June 9, 2014. None of the District currently lies within the 100-year flood plain.

General Fund Operating History

The 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. The information included in the table below relating to the District's operations is provided for information purposes only.

REVENUES	Ended July 31 (a)			
	<u>2019</u>	<u>2018*</u>	<u>2017*</u>	<u>2016*</u>
Water Service	\$39,496	\$18	-	-
Sewer Service	\$37,236	\$25	-	-
Property taxes	\$68,434	\$38,217	-	-
Penalty and interest	\$1,471	\$17	-	-
Tap connection and inspection	\$188,862	\$65,953	-	-
Miscellaneous	\$8,560	\$650	-	-
Investment earnings	\$162	\$14	\$6	\$1
TOTAL REVENUES	\$344,221	\$104,894	\$6	\$1
EXPENDITURES				
Current service operations:				
Purchased services	\$15,788	\$0	-	-
Professional fees	\$261,951	\$166,524	\$13,708	\$975
Contracted services	\$204,391	\$4,050	\$1,988	-
Repairs and maintenance	\$46,232	\$0	-	-
Utilities	\$701	\$0	-	-
Administrative	\$16,258	\$12,902	\$6,112	\$4,662
Other	\$4,489	\$1,361	\$194	\$182
TOTAL EXPENDITURES	\$549,810	\$184,837	\$22,002	\$5,819
EXCESS REVENUES (EXPENDITURES) (b)	<u>(\$205,589)</u>	<u>(\$79,943)</u>	<u>(\$21,996)</u>	<u>(\$5,818)</u>

(a) Per data provided in the District's audited financial statements. See "APPENDIX A" for the District's audited financial statements for the fiscal year ended July 31, 2019.

(b) As of February 14, 2020, the District's General Fund had an unaudited cash and investment balance of approximately \$222,214. For the fiscal year ending July 31, 2020, the District's General Fund is currently budgeting revenues of approximately \$515,000 and expenditures of approximately \$643,200.

*Unaudited figures.

MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board"), which has control over and management supervision of all affairs of the District. None of the directors reside in the District; each of the directors owns a parcel of land in the District subject to a note and deed of trust. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Expires May</u>
Patricia Scholes	President	2022
Jennifer L. Hoff	Vice President	2020
Heather LaFleur	Secretary	2022
Louise Blair	Assistant Secretary	2020
Jennifer Trevino	Assistant Vice President	2020

The District does not employ a general manager or any other full-time employees. The District has contracted for bookkeeping, tax assessing and collecting services, and annual auditing of its financial statements as follows:

Tax Assessor/Collector – The District's Tax Assessor/Collector is Assessments of the Southwest, Inc., who is employed under an annual contract and represents approximately 175 other utility districts.

Bookkeeper – The District's Bookkeeper is Myrtle Cruz, Inc., which acts as bookkeeper for approximately 200 other utility districts.

Auditor – The District's annual financial statements as of and for the year ended July 31, 2019, have been audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2019, audited financial statements.

Utility System Operator – The System's operator is Environmental Development Partners, LLC (the "Operator") who serves as the Operator for approximately 35 other special districts.

Engineer – The consulting engineer for the District is Jones & Carter, Inc. (the "Engineer").

Financial Advisor – The GMS Group, L.L.C., ("GMS") serves as Financial Advisor to the District, and is paid an hourly fee for certain work performed for the District and a contingent fee to be computed on each separate issuance of the bonds if and when such bonds are delivered.

Bond Counsel – Allen Boone Humphries Robinson LLP serves as Bond Counsel to the District and as counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Disclosure Counsel – Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds, but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds however such fees are not contingent upon the sale and delivery of such Bonds.

DISTRICT INVESTMENT POLICY

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield in its portfolio. Funds of the District are invested in short-term U.S. Treasuries, 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, nor does it anticipate the inclusion of long-term securities or derivative products in the District portfolio.

DISTRICT DEBT

1/15/2020 Estimated Taxable Value	\$88,999,030	(a)
9/15/2019 Estimated Taxable Value	\$68,113,329	(a)
2019 Certified Taxable Value	\$25,051,175	(b)

Direct Debt	
Outstanding Bonds	\$0
The Bonds	<u>\$6,110,000</u>
Total Direct Debt	\$6,110,000

Estimated Overlapping Debt	<u>\$1,243,728</u>
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Direct and Estimated Overlapping Debt	\$7,353,728
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Percentage of Direct Debt to:	
1/15/2020 Estimated Taxable Value	6.87%
2019 Certified Taxable Value	24.39%

Percentage of Direct and Estimated Overlapping Debt to:	
1/15/2020 Estimated Taxable Value	8.26%
2019 Certified Taxable Value	29.35%

2019 Tax Rate Per \$100 of Assessed Value	
Debt Service Tax	\$0.00
Road Debt Service Tax	\$0.00
Maintenance Tax	<u>\$1.36</u>
Total 2019 Tax Rate	\$1.36

Cash and Temporary Investment Balances as of February 14, 2020	
General Fund	\$222,124
Road Debt Service Fund Cash Balance	\$152,825 (c)

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- (a) The Estimated Taxable Values as of 9/15/2019 and 1/15/2020 were prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA."
- (b) Reflects the 2019 Certified Taxable Value according to data supplied by HCAD. See "DISTRICT TAX DATA - Analysis of Tax Base."
- (c) The cash and investment balance in the Road Debt Service Fund includes 12 months of capitalized interest to be funded with the proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Road Debt Service Fund. See "DISTRICT TAX DATA - Tax Adequacy of Tax Revenue."

Estimated Overlapping Debt

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 the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts 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. Furthermore, certain of the entities listed below may have issued additional bonds, the amount of which has not been reported. 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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Overlapping %</u>	<u>Amount</u>
Humble Independent School District	\$650,325,000	0.160%	\$1,038,002
Harris County	\$1,599,402,125	0.006%	\$88,912
Harris County Flood Control District	\$83,075,000	0.006%	\$4,717
Port of Houston Authority	\$593,754,397	0.006%	\$33,985
Harris County Department of Education	\$6,320,000	0.006%	\$354
Harris County Hospital District	\$57,300,000	0.006%	\$3,253
Lone Star College System	\$581,595,000	0.013%	\$74,506
Total Estimated Overlapping Debt			\$1,243,728
The District (a)			\$6,110,000
Total Direct and Estimated Overlapping Debt			\$7,353,728

(a) Includes the Bonds.

