OFFICIAL STATEMENT DATED OCTOBER 14, 2020

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

THE BONDS HAVE BEEN DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "TAX MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE-Book-Entry Only

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

$1,575,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 422

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

UNLIMITED TAX ROAD BONDS
SERIES 2020

The bonds described above (the "Bonds") are obligations solely of Harris County Municipal Utility District No. 422 (the "District") and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

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 levied, without legal limitation as to rate or amount, against all taxable property within the District. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. See "RISK FACTORS."

Dated Date: November 1, 2020 **Due: September 1, as shown below**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") upon surrender of the Bonds for payment. Interest on the Bonds accrues from November 1, 2020, and is payable each March 1 and September 1, commencing March 1, 2021, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of $5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the Registered Owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."

BAM BUILD AMERICA MUTUAL

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

MATURITY SCHEDULE

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2022	$ 45,000	4.50%	0.45%	41424E CA7	2024	$ 50,000	4.50%	0.70%	41424E CC3
2023	45,000	4.50	0.55	41424E CB5	2025	50,000	4.00	0.90	41424E CD1

$100,000 Term Bonds due September 1, 2027 (a), 41424E CF6 (b), 2.00% Interest Rate, 1.20% Yield (c)
$110,000 Term Bonds due September 1, 2029 (a), 41424E CH2 (b), 2.00% Interest Rate, 1.50% Yield (c)
$115,000 Term Bonds due September 1, 2031 (a), 41424E CK5 (b), 2.00% Interest Rate, 1.90% Yield (c)
$125,000 Term Bonds due September 1, 2033 (a), 41424E CM1 (b), 2.00% Interest Rate, 2.00% Yield (c)
$200,000 Term Bonds due September 1, 2036 (a), 41424E CQ2 (b), 2.00% Interest Rate, 2.25% Yield (c)
$220,000 Term Bonds due September 1, 2039 (a), 41424E CT6 (b), 3.00% Interest Rate, 2.30% Yield (c)
$245,000 Term Bonds due September 1, 2042 (a), 41424E CW9 (b), 3.00% Interest Rate, 2.35% Yield (c)
$270,000 Term Bonds due September 1, 2045 (a), 41424E CZ2 (b), 3.00% Interest Rate, 2.40% Yield (c)

(a) Bonds maturing on or after September 1, 2026, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."

(b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

(c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the respective Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See "LEGAL MATTERS." Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about November 12, 2020.

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.0087% of the par value thereof plus accrued interest to the date of delivery which resulted in a net effective interest rate of 2.927245%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

Prices and Marketability

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriter after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriter may over allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

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

Securities Laws

No registration statement relating to the offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other jurisdiction in which the Bonds may be offered, sold or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General... 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. As described herein under "RISK FACTORS—Infectious Disease Outlook (COVID-19)", federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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.

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 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.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic 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. See "RISK FACTORS—Infectious Disease Outlook (COVID-19)."

EXTREME WEATHER EVENTS; HURRICANE HARVEY

General... The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

Impact on the District... According to Jones & Carter, Inc. (the "Engineer") and KB Home Lone Star (the "Developer") the water and sewer system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

THE DISTRICT

Description...	The District is a political subdivision of the State of Texas, created by the Texas Commission on Environmental Quality (the "TCEQ") effective December 12, 2006 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District contains approximately 298 acres of land. See "THE DISTRICT."
Location...	The District is located approximately 23 miles northeast of the central downtown business district. The District is bounded on the east by Lakewood Pines Subdivision within Harris County Municipal Utility District No. 499, on the west by Harris County Municipal Utility District No. 423, on the north by a drainage channel owned by Harris County Municipal Utility District No. 423, and on the south by the subdivision of Summerwood. The entire District lies within the extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT" and "AERIAL PHOTOGRAPH."
The Developer ...	The developer of the land in the District is KB Home Lone Star Inc., a Texas corporation (the "Developer") and an indirect wholly-owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol KBH. See "THE DEVELOPER" and "TAX