

OFFICIAL STATEMENT
Dated: September 22, 2020

Insured Ratings (BAM): "AA" (Stable outlook)
Underlying S&P: "A" (Stable outlook)
(See "RATINGS" and "BOND INSURANCE")

NEW ISSUE: BOOK-ENTRY-ONLY

In the opinion of Bond Counsel (as defined herein), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds (as defined herein) is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel expresses no opinion as to whether some or all interest on the Bonds is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS ARE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS – Qualified Tax-Exempt Obligations" herein.

\$3,910,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238,
OF HARRIS COUNTY, TEXAS
(A political subdivision of the State of Texas located in Harris County, Texas)
UNLIMITED TAX BONDS, SERIES 2020

Interest accrues from: Date of Delivery

Due: April 1, as shown on page 2

The \$3,910,000 Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2020 (the "Bonds") are obligations of Harris County Municipal Utility District No. 238 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any other political subdivision or entity other than the District. The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under "BOOK-ENTRY-ONLY SYSTEM") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar (as herein defined) directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM." Principal of the Bonds will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar. Interest on the Bonds will accrue from date of delivery (the "Date of Delivery"), and will be payable on April 1 and October 1 of each year (an "Interest Payment Date"), commencing April 1, 2021 until maturity or prior redemption. BOKF, NA, Austin, Texas, will be the paying agent/registrar (the "Paying Agent/Registrar").

Proceeds from the sale of the Bonds will be used for District projects including: (i) WWTP Generator and Basin Cleaning and Rehabilitation; (ii) Water Plant No. 1 and No. 2 Ion Exchange and Recoating; (iii) Water/Wastewater SCADA System; (iv) Morton Road Water Main Extension; (v) twelve months of capitalized interest and (vi) other costs related to the issuance of the Bonds.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. Investment in the Bonds is subject to special investment considerations described herein. See "INVESTMENT CONSIDERATIONS."



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

CUSIP PREFIX: 413909 / MATURITY SCHEDULE & 9 DIGIT CUSIP – See Schedule on Page 2

The Bonds are offered when, as and if issued, and accepted by SAMCO Capital listed below (the "Underwriter"), subject to the approving opinion of the Attorney General of the State of Texas and the opinion of Roach & Associates, PLLC, Houston, Texas, Bond Counsel and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected to be on or about October 27, 2020.

MATURITY SCHEDULE

Harris County Municipal Utility District No. 238, of Harris County, Texas

\$3,910,000 Unlimited Tax Bonds, Series 2020

Maturity Date (April 1) ^(a)	Principal Amount	Interest Rate %	Initial Yield(%) ^(b)	CUSIP No. 413909 ^(c)
2021	10,000	2.00%	0.40%	KL5
2022	65,000	2.00%	0.50%	KM3
2023	55,000	2.00%	0.60%	KN1
2024	55,000	2.00%	0.70%	KP6
2025	55,000	2.00%	0.85%	KQ4
2026	60,000	2.00%	1.00%	KR2
2027	15,000	2.00%	1.20%	KS0
2028	10,000	2.00%	1.30%	KT8
2029	10,000	2.00%	1.40%	KU5
2030	265,000	2.00%	1.30%	KV3
2031	275,000	2.00%	1.40%	KW1
2032	285,000	2.00%	1.50%	KX9
2033	295,000	2.00%	1.60%	KY7

\$965,000 Term Bonds due April 1, 2036 (a), 4139090 LB6 (c) 2.00% Interest Rate, 1.80% Yield (b)

\$715,000 Term Bonds due April 1, 2038 (a), 4139090 LD2 (c) 2.00% Interest Rate, 1.90% Yield (b)

\$775,000 Term Bonds due April 1, 2040 (a), 4139090 LF7 (c) 2.00% Interest Rate, 2.00% Yield (b)

(Interest accrues from Date of Delivery)

- (a) The Bonds maturing on and after April 1, 2030, are subject to redemption prior to maturity at the option of the District, in whole or from time to time, in part, in principal amounts of \$5,000 or any integral multiple thereof, on April 1, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see "THE BONDS – Redemption Provisions").
- (b) The initial yields are established by and are the sole responsibility of the Underwriter, and may subsequently be changed. The initial yields shown above represent the lower of the yields resulting when priced to maturity or the first optional redemption date.
- (c) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the District, the Financial Advisor or the Underwriter shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

USE OF INFORMATION IN OFFICIAL STATEMENT

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

Certain information set forth herein has been obtained from the District and other sources which are believed to be reliable but it is not guaranteed as to accuracy or completeness, and it is not to be construed as a representation by the Financial Advisor (as defined herein) or the Underwriter.

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

All of the summaries of the statutes, resolutions, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Roach & Associates, PLLC, 2001 Timberloch Place, Suite 500, The Woodlands, Texas 77380, upon payment of the costs for duplication thereof.

The Underwriter has provided the following sentence for inclusion in this Official Statement. The Underwriter has reviewed the information in this Official Statement in accordance with and as part of their respective responsibilities to investors under 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.

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 condition of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Underwriter.

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader’s convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this final official statement for any purpose.

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SELECTED DATA FROM THE OFFICIAL STATEMENT

The selected data is subject in all respects to the more complete information and definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this page from this Official Statement or to otherwise use it without the entire Official Statement.

The District

Harris County Municipal Utility District No. 238, of Harris County, Texas (the “District”), is a political subdivision of the State of Texas located within Harris County, Texas. The District is a political subdivision of the State of Texas, created by Order of the Texas Water Commission, the predecessor to the Texas Commission on Environmental Quality (the “TCEQ”), on December 2, 1982. At creation, the District encompassed approximately 210.15 acres of land and, due to subsequent annexations, the District currently encompasses a total of approximately 599.18 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 “City” or “Houston”). The District is located approximately twenty-one (21) miles west of the center of downtown Houston and is located approximately three (3) miles north of I.H. 10 and one-half (0.5) miles west of Barker Cypress Road. See “THE DISTRICT – General.”

Authority for Issuance

The District’s Unlimited Tax Bonds, Series 2020 (the “Bonds”) are issued pursuant to an order by the TCEQ; Article XVI, Section 59 of the Texas Constitution and general laws of the State, including Chapters 49 and 54, Texas Water Code, as amended; an order authorizing issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”); and an election held within the boundaries of the District.

The District has previously issued its \$2,500,000 Unlimited Tax Bonds, Series 1984, \$2,500,000 Unlimited Tax Bonds, Series 1985, \$5,795,000 Unlimited Tax Refunding Bonds, Series 1992, \$2,300,000 Unlimited Tax Bonds, Series 1994, \$6,545,000 Unlimited Tax Refunding Bonds, Series 1999, \$2,390,000 Unlimited Tax Bonds, Series 2000, \$5,550,000 Unlimited Tax Bonds, Series 2003, \$4,000,000 Unlimited Tax Bonds, Series 2005, \$5,345,000 Unlimited Tax Bonds, Series 2008, \$4,000,000 Unlimited Tax Bonds, Series 2010, \$3,495,000 Unlimited Tax Refunding Bonds, Series 2010, \$2,030,000 Unlimited Tax Bonds, Series 2011, \$7,565,000 Unlimited Tax Refunding Bonds, Series 2012 and \$1,830,000 Unlimited Tax Refunding Bonds, Series 2014, \$6,300,000 Unlimited Tax Refunding Bonds, Series 2016, and \$2,131,000 Unlimited Tax Refunding Bonds, Series 2019, of which an aggregate total of \$14,001,000 principal remains outstanding as of July 31, 2020 (the “Outstanding Bonds.”) After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$13,770,000 for acquiring or constructing a waterworks, wastewater, and drainage system to serve the District (the “Utility System”).

The Bonds

The Bonds mature on the dates and in the amounts set forth on page 2 of this Official Statement. The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS – General”.

Payment of Interest

Interest accrues from the date of initial delivery of the Bonds (the “Date of Delivery”) at the rates per annum set forth on page 2 hereof and is payable on April 1, 2021 and on each October 1 and April 1 thereafter until maturity or earlier redemption.

Security	<p>Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District.</p> <p>See “THE BONDS – Source and Security for Payment,” “TAX DATA – Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS – Factors affecting Taxable Values and Tax Payment”.</p>
Redemption Provisions	<p>The Bonds maturing on and after April 1, 2030, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, in principal denominations of \$5,000 or any integral multiple thereof, on April 1, 2029, or any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest to the date fixed for redemption (see “THE BONDS – Redemption Provisions”).</p>
Use of Proceeds	<p>Proceeds from the sale of the Bonds will be used for District projects including: (i) WWTP Generator and Basin Cleaning and Rehabilitation; (ii) Water Plant No. 1 and No. 2 Ion Exchange and Recoating; (iii) Water/Wastewater SCADA System; (iv) Morton Road Water Main Extension; (v) twelve months of capitalized interest; and (vi) other costs related to the issuance of the Bonds.</p>
Tax Exemption	<p>In the opinion of Roach & Associates, PLLC, Bond Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Bond Counsel expresses no opinion as to whether some or all interest on the Bonds is included in adjusted current earnings in calculating federal corporate alternative minimum taxable income. Bond Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein.</p>
Qualified Tax-Exempt Obligations	<p>The District is expected to designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended, and represent that the total amount of tax-exempt obligations (including the Bonds) issued by it during calendar year 2020 is not reasonably expected to exceed \$10,000,000. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”</p>
Municipal Bond Ratings and Bond Insurance	<p>S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) for an underlying rating on the Bonds, and S&P has assigned an underlying rating of “A” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company (“BAM” or the “Insurer”). See “INVESTMENT CONSIDERATIONS—Municipal Bond Insurance Risk Factors,” “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE,” and “APPENDIX C.”</p>
Paying Agent/Registrar	<p>The initial paying agent/registrar for the Bonds is BOKF, NA, Austin, Texas (the “Paying Agent/Registrar). See “THE BONDS – Paying Agent/Registrar”.</p>
Book-Entry-Only System	<p>The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000, or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. The principal amount of the Bonds at maturity or amounts due upon a prior redemption date and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede</p>

& 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.”

Status of Development All of the developed land in the District has been developed as the subdivisions of Oak Ridge Place (438 lots), Lake Ridge (773 lots), Barker’s Ridge (764 lots) and Barker’s Crossing (459 lots).

Continuing Disclosure of Information Pursuant to the Bond Order, the District is obligated to provide certain updated financial information and operating data annually, and to provide timely notice of certain specified events which will be available to investors as described in the section captioned “CONTINUING DISCLOSURE OF INFORMATION.”

Payment Record The District has never defaulted on the payment of its bonded indebtedness.

Legal Opinions Roach & Associates, PLLC, Houston, Texas, Bond Counsel and Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. See “LEGAL MATTERS.”

For additional information regarding the District, please contact:

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INVESTMENT CONSIDERATIONS

INVESTMENT IN THE BONDS IS SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED “INVESTMENT CONSIDERATIONS,” BEFORE MAKING AN INVESTMENT DECISION.

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

The Bonds have received an insured credit rating of “AA” from S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”) solely in reliance upon the issuance of the municipal insurance policy by BAM at the time of delivery of the Bonds. S&P has also assigned an underlying credit rating of “A” to the Bonds. An explanation of the rating may be obtained from S&P. The rating fees of S&P will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriter.

There is no assurance that such rating will continue for any given period of time of that it will not be revised or withdrawn entirely by S&P, if in its judgement circumstances so warrant. Any such revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. Concurrently with the issuance of the Bonds, BAM will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal and interest on the Bonds when due as set forth in the form of the Policy included as “Appendix C.”

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

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 June 30, 2020 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.7 million, \$143.6 million and \$345.1 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 www.buildamerica.com/videos. (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 www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital (the "Underwriter") to purchase the Bonds at the interest rates shown on the inside cover page of this Official Statement at a price of 100.287881% of par plus accrued interest to date of delivery,

resulting in a net effective interest rate of 1.978650%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

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

Information concerning reoffering yields or prices is the responsibility of the Underwriter. The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States 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 jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

SELECTED FINANCIAL INFORMATION

2020 Assessed Valuation (100% of assessed value as of September 4, 2020) See “TAX DATA” and “TAXING PROCEDURES.”	\$491,452,605	(a)
Direct Debt: Outstanding Bonds (as of July 31, 2020)	\$14,001,000	
Plus: The Bonds	\$3,910,000	
Total Direct Debt	\$17,911,000	
Estimated Overlapping Debt	\$24,142,332	(b)
Direct and Overlapping Debt	\$42,053,332	(b)
Debt Service Fund Balance (as of July 28, 2020)	\$1,612,471	(c)
General Fund Balance (as of July 28, 2020)	\$2,656,059	
Capital Projects Fund Balance (as of July 28, 2020)	\$0	
Direct Debt Ratio		
As a percentage of 2020 Assessed Valuation	3.64%	
Direct and Estimated Overlapping Debt Ratio		
As a percentage of 2020 Assessed Valuation	8.56%	
Average Percentage of Total Tax Collections (2015-2019)	99.54%	
2019 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax	\$0.35	
Maintenance Tax	<u>\$0.14</u>	
Total	\$0.49	
Average Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (Years 2021-2040)	\$1,088,598	
Maximum Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2028)	\$1,846,653	
Tax Rate per \$100 of Assessed Valuation to Pay Average Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (Calendar Year 2021-2040) at 95% Tax Collections based upon the 2020 Assessed Valuation	\$0.233	
Tax Rate per \$100 of Assessed Valuation to Pay Maximum Annual Debt Service Requirements of the Outstanding Bonds and the Bonds (2028) at 95% Tax Collections based upon the 2020 Assessed Valuation	\$0.400	
Number of Single Family Residences	2,580	

(a) Represents the assessed valuation of all taxable property within the District as of September 4, 2020, as provided by the Harris County Appraisal District (the “Appraisal District”).