DISTRICT TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax information collection experience of the District for the years 2017 through 2019. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate (a)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections (b)</u>	<u>Year Ended September 30</u>
2019	\$25,051,175	\$1.36	\$340,696	(c)	2020
2018	\$4,046,998	\$1.36	\$55,039	100%	2019
2017	\$3,795,013	\$1.36	\$51,612	100%	2018

(a) See "Tax Rate Distribution" herein.

(b) Represents tax collections as of September 30, 2019.

(c) The 2019 taxes are in the process of being levied, such taxes were due on or before January 31, 2020. The 2019 tax levy was 86.6% collected as of February 12, 2020.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District and its facilities. Such tax is in addition to taxes that the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. The District's voters authorized a maintenance tax of up to \$1.50 per \$100.00 of assessed valuation at an election held on May 6, 2017. The District's voters authorized a road maintenance tax of up to \$0.25 per \$100.00 of assessed valuation at an election held on May 6, 2017. See "Tax Rate Distribution" herein.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2017 through 2019.

	<u>2019</u>	<u>2018</u>	<u>2017</u>
Road Debt Service	\$0.00	\$0.00	\$0.00
Maintenance/Operations	<u>\$1.36</u>	<u>\$1.36</u>	<u>\$1.36</u>
Total	\$1.36	\$1.36	\$1.36

Additional Penalties

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

Principal Taxpayers

The list of principal taxpayers for 2019 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
Balmoral LT LLC (a)	Tracts / Lots / Houses	\$11,987,669	47.85%
EHT of Texas LP	Lots / Houses	\$1,503,134	6.00%
Lennar Homes of Texas Land	Lots / Houses	\$944,164	3.77%
Trendmaker Homes Inc.	Lots / Houses	\$851,633	3.40%
Westin Homes & Properties LP	Lots / Houses	\$845,526	3.38%
Ashton Houston Residential LLC	Lots / Houses	\$823,217	3.29%
Taylor Morrison of Texas Inc	Tract	\$754,031	3.01%
Highland Homes Houston LLC	Lot / House	\$732,457	2.92%
Lennar Homes of Texas	Lot / House	\$679,800	2.71%
Woodland Interests LLC	Lot / House	\$279,165	1.11%
TOTAL TOP 10 VALUE		\$19,400,796	77.44%

(a) See "THE DISTRICT'S DEVELOPER."

Analysis of Tax Base

Based on information provided to the District by HCAD and its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2017 through 2019.

<u>Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
1/15/2020						\$88,999,030 (a)
2019	\$14,453,803	\$10,884,321	\$68,244	\$25,406,368	\$355,193	\$25,051,175
2018	\$4,169,864	\$0	\$0	\$4,169,864	\$122,866	\$4,046,998
2017	\$3,795,013	\$0	\$0	\$3,795,013	\$0	\$3,795,013

(a) The 1/15/2020 Estimated Taxable Value was prepared by HCAD and provided to the District. Such value is not binding on HCAD and provided for informational purposes only. The District is authorized by law to levy taxes only against certified values.

Estimated Overlapping Taxes

The following table sets forth all 2019 taxes levied by overlapping taxing jurisdictions for substantially all of the completed homes and homes under construction that are located within the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	<u>2019 Tax Rate</u>
Humble Independent School District	\$1.41835
Harris County (a)	\$0.61670
Lone Star College System	\$0.10780
Emergency Service District No. 1	\$0.10000
Emergency Service District No. 10	\$0.10000
Overlapping Taxes	\$2.34285
The District (2019)	\$1.36000
Total Direct & Overlapping Taxes	\$3.70285

(a) Includes Harris County, Harris County Flood Control District, Port of Houston Authority, Harris County Hospital District, and Harris County Education Department.

Tax Adequacy of Tax Revenue

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Road Debt Service Fund, and no increase or decrease in assessed valuation over the 1/15/2020 Estimated Taxable Valuation and the 2019 Certified Taxable Valuation. The calculations utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2048)	\$343,281
Requires a \$0.41 debt service tax rate on the 1/15/2020 Estimated Taxable Value at 95% collections.....	\$346,651
Requires a \$1.45 debt service tax rate on the 2019 Certified Taxable Value at 95% collections	\$345,080

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal and interest on the Bonds and any additional bonds payable from taxes that the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. See "RISK FACTORS – Future Debt." The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully in this Official Statement under the caption "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 its water and wastewater system and for the payment of certain contractual obligations if authorized by the voters in the District. See "DISTRICT TAX DATA – Maintenance Tax."

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 in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by HCAD. HCAD have the responsibility for appraising property for all taxing units within their respective county. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; 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; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 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, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 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 assessor and collector 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. The District has never adopted an order granting a general residential homestead exemption.

Freeport Goods and Goods-in-Transit Exemptions : A "Freeport Exemption" applies to goods, wares, 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 that are destined to be forwarded outside of Texas and that 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 that are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law.

Tax Abatement

Either Harris County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City, Harris County, or the District at the option and discretion of each entity, may enter into tax abatement agreements with property owners within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement agreements, which each entity will follow in granting tax abatement agreements to owners of property. The tax abatement agreements may exempt property from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each

taxing jurisdiction, including the District, 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 HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Boards, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on 100% of market value, as such is defined in the Property Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

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 are valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief 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 for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use, open space land and timberland.

The Property Tax Code requires HCAD to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in HCAD at least once every three years. It is not known what frequency of reappraisal will be utilized by HCAD 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 HCAD 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 HCAD chooses to formally include such values on its appraisal roll.

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal 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 HCAD to compel compliance with the Property Tax Code.

The Property Tax Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that 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. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 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 12% regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 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) 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

SB 2 classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per \$100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate pursuant to SB 2 is described for each classification below.

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

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

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

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

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property 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 the State of Texas and each local taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "DISTRICT TAX DATA – Estimated Overlapping Taxes"). A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property, under certain circumstances, is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

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

ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District. However, under legislation effective December 1, 2017, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District.

If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Strategic Partnership Agreement

The District is authorized to enter into a strategic partnership agreement with the City to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District and could provide for the conversion of a limited purpose annexation to a general purpose annexation or the payment of a fee by the District based on the costs of providing municipal services to the District. The agreement could also provide for the collection of the City's sales and use taxes within the District. Although the City has negotiated and entered into such an agreement with many other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District; although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

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

THE BONDS

General

The Bond Resolution authorizes the issuance and sale of the Bonds and prescribes terms, conditions, and provisions for the payment of the principal of, and interest, on the Bonds by the District. Set forth below is a summary of certain provisions of the Bond Resolution. Capitalized terms in such summary are used as defined in the Bond Resolution. Such summary is not a complete description of the entire Bond Resolution and is qualified in its entirety by reference to the Bond Resolution, a copy of which is available from the District's Bond Counsel upon request.

The Bonds will be dated and will bear interest from April 1, 2020, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on April 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable October 1, 2020, and each April 1 and October 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of the principal amount 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. Principal of, premium, if any, and interest on the Bonds, will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM" herein.

In the event that 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.

Optional Redemption

The Bonds maturing on and after April 1, 2026, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on April 1, 2025, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

Mandatory Redemption:

The Bonds maturing April 1 in the years 2035, 2037, 2039, 2041, 2044, 2047, and 2050 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

\$400,000 Term Bonds, due April 1, 2035

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2034	\$200,000
April 1, 2035 (maturity)	\$200,000

\$425,000 Term Bonds, due April 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2036	\$200,000
April 1, 2037 (maturity)	\$225,000

\$450,000 Term Bonds, due April 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2038	\$225,000
April 1, 2039 (maturity)	\$225,000

\$500,000 Term Bonds, due April 1, 2041

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2040	\$250,000
April 1, 2041 (maturity)	\$250,000

\$800,000 Term Bonds, due April 1, 2044

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2042	\$250,000
April 1, 2043	\$275,000
April 1, 2044 (maturity)	\$275,000

\$875,000 Term Bonds, due April 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2045	\$275,000
April 1, 2046	\$300,000
April 1, 2047 (maturity)	\$300,000

\$975,000 Term Bonds, due April 1, 2050

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
April 1, 2048	\$325,000
April 1, 2049	\$325,000
April 1, 2050 (maturity)	\$325,000

Notice of Redemption; Partial Redemption:

While the Bonds are in book-entry-only form, pursuant to the Bond Resolution, the Term Bonds will be scheduled for annual mandatory sinking fund redemption by DTC in accordance with its procedures. If the book-entry-only system is discontinued, the Paying Agent/Registrar shall select by lot the Term Bonds, if any, to be redeemed and issue a notice of redemption in the manner provided below. The principal amount of the Term Bonds of a maturity required to be redeemed pursuant to the operation of such mandatory redemption requirements shall be reduced, at the option of and as determined by the District, by the principal amount of any Term Bonds of such maturity which, prior to the date of the mailing of notice of such mandatory redemption, (1) shall have been acquired by the District and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and canceled by the Paying Agent/Registrar at the request of the District, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory redemption requirement.

Notice of each exercise of the right of redemption will be given at least 30 calendar days prior to the date fixed for redemption by the mailing of a notice by the Paying Agent/Registrar to each of the registered owners of the Bonds to be redeemed at the address shown on the records of the Paying Agent/Registrar on the date which is 45 calendar days prior to the redemption date. When Bonds have been called for redemption, the right of the registered owners of such Bonds to collect interest which would otherwise accrue after the date for redemption will be terminated.

The Bonds of a denomination larger than \$5,000 in principal amount may be redeemed in part (\$5,000 in principal or any integral multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one or more new Bonds of the same maturity for the unredeemed portion of the principal.

Source of and Security for Payment

The Bonds are secured by, and payable from, the levy of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Registrar fees, and Appraisal District' fees. The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City, or any entity other than the District.

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 tax 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 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, 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 noncallable 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 or 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 that 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 that would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

Funds

In the Bond Resolution, the Road Debt Service Fund is created and the proceeds from all taxes levied, appraised, 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 and 12 months of capitalized interest, funded with proceeds of the Bonds, shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Road Capital Projects Fund to be used for the purpose of reimbursing the Developer for certain construction and land acquisition costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Road Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Road Debt Service Fund.

Paying Agent/Registrar

Pursuant to the Bond Resolution, the initial paying agent and initial registrar with respect to the Bonds is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The District will maintain at least one Registrar, where the Bonds may be surrendered for transfer and/or for exchange or replacement for other Bonds, any outstanding bonds, and for the purpose of maintaining the Bond Register on behalf of the District. The Registrar is required at all times to be a duly qualified banking corporation or association organized and doing business under the laws of the United States of America, or of any state thereof, and subject to supervision or examination by federal or state banking authorities.

The District reserves the right and authority to change any paying agent/registrar and, upon any such change, the District covenants and agrees in the Bond Resolution to promptly cause written notice thereof, specifying the name and address of such successor paying agent/registrar, to be sent to each Registered Owner of the Bonds by United States mail, first class, postage prepaid.

Registration and Transfer

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (1) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within 30 calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Lost, Stolen, or Destroyed Bonds

In the event the Book-Entry-Only System is discontinued, the District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds, or receipt of satisfactory evidence of such destruction, loss, or theft and receipt by the District and the Registrar of security or indemnity as may be required by either of them to keep them harmless. The District will require payment of taxes, governmental charges, and expenses in connection with any such replacement.

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 authorities, 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 authorities, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any un-matured 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.

Issuance of Additional Debt

The District’s voters have authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<u>Amount</u>	<u>Purpose</u>
\$182,000,000	For certain water, sanitary sewer, and storm water facilities and for refunding
\$65,000,000	For certain road facilities and for refunding
\$19,500,000	For certain parks and recreational facilities and for refunding

After the issuance of the Bonds, the District will have \$182,000,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$58,890,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$19,500,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

The District has the right to issue additional bonds, as may hereafter be approved by both the Board and the voters of the District. Such additional bonds would be issued on a parity with the Bonds. Any future new money bonds (except new money road bonds) to be issued by the District must also be approved by the TCEQ.

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for said purpose, 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) amendment of the existing City ordinance specifying the purposes for which the District may issue bonds; (c) approval of the master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board is not considering issuing any fire-fighting unlimited tax bonds at this time. The District has no information concerning any determination by the City to modify its consent ordinance. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

The District and the Underwriter cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Securities, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Securities), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities. 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 Securities under the DTC system must be made by or through Direct Participants, who will receive a credit for the Securities on DTC's records. The ownership interest of each actual purchaser of each Certificate ("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 Securities 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 securities representing their ownership interests in Securities except in the event that use of the book-entry system for the Securities is discontinued.