(b) See “DISTRICT DEBT –Estimated Direct and Overlapping Debt Statement.”

(c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238,
OF HARRIS COUNTY, TEXAS
(a political subdivision of the State of Texas located in Harris County, Texas)
UNLIMITED TAX BONDS, SERIES 2020**

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Harris County Municipal Utility District No. 238, of Harris County, Texas (the “District”) of its \$3,910,000 Unlimited Tax Bonds, Series 2020 (the “Bonds”).

The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality (“TCEQ”); Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, as amended; an order authorizing issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”); and an election held within the boundaries of the District.

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

Included in this Official Statement are descriptions of the Bonds and certain information about the District and its finances. ALL DESCRIPTIONS OF DOCUMENTS CONTAINED HEREIN ARE SUMMARIES ONLY AND ARE QUALIFIED IN THEIR ENTIRETY BY REFERENCE TO EACH SUCH DOCUMENT. Copies of such documents may be obtained from the District’s Bond Counsel (as defined herein), or during the offering period, from the District’s Financial Advisor (as defined herein), upon payment of reasonable copying, mailing, and handling charges.

PLAN OF FINANCING

Purpose

Proceeds from the sale of the Bonds will be used for District projects including: (i) WWTP Generator and Basin Cleaning and Rehabilitation; (ii) Water Plant No. 1 and No. 2 Ion Exchange and Recoating; (iii) Water/Wastewater SCADA system; (iv) Morton Road Water Main extension; (v) twelve months of capitalized interest; and (vi) other costs related to the issuance of the Bonds. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer (as defined herein) and the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District’s auditor.

<u>Construction Costs</u>		
1	WWTP Generator	\$430,000
2	Water Plant No. 1 Ion Exchange	350,000
3	Water Plant No. 2 Ion Exchange	370,000
4	WWTP Basin Cleaning and Rehabilitation	585,000
5	Wastewater SCADA System	284,000
6	Water Plant SCADA System	164,000
7	Water Plant No. 2 Recoating	225,000
8	Morton Road Water Main Extension	260,000
9	Contingencies	266,800
10	Engineering	440,220
	TOTAL CONSTRUCTION COSTS	\$3,375,020
 <u>Non-Construction Costs</u>		
1	Legal Fees	\$97,750
2	Fiscal Agent Fees	58,650
3	Capitalized Interest	156,400
4	Bond Discount	52,138
5	Bond Insurance	18,500
6	Admin & Issuance Costs	45,132
7	TCEQ Bond Issuance Fee	9,775
8	Bond Application Report Costs	70,000
9	Attorney General Fees	3,910
10	Rating Fees	13,000
11	Disclosure Counsel	9,500
12	Contingency	225
	TOTAL NON-CONSTRUCTION COSTS	\$534,980
	 TOTAL BOND ISSUE REQUIREMENT	 <u>\$3,910,000</u>

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE BONDS

General

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

Description

The Bonds will be dated October 27, 2020 and interest will accrue on the Bonds from their date of delivery expected to be on or about October 27, 2020 (the "Date of Delivery"). Interest on the Bonds will be payable on April 1, 2021, and on each October 1 and April 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds mature on April 1 of the years and in the amounts and accrue interest at the rates shown on page 2 hereof.

The Bonds are issued in fully registered form only in principal denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the book-entry system described herein. No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM” below. Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

The Bonds are issued pursuant to an order by the TCEQ; Article XVI, Section 59 of the Texas Constitution and general laws of the State, including Chapters 49 and 54, Texas Water Code, as amended; the Bond Order adopted by the Board; and an election held within the boundaries of the District.

The bonds authorized by the resident electors of the District for the purpose of acquiring or constructing a waterworks, wastewater, and drainage system to serve the District (the “Utility System”), the amount of bonds issued and the remaining authorized but unissued bonds are as follows:

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Authorized But Unissued</u>
09/24/83	Water, Sewer & Drainage	\$16,585,000	\$15,240,000	\$1,345,000
08/14/99	Water, Sewer & Drainage	8,340,000	8,000,000	340,000
02/05/05	Water, Sewer & Drainage	7,970,000	7,375,000	595,000
05/14/11	Water, Sewer & Drainage	15,400,000	3,910,000	11,490,000
		<u>\$ 48,295,000</u>	<u>\$34,525,000</u>	<u>\$13,770,000</u>

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Authorized But Unissued</u>
05/02/92	Refunding	\$16,550,000	\$2,649,639	\$13,900,362
05/02/05	Refunding	7,970,000	80,000	7,890,000
05/14/11	Refunding	15,435,000	116,000	15,319,000
		<u>\$ 39,955,000</u>	<u>\$2,741,239</u>	<u>\$37,109,362</u>

Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of certain related matters. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Source and Security for Payment

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a sufficient tax to pay the principal of and interest on the Bonds, with full allowance being made for delinquencies and costs of collection. See “TAXING PROCEDURES.” The Bonds involve certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the State, Harris County, Texas (the “County”), or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the District’s Debt Service Fund for payment of debt service on the Bonds and any other bonds issued by the District for the purpose of acquiring or constructing the Utility System, and the proceeds from all taxes levied, assessed and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, in such fund.

Accrued interest on the Bonds and twelve (12) months of capitalized interest shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of the sale of the Bonds shall be deposited into the Construction Fund.

Any monies remaining in the Construction Fund after completion of construction of the Utility System (as herein defined) will be used as described in the Bond Order or ultimately transferred to the Debt Service Fund.

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after April 1, 2030, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on April 1, 2029, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "BOOK-ENTRY-ONLY SYSTEM." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

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

Paying Agent/Registrar

The Board has appointed BOKF, NA, having its principal corporate trust office and its principal payment office in Austin, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "BOOK-ENTRY-ONLY SYSTEM."

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for the replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a bank, including a commercial bank, or trust company organized under a law of the State duly qualified to act as a paying agent/registrar for the Bonds.

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered bond will be issued for each maturity of the Bonds and will be deposited with DTC. So long as any Bonds remain outstanding, the District will maintain at least one Paying Agent/Registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District reflecting the names and addresses of the holders of the Bonds (the "Registered Owners") and the maturities, principal amounts and such other information as necessary to identify the Bonds registered in the name of the Registered Owners. All references herein to the Registered Owners of the Bonds shall mean Cede & Co. and not the Beneficial Owners of the Bonds, so long as the Bonds are registered in the name of Cede & Co. See "BOOK-ENTRY-ONLY SYSTEM."

Legal Investment and Eligibility to Secure Public Funds in Texas

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

- (a) All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic.
- (b) A district's bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. Prior to the issuance of the Bonds, the District has \$17,680,000 of unlimited tax bonds authorized but unissued for such facilities. The District's voters have also authorized a total of \$29,955,000 of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District has also issued seven series of bonds for refunding purposes.

After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$13,770,000 for acquiring or constructing the Utility System.

All bonds issued by the District must be approved by the Attorney General of Texas. Bonds issued to finance the acquisition and construction of the Utility System must also be approved by the TCEQ.

In the Bond Order, the District reserves the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than bonds, including tax anticipation notes and bond anticipation notes.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount of bonds ultimately issued by the District. The District does not employ any formula with regard to assessed valuations or tax collections or otherwise to limit the amount of bonds which may be issued. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds.

Annexation

Chapter 42, Local Government Code, provides that, within the limits described therein, the unincorporated area contiguous to the corporate limits of any municipality comprises that municipality's extraterritorial jurisdiction ("ETJ"). The size of an ETJ depends in part on the municipality's population. With certain exceptions, a municipality may annex territory only within the confines of its ETJ. When a municipality annexes additional territory, the municipality's ETJ expands in conformity with such annexation.

The District lies within the ETJ of the City of Houston, Texas (the "City"), a home rule municipality. The District may not be annexed for full purposes by the City except as may be specifically authorized by Chapter 43, Local Government

Code, as amended. Any authorized annexation is subject to compliance by the City with various requirements of Chapter 43, Local Government Code.

Such requirements include the requirement that the City hold an election in the District whereby the qualified voters of the District approve the proposed annexation. Further, if the voters in the area to be annexed do not own more than 50% of the land in the area, a petition signed by more than 50% of the landowners consenting to the annexation is also required. If the District is annexed, the City must assume the District's assets and obligations (e.g., the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, 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 the annexation occur.

Consolidation

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its Utility System with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

Remedies in Event of Default

Texas law and the Bond Order provide that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in the Bond Order, any Registered Owner shall be entitled at any time to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the Board to observe and perform any covenant, obligation or condition prescribed by the Bond Order. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State.

Other than a writ of mandamus, the Bond Order does not provide a specific remedy for a default. If the District defaults, a Registered Owner could petition for a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the District and the District's officials to observe and perform the covenants, obligations or conditions prescribed in the Bond Order. Such remedy might need to be enforced on a periodic basis. The enforcement of a claim for payment on the Bonds would be subject to the applicable provisions of the federal bankruptcy laws, any other similar laws affecting the rights of creditors of political subdivisions, and general principles of equity. Further, certain traditional legal remedies also may not be available. Even if a Registered Owner could obtain a judgment against the District for a default in the payment of principal or interest such judgment could not be satisfied by execution against any property of the District. See "INVESTMENT CONSIDERATIONS – Bondholders' Remedies" and "– Bankruptcy Limitation to Bondholders' Rights."

Defeasance

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

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

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

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

DISTRICT DEBT

General

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

2020 Assessed Valuation	\$491,452,605	(a)
(100% of assessed value as of September 4, 2020)		
See "TAX DATA" and "TAXING PROCEDURES."		
Direct Debt: Outstanding Bonds (as of July 31, 2020)	\$14,001,000	
Plus: The Bonds	\$3,910,000	
Total Direct Debt	\$17,911,000	
Estimated Overlapping Debt	\$24,142,332	(b)
Direct and Overlapping Debt	\$42,053,332	(b)
Debt Service Fund Balance (as of July 28, 2020)	\$1,612,471	(c)
General Fund Balance (as of July 28, 2020)	\$2,656,059	
Capital Projects Fund Balance (as of July 28, 2020)	\$0	

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- (a) Represents the assessed valuation of all taxable property within the District as of September 4, 2020, as provided by the Harris County Appraisal District (the "Appraisal District").
 - (b) See "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement."
 - (c) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

Estimated Direct and Overlapping Debt Statement

The following table indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the assessed valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information and no person is entitled to rely upon such information as being accurate or complete. Further, certain of the entities listed below may have issued additional bonds since the date cited.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>As of</u>	<u>Percentage Overlapping</u>	<u>Amount Overlapping</u>
Harris County	\$1,885,182,125	7/31/2020	0.09	\$1,696,664
Harris County Department of Education	6,320,000	7/31/2020	0.09	5,688
Harris County Flood Control District	83,075,000	7/31/2020	0.09	74,768
Harris County Hospital District	86,050,000	7/31/2020	0.09	77,445
Harris County Toll Road Authority ⁽¹⁾	0	7/31/2020	0.09	0
Katy ISD	1,893,256,959	7/31/2020	1.15	21,772,455
Port of Houston Authority	572,569,397	7/31/2020	0.09	515,312
Total Estimated Overlapping Debt				\$24,142,332
The District ⁽²⁾				\$17,911,000
Total Direct & Estimated Overlapping Debt ⁽²⁾				\$42,053,332

⁽¹⁾ Harris County Toll Road Bonds are considered to be self-supporting.

⁽²⁾ Includes the Bonds.

Under Texas law, ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District at a rate not to exceed \$0.49 per \$100 of Assessed Valuation. The District has levied a maintenance tax of \$0.1400 per \$100 of Assessed Valuation for 2019. See "TAX DATA – Maintenance Tax."

Debt Ratios

	<u>% of 2020 Assessed Valuation</u> ^(a)
Direct Debt	3.64%
Direct and Estimated Overlapping Debt	8.56%

^(a) Includes the Bonds. Assessed Valuation as of September 4, 2020.

[Continues on following page]

Debt Service Requirements

The following schedule sets forth the debt service requirements of the Outstanding Bonds plus the principal and interest requirements on the Bonds.

FY Ending 31-Aug	Current Total Debt Service	Plus: The Bonds		Total Debt Service Requirements
		Principal	Interest	
2021	\$1,661,018	\$10,000	\$33,452	\$1,704,470
2022	1,693,323	65,000	78,000	1,836,323
2023	1,702,069	55,000	76,700	1,833,769
2024	1,702,586	55,000	75,600	1,833,186
2025	1,707,020	55,000	74,500	1,836,520
2026	1,705,226	60,000	73,400	1,838,626
2027	1,756,314	15,000	72,200	1,843,514
2028	1,764,753	10,000	71,900	1,846,653
2029	1,236,550	10,000	71,700	1,318,250
2030	926,178	265,000	71,500	1,262,678
2031	921,563	275,000	66,200	1,262,763
2032		285,000	60,700	345,700
2033		295,000	55,000	350,000
2034		310,000	49,100	359,100
2035		320,000	42,900	362,900
2036		335,000	36,500	371,500
2037		350,000	29,800	379,800
2038		365,000	22,800	387,800
2039		380,000	15,500	395,500
2040		395,000	7,900	402,900
Totals	<u>\$16,776,601</u>	<u>\$3,910,000</u>	<u>\$1,085,352</u>	<u>\$21,771,953</u>
Average Annual Requirements (2021-2040)				\$1,088,598
Maximum Annual Requirement (2028)				\$1,846,653

See “TAX DATA – Tax Rate Calculations” and “INVESTMENT CONSIDERATIONS – Factors Affecting Taxable Values and Tax Payment” for a discussion of the District's projected tax rates and the effect of the Bonds thereon.