To facilitate subsequent transfers, all Securities 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 Securities 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 Securities; DTC's records reflect only the identity of the Direct Participants to whose accounts such Securities 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 Securities may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Securities, such as redemptions, tenders, defaults, and proposed amendments to the Certificate documents. For example, Beneficial Owners of Securities may wish to ascertain that the nominee holding the Securities 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 fewer than all of the Securities 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 Securities are credited on the record date (identified in a listing attached to the Omnibus Proxy).

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

The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the District believes to be reliable, but none of the District, the Financial Advisor or the Underwriter takes any responsibility for the accuracy thereof. Termination by the District of the DTC Book-Entry-Only System may require consent of DTC Participants under DTC Operational Arrangements.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript (the "Transcript") of certain certified proceedings incident to the issuance and authorization of the Bonds. Such Transcript will include the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and legally binding obligations of the District payable from the proceeds of an annual ad valorem tax, levied without limit as to rate or amount, upon all taxable property in the District. The District will also furnish the approving legal opinion of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and legally binding obligations of the District under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without limitation as to rate or amount, against all taxable property within the District; and to the effect that, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

Legal Review

In its capacity as Bond Counsel, Allen Boone Humphries Robinson LLP has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12," "THE DISTRICT – Authority," "TAXING PROCEDURES," "ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT and CONSOLIDATION," "THE BONDS," "LEGAL MATTERS - Legal Opinions" (to the extent such section relates to the opinion of Bond Counsel) and " – Legal Review," "TAX MATTERS," and "REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS" solely to determine whether such information fairly summarizes the documents and legal matters referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. 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, other than the matters discussed immediately above.

Allen Boone Humphries Robinson LLP also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with 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.

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

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened any litigation affecting the validity of the Bonds, the levy and/or collection of taxes for the payment thereof, the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

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 Official Statement.

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the District as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c) (3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

Notwithstanding these exceptions, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified 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 qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, 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 provisions.

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, and other sources that are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions, engineering, and other related reports set forth in the 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.

Consultants

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

Engineer - The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM," "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description," and "THE DISTRICT - Status of Land Development/Land Uses in the District" has been provided by Jones & Carter, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector - The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA," has been provided by HCAD and by Assessments of the Southwest, Inc., in reliance upon their authority as experts in the field of tax assessing and appraising.

Auditor - The District's annual financial statements as of and for the year ended July 31, 2019, have been audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2019, audited financial statements.

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audit report is required to be filed with the TCEQ within 135 days after the close of its fiscal year.

The District's financial records and audited financial statements are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, TX 77027.

Certification as to Official Statement

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

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, in the other matters described in the Official Statement, until the delivery of the Bonds. All information with respect to the resale of the Bonds shall be the responsibility of the Underwriters.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 423 as of the date shown on the cover page.

APPENDIX A

AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED JULY 31, 2019

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 423**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

July 31, 2019

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McGRATH & CO., PLLC

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

Independent Auditors' Report

Board of Directors
Harris County Municipal Utility District No. 423
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 423, as of and for the year ended July 31, 2019, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

***Board of Directors
Harris County Municipal Utility District No. 423
Harris County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 423, as of July 31, 2019, 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.

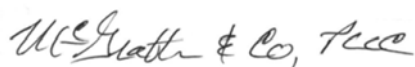
Other Matters

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 to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas 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. Galt & Co., P.C.

Houston, Texas
October 21, 2019

Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 423 (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, 2019. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section. Since this report is for an inception period, comparative data is not included. Financial reports for future years will include a comparative analysis of current year results to prior year data.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019

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, 2019, was negative \$6,539,331. This amount is negative because the District incurs debt to construct paving facilities which it conveys to Harris County. A comparative summary of the District's overall financial position, as of July 31, 2019 and 2018, is as follows:

	2019	2018
Current and other assets	\$ 183,155	\$ 72,108
Capital assets	8,832,450	1,397,793
Total assets	9,015,605	1,469,901
Current liabilities	4,966,372	12,863
Long-term liabilities	10,588,564	1,580,596
Total liabilities	15,554,936	1,593,459
Net position		
Net investment in capital assets	(289,379)	(15,803)
Unrestricted	(6,249,952)	(107,755)
Total net position	\$ (6,539,331)	\$ (123,558)

Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019

The total net position of the District decreased during the current fiscal year by \$6,415,773. A comparative summary of the District's *Statement of Activities* for the current and prior fiscal year (unaudited) is as follows:

	2019	2018
Revenues		
Property taxes, penalties and interest	\$ 69,905	\$ 38,234
Water and sewer service	76,732	43
Other	197,716	66,617
Total revenues	<u>344,353</u>	<u>104,894</u>
Expenses		
Current service operations	568,846	184,837
Debt interest and fees	32,344	
Debt issuance costs	103,092	
Depreciation	180,083	15,803
Total expenses	<u>884,365</u>	<u>200,640</u>
Change in net position before other item	(540,012)	(95,746)
Other item		
Transfers to other governments	<u>(5,875,761)</u>	
Change in net position	(6,415,773)	(95,746)
Net position, beginning of year	<u>(123,558)</u>	<u>(27,812)</u>
Net position, end of year	<u>\$ (6,539,331)</u>	<u>\$ (123,558)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of July 31, 2019, were negative \$121,227, which consists of negative \$102,344 in the General Fund and negative \$18,883 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of July 31, 2019 and 2018 is as follows:

	2019	2018
Total assets	<u>\$ 198,538</u>	<u>\$ 72,108</u>
Total liabilities	\$ 300,882	\$ 12,863
Total fund balance	<u>(102,344)</u>	<u>59,245</u>
Total liabilities and fund balance	<u>\$ 198,538</u>	<u>\$ 72,108</u>

Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019

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

	2019	2018
Total revenues	\$ 344,221	\$ 104,894
Total expenditures	(549,810)	(184,837)
Revenues under expenditures	(205,589)	(79,943)
Other changes in fund balance	44,000	134,500
Net change in fund balance	<u>\$ (161,589)</u>	<u>\$ 54,557</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, tap connection fees charged to homebuilders in the District, and developer advances. 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 assessed values increased from prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.
- Developers in the District advance funds to the District as needed to pay operating costs.

Fund balance in the District's General Fund is the result of timing differences between developer operating advances and the expenditures for which those advances are intended to fund.

Capital Projects Fund

A Capital Projects Fund was established to account for the expenditure of proceeds from the issuance of the District's Series 2019 Bond Anticipation Note. A summary of the financial position of the Capital Projects Fund as of July 31, 2019 is as follows:

Total assets	<u>\$ 3,617</u>
Total liabilities	\$ 22,500
Total fund balance	(18,883)
Total liabilities and fund balance	<u>\$ 3,617</u>

***Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019***

A summary of the Capital Project Fund's activities for the current year is as follows:

Total revenues	\$ 132
Total expenditures	(4,648,661)
Revenues under expenditures	(4,648,529)
Other changes in fund balance	4,629,646
Net change in fund balance	<u>\$ (18,883)</u>

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$157,589 less than budgeted. The *Budgetary Comparison Schedule* on page 32 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.

Capital assets held by the District at July 31, 2019 and 2018 are summarized as follows:

	2019	2018
Capital assets not being depreciated		
Land and improvements	<u>\$ 924,571</u>	<u>\$ 702,479</u>
Capital assets being depreciated		
Infrastructure	8,103,765	711,117
Less accumulated depreciation	<u>(195,886)</u>	<u>(15,803)</u>
Depreciable capital assets, net	<u>7,907,879</u>	<u>695,314</u>
Capital assets, net	<u>\$ 8,832,450</u>	<u>\$ 1,397,793</u>

Capital asset additions during the current year include the following:

- Water, sewer, and drainage facilities to serve Balmoral Sections 4, 7, and 8
- Water, sewer, and drainage facilities to serve Balmoral Bay Drive
- Water, sewer, and drainage facilities to serve Balmoral Harbor in Balmoral Section 6
- Drainage facilities to serve Balmoral, Phase II

***Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019***

- Balmoral lift station no. 2
- Clearing and grubbing in Balmoral Sections 15 and 18

Harris County assumes responsibility for public roads constructed within the county. Consequently, these projects are not recorded as capital assets on the District's financial statements, but are recorded as transfers to other governments upon completion of construction. For the year ended July 31, 2019, capital assets in the amount of \$5,875,761 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of July 31, 2019, the District owes \$10,588,564 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$14,245,523 for projects under construction by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At July 31, 2019, the District had \$182,000,000 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 the refunding of such bonds; \$19,500,000 for parks and recreational facilities and the refunding of such bonds; and \$65,000,000 for road improvements and the refunding of such bonds.

During the year, the District issued a \$4,629,646 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.

***Harris County Municipal Utility District No. 423
Management's Discussion and Analysis
July 31, 2019***

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>2019 Actual</u>	<u>2020 Budget</u>
Total revenues	\$ 344,221	\$ 515,000
Total expenditures	<u>(549,810)</u>	<u>(511,200)</u>
Revenues over/(under) expenditures	(205,589)	3,800
Other changes in fund balance	<u>44,000</u>	<u></u>
Net change in fund balance	(161,589)	3,800
Beginning fund balance	<u>59,245</u>	<u>(102,344)</u>
Ending fund balance	<u>\$ (102,344)</u>	<u>\$ (98,544)</u>

Property Taxes

The District's property tax base increased approximately \$3,296,000 for the 2019 tax year from \$4,046,998 to \$7,342,781. This increase was primarily due to new construction in the District and increased property values. For the 2019 tax year, the District has levied a tax rate of \$1.36 per \$100 of assessed value, all of which is allocated to maintenance and operations. This is the same rate levied for the 2018 tax year.

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Basic Financial Statements

Harris County Municipal Utility District No. 423
Statement of Net Position and Governmental Funds Balance Sheet
July 31, 2019

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets					
Cash	\$ 143,616	\$ 3,617	\$ 147,233	\$ -	\$ 147,233
Customer service receivables	31,118		31,118		31,118
Internal balances	19,000	(19,000)			
Prepaid items	4,804		4,804		4,804
Capital assets not being depreciated				924,571	924,571
Capital assets, net				7,907,879	7,907,879
Total Assets	<u>\$ 198,538</u>	<u>\$ (15,383)</u>	<u>\$ 183,155</u>	<u>8,832,450</u>	<u>9,015,605</u>
Liabilities					
Accounts payable	\$ 108,126	\$ 3,500	\$ 111,626		111,626
Other payables	66,226		66,226		66,226
Customer deposits	7,050		7,050		7,050
Builder deposits	32,000		32,000		32,000
Unearned revenue	87,480		87,480		87,480
Accrued interest payable				32,344	32,344
Bond anticipation note payable				4,629,646	4,629,646
Due to developers	0			10,588,564	10,588,564
Total Liabilities	<u>300,882</u>	<u>3,500</u>	<u>304,382</u>	<u>15,250,554</u>	<u>15,554,936</u>
Fund Balances/Net Position					
Fund Balances					
Nonspendable	4,804		4,804	(4,804)	
Unassigned	(107,148)	(18,883)	(126,031)	126,031	
Total Fund Balances	<u>(102,344)</u>	<u>(18,883)</u>	<u>(121,227)</u>	<u>121,227</u>	
Total Liabilities and Fund Balances	<u>\$ 198,538</u>	<u>\$ (15,383)</u>	<u>\$ 183,155</u>		
Net Position					
Net investment in capital assets				(289,379)	(289,379)
Unrestricted				(6,249,952)	(6,249,952)
Total Net Position				<u>\$ (6,539,331)</u>	<u>\$ (6,539,331)</u>
See notes to basic financial statements.					