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 sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds issued for the Utility System, and any additional bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing the Utility System and to pay the expenses of assessing and collecting such taxes. In the Bond Orders, the District agrees to levy such a tax from year to year as described more fully above under “THE BONDS – Source and Security for Payment.” The Board is also authorized to levy an annual ad valorem tax, without legal limit as to rate or amount, on all taxable property in the District in sufficient amount to pay the principal of and interest on the outstanding bonds issued for any additional bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing the Utility System and to pay the expenses of assessing and collecting such taxes. Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation

and maintenance of the District for the payment of certain contractual obligations. See “TAX DATA – Tax Rate Calculations.”

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually-owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and certain disabled persons, to the extent deemed advisable by the Board of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District’s obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of one hundred percent (100%) is entitled to an exemption for the full value of the veteran’s residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran’s residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran’s exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. 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 is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead if the surviving spouse has not remarried since the first responder’s death, and said property was the first responder’s residence homestead at the time of death. Such exemption would be transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never adopted a general homestead exemption.

Freeport Goods and Goods-in-Transit Exemption: Freeport goods are goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas and other petroleum products, which have been acquired or brought into the state for assembling, storing, manufacturing, repair, maintenance, processing or fabricating purposes, or used to repair or maintain aircraft of a certified air carrier, and shipped out of the state within one hundred seventy-five (175) days. Freeport goods are exempt from taxation by the District. Article VIII, Section 1-n of the Texas Constitution provides for the exemption from taxation of “goods-in-transit.” “Goods-in-transit” is defined by a provision of the Tax Code, which is effective for tax year 2016 and prior applicable years, as personal property acquired or imported into Texas and transported to another location in the State or outside the State within 175 days of the date the property was acquired or imported into Texas. The exemption excludes oil, natural gas, petroleum products, aircraft and special inventory. For tax year 2016 and subsequent years, such Goods-in-Transit Exemption is limited to tangible personal property acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The Tax Code provision permits local governmental entities, on a local option basis, to take official action by January 1 of the year preceding a tax year, after holding a public hearing, to tax goods-in-transit during the following tax year. The District has taken action to tax Goods-in-Transit. A taxpayer may receive only one of the Freeport exemptions or the goods-in-transit exemptions for items of personal property.

Tax Abatement

Harris County may designate all or part of the area within the District as a reinvestment zone. Thereafter, either Harris County or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdiction. [To date, none of the area within the District has been designated as a reinvestment zone, and the District has not approved any such tax abatement agreements.]

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Code. The Texas Constitution limits increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property.

The Property Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land’s capacity to produce agricultural or timber products rather than at its fair market value. The Property Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Code to act on each claimant’s right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision 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 and taxes for the previous five years for open space land and timberland.

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

extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Reappraisal of Property

On November 5, 2019, a Texas Constitutional amendment, effective January 1, 2020, passed and the prior process that gave local taxing jurisdictions the option to request a reappraisal following a disaster was repealed and replaced with an exemption for qualified property that is in a Governor-declared disaster area and at least 15% damaged. Qualified property includes tangible personal property, improvements to real property, and manufactured homes. Eligible individuals must apply within a specified time frame and, if the disaster occurs after taxes are levied, the taxing unit must take action to authorize the exemption. The amount of the exemption is determined by the percentage level of damage and is prorated based on the date of the disaster. The applicable appraisal district must perform a damage assessment and assign a percentage rating to determine the amount of the exemption. Any exemption granted under the new provisions expires the first year the property is reappraised. The District has not requested a reappraisal.

With respect to a reappraisal of property for a qualified property damaged by a disaster, the Texas Attorney General has issued opinion No. KP-0299 stating that the temporary tax exemption for qualified property damaged by a disaster, as declared by the Governor, would not apply to purely economic, non-physical damage to property caused by COVID-19.

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 petition for review in State district court. In such event, the value of property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional twenty percent (20%) penalty for collection costs. A delinquent tax on personal property incurs an additional twenty percent (20%) penalty, 60 days after the date the taxes become delinquent (April 1). For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected.

Rollback of Operation and Maintenance Tax Rate

During the 86th Regular Legislative Session, Senate Bill 2 (“SB 2”) was passed and signed by the Governor, with an effective date of January 1, 2020, which effectively restricts increases in the District’s operation and maintenance tax rates by requiring rollback elections to reduce the operation and maintenance tax component of the District’s total tax rate (collectively, the debt service tax rate, maintenance and operations tax rate and contract tax rate are the “total tax rate”). See “SELECTED FINANCIAL INFORMATION” for a description of the District’s current total tax rate. SB 2 requires a reduction in the operation and maintenance tax component of the District’s total tax rate if the District’s total tax rate surpasses the thresholds for specific classes of districts in SB 2. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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 “Low Tax Rate Districts.” 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 are classified herein as “Other 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.

Low Tax Rate Districts

Low Tax Rate Districts 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 a rollback 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 Low Tax Rate District 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 Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate District.

Other Districts

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are classified as Other Districts. The qualified voters of these districts, upon the Other 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 a rollback election is called and passes, the total tax rate for Other 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 Low Tax Rate District, Developed District or Other District will be made on an annual basis, at the time a district sets its tax rate, 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 rollback 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 each taxing unit, including the District, having power to tax the property. The District’s tax lien is on a parity with tax liens of such other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of the District is determined by applicable federal law. Personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest.

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceeding which restrict the collection of taxpayer debts. See “INVESTMENT CONSIDERATIONS – Tax Collection Limitations” and “– Bondholders’ Remedies.”

The ability of the District to collect delinquent taxes by foreclosure may be adversely affected by the amount of taxes owed to other taxing units, the foreclosure sale price attributable to market conditions, the taxpayer's right to redeem the property within six (6) months of foreclosure (two (2) years in the case of residential or agricultural property), or by bankruptcy proceedings which restrain the collection of a taxpayer's debts or modify such debts. The Financial Institutions Reform, Recovery and Enforcement Act of 1989 contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“FDIC”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

TAX DATA

General

All taxable property located within the District is subject to the assessment, levy and collection by the District of a continuing, direct, annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds and the Bonds (and any future tax-supported bonds which may be issued from time to time as authorized). Taxes are levied by the District each year against the District’s assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District’s tax base, its debt service requirements and available funds.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District’s improvements, if such maintenance tax is authorized by a vote of the District’s electorate. On September 24, 1983, the District voters authorized the levy of such a maintenance tax in an amount not to exceed \$0.50 per \$100 of Assessed Valuation. Such tax is levied in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.14 per \$100 of Assessed Valuation for 2019. See “Tax Rate Distribution” below.

Historical Values and Tax Collection History

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

Tax Year	Assessed Valuation ^(a)	Tax Rate ^(b)	Adjusted Levy	\$ Amount Outstanding	% Collected	FYE (8/31)
2019	\$483,251,671	\$0.490	\$2,367,921	\$34,467	98.54%	2020
2018	461,212,042	\$0.500	2,306,026	3,774	99.83	2019
2017	456,870,508	\$0.510	2,329,321	5,068	99.78	2018
2016	437,075,905	\$0.540	2,360,088	5,002	99.78	2017
2015	410,826,555	\$0.620	2,546,579	5,112	99.79	2016
2014	391,703,590	\$0.635	2,487,361	4,693	99.81	2015
2013	338,624,196	\$0.685	2,319,526	4,466	99.80	2014
2012	320,885,756	\$0.695	2,230,032	3,078	99.86	2013
2011	321,493,177	\$0.715	2,298,571	827	99.96	2012
2010	317,161,156	\$0.720	2,283,550	887	99.96	2011
2009	289,669,319	\$0.720	2,085,572	858	99.95	2010

(a) As of 08/31/2019. Assessed valuation may differ from those shown in the District's financial statement and elsewhere in this Official Statement due to subsequent adjustments. 2020 collections not yet available.

(b) Per \$100 of Assessed Valuation.

Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2014</u>
Debt Service	\$0.350	\$0.360	\$0.370	\$0.400	\$0.440	\$0.480
Maintenance	<u>\$0.140</u>	<u>\$0.140</u>	<u>\$0.140</u>	<u>\$0.140</u>	<u>\$0.180</u>	<u>\$0.155</u>
Total	<u>\$0.490</u>	<u>\$0.500</u>	<u>\$0.510</u>	<u>\$0.540</u>	<u>\$0.620</u>	<u>\$0.635</u>

Analysis of Tax Base

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

Type of Property	2019 Assessed Valuation ^(a)	2018 Assessed Valuation	2017 Assessed Valuation	2016 Assessed Valuation	2015 Assessed Valuation
Land	\$80,676,274	\$71,428,752	\$69,449,695	\$69,451,240	\$69,474,682
Improvements	451,169,212	436,992,594	432,364,378	398,333,105	369,483,926
Personal Property	5,068,774	5,094,947	6,166,927	6,309,299	7,530,076
Exemptions	<u>-53,662,589</u>	<u>-52,304,251</u>	<u>-51,110,492</u>	<u>-37,017,739</u>	<u>-35,726,471</u>
Total	<u>\$483,251,671</u>	<u>\$461,212,042</u>	<u>\$456,870,508</u>	<u>\$437,075,905</u>	<u>\$410,762,213</u>

(a) As of 08/31/2019. Assessed valuation may differ from those shown in the District's financial statement and elsewhere in this Official Statement due to subsequent adjustments. 2020 data not yet available.

Principal 2019 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the Assessed Valuation of such property as of January 1, 2019. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2019.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2019 Assessed Valuation</u>
CenterPoint Energy Inc.	Electric Utility/Power Plant	\$2,473,630
SRP Sub LLC	Residential	\$759,866
AMH 2014 1 Borrower LLC	Residential	\$728,189
German & Maria Clara Urrea Trust	Residential	\$689,273
Jerald Garcia	Residential	\$606,904
Manuel G. Canil	Residential	\$580,479
AMH 2014 3 Borrower LLC	Residential	\$556,101
Ismael Orellana	Residential	\$532,901
Mamta Yerneni	Residential	\$492,655
Beard Family Trust	Residential	\$420,878
Total		<u>\$7,840,876</u>
% of 2019 Tax Roll		1.62%

Source: Municipal Advisory Council of Texas

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2020 Assessed Valuation. The calculations also assume collection of 95% of taxes levied, no use of District funds on hand, and the sale of no additional bonds by the District except the Remaining Outstanding Bonds and the Bonds.

Average Annual Debt Service Requirements (2021-2040)	\$1,088,598
Tax Rate of \$0.230 on the 2020 Assessed Valuation (\$491,452,605) at 95% collection produces	\$1,088,764
Maximum Annual Debt Service Requirement (2028)	\$1,846,653
Tax Rate of \$0.400 on the 2020 Assessed Valuation (\$491,452,605) at 95% collection produces	\$1,846,977

The District has levied a total tax rate of \$0.490 per \$100 of Assessed Valuation for 2019, consisting of a debt service tax of \$0.350 per \$100 of Assessed Valuation and a maintenance tax of \$0.140 per \$100 of Assessed Valuation.

Estimated Overlapping Taxes

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

<u>Taxing Jurisdictions</u>	<u>2019 Tax Rate</u>
The District*	\$0.490
Katy Independent School District	\$1.443
Harris County	\$0.407
Harris County Flood Control District	\$0.028
Harris County Department of Education	\$0.005
Harris County Hospital District	\$0.166
Port of Houston Authority	\$0.011
Harris Co Toll Road	<u>\$0.000</u>
2019 Total Tax Rate	<u>\$2.550</u>

* Consists of a debt service tax levy of \$0.35 per \$100 of Assessed Valuation and a maintenance tax of \$0.14 per \$100 of Assessed Valuation.

** All Tax Rates are based on the 2019 Tax Rate.

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Water Commission, a predecessor to the TCEQ, dated December 2, 1982, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

At creation, the District encompassed approximately 210.15 acres of land and, due to subsequent annexations, the District currently encompasses a total of approximately 599.18 acres of land. The District is located entirely within Harris County, Texas. The District is located approximately twenty-one (21) miles west of the center of downtown Houston, and is located approximately three (3) miles north of I.H. 10 and one-half (0.5) miles west of Barker Cypress Road.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the TCEQ and the voters of the District. In addition, the District may, subject to certain limitations, develop and finance recreational facilities. See “THE BONDS – Issuance of Additional Debt.”

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational, road and fire-fighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM.”

Management of the District

The District is governed by the Board of Directors, consisting of five (5) directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections

have been held within the District in May in even numbered years except in certain cases where all candidates are unopposed as provided by law. The current members and officers of the Board, along with their respective terms of office, are listed below. All of the Directors currently reside within the District.

<u>Name</u>	<u>Position</u>	<u>Term Expires</u> <u>(May)</u>
Randy Love	President	2024
Gary Nelson	Vice President	2024
C.L. "Steve" Crane	Secretary	2022
Gary Tober	Assistant Secretary	2022
Ron Julun	Director	2022

The District does not have a general manager or any other employees but has contracted for services, as follows:

Tax Assessor/Collector – The District has engaged Wheeler & Associates, Houston, Texas, as the District’s Tax Assessor/Collector. The Tax Assessor/Collector applies the District’s tax levy to tax rolls prepared by the Harris County Appraisal District and bills and collects such levy.