Harris County Municipal Utility District No. 423

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended July 31, 2019**

	General Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues					
Water service	\$ 39,496	\$ -	\$ 39,496	\$ -	\$ 39,496
Sewer service	37,236		37,236		37,236
Property taxes	68,434		68,434		68,434
Penalties and interest	1,471		1,471		1,471
Tap connection and inspection	188,862		188,862		188,862
Miscellaneous	8,560		8,560		8,560
Investment earnings	162	132	294		294
Total Revenues	<u>344,221</u>	<u>132</u>	<u>344,353</u>		<u>344,353</u>
Expenditures/Expenses					
Current service operations					
Purchased services	15,788		15,788		15,788
Professional fees	261,951	19,000	280,951		280,951
Contracted services	204,391		204,391		204,391
Repairs and maintenance	46,232		46,232		46,232
Utilities	701		701		701
Administrative	16,258		16,258		16,258
Other	4,489	36	4,525		4,525
Capital outlay		4,526,533	4,526,533	(4,526,533)	
Debt service					
Interest and fees				32,344	32,344
Debt issuance costs		103,092	103,092		103,092
Depreciation				180,083	180,083
Total Expenditures/Expenses	<u>549,810</u>	<u>4,648,661</u>	<u>5,198,471</u>	<u>(4,314,106)</u>	<u>884,365</u>
Revenues Under Expenditures/ Expenses	(205,589)	(4,648,529)	(4,854,118)	4,314,106	(540,012)
Other Financing Sources					
Bond anticipation note proceeds		4,629,646	4,629,646	(4,629,646)	
Developer advances	44,000		44,000	(44,000)	
Other Items					
Transfers to other governments				(5,875,761)	(5,875,761)
Net Change in Fund Balances	(161,589)	(18,883)	(180,472)	180,472	
Change in Net Position				(6,415,773)	(6,415,773)
Fund Balance/Net Position					
Beginning of the year	59,245		59,245	(182,803)	(123,558)
End of the year	<u>\$ (102,344)</u>	<u>\$ (18,883)</u>	<u>\$ (121,227)</u>	<u>\$ (6,418,104)</u>	<u>\$ (6,539,331)</u>

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 423 (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 December 12, 2006, and operates in accordance with Article 59 of the Texas Constitution and the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on July 23, 2015.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage facilities. The District is responsible for providing water, sewer and drainage facilities within the District. 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, a component unit of a primary government or a related organization. A primary government has a separately elected governing body; is legally separate; and is fiscally independent of other state and local governments. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other 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 two governmental funds, which are both considered major funds.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Capital Projects Fund is used to account for the expenditures of bond and bond anticipation note 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 full 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, 2019, an allowance for uncollectible accounts was not considered necessary.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Infrastructure	45 years

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

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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 does not have any restricted fund balances.

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Unassigned - all other spendable amounts in the General Fund and deficit balances in other funds.

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

Use of Estimates

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

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

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	\$ (121,227)
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 9,028,336	
Less accumulated depreciation	<u>(195,886)</u>	
Change due to capital assets		8,832,450

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:

Bond anticipation note payable	(4,629,646)	
Interest payable on bond anticipation note	<u>(32,344)</u>	
Change due to long-term debt		(4,661,990)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the *Statement of Net Position*.

(10,588,564)

Total net position - governmental activities

\$ (6,539,331)

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

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*

Net change in fund balances - total governmental funds \$ (180,472)

In the *Statement of Activities*, the cost of capital assets is charged to depreciation/amortization expense over the estimated useful life of the asset. (180,083)

Capital outlays for developer reimbursements and construction costs are recorded as expenditures in the fund, but reduce the liability for due to developer in the *Statement of Net Position*. 4,526,533

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.

Proceeds from bond anticipation note	\$ (4,629,646)	
Interest expense accrual	<u>(32,344)</u>	
		(4,661,990)

Amounts received from the District's developer for operating advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (44,000)

The District conveys public roads to Harris County upon completion of construction. Since these improvements are funded by the developer, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (5,875,761)

Change in net position of governmental activities	<u>\$ (6,415,773)</u>
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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.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at July 31, 2019, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 19,000	Bond application fees paid by the General Fund

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

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended July 31, 2019, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 702,479	\$ 222,092	\$ 924,571
Capital assets being depreciated			
Infrastructure	711,117	7,392,648	8,103,765
Less accumulated depreciation	(15,803)	(180,083)	(195,886)
Subtotal depreciable capital assets, net	695,314	7,212,565	7,907,879
Capital assets, net	\$ 1,397,793	\$ 7,434,657	\$ 8,832,450

Depreciation expense for the current year was \$180,083.

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.

On May 24, 2019, the District issued a \$4,629,646 BAN with an interest rate of 3.75%, which is due on May 22, 2020. The district intends to repay this BAN with proceeds from a future bond issue.

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

Beginning balance	\$ -
Amounts borrowed	4,629,646
Ending balance	<u>\$ 4,629,646</u>

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

Note 7 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, and park and recreational facilities and road improvements. 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. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developer is reimbursed.

The District's developers have also advanced funds to the District for operating expenses.

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

Due to developers, beginning of year	\$ 1,580,596
Developer reimbursements	(3,792,044)
Developer funded construction and adjustments	12,756,012
Operating advances from developers	44,000
Due to developers, end of year	<u>\$ 10,588,564</u>

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

Note 7 – Due to Developers (continued)

In addition, the District will owe the developers approximately \$14,245,523, 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
Balmoral Bay Drive, Balmoral Harbor, and Balmoral Section 7 - paving	\$ 1,300,424	\$ 1,175,292	\$ 125,132
Balmoral Section 6 - water, sewer, and drainage	621,573	536,637	84,936
Greens Road in Balmoral Section 4 - paving	679,721	635,759	43,962
Balmoral Hills, Balmoral Bend, and Greens Road - water, sewer, and drainage	279,749	270,789	8,960
Balmoral Hills, Balmoral Bend, and Greens Road in Balmoral Section 9 - paving	642,233	591,852	50,381
Balmoral Section 15 - water, sewer, and drainage	904,937	875,149	29,788
Balmoral Section 15 - paving	879,621	835,640	43,981
Balmoral Section 18 - water, sewer, and drainage	372,000	342,220	29,780
Balmoral Section 18 - paving	455,245	36,007	419,238
Greens Road Street Dedication No. 1 - water and drainage	196,692	174,327	22,365
Greens Road Street Dedication No. 1 - paving	439,626	51,055	388,571
Balmoral Phase III detention	1,342,001	522,036	819,965
Balmoral, west of Timber Forest Drive - clearing and grubbing	465,150	354,440	110,710
Balmoral Section 5 - landscaping	629,911	289,426	340,485
Balmoral Sections 7 and 8 - landscaping	435,217	76,736	358,481
Balmoral Section 6 - landscaping	86,945		86,945
Swing tract - clearing and grubbing	204,206		204,206
Balmoral Section 21 - water, sewer, and drainage	533,281		533,281
Balmoral Section 22 - water, sewer, and drainage	779,616		779,616
Swing tract	1,419,397		1,419,397
Greens Road and North Timber Forest - water, sewer, and drainage	521,000		521,000
Balmoral Section 21 - paving	580,000		580,000
Balmoral Section 22 - paving	476,978		476,978
	<u>\$ 14,245,523</u>	<u>\$ 6,767,364</u>	<u>\$ 7,478,159</u>

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

Note 8 – Long-Term Debt

At July 31, 2019, the District had authorized but unissued bonds in the amount of \$182,000,000 for water, sewer and drainage facilities and the refunding of such bonds; \$19,500,000 for park and recreational facilities and the refunding of such bonds; and \$65,000,000 for road facilities and the refunding of such bonds.

Note 9 – Property Taxes

On May 6, 2017, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The voters also authorized the District's Board of Directors to levy a road maintenance tax limited to \$0.25 per \$100 of assessed value. The District has not levied a road maintenance tax.

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2019 fiscal year was financed through the 2018 tax levy, pursuant to which the District levied property taxes of \$1.36 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$55,039 on the adjusted taxable value of \$4,046,998.

Note 10 – Transfers to Other Governments

Harris County assumes responsibility for the maintenance of public roads constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of Harris County, not the District. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended July 31, 2019, the District recorded transfers to other governments in the amount of \$5,875,761 for road facilities constructed by a developer within the District.

Note 11 – Water Facilities Agreement

On December 18, 2017, the District entered into a Water Facilities Agreement with Harris County Municipal Utility District No. 400 ("MUD 400") for the expansion of MUD 400's water system for the benefit of the parties (the "Expansion"). The term of the agreement is 40 years, automatically renewable for additional terms of 10 years.

MUD 400 has been designated project manager for the Expansion. Each party will be responsible for its share of the design and construction cost of the Expansion based on its pro-rata share of the proposed equivalent single-family connections ("ESFCs") to be served by the Expansion. The District has agreed that MUD 400 shall hold legal title to the facilities, with the District having an undivided equitable interest. The District's proportionate share of the Expansion is 16.96%.

Note 12 – Regional Wastewater Treatment Plant Agreement

The District and Harris County Municipal Utility District No. 400 (“MUD 400”), Harris County Municipal Utility District No. 499 (“MUD 499”), Harris County Municipal Utility District No. 422 and Harris County Fresh Water Supply District No. 48 (the “Parties”) entered into a Regional Wastewater Treatment Plant Agreement (the “WWTP Agreement”), which was effective July 1, 2008, as amended July 1, 2013 and October 5, 2016, to provide regional wastewater treatment services for the Parties ongoing development. The Parties have constructed an interim wastewater treatment plant (the “Interim Plant”) to treat approximately 200,000 gallons per day (gpd) which was expanded to 600,000 gpd.

MUD 400 has been designated project manager for the Interim Plant. During the current fiscal year, the District was reimbursed from MUD 400 for amounts paid in previous fiscal years for design and site construction costs for the Interim Plant expansion.

Note 13 – Wastewater Treatment Plant Agreement

The District and Harris County Municipal Utility District No. 400 (“MUD 400”) and Harris County Municipal Utility District No. 422 (“MUD 422”) entered into a Wastewater Treatment Plant Agreement (the “WWTP Agreement”), which was effective December 18, 2017, as amended January 1, 2019, to expand the capacity of the Interim Plant (as referenced in Note 12) by 700,000 gpd for their benefit only and not for the benefit of the other parties to the Regional WWTP Agreement (the “Expansion”). The term of this agreement is 40 years and is automatically renewable for additional terms of 10 years.

MUD 400 has been designated project manager for the Expansion. Each party will be responsible for its share of the design and construction cost of the Expansion based on its pro-rata share of the proposed equivalent single-family connections (“ESFCs”) to be served by the Expansion. The District has agreed that MUD 400 shall hold legal title to the facilities, with the District having an undivided equitable interest. The District’s proportionate share of the Expansion is 23.06%.

MUD 400 is responsible for the operation and maintenance of the wastewater treatment plant. Each party will be billed monthly for its share of fixed costs based on its pro-rata share of the total number of ESFCs to be served by the Expansion. Each party will be billed for variable expenses based on its pro-rata share of the total number of active ESFCs during the calendar month.

Note 14 – Risk Management

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

Harris County Municipal Utility District No. 423
Notes to Basic Financial Statements
July 31, 2019

Note 15 – Economic Dependency

The District is dependent upon its developers for operating advances. The developers continue to own a substantial portion of the taxable property within the District. The developers' willingness to make future operating advances and/or to pay property taxes will directly affect the District's ability to meet its future obligations.

Required Supplementary Information

Harris County Municipal Utility District No. 423
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended July 31, 2019

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ -	\$ 5,000	\$ 39,496	\$ 34,496
Sewer service			37,236	37,236
Property taxes	40,000	40,000	68,434	28,434
Penalties and interest			1,471	1,471
Tap connection and inspection		35,000	188,862	153,862
Miscellaneous			8,560	8,560
Investment earnings			162	162
Total Revenues	40,000	80,000	344,221	264,221
Expenditures				
Current service operations				
Purchased services		2,000	15,788	(13,788)
Professional fees	115,000	115,000	261,951	(146,951)
Contracted services	4,000	36,000	204,391	(168,391)
Repairs and maintenance		11,000	46,232	(35,232)
Utilities		1,000	701	299
Administrative	17,200	17,200	16,258	942
Other	1,500	1,500	4,489	(2,989)
Total Expenditures	137,700	183,700	549,810	(366,110)
Revenues Under Expenditures	(97,700)	(103,700)	(205,589)	(101,889)
Other Financing Sources				
Developer advances	97,700	99,700	44,000	(55,700)
Net Change in Fund Balance		(4,000)	(161,589)	(157,589)
Fund Balance				
Beginning of the year	59,245	59,245	59,245	
End of the year	\$ 59,245	\$ 55,245	\$ (102,344)	\$ (157,589)

Harris County Municipal Utility District No. 423
Notes to Required Supplementary Information
July 31, 2019

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Harris County Municipal Utility District No. 423
TSI-1. Services and Rates
July 31, 2019

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 checked="" type="checkbox"/> Parks / Recreation	<input type="checkbox"/> Fire Protection	<input type="checkbox"/> Roads	<input type="checkbox"/> Security
<input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)			
<input type="checkbox"/> Other (Specify): _____			

2. Retail Service Providers

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

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels	
Water:	\$ 18.00	10,000	N	\$ 1.00	10,001	to 15,000
				\$ 2.00	15,001	to 20,000
				\$ 3.00	20,001	to 25,000
				\$ 4.00	25,001	to no limit
Wastewater:	\$ 45.00	- 0 -	Y			to
District employs winter averaging for wastewater usage?				<input type="checkbox"/> Yes	<input checked="" type="checkbox"/> No	
Total charges per 10,000 gallons usage:				Water \$ 18.00	Wastewater \$ 45.00	

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
Less than 3/4"	144	144	x 1.0	144
1"	1	1	x 2.5	3
1.5"			x 5.0	
2"	6	6	x 8.0	48
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	151	151		195
Total Wastewater	148	148	x 1.0	148

See accompanying auditor's report.