Utility System Operator – Gulf Utility Service, Inc. is employed by the District as the general operator of the District’s System.

Engineers – The District has engaged the firm of Vogler & Spencer Engineering, Houston, Texas (the “Engineer”), as the District’s consulting engineer.

Bookkeeper – The District has engaged Municipal Accounts & Consulting, L.P. as the District’s Bookkeeper. According to representatives of Municipal Accounts & Consulting, L.P., the entity currently serves more than 250 political subdivisions as bookkeeper.

Auditor – As required by Section 49.191 of the Texas Water Code, the District retains an independent auditor to audit the District’s financial statements annually, which annual audit is filed with the TCEQ. A copy of the District’s financial statements for the fiscal year ended August 31, 2019, which were audited by Roth & Eyring, PLLC, is included as “APPENDIX A” to this Official Statement. Such firm has not been engaged by the District to audit the District’s financial statements for the fiscal year ending August 31, 2020.

Bond Counsel and General Counsel – Roach & Associates, PLLC (“Bond Counsel”) serves as Bond Counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Roach & Associates, PLLC, serves as general counsel to the District on matters other than the issuance of bonds.

Financial Advisor – The District has engaged Huntington Securities Inc. dba Huntington Capital Markets, as financial advisor (the “Financial Advisor”) to the District. The fees to be paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are contingent upon the issuance, sale and delivery of the Bonds. The Financial Advisor has been authorized through a resolution of the Board to submit a bid for the purchase of the Bonds.

Special Consultants Related to Issuance of the Bonds

Disclosure Counsel - Orrick, Herrington & Sutcliffe LLP, Dallas, Texas serves as Disclosure Counsel to the District. The fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds.

Status of Development

All of the developable land in the District has been developed as the subdivisions of Oak Ridge Place (438 lots), Lake Ridge (773 lots), Barker’s Ridge (764 lots) and Barker’s Crossing (459 lots).

THE UTILITY SYSTEM

Regulation

According to the District's Engineer, the District's water, wastewater and drainage facilities (the "Utility System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, Harris County, the Harris County Flood Control District (the "HCFCD") and the City of Houston. According to the District's Engineer, all such facilities are subject to inspection by the foregoing governmental agencies and the District's Engineer. Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ.

Description of the System

The development of utilities to serve the existing 2,580 single-family residential lots on approximately 481.20 acres contained within the boundaries of the District is complete. The proceeds of prior bond issuances of the District have financed the cost of construction of underground water distribution, storm water collection, and wastewater collection facilities along with storm water detention, water supply, and wastewater treatment facilities to serve the District. Certain components of the District's System are described below based upon information obtained from the District's Engineer.

Water Supply Facilities

The District's potable water system consists of two (2) water plants. Water Plant No. 1 consists of (i) a 638 gallons per minute ("gpm") well and pump with an auxiliary power source with auxiliary power; (ii) 1,000 gpm surface water supply; (iii) one 400,000-gallon ground storage tank; (iv) booster pumps aggregating 2,000 gpm; (v) a 20,000-gallon pressure tank; and (vi) an access road and fencing. Water Plant No. 2 consists of (i) a 1,466 gpm well and pump with auxiliary power source; (ii) one 400,000-gallon storage tank; (iii) booster pumps aggregating 2,500 gpm; (iv) a 20,000-gallon pressure tank; and (v) site improvements. The water supply facilities have the capacity to serve 3,153 equivalent single-family connections.

The District is located within the boundaries of the West Harris County Regional Water Authority and began receiving surface water from the Authority in June 2010. See "Subsidence and Conversion to Surface Water Supply" below.

Wastewater Treatment Facilities

Wastewater from the District is currently treated from the District's 825,000 gallons per day ("gpd") permanent wastewater treatment plant. Current average flows are 455,000 gpd. The plant has capacity for 2,750 equivalent single-family connections within the District.

Flood Plain

According to the applicable flood insurance rate maps of the Federal Emergency Management Agency, the 100-year flood plain within the District is currently contained within the banks of the detention ponds and drainage channels which were constructed by the District.

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 2001, the Texas legislature created the West Harris County Regional Water Authority (the "Authority") to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District) and a small portion of Fort Bend County. The Authority has entered into a Water Supply Contract with the City of Houston, Texas ("Houston") to obtain treated surface water from Houston. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The

Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District is included within the Authority's GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, user fees, rates, charges and special assessments as necessary to accomplish its purposes. The Authority currently charges the District, and other major water users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and a fee per 1,000 gallons based on the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue substantial amounts of bonds by the year 2030 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2014; (ii) limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP, beginning in the year 2025, and (iii) limit groundwater withdrawals to no more than 20% of the total annual-water demand of the water users within the Authority's GRP, beginning in the year 2030. If the Authority fails to comply with the above Subsidence District regulations, the Authority is subject to a disincentive fee penalty, currently \$630 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 40% of the total annual water demand in the Authority's GRP. In the event of such Authority fails to comply, the Subsidence District may also seek to collect Disincentive Fees from the District.

The District has completed conversion of the water disinfection facilities at Water Plants No. 1 and 2 in order to be compatible with surface water. In addition, Water Plant No. 1 has been connected to an Authority line that conveys surface water. The District began receiving surface water from the Authority on June 1, 2010. The District currently pays a pumpage fee of \$2.25 per 1000 gallons, when groundwater is pumped from the wells, and a water rate of \$2.65 per 1,000 gallons for surface water delivered.

The District anticipates that it will be required to connect Water Plant No. 2 to a surface water line when the Authority extends such a line to the Plant. It is anticipated that the Authority will extend such a line as part of implementing its GRP's 2020 deadlines.

The District cannot predict the amount or level of fees and charges which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with increased maintenance taxes. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payment

Economic Factors: The District is situated in the Houston, Texas area, and the rate of development of the District is directly related to the vitality of the residential housing industry in said metropolitan areas. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

Principal Landowners: There is no commitment by, or legal requirement of, the principal landowners, or any other landowner in the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "TAX DATA – Principal 2019 Taxpayers."

Dependence on Principal Taxpayers: The top ten principal taxpayers represent \$7,840,876 or 1.62% of the 2019 Assessed Valuation, which represents ownership as of January 1, 2019. If these or other principal taxpayers were to default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds would be dependent on its ability to enforce and liquidate its tax lien, which is a time-consuming process, or to sell tax anticipation notes. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate, hindering growth and leading to further defaults in the payment of taxes. The District is not required by law or the Bond Orders to maintain any specified amount of surplus in its debt service fund. See, "TAX DATA – Principal 2019 Taxpayers" and "TAXING PROCEDURES – Levy and Collection of Taxes."

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2020 Assessed Valuation of property located within the District is \$491,452,605. See "TAX DATA."

After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,846,653 (2028) and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,088,598 (2021-2040). Assuming no decrease to the 2020 Assessed Valuation, tax rates of \$0.400 and \$0.230 per \$100 of assessed valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners. In 2019, the District levied a maintenance tax of \$0.14 per \$100 of assessed valuation, a debt service tax of \$0.35 per \$100 of assessed valuation.

Competitive Nature of Residential Housing Market

The residential housing industry in the Houston, Texas area is very competitive, and the District can give no assurance that the building programs which are planned by any homebuilder(s) will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder(s) which might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other 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.

Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "TAXING PROCEDURES."

Bondholders' Remedies

In the event of default in the payment of principal of or interest on the Bonds, the registered holders of the Bonds ("Bondholders") have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Orders do not provide for remedies to protect and enforce the interests of the Bondholders. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Based on recent Texas court decisions, it is unclear whether, §49.066, Texas Water Code, effectively waives governmental immunity of a municipal utility district for suits for money damages. Even if the Bondholders could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Bondholders cannot themselves foreclose on property within the District or sell property of the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Bondholders would have to initiate and finance the legal process to enforce their remedies. SEE "THE BONDS – Remedies in Event of Default."

Bankruptcy Limitation to Bondholders' Rights

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: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desired to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial conditions 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 the District with Texas law requirements, the District could file a voluntary bankruptcy petition under Chapter 9, thereby invoking the protection of the automatic stay until the bankruptcy court, after a hearing, dismisses the petition. A federal bankruptcy court is a court of equity and federal bankruptcy judges have considerable discretion in the conduct of bankruptcy proceedings and in making the decision of whether to grant the petitioning district relief from its creditors. While such a decision might be applicable, the concomitant delay and loss of remedies to the Bondholder could potentially and adversely impair the value of the Bondholder's claim.

If the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan was confirmed by the bankruptcy court, it could, among other things, affect the Beneficial Owners by reducing or eliminating the interest rate or the principal amount, 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 such Beneficial Owners' claims against the District.

The District may not be placed into bankruptcy involuntarily. SEE "THE BONDS– Remedies in Event of Default."

Marketability

The District has no understanding with the initial purchaser of the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

Following the issuance of the Bonds, the District will have \$13,770,000 in authorized but unissued unlimited tax bonds for improvements and facilities and \$37,109,362 in principal amount of authorized but unissued unlimited tax refunding bonds. The District reserves in the Bond Order the right to issue the remaining authorized but unissued bonds plus such additional bonds as may hereafter be authorized by voters in the District. In addition, the District has the right to issue obligations, other than the Bonds, including revenue notes, tax anticipation notes and bond anticipation notes, and to borrow money for any valid public purpose. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for and the investment quality and value of the Bonds. The District does not employ any formula with respect to assessed valuations, tax collections or other factors to limit the amount of parity bonds which it may issue.

Continuing Compliance with Certain Covenants

The Bond Orders contain covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure of the District to comply with such covenants on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See "TAX MATTERS."

Approval of the Bonds

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

Infectious Disease Outbreak – COVID-19

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

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has issued a series of executive orders relating to COVID-19 preparedness and mitigation. Due to a recent spike in COVID-19 cases, recent executive orders modified the phased reopening of businesses in Texas, subject to further restrictions in the Governor's discretion. For example, Executive Order GA-28, which was issued on June 26, 2020, and remains in effect until modified, amended, rescinded or superseded by the Governor, established occupancy limits to 50 percent for most businesses in Texas, limited bars and similar establishments to drive-through, pickup or delivery options, and made most outdoor gatherings of more than 100 people subject to approval by local authorities, subject to exceptions outlined in the order. Businesses otherwise subject to a 50 percent occupancy limit and located in a county meeting certain Department of State Health Services criteria are eligible to operate at up to 75 percent of occupancy. In separate orders, the Governor imposed a moratorium on elective surgeries in numerous Texas counties including Harris, Travis, Bexar and Dallas Counties. The Governor retains the authority to impose additional restrictions on activities. Under Executive Order GA-28, for the remainder of the 2019-2020 school year, public schools may resume operations in the summer under protocols outlined in guidance from the TEA. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

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

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

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

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 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 has been able to demonstrate steady progress and improvements in air quality in the HGB area, the HGB area remains subject to CAA nonattainment requirements.

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

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

The HGB Area is currently designated as a "moderate" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification

that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a "marginal" nonattainment area under the 2015 Ozone Standard, 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) public water supply systems, (2) wastewater discharges from treatment facilities, (3) storm water discharges, and (4) wetlands dredge and fill activities. Each of these is addressed below:

Pursuant to the federal Safe Drinking Water Act ("SDWA") and Environmental Protection Agency's National Primary Drinking Water Regulations ("NPDWRs"), which are implemented by the TCEQ's Water Supply Division, a municipal utility district's provision of water for human consumption is subject to extensive regulation as a public water system.

Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency's rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

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

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

In 2015, the EPA and 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 became effective on June 20, 2020, which is 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.

Effects of Hurricane Harvey

The Gulf Coast area, including Harris County, Texas, sustained widespread 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.

Hurricane Harvey caused no damage to the District's Utility System. The District cannot predict the effect that additional extreme weather events may have upon the District and the Gulf Coast. Additional extreme weather events have the potential to cause damage within the District and along the Gulf Coast generally that could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region. See "TAXING PROCEDURES – Valuation of Property for Taxation."

Potential Impact of Natural Disaster

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes, or weather events such as hurricanes, tornados, tropical storms, or other severe weather events that could produce high winds, heavy rains, hail, and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates.

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from such natural disasters.

Municipal Bond Insurance Risk Factors

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

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

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

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

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

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

Future and Proposed Legislation

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

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriter a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Roach & Associates, PLLC, Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. 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 legal limitation as to rate or amount, upon all taxable property within the District and that interest on the Bonds is excludable from gross income of the owners for federal income tax purposes under existing law and not subject to the alternative minimum tax on individuals, or, except as described therein, corporations. See "TAX MATTERS."

In addition to serving as Bond Counsel, Roach & Associates, PLLC, also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of 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.

Legal Review

In its capacity as Bond Counsel, Roach & Associates, PLLC has reviewed the information appearing in this Official Statement under the captioned sections “PLAN OF FINANCING,” “THE BONDS,” “THE DISTRICT – General” and “Management of the District (Bond Counsel and General Counsel),” “TAXING PROCEDURES,” “LEGAL MATTERS” and “TAX MATTERS” solely to determine whether such information is an accurate summary of the law and documents referred to therein. Such firms have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms’ limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

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

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

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

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

tax status of interest on, the Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

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

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

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

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

Qualified Tax-Exempt Obligations

The Bonds are designated as "qualified tax-exempt obligations" for financial institutions.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District's records, the Tax Assessor/Collector, the Harris County Appraisal District, the District's Engineer, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below under "GENERAL CONSIDERATIONS – Certification as to Official Statement." The summaries of the statutes, resolutions, orders and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The financial statements of the District and the accompanying report of Roth & Eyring, PLLC, for the fiscal year ended August 31, 2019, and a copy of the District's Management letter are included herein in "APPENDIX A." Roth & Eyring PLLC, has agreed to the publication of its opinion on such financial statements in this official statement.

Experts

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the sections captioned “THE DISTRICT” and “THE SYSTEM,” has been provided by Vogler & Spencer Engineering, Houston, Texas. Such information has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning valuations contained in the sections captioned “TAX DATA” and “DISTRICT DEBT” has been provided by the Harris County Appraisal District and Wheeler & Associates, Inc. The District has included certain information herein in reliance upon Wheeler & Associates, Inc.’s authority as an expert in the field of tax assessing and real property appraisal. The District has included certain information herein in reliance upon the Appraisal District’s authority as an expert in the field of tax assessing and real property appraisal.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Order, the District has the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, audited financial statements and timely notice of specified material events, in an electronic format as prescribed by the Municipal Securities Rulemaking Board (“MSRB”). The MSRB has established the Electronic Municipal Market Access (“EMMA”) system for such purpose.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings “SELECTED FINANCIAL INFORMATION,” “DISTRICT DEBT” (excluding the information contained under the subheading “Direct and Estimated Overlapping Debt Statement), “TAX DATA,” and “APPENDIX A.” The District will update and provide this information within six months after the end of each of its fiscal years.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report becomes available. The District’s current fiscal year end is August 31. Accordingly, it must provide updated information by the last day in February in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

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 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-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of SEC Rule 15c212; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, 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 within the meaning of the Rule, 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 within the meaning of the Rule, any of which reflect financial difficulties. The terms “material” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Orders make any provision for debt service reserves or liquidity enhancement. The term “financial obligation” when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term “financial obligation” does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the SEC Rule 15c2-12, taking into account any amendments or interpretations of SEC Rule 15c2-12 to the date of such amendment, as well as such changed circumstances, and (2) either (a) the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) any qualified professional unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. 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. The District may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the SEC Rule 15c2-12 or a court of final jurisdiction enters judgment that such provisions of such SEC Rule 15c2-12 are invalid, and the District also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not have prevented an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

Compliance with Prior Undertaking

Except as the following is deemed material, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule.

The District failed to timely file its annual financial information and operating data and audited financial statements for the fiscal year ended August 31, 2015. Such information was filed one day beyond the deadline of February 28, 2016. Additionally, in the filing of its annual financial information and operating data for the fiscal year ended August 31, 2015, the District did not include updates of all data in the table for Selected Financial Information as required by the undertakings entered into in connection with bonds issued between 2010 and 2011.

GENERAL CONSIDERATIONS

No-Litigation Certificate

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

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 financial condition of the District from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended, through the date of sale.

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, if required by the Underwriter, the District will furnish the Underwriter a certificate, executed by the President or Vice President and Secretary or Assistant Secretary of the Board of Directors of the District, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery, were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data, contained in this Official Statement, of or pertaining to entities other than the District, such statements and data have been obtained from sources which the District believes to be reliable, and the District has no reason to believe that they are untrue in any material respect.

Updating of Official Statement

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

CONCLUDING STATEMENT

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

This Official Statement was duly authorized and approved by the Board of Directors of Harris County Municipal Utility District No. 238, of Harris County, Texas, as of the date specified on the first page hereof.

/s/ Randy Love

President, Board of Directors
Harris County Municipal Utility District No. 238, of
Harris County, Texas

ATTEST:

/s/ C.L. "Steve" Crane

Secretary, Board of Directors
Harris County Municipal Utility District No. 238, of
Harris County, Texas

APPENDIX A
AUDITED FINANCIAL STATEMENT

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 238
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
AUGUST 31, 2019

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November 26, 2019

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 238
Harris County, Texas

I have audited the accompanying financial statements of the governmental activities and each fund of Harris County Municipal Utility District No. 238, as of and for the year ended August 31, 2019, which collectively comprise the District's basic financial statements, as listed in the table of contents, and the related notes to the financial statements.

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 of material misstatement, whether due to fraud or error.

Auditor's Responsibility

My responsibility is to express opinions on these financial statements based on my audit. I conducted my audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that I plan and perform the audit to obtain reasonable assurance about whether the 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 assessment of the risk 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 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 I express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my audit opinions.

Opinions

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each fund of Harris County Municipal Utility District No. 238 as of August 31, 2019, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

INDEPENDENT AUDITOR'S REPORT (Continued)**Other Matters**

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis on Pages 3 to 8 and Schedule of Revenues, Expenditures and Changes in Fund Balance, Budget and Actual, General Fund, on Page 21, be presented to supplement the basic financial statements. Such information, although not 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. I 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 my inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

My audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The supplementary information on Pages 22 to 39 is presented for purposes of additional analysis and is not a required part of the financial statements. Such 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. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in 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 my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm except for the years ended August 31, 2015 which were audited by other independent auditors whose opinion dated November 24, 2015 expressed an unqualified opinion on those financial statements.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right portion of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 238 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended August 31, 2019.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District. The District's government-wide financial statements include the statement of net position and statement of activities, which are prepared using accounting principles that are similar to commercial enterprises. The purpose of the statement of net position is to attempt to report all of the assets and liabilities owned by the District. The District reports all of its assets when it acquires or begins to maintain the assets and reports all of its liabilities when they are incurred.

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

The purpose of the statement of activities is to present the revenues and expenses of the District. Again, the items presented on the statement of activities are measured in a manner similar to the approach used by a commercial enterprise in that revenues are recognized when earned or established criteria are satisfied and expenses are reported when incurred by the District. Thus, revenues are reported even when they may not be collected for several months or years after the end of the accounting period and expenses are recorded even though they may not have used cash during the current period.

Although the statement of activities looks different from a commercial enterprise's income statement, the financial statement is different only in format, not substance. Whereas the bottom line in a commercial enterprise is its net income, the District reports an amount described as *change in net position*, essentially the same thing.

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. 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 or governmental statutes or regulations.

Governmental fund financial statements consist of a balance sheet and statement of revenues, expenditures and change in fund balances and are prepared on an accounting basis that is significantly different from that used to prepare the government-wide financial statements.

In general, these financial statements have a short-term emphasis and, for the most part, measure and account for cash and other assets that can easily be converted into cash. For example, amounts reported on the balance sheet include items such as cash and receivables collectible within a very short period of time, but do not include capital assets such as land and water and sewer systems. Fund liabilities include amounts that are to be paid within a very short period after the end of the fiscal year. The difference between a fund's total assets and total liabilities is labeled the fund balance, and generally indicates the amount that can be used to finance the next fiscal year's activities. Likewise, the operating statement for governmental funds reports only those revenues and expenditures that were collected in cash or paid with cash, respectively, during the current period or very shortly after the end of the fiscal year.

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. The financial objective for the Special Revenue Fund is to insure that the expenditures in the funds are billed to the participants in accordance with the contract. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Current and other assets	\$ 4,476,374	\$ 4,452,720	\$ 23,654
Capital assets	11,581,247	11,705,957	(124,710)
Total assets	<u>16,057,621</u>	<u>16,158,677</u>	<u>(101,056)</u>
Long-term liabilities	14,424,390	15,458,928	(1,034,538)
Other liabilities	1,853,200	2,000,412	(147,212)
Total liabilities	<u>16,277,590</u>	<u>17,459,340</u>	<u>(1,181,750)</u>
Net position:			
Invested in capital assets, net of related debt	(3,960,060)	(5,053,351)	1,093,291
Restricted	1,534,706	1,795,634	(260,928)
Unrestricted	2,205,385	1,957,054	248,331
Total net position	<u>\$ (219,969)</u>	<u>\$ (1,300,663)</u>	<u>\$ 1,080,694</u>

Summary of Changes in Net Position

	<u>2019</u>	<u>2018</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 2,320,499	\$ 2,348,123	\$ (27,624)
Charges for services	1,755,715	1,748,822	6,893
Other revenues	90,112	48,354	41,758
Total revenues	<u>4,166,326</u>	<u>4,145,299</u>	<u>21,027</u>
Expenses:			
Service operations	2,410,376	3,070,204	(659,828)
Debt service	675,256	634,668	40,588
Total expenses	<u>3,085,632</u>	<u>3,704,872</u>	<u>(619,240)</u>
Change in net position	1,080,694	440,427	640,267
Net position, beginning of year	<u>(1,300,663)</u>	<u>(1,741,090)</u>	<u>440,427</u>
Net position, end of year	<u>\$ (219,969)</u>	<u>\$ (1,300,663)</u>	<u>\$ 1,080,694</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended August 31, 2019, were \$3,899,666, a decrease of \$34,717 from the prior year.

The General Fund balance increased by \$248,280, in accordance with the District's financial plan.

The Debt Service Fund balance decreased by \$282,997, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 21 of this report. The budgetary fund balance as of August 31, 2019, was expected to be \$1,805,621 and the actual end of year fund balance was \$2,196,172.

Capital Asset and Debt Administration

Capital Assets

Capital assets held by the District at the end of the current and previous fiscal years are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2019</u>	<u>2018</u>	<u>Change</u>
Land, easements and detention ponds	\$ 1,536,811	\$ 1,536,811	\$ 0
Construction in progress	84,575	14,728	69,847
Water facilities	3,866,200	3,807,274	58,926
Sewer facilities	6,093,661	6,347,144	(253,483)
Totals	<u>\$ 11,581,247</u>	<u>\$ 11,705,957</u>	<u>\$ (124,710)</u>

Changes to capital assets during the fiscal year ended August 31, 2019, are summarized as follows:

Additions:		
Water system improvements		\$ 291,480
Sanitary sewer system improvements		<u>9,680</u>
Total additions to capital assets		301,160
Decreases:		
Depreciation		<u>(425,870)</u>
Net change to capital assets		<u>\$ (124,710)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended August 31, 2019, are summarized as follows:

Bonded debt payable, beginning of year	\$ 16,450,000
Refunding bonds sold	2,131,000
Bonds refunded	(2,015,000)
Bonds paid	<u>(1,370,000)</u>
Bonded debt payable, end of year	<u>\$ 15,196,000</u>

At August 31, 2019, the District had \$17,680,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

On August 20, 2019, the District issued \$2,131,000 in unlimited tax refunding bonds to refund \$605,000 of outstanding Series 2010 and \$1,410,000 of Series 2013 bonds. The net proceeds of \$2,048,621 (after payment of \$79,638 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent for the refunded bonds to call and retire the refunded bonds on August 31, 2019. As a result, the refunded bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$108,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$92,000.

The District's bonds have an underlying rating of A- from Standard & Poor's. The Series 2012, 2014 and 2019 bonds are not insured. The Series 2011 bonds are insured by Assured Guaranty Municipal Corp and are rated AA by Standard & Poor's. The Series 2016 bonds are insured by National Public Finance Guarantee Corporation and are rated A by Standard & Poor's. There were no changes in the bond ratings during the fiscal year ended August 31, 2019.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$4,560,000 for the 2018 tax year (about 1%) primarily due to the increase in the valuation of existing property in the District.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston without the District's consent, subject to the agreement described below. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 19, 2011. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

The City has imposed a Sales and Use Tax within the boundaries of the areas subject to the limited-purpose annexation by the City of Houston. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the such areas and received by the City from the Comptroller of Public Accounts of the State of Texas.

Water Supply Issues

The District is within the Harris-Galveston Subsidence District (the "Subsidence District") Regulatory Area No. 3. The Subsidence District regulates the withdrawal of groundwater within its jurisdiction. The District's authority to pump ground water from its well is subject to annual permits issued by the Subsidence District. The Subsidence District has ordered certain areas of suburban Houston to convert most of their water supply to surface water under various schedules. Beginning in January 2003, the District was required to have a groundwater reduction plan ("GRP"), approved by the Subsidence District and by January 2005, the District must have provided evidence to the Subsidence District that construction of the infrastructure defined within the District's certified groundwater reduction plan has started. The Subsidence District designated January 2010, as the date required for the District to restrict the withdrawal of ground water and convert 30% of its total water use to surface water; January 2025, as the date required for the District to restrict the withdrawal of ground water and convert 60% of its total water use to surface water and January 2035, as the date required for the District to restrict the withdrawal of ground water and convert 80% of its total water use to surface water. If the District does not meet the requirements of the Subsidence District, the District may be required to pay the disincentive fees adopted by the Subsidence District.

In May, 2001, the Texas Legislature created the West Harris County Regional Water Authority (the "Authority") and included the District within the boundaries of the Authority. The Authority was created to provide a regional entity to build the necessary facilities to meet the subsidence District's requirements for conversion from ground water to surface water of all permit holders within its boundaries, including the District. Accordingly, the District is required to pay groundwater reduction plan fees to the Authority, and in turn is entitled to rely upon the Authority's GRP to achieve compliance with the subsidence District's requirements. In accordance with the GRP, the Authority has negotiated a water supply contract with the City of Houston and has issued revenue bonds to finance the surface water supply system. The Authority may establish such fees, charges, or tolls as necessary to accomplish its purposes. The Authority's surface water pumpage fee was equal to \$2.95 as of August 31, 2019, and is expected to increase in the future. The Authority's surface water usage fee was equal to \$3.35 as of August 31, 2019, and is expected to increase in the future.

The District cannot predict the amount or level of fees and charges which may be due the Authority for future years, but anticipates that it will pass such fees through to its customers in higher water rates. In addition, conversion to surface water will necessitate improvements to the District's water supply system, which could require issuance of additional bonds. In the event the Authority fails to commence construction of surface water infrastructure by the deadline established by the Subsidence District, the District and others within the Authority's GRP group could be required to pay the disincentive fee on withdrawn groundwater. This disincentive fee is substantial, and the District expects it would need to pass such fee through to its customers in higher water rates. This disincentive fee would be in addition to the Authority's fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

AUGUST 31, 2019

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 183,542	\$ 79,366	\$	\$ 262,908	\$	\$ 262,908
Certificates of deposit, at cost, Note 7	2,040,000	960,000		3,000,000		3,000,000
Temporary investments, at cost, Note 7	299,680	663,508		963,188		963,188
Receivables:						
Property taxes	9,213	28,373		37,586		37,586
Accrued penalty and interest on property taxes				0	7,944	7,944
Service accounts	173,576			173,576		173,576
Accrued interest	22,230	8,722		30,952		30,952
Other	220			220		220
Maintenance taxes collected not yet transferred from other fund	2,478			2,478	(2,478)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	1,621,386	1,621,386
Depreciable capital assets				0	9,959,861	9,959,861
Total assets	<u>\$2,730,939</u>	<u>\$1,739,969</u>	<u>\$ 0</u>	<u>\$ 4,470,908</u>	<u>11,586,713</u>	<u>16,057,621</u>
LIABILITIES						
Accounts payable	\$ 207,195	\$ 5,624	\$	\$ 212,819		212,819
Accrued interest payable				0	205,105	205,105
Customer deposits	318,359			318,359		318,359
Maintenance taxes collected not yet transferred to other fund		2,478		2,478	(2,478)	0
Long-term liabilities, Note 5:						
Due within one year				0	1,116,917	1,116,917
Due in more than one year				0	14,424,390	14,424,390
Total liabilities	<u>525,554</u>	<u>8,102</u>	<u>0</u>	<u>533,656</u>	<u>15,743,934</u>	<u>16,277,590</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>9,213</u>	<u>28,373</u>	<u>0</u>	<u>37,586</u>	<u>(37,586)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Committed to construction contracts in progress	180,636			180,636	(180,636)	0
Assigned to debt service		1,703,494		1,703,494	(1,703,494)	0
Unassigned	<u>2,015,536</u>			<u>2,015,536</u>	<u>(2,015,536)</u>	<u>0</u>
Total fund balances	<u>2,196,172</u>	<u>1,703,494</u>	<u>0</u>	<u>3,899,666</u>	<u>(3,899,666)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$2,730,939</u>	<u>\$1,739,969</u>	<u>\$ 0</u>	<u>\$ 4,470,908</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(3,960,060)	(3,960,060)
Restricted for debt service					1,534,706	1,534,706
Unrestricted					<u>2,205,385</u>	<u>2,205,385</u>
Total net position					<u>\$ (219,969)</u>	<u>\$ (219,969)</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED AUGUST 31, 2019

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 645,321	\$ 1,659,488	\$	\$ 2,304,809	\$ 25	\$ 2,304,834
Water service	481,305			481,305		481,305
Sewer service	478,593			478,593		478,593
Surface water fees, Note 9	715,177			715,177		715,177
Penalty and interest	63,950	17,938		81,888	(2,273)	79,615
Interest on deposits and investments	52,331	37,781		90,112		90,112
Other	16,690			16,690		16,690
Total revenues	2,453,367	1,715,207	0	4,168,574	(2,248)	4,166,326
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	115,134	5,840		120,974		120,974
Contracted services	157,476	64,378		221,854		221,854
Utilities	116,006			116,006		116,006
Surface water fees, Note 9	723,601			723,601		723,601
Repairs and maintenance	547,222			547,222		547,222
Other operating expenditures	145,545			145,545		145,545
Administrative expenditures	98,943	10,361		109,304		109,304
Depreciation				0	425,870	425,870
Capital outlay / non-capital outlay	301,160			301,160	(301,160)	0
Debt service:						
Principal retirement		1,370,000		1,370,000	(1,370,000)	0
Bond issuance expenditures				0	79,638	79,638
Interest and fees		550,366		550,366	45,252	595,618
Total expenditures / expenses	2,205,087	2,000,945	0	4,206,032	(1,120,400)	3,085,632
Excess (deficiency) of revenues over expenditures	248,280	(285,738)	0	(37,458)	1,118,152	1,080,694
OTHER FINANCING SOURCES (USES)						
Refunding bonds issued, Note 5		2,131,000		2,131,000	(2,131,000)	0
Refunding bond issuance expenditures, Note 5		(79,638)		(79,638)	79,638	0
Payment to refunding escrow agent, Note 5		(2,048,621)		(2,048,621)	2,048,621	0
Total other financing sources (uses)	0	2,741	0	2,741	(2,741)	0
Net change in fund balances / net position	248,280	(282,997)	0	(34,717)	1,115,411	1,080,694
Beginning of year	1,947,892	1,986,491	0	3,934,383	(5,235,046)	(1,300,663)
End of year	<u>\$ 2,196,172</u>	<u>\$ 1,703,494</u>	<u>\$ 0</u>	<u>\$ 3,899,666</u>	<u>\$ (4,119,635)</u>	<u>\$ (219,969)</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238NOTES TO THE FINANCIAL STATEMENTSAUGUST 31, 2019

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 238 (the "District") was created by an order of the Texas Water Commission (now the Texas Commission on Environmental Quality) effective December 2, 1982, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on November 9, 1984, and the first bonds were sold on May 21, 2002. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, 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. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

In the fund financial statements, governmental funds recognize bond premiums and discounts, as well as bond issuance costs, during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts on debt issuances are reported as other financing uses. Issuance costs, whether or not withheld from the actual debt proceeds received, are reported as expenditures of the fund from which they are paid.

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 3,899,666	
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:			
Total capital assets, net			11,581,247
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:			
Bonds payable	\$ (15,196,000)		
Deferred charge on refunding (to be amortized as interest expense)	539,368		
Issuance premium, net of discount (to be amortized as interest expense)	<u>(884,675)</u>	(15,541,307)	
Some receivables that do not provide current financial resources are not reported as receivables in the funds:			
Accrued penalty and interest on property taxes receivable	7,944		
Uncollected property taxes	<u>37,586</u>	45,530	
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:			
Accrued interest			<u>(205,105)</u>
Net position, end of year			<u>\$ (219,969)</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ (34,717)
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 301,160	
Depreciation	<u>(425,870)</u>	(124,710)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Sale of bonds	(2,131,000)	
Principal reduction	1,370,000	
Payment to escrow agent for refunding	<u>2,048,621</u>	1,287,621
<p>The funds report the effect of bond premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(78,778)	
Issuance premium, net of discount	<u>9,158</u>	(69,620)
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	(2,273)	
Uncollected property taxes	<u>25</u>	(2,248)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>24,368</u>
Change in net position		<u>\$ 1,080,694</u>

NOTE 4: CAPITAL ASSETS

At August 31, 2019, "Invested in capital assets, net of related debt" was \$(3,960,060). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended August 31, 2019, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land, easements and detention ponds	\$ 1,536,811	\$	\$	\$ 1,536,811
Construction in progress	<u>14,728</u>	<u>69,847</u>		<u>84,575</u>
Total capital assets not being depreciated	<u>1,551,539</u>	<u>69,847</u>	<u>0</u>	<u>1,621,386</u>
Depreciable capital assets:				
Water system	6,179,446	221,633		6,401,079
Sewer system	<u>9,974,738</u>	<u>9,680</u>		<u>9,984,418</u>
Total depreciable capital assets	<u>16,154,184</u>	<u>231,313</u>	<u>0</u>	<u>16,385,497</u>
Less accumulated depreciation for:				
Water system	(2,372,172)	(162,707)		(2,534,879)
Sewer system	<u>(3,627,594)</u>	<u>(263,163)</u>		<u>(3,890,757)</u>
Total accumulated depreciation	<u>(5,999,766)</u>	<u>(425,870)</u>	<u>0</u>	<u>(6,425,636)</u>
Total depreciable capital assets, net	<u>10,154,418</u>	<u>(194,557)</u>	<u>0</u>	<u>9,959,861</u>
Total capital assets, net	<u>\$ 11,705,957</u>	<u>\$ (124,710)</u>	<u>\$ 0</u>	<u>\$ 11,581,247</u>
Changes to capital assets:				
Capital outlay		\$ 301,160	\$	
Less depreciation expense for the fiscal year		<u>(425,870)</u>		
Net increases / decreases to capital assets		<u>\$ (124,710)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended August 31, 2019 was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 16,450,000	\$ 2,131,000	\$ 3,385,000	\$ 15,196,000	\$ 1,195,000
Less deferred amounts:					
For issuance (discounts)/premiums	886,462		1,787	884,675	(249)
For refunding	<u>(577,154)</u>	<u>(45,424)</u>	<u>(83,210)</u>	<u>(539,368)</u>	<u>(77,834)</u>
Total bonds payable	<u>16,759,308</u>	<u>2,085,576</u>	<u>3,303,577</u>	<u>15,541,307</u>	<u>1,116,917</u>
Total long-term liabilities	<u>\$ 16,759,308</u>	<u>\$ 2,085,576</u>	<u>\$ 3,303,577</u>	<u>\$ 15,541,307</u>	<u>\$ 1,116,917</u>

Bonds voted	\$ 48,295,000
Bonds approved for sale and sold	30,615,000
Bonds voted and not issued	17,680,000
Refunding bonds voted	39,955,000
Refunding bonds approved for sale and sold	2,845,639
Refunding bonds voted and not issued	37,109,361

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of August 31, 2019, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$ 1,195,000	\$ 464,585	\$ 1,659,585
2021	1,210,000	451,018	1,661,018
2022	1,273,000	420,323	1,693,323
2023	1,318,000	384,069	1,702,069
2024	1,356,000	346,586	1,702,586
2025 - 2029	7,093,000	1,076,863	8,169,863
2030 - 2031	<u>1,751,000</u>	<u>96,741</u>	<u>1,847,741</u>
	<u>\$ 15,196,000</u>	<u>\$ 3,240,185</u>	<u>\$ 18,436,185</u>

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount.

	<u>Series 2011</u>	<u>Refunding Series 2012</u>	<u>Refunding Series 2016</u>
Amounts outstanding, August 31, 2019	\$90,000	\$6,870,000	\$6,105,000
Interest rates	3.00%	2.91%	2.00% to 4.00%
Maturity dates, serially/ beginning/ending	April 1, 2020	April 1, 2020/2026	April 1, 2020/2031
Interest payment dates	October 1/April 1	October 1/April 1	October 1/April 1
Callable dates	April 1, 2019*	Not Callable	April 1, 2026*
	<u>Refunding Series 2019**</u>		
Amounts outstanding, August 31, 2019	\$2,131,000		
Interest rates	2.115%		
Maturity dates, serially beginning/ending	April 1, 2020/2031		
Interest payment dates	October 1/April 1		
Callable dates	April 1, 2029*		

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

**See following page.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

**On August 20, 2019, the District issued \$2,131,000 in unlimited tax refunding bonds to refund \$605,000 of outstanding Series 2010 and \$1,410,000 of Series 2013 bonds. The net proceeds of \$2,048,621 (after payment of \$79,638 in underwriting fees and other issuance costs) were deposited in an irrevocable trust with an escrow agent for the refunded bonds to call and retire the refunded bonds on August 31, 2019. As a result, the refunded bonds are considered defeased and the liability for these bonds will be removed from the financial statements.

The District refunded the bonds to reduce total debt service payments over future years by approximately \$108,000 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new debt) of approximately \$92,000.

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held September 24, 1983, the voters within the District authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 25, 2018 the District levied the following ad valorem taxes for the 2018 tax year on the adjusted taxable valuation of \$461,462,032:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.3600	\$ 1,661,259
Maintenance	<u>0.1400</u>	<u>646,045</u>
	<u>\$ 0.5000</u>	<u>\$ 2,307,304</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2018 tax year total property tax levy	\$ 2,307,304
Appraisal district adjustments to prior year taxes	<u>(2,470)</u>
Statement of Activities property tax revenues	<u>\$ 2,304,834</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and an authorized private sector investment pool (Texas CLASS). The private sector investment pool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in the authorized private sector investment pool was \$963,188.

Deposits and temporary investments restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 79,366
Certificates of deposit	960,000
Temporary investments	<u>663,508</u>
	<u>\$ 1,702,874</u>

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At August 31, 2019, the District had physical damage and boiler and machinery coverage of \$12,470,000, comprehensive general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, worker's compensation coverage of \$1,000,000, consultant's crime coverage of \$50,000 and a tax assessor-collector bond of \$10,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: REGIONAL WATER AUTHORITY

The West Harris County Regional Water Authority (the "Authority") was created by House Bill 1842, Acts of the 77th Legislature, Regular Session 2003. The Authority is a political subdivision of the State of Texas, governed by an elected nine member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of August 31, 2019, the Authority had established a well pumpage fee of \$2.95 per 1,000 gallons of water pumped from each regulated well and surface water usage fees of \$3.35 per 1,000 gallons. The surface water fees payable by the District to the Authority for the fiscal year ended August 31, 2019, were \$723,601. The District billed its customers \$715,177 during the fiscal year to pay for the fees charged by the Authority.

NOTE 10: STRATEGIC PARTNERSHIP AGREEMENT

Effective December 19, 2011, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

The City has imposed a Sales and Use Tax within the boundaries of the areas subject to the limited-purpose annexation by the City of Houston. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the such areas and received by the City from the Comptroller of Public Accounts of the State of Texas. The District did not receive any Sales and Use Tax revenues during the fiscal year ended August 31, 2019.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 638,300	\$ 638,300	\$ 645,321	\$ 7,021
Water service	469,400	469,400	481,305	11,905
Sewer service	475,700	475,700	478,593	2,893
Surface water fees	772,500	772,500	715,177	(57,323)
Penalty	68,800	68,800	63,950	(4,850)
Interest on deposits and investments	31,200	31,200	52,331	21,131
Other revenues	16,542	16,542	16,690	148
TOTAL REVENUES	<u>2,472,442</u>	<u>2,472,442</u>	<u>2,453,367</u>	<u>(19,075)</u>
EXPENDITURES				
Service operations:				
Professional fees	138,550	138,550	115,134	(23,416)
Contracted services	159,100	159,100	157,476	(1,624)
Utilities	130,400	130,400	116,006	(14,394)
Surface water fees	772,500	772,500	723,601	(48,899)
Repairs and maintenance	444,913	444,913	547,222	102,309
Other operating expenditures	171,900	171,900	145,545	(26,355)
Administrative expenditures	99,250	99,250	98,943	(307)
Capital outlay	698,100	698,100	301,160	(396,940)
TOTAL EXPENDITURES	<u>2,614,713</u>	<u>2,614,713</u>	<u>2,205,087</u>	<u>(409,626)</u>
EXCESS REVENUES (EXPENDITURES)	<u>(142,271)</u>	<u>(142,271)</u>	<u>248,280</u>	<u>390,551</u>
FUND BALANCE, BEGINNING OF YEAR	<u>1,947,892</u>	<u>1,947,892</u>	<u>1,947,892</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 1,805,621</u>	<u>\$ 1,805,621</u>	<u>\$ 2,196,172</u>	<u>\$ 390,551</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
AUGUST 31, 2019

(Schedules included are checked or explanatory notes provided for omitted schedules.)

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF SERVICES AND RATES

AUGUST 31, 2019

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

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$14.50	10,000	N	\$1.00 1.25	10,001 to 20,000 Over 20,000
WASTEWATER:	\$15.50		Y		

SURCHARGE: \$3.35 per 1,000 gallons of water used. – WHCRWA surface water fees.

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$14.50 Wastewater: \$15.50 Surcharge: \$33.50

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF SERVICES AND RATES (Continued)

AUGUST 31, 2019

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	2,580	2,565	1.0	2,565
1"	11	11	2.5	28
1-1/2"	0	0	5.0	0
2"	0	0	8.0	0
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>2,591</u>	<u>2,576</u>		<u>2,593</u>
Total Wastewater	<u>2,580</u>	<u>2,565</u>	1.0	<u>2,565</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 277,403
 Gallons billed to customers (unaudited): 266,715

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 96%

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

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: _____

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

EXPENDITURES

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 9,750	\$	\$	\$ 9,750
Legal	74,310	5,840		80,150
Engineering	31,074			31,074
	<u>115,134</u>	<u>5,840</u>	<u>0</u>	<u>120,974</u>
Contracted services:				
Bookkeeping	27,042			27,042
Operation and billing	130,434			130,434
Tax assessor-collector		43,029		43,029
Central appraisal district		21,349		21,349
	<u>157,476</u>	<u>64,378</u>	<u>0</u>	<u>221,854</u>
Utilities	<u>116,006</u>	<u>0</u>	<u>0</u>	<u>116,006</u>
Surface water fees:				
Ground water pumpage fees	195,076			195,076
Purchased surface water	528,525			528,525
	<u>723,601</u>	<u>0</u>	<u>0</u>	<u>723,601</u>
Repairs and maintenance	<u>547,222</u>	<u>0</u>	<u>0</u>	<u>547,222</u>
Other operating expenditures:				
Sludge hauling	58,789			58,789
Chemicals	25,718			25,718
Laboratory costs	28,954			28,954
Reconnection costs	20,795			20,795
TCEQ assessment	4,855			4,855
Other	6,434			6,434
	<u>145,545</u>	<u>0</u>	<u>0</u>	<u>145,545</u>
Administrative expenditures:				
Director's fees	13,500			13,500
Office supplies and postage	26,300			26,300
Insurance	28,980	50		29,030
Permits	12,164			12,164
Other	17,999	10,311		28,310
	<u>98,943</u>	<u>10,361</u>	<u>0</u>	<u>109,304</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

EXPENDITURES (Continued)

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 301,160	\$ 0	\$ 0	\$ 301,160
DEBT SERVICE				
Principal retirement	0	1,370,000	0	1,370,000
Interest and fees:				
Interest		548,766		548,766
Paying agent fees		1,600		1,600
	<u>0</u>	<u>550,366</u>	<u>0</u>	<u>550,366</u>
TOTAL EXPENDITURES	<u>\$ 2,205,087</u>	<u>\$ 2,000,945</u>	<u>\$ 0</u>	<u>\$ 4,206,032</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 1,767,115	\$ 1,712,680	\$	\$ 3,479,795
Maintenance tax receipts		645,321		645,321
Transfer of maintenance taxes	644,468			644,468
Proceeds from sale of bonds		2,131,000		2,131,000
Increase in customer deposits	16,560			16,560
Overpayments from taxpayers		<u>10,232</u>		<u>10,232</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>2,428,143</u>	<u>4,499,233</u>	<u>0</u>	<u>6,927,376</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	1,859,374	80,029		1,939,403
Capital outlay	301,160			301,160
Debt service		1,920,366		1,920,366
Transfer of maintenance taxes		644,468		644,468
Payment to refunding escrow agent		2,048,621		2,048,621
Refunding bond issuance expenditures		79,638		79,638
Refund of taxpayer overpayments		<u>11,276</u>		<u>11,276</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>2,160,534</u>	<u>4,784,398</u>	<u>0</u>	<u>6,944,932</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	267,609	(285,165)	0	(17,556)
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>2,255,613</u>	<u>1,988,039</u>	<u>0</u>	<u>4,243,652</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 2,523,222</u>	<u>\$ 1,702,874</u>	<u>\$ 0</u>	<u>\$ 4,226,096</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

AUGUST 31, 2019

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
Certificates of Deposit				
No. 123047437	2.60%	12/29/19	\$ 200,000	\$ 2,137
No. 36000627	2.45%	8/15/20	200,000	202
No. 321600185	2.37%	10/12/19	200,000	2,961
No. 6000035235	2.40%	11/26/19	100,000	1,401
No. 5031141	2.60%	12/29/19	200,000	2,564
No. 91300011886281	2.75%	5/06/20	100,000	874
No. 437	2.35%	9/12/19	200,000	3,309
No. 83344978	2.45%	7/16/20	100,000	315
No. 71124754	2.60%	6/09/20	200,000	1,168
No. 11810	2.50%	12/26/19	200,000	2,918
No. 440006748	2.70%	4/29/20	100,000	910
No. 80001833	2.55%	11/05/19	<u>240,000</u>	<u>3,471</u>
			<u>\$ 2,040,000</u>	<u>\$ 22,230</u>
Texas CLASS				
No. TX-01-0380-0001	Market	On demand	<u>\$ 299,680</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 12319	2.50%	3/24/20	\$ 240,000	\$ 2,038
No. 4190103	2.40%	9/19/19	240,000	2,525
No. 276932753	2.60%	3/24/20	240,000	2,120
No. 3216000419	2.50%	3/24/20	<u>240,000</u>	<u>2,039</u>
			<u>\$ 960,000</u>	<u>\$ 8,722</u>
Texas CLASS				
No. TX-01-0380-0002	Market	On demand	<u>\$ 663,508</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 3,963,188</u>	<u>\$ 30,952</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 9,162	\$ 28,399
Additions and corrections to prior year taxes	<u>(673)</u>	<u>(1,797)</u>
Adjusted receivable, beginning of year	8,489	26,602
2018 ADJUSTED TAX ROLL	<u>646,045</u>	<u>1,661,259</u>
Total to be accounted for	654,534	1,687,861
Tax collections: Current tax year	(643,989)	(1,655,972)
Prior tax years	<u>(1,332)</u>	<u>(3,516)</u>
RECEIVABLE, END OF YEAR	<u>\$ 9,213</u>	<u>\$ 28,373</u>
RECEIVABLE, BY TAX YEAR		
2008 and prior	\$ 122	\$ 868
2009	107	751
2010	111	776
2011	116	711
2012	576	2,502
2013	1,011	3,458
2014	1,146	3,550
2015	1,421	3,474
2016	1,240	3,542
2017	1,307	3,454
2018	<u>2,056</u>	<u>5,287</u>
RECEIVABLE, END OF YEAR	<u>\$ 9,213</u>	<u>\$ 28,373</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED AUGUST 31, 2019

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Land	\$ 71,428,752	\$ 69,449,695	\$ 69,451,240	\$ 69,474,682
Improvements	436,992,594	432,351,853	398,314,802	369,463,937
Personal property	5,101,702	5,320,933	6,309,299	7,530,076
Less exemptions	<u>(52,061,016)</u>	<u>(50,216,868)</u>	<u>(37,042,856)</u>	<u>(35,741,985)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 461,462,032</u>	 <u>\$ 456,905,613</u>	 <u>\$ 437,032,485</u>	 <u>\$ 410,726,710</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.36000	\$ 0.37000	\$ 0.40000	\$ 0.44000
Maintenance tax rates*	<u>0.14000</u>	<u>0.14000</u>	<u>0.14000</u>	<u>0.18000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.50000</u>	 <u>\$ 0.51000</u>	 <u>\$ 0.54000</u>	 <u>\$ 0.62000</u>
 TAX ROLLS	 <u>\$ 2,307,304</u>	 <u>\$ 2,329,622</u>	 <u>\$ 2,359,868</u>	 <u>\$ 2,546,361</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED	 <u>99.7 %</u>	 <u>99.8 %</u>	 <u>99.8 %</u>	 <u>99.8 %</u>

*Maximum tax rate approved by voters on November 6, 2001: \$1.50

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
AUGUST 31, 2019

Series 2011			
Due During Fiscal Years Ending August 31	Principal Due April 1	Interest Due October 1, April 1	Total
2020	\$ 90,000	\$ 2,700	\$ 92,700
Series 2012			
Due During Fiscal Years Ending August 31	Principal Due April 1	Interest Due October 1, April 1	Total
2020	\$ 635,000	\$ 199,917	\$ 834,917
2021	660,000	181,438	841,438
2022	1,040,000	162,232	1,202,232
2023	1,075,000	131,968	1,206,968
2024	1,110,000	100,686	1,210,686
2025	1,150,000	68,385	1,218,385
2026	1,200,000	34,920	1,234,920
TOTALS	\$ 6,870,000	\$ 879,546	\$ 7,749,546

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

AUGUST 31, 2019

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2016</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 130,000	\$ 234,300	\$ 364,300
2021	125,000	231,700	356,700
2022	120,000	229,200	349,200
2023	120,000	225,600	345,600
2024	120,000	222,000	342,000
2025	120,000	218,400	338,400
2026	105,000	214,800	319,800
2027	1,390,000	210,600	1,600,600
2028	1,455,000	155,000	1,610,000
2029	980,000	96,800	1,076,800
2030	710,000	57,600	767,600
2031	730,000	29,200	759,200
TOTALS	<u>\$ 6,105,000</u>	<u>\$ 2,125,200</u>	<u>\$ 8,230,200</u>

<u>Due During Fiscal Years Ending August 31</u>	<u>Series 2019</u>		
	<u>Principal Due April 1</u>	<u>Interest Due October 1, April 1</u>	<u>Total</u>
2020	\$ 340,000	\$ 27,668	\$ 367,668
2021	425,000	37,880	462,880
2022	113,000	28,891	141,891
2023	123,000	26,501	149,501
2024	126,000	23,900	149,900
2025	129,000	21,235	150,235
2026	132,000	18,506	150,506
2027	140,000	15,714	155,714
2028	142,000	12,753	154,753
2029	150,000	9,750	159,750
2030	152,000	6,578	158,578
2031	159,000	3,363	162,363
TOTALS	<u>\$ 2,131,000</u>	<u>\$ 232,739</u>	<u>\$ 2,363,739</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

AUGUST 31, 2019

Annual Requirements for All Series			
Due During Fiscal Years Ending August 31	Total Principal Due	Total Interest Due	Total
2020	\$ 1,195,000	\$ 464,585	\$ 1,659,585
2021	1,210,000	451,018	1,661,018
2022	1,273,000	420,323	1,693,323
2023	1,318,000	384,069	1,702,069
2024	1,356,000	346,586	1,702,586
2025	1,399,000	308,020	1,707,020
2026	1,437,000	268,226	1,705,226
2027	1,530,000	226,314	1,756,314
2028	1,597,000	167,753	1,764,753
2029	1,130,000	106,550	1,236,550
2030	862,000	64,178	926,178
2031	889,000	32,563	921,563
TOTALS	\$ 15,196,000	\$ 3,240,185	\$ 18,436,185

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED AUGUST 31, 2019

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>	<u>(5)</u>
Bond Series:	2010	2010R	2011	2012
Interest Rate:	Not Applicable	Not Applicable	3.00%	2.91%
Dates Interest Payable:	Not Applicable	Not Applicable	October 1/ April 1	October 1/ April 1
Maturity Dates:	Not Applicable	Not Applicable	April 1, 2020	April 1, 2020/2026
Bonds Outstanding at Beginning of Current Year	\$ 35,000	\$ 895,000	\$ 1,590,000	\$ 7,205,000
Less Retirements	<u>(35,000)</u>	<u>(895,000)</u>	<u>(1,500,000)</u>	<u>(335,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 90,000</u>	<u>\$ 6,870,000</u>
Current Year Interest Paid	<u>\$ 1,302</u>	<u>\$ 35,800</u>	<u>\$ 59,850</u>	<u>\$ 209,666</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2010 (\$4,000,000)
- (2) Harris County Municipal Utility District No. 238 Unlimited Tax Refunding Bonds, Series 2010 (\$3,495,000)
- (3) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2011 (\$2,030,000)
- (4) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2012 (\$7,565,000)

Paying Agent/Registrar

- (1) (2) (3) (4) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 48,295,000	\$ 0	39,955,000
Amount Issued:	30,615,000		2,845,639
Remaining to be Issued:	17,680,000		37,109,361

Net Debt Service Fund deposits and investments balances as of August 31, 2019: \$ 1,703,494
Average annual debt service payment for remaining term of all debt: 1,536,349

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)

FOR THE YEAR ENDED AUGUST 31, 2019

	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>	<u>Totals</u>
Bond Series:	2014	2016	2019	
Interest Rate:	Not Applicable	2.00% to 4.00%	2.115%	
Dates Interest Payable:	Not Applicable	October 1/ April 1	October 1/ April 1	
Maturity Dates:	Not Applicable	April 1, 2020/2031	April 1, 2020/2031	
Bonds Outstanding at Beginning of Current Year	\$ 525,000	\$ 6,200,000	\$	\$ 16,450,000
Add Bonds Sold			2,131,000	2,131,000
Less Retirements	<u>(525,000)</u>	<u>(95,000)</u>	<u>0</u>	<u>(3,385,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 6,105,000</u>	<u>\$ 2,131,000</u>	<u>\$ 15,196,000</u>
Current Year Interest Paid	<u>\$ 5,948</u>	<u>\$ 236,200</u>	<u>\$ 0</u>	<u>\$ 548,766</u>

Bond Descriptions and Original Amount of Issue

(5) Harris County Municipal Utility District No. 238 Unlimited Tax Bonds, Series 2014 (\$1,830,000)

(6) Harris County Municipal Utility District No. 238 Unlimited Tax Refunding Bonds, Series 2016 (\$6,300,000)

(7) Harris County Municipal Utility District No. 238 Unlimited Tax Refunding Bonds, Series 2019 (\$2,131,000)

Paying Agent/Registrar

(5) (6) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

(7) JP Morgan Chase Bank, N.A., Houston, Texas

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED AUGUST 31

	AMOUNT*					PERCENT OF TOTAL REVENUES				
	2019	2018	2017	2016	2015	2019	2018	2017	2016	2015
REVENUES										
Property taxes	\$ 645,321	\$ 641,270	\$ 613,284	\$ 735,313	\$ 605,196	26.3 %	26.6 %	26.1 %	30.3 %	27.1 %
Water service	481,305	476,409	484,166	506,275	488,063	19.6	19.7	20.6	20.8	21.9
Sewer service	478,593	481,700	466,448	454,272	482,928	19.5	19.9	19.9	18.7	21.6
Surface water fees	715,177	705,424	684,290	644,317	550,294	29.2	29.2	29.2	26.5	24.7
Penalty	63,950	71,343	76,803	69,122	85,334	2.6	3.0	3.3	2.8	3.8
Tap connection and inspection fees	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Interest on deposits and investments	52,331	24,579	12,694	6,347	6,644	2.1	1.0	0.5	0.3	0.3
Other revenues	16,690	13,946	9,027	14,982	12,610	0.7	0.6	0.4	0.6	0.6
TOTAL REVENUES	2,453,367	2,414,671	2,346,712	2,430,628	2,231,069	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	115,134	136,227	173,563	163,456	125,293	4.7	5.6	7.4	6.7	5.6
Contracted services	157,476	156,340	159,242	153,481	159,756	6.4	6.5	6.8	6.3	7.1
Utilities	116,006	130,817	137,321	130,674	145,203	4.7	5.4	5.9	5.4	6.5
Surface water fees	723,601	736,159	664,726	621,560	564,387	29.6	30.5	28.2	25.5	25.3
Repairs and maintenance	547,222	514,199	407,055	376,066	325,260	22.3	21.3	17.3	15.5	14.6
Other operating expenditures	145,545	171,471	153,814	131,340	234,395	5.9	7.1	6.6	5.4	10.5
Administrative expenditures	98,943	94,533	79,650	83,911		4.0	3.9	3.4	3.5	
Debt service principal retirement	0	0	0	1,000,000	0	0.0	0.0	0.0	41.1	0.0
Capital outlay	301,160	789,398	227,343	120,348	164,534	12.3	32.7	9.7	5.0	7.4
TOTAL EXPENDITURES	2,205,087	2,729,144	2,002,714	2,780,836	1,718,828	89.9	113.0	85.3	114.4	77.0
EXCESS REVENUES (EXPENDITURES)	\$ 248,280	\$ (314,473)	\$ 343,998	\$ (350,208)	\$ 512,241	10.1 %	(13.0) %	14.7 %	(14.4) %	23.0 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	2,576	2,581	2,578	2,525	2,525					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	2,565	2,567	2,561	2,508	2,508					

*Classifications and amounts prior to 2016 from 2015 Annual Audit Report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
FOR YEARS ENDED AUGUST 31

	<u>AMOUNT*</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
REVENUES										
Property taxes	\$ 1,659,488	\$ 1,695,747	\$ 1,757,559	\$ 1,798,926	\$ 1,875,129	96.8 %	97.6 %	97.7 %	98.7 %	98.8 %
Penalty and interest and other	17,938	17,701	28,954	17,626	16,483	1.0	1.0	1.6	1.0	0.9
Interest on deposits and investments	<u>37,781</u>	<u>23,775</u>	<u>12,322</u>	<u>6,186</u>	<u>6,237</u>	<u>2.2</u>	<u>1.4</u>	<u>0.7</u>	<u>0.3</u>	<u>0.3</u>
TOTAL REVENUES	<u>1,715,207</u>	<u>1,737,223</u>	<u>1,798,835</u>	<u>1,822,738</u>	<u>1,897,849</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Professional fees	5,840	5,752	8,552	5,766		0.3	0.3	0.5	0.3	
Contracted services	64,378	61,787	52,303	56,214		3.8	3.6	2.9	3.1	
Other expenditures	10,361	12,100	21,203	18,424	83,297	0.6	0.7	1.2	1.0	4.4
Debt service:										
Principal retirement	1,370,000	1,070,000	1,025,000	1,410,000	725,000	79.9	61.6	56.9	77.3	38.2
Refunding contribution	0	0	0	0	0	0.0	0.0	0.0	0.0	0.0
Interest and fees	<u>550,366</u>	<u>576,654</u>	<u>616,974</u>	<u>816,007</u>	<u>780,440</u>	<u>32.1</u>	<u>33.2</u>	<u>34.3</u>	<u>44.8</u>	<u>41.1</u>
TOTAL EXPENDITURES	<u>2,000,945</u>	<u>1,726,293</u>	<u>1,724,032</u>	<u>2,306,411</u>	<u>1,588,737</u>	<u>116.7</u>	<u>99.4</u>	<u>95.8</u>	<u>126.5</u>	<u>83.7</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ (285,738)</u>	<u>\$ 10,930</u>	<u>\$ 74,803</u>	<u>\$ (483,673)</u>	<u>\$ 309,112</u>	<u>(16.7) %</u>	<u>0.6 %</u>	<u>4.2 %</u>	<u>(26.5) %</u>	<u>16.3 %</u>

*Classifications and amounts prior to 2016 from 2015 Annual Audit Report..

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSAUGUST 31, 2019

Complete District Mailing Address: Harris County Municipal Utility District No. 238
 c/o Roach & Mitchell, PLLC
 2800 Post Oak Blvd., Suite 4100
 Houston, Texas 77056

District Business Telephone No.: 832-390-2268

Submission date of the most recent District Registration Form: September 30, 2019

Limit on Fees of Office that a Director may receive during a fiscal year: \$7,200

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Randy Love c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/07/16- 5/02/20	\$ 1,650	\$ 0	President
Gary Nelson c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/07/16- 5/02/20	1,950	0	Vice President
C. L. Crane c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/05/18- 5/07/22	1,950	0	Secretary
Gary Tober c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/05/18- 5/07/22	5,400	2,632	Assistant Secretary
Ronald Julun c/o Roach & Mitchell, PLLC 2800 Post Oak Boulevard, Suite 4100 Houston, Texas 77056	Elected 5/05/18- 5/07/22	2,550	1,104	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

AUGUST 31, 2019

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Roach & Mitchell, PLLC 2800 Post Oak Blvd., Suite 4100 Houston, Texas 77056	12/01/11	\$ 76,440 34,923 Bonds	Attorney
Ted A. Cox, P.C. 440 Louisiana, Suite 1450 Houston, Texas 77002	2/19/97	5,840	Delinquent Tax Attorney
Municipal Accounts & Consulting, L.P. 1281 Brittmoore Road Houston, Texas 77043	4/16/03	29,592 1,250 Bonds	Bookkeeper
Mark Burton/Ghia Lewis 1281 Brittmoore Road Houston, Texas 77043	9/16/11	0	Investment Officers
Gulf Utility Service, Inc. 18702 Kieth Harrow Blvd. Houston, TX 77084	9/24/13	861,918	Operator
Van De Wiele & Vogler, Inc. 2925 Briarpark, Suite 275 Houston, Texas 77042	8/10/13	59,500	Engineer
Cathy Wheeler 6935 Barney Road, Suite 110 Houston, Texas 77092	11/14/83	47,945	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	21,349	Central Appraisal District
Hutchinson, Shockey, Erley & Co. 4545 Post Oak Place, Suite 215 Houston, Texas 77027	9/22/15	31,965 Bonds	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	8/23/16	9,750	Independent Auditor

See accompanying independent auditor's report.

APPENDIX B
FORM OF OPINION OF BOND COUNSEL



October 27, 2020

Roach & Associates, PLLC (the “Firm”) has acted as Bond Counsel for Harris County Municipal Utility District No. 238 (the “District”), in addition to serving as general counsel and advising on certain other matters, in connection with the issuance by the District of bonds (the “Bonds”) described as follows:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 238, \$3,910,000 UNLIMITED TAX BONDS, SERIES 2020, initially dated October 27, 2020, and delivered to the purchasers thereof on the date hereof.

THE FIRM HAS ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes. In such regard, the Firm has not investigated or verified original proceedings, records, data or other material, but has relied upon certificates executed by officers, agents, and representatives of the District and other public officials. The Firm has assumed no responsibility with respect to the financial condition of the District or the reporting or disclosure thereof in connection with the sale of the Bonds. The Firm’s role in connection with the District’s Official Statement, dated September 22, 2020, has been limited as described therein.

AS BOND COUNSEL, the Firm has participated in the preparation of and has examined a transcript of certified materials pertaining to the Bonds which contains certified copies of certain proceedings of the Board of Directors of the District, including the order authorizing the issuance, sale and delivery of the Bonds (the “Bond Order”), together with customary certificates of officers, agents and representatives of the District, and other certified showings relating to the authorization and issuance of the Bonds. The Firm has also examined such applicable provisions of the Internal Revenue Code of 1986, as amended (the “Code”), court decisions, Treasury Regulations and published rulings of the Internal Revenue Service (the “Service”) as we have deemed relevant.

BASED ON SAID EXAMINATION, IT IS THE FIRM’S OPINION THAT:

1. The District has been validly created and organized; the transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently effective; therefore, the Bonds are valid and legally binding obligations of the District, and all taxable property in the District is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount.
2. Interest on the Bonds is excludable from the gross income of the owners thereof for federal income tax purposes under existing law.

3. The Bonds are not “specified private activity bonds” and that, accordingly, interest on the Bonds will not be included as an individual or corporate alternative minimum tax preference item under Section 57(a)(5) of the Code.

In providing the foregoing opinions, the Firm has relied upon representations of the District with respect to matters solely within the knowledge of the District, which the Firm has not independently verified, and the Firm has assumed the accuracy and completeness of, and the District’s continuing compliance with, the representations and covenants contained in the Bond Order and in the District’s federal tax certification of even date herewith, pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purposes. In the event that such representations are determined to be inaccurate or incomplete, or the District fails to comply with such covenants, interest on the Bonds could become includable in gross income from the date of original delivery, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, the Firm expresses no opinion as to any federal, state or local tax consequences resulting from the acquisition, ownership, carrying or disposition of the Bonds, nor does the Firm express any opinion with respect to any legislation, rules or regulations affecting the Bonds which may be exacted or promulgated after the date hereof.

Owners 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 FASIT that holds tax-exempt obligations and individuals otherwise qualifying for the earned income credit.

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. The Firm assumes no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of results and are not binding of the Service; rather, such opinions represent our legal judgement based upon our review of existing law and in reliance upon the representations and covenants referenced above that we deem relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to 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. The Firm observes that the District has covenanted in the Bond Order not to take any action or omit to take any action within its control, that if taken or omitted, respectively, may result in the treatment of interest on the Bonds as includable in gross income for federal tax purposes.

APPENDIX C
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



BAM

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

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

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIMEN

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