Harris County Municipal Utility District No. 423
TSI-1. Services and Rates
July 31, 2019

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 from

Harris County MUD 400: 19,117,000

Water Accountability Ratio:

(Gallons billed / Gallons purchased)

Gallons billed to customers: 19,117,000

100.00%

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

(You may omit this information if your district does not levy standby fees)

Does the District have Debt Service standby fees?

Yes ☐

No ☒

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

Does the District have Operation and Maintenance standby fees?

Yes ☐

No ☒

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

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

Is the District located entirely within one county?

Yes ☒

No ☐

County in which the District is located:

Harris County

Is the District located within a city?

Entirely ☐

Partly ☐

Not at all ☒

City(ies) in which the District is located: _____

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

Entirely ☒

Partly ☐

Not at all ☐

ETJs in which the District is located:

City of Houston

Are Board members appointed by an office outside the district?

Yes ☐

No ☒

If Yes, by whom? _____

See accompanying auditors' report.

Harris County Municipal Utility District No. 423
TSI-2 General Fund Expenditures
For the Year Ended July 31, 2019

Purchased services	\$ 15,788
Professional fees	
Legal	162,467
Engineering	99,484
	<u>261,951</u>
Contracted services	
Bookkeeping	6,600
Operator	22,355
Garbage collection	1,685
Tax collection fees	7,200
Appraisal district fees	696
Tap connection and inspection	134,875
Sludge removal	30,980
	<u>204,391</u>
Repairs and maintenance	<u>46,232</u>
Utilities	<u>701</u>
Administrative	
Directors fees	7,500
Printing and office supplies	2,965
Insurance	3,470
Other	2,323
	<u>16,258</u>
Other	<u>4,489</u>
Total expenditures	<u>\$ 549,810</u>

Reporting of Utility Services in Accordance with HB 3693:

	Usage	Cost
Electrical	1,382 kWh	\$ 607
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Municipal Utility District No. 423
TSI-4. Taxes Levied and Receivable
July 31, 2019

	Maintenance Taxes	
Taxes Receivable, Beginning of Year	\$	-
Adjustments to Prior Year Tax Levy		13,395
Adjusted Receivable		13,395
2018 Original Tax Levy		2,111
Adjustments		52,928
Adjusted Tax Levy		55,039
Total to be accounted for		68,434
Tax collections:		
Current year		55,039
Prior years		13,395
Total Collections		68,434
Taxes Receivable, End of Year	\$	-
	2018	2017
Property Valuations:		
Land	\$ 4,169,864	\$ 3,795,013
Exemptions	(122,866)	
Total Property Valuations	\$ 4,046,998	\$ 3,795,013
Tax Rates per \$100 Valuation:		
Maintenance tax rates*	\$ 1.36	\$ 1.36
Adjusted Tax Levy:	\$ 55,039	\$ 51,612
Percentage of Taxes Collected to Taxes Levied ***	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 6, 2017

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on May 6, 2017

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 423

***TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Four Fiscal Years***

	Amounts			
	2019	2018**	2017**	2016**
Revenues				
Water service	\$ 39,496	\$ 18	\$ -	\$ -
Sewer service	37,236	25		
Property taxes	68,434	38,217		
Penalties and interest	1,471	17		
Tap connection and inspection	188,862	65,953		
Miscellaneous	8,560	650		
Investment earnings	162	14	6	1
Total Revenues	344,221	104,894	6	1
Expenditures				
Current service operations				
Purchased services	15,788			
Professional fees	261,951	166,524	13,708	
Contracted services	204,391	4,050	1,988	975
Repairs and maintenance	46,232			
Utilities	701			
Administrative	16,258	12,902	6,112	4,662
Other	4,489	1,361	194	182
Total Expenditures	549,810	184,837	22,002	5,819
Revenues Under Expenditures	\$ (205,589)	\$ (79,943)	\$ (21,996)	\$ (5,818)

*Percentage is negligible

**Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues			
2019	2018**	2017**	2016**
11%	*		
11%	*		
20%	36%		
*	*		
56%	63%		
2%	1%		
*	*	100%	100%
100%	100%	100%	100%
*			
69%	159%	228467%	
59%	4%	33133%	97500%
13%			
*			
5%	12%	101867%	466200%
1%	1%	3233%	18200%
147%	176%	366700%	581900%
(47%)	(76%)	(366,600%)	(581,800%)

Harris County Municipal Utility District No. 423
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended July 31, 2019

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX, 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): July 3, 2019
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				
Patricia Scholes	5/2018 - 5/2022	\$ 1,800	\$ 278	President
Jennifer Hoff	3/2019 - 5/2020	450	18	Vice President
Heather LaFleur	5/2018 - 5/2022	1,800	509	Secretary
Louise Blair	6/2017 - 5/2020	1,500	226	Assistant Secretary
Jennifer Trevino	7/2018 - 5/2020	1,500	23	Assistant Vice President
Connie Crowe	5/2018 - 1/2019	600	390	Former Director
Consultants				
Allen Boone Humphries Robinson LLP	7/2015	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 162,467		
<i>Bond counsel fees</i>		46,296		
Environmental Development Partners, LLC	11/2017	208,665		Operator
Myrtle Cruz, Inc.	8/2015	10,210		Bookkeeper
Assessments of the Southwest, Inc.	8/2015	7,200		Tax Collector
Harris County Central Appraisal District	Legislation	696		Property Valuation
Perdue, Brandon, Collins & Mott, LLP	3/2018			Delinquent Tax Attorney
Jones & Carter, Inc.	8/2015	94,979		Engineer
KGA/DeForest Design, LLC	2/2017			Landscape Architect
McGrath & Co., PLLC	4/2019	5,000		Auditor
The GMS Group, LLC	9/2017	46,296		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



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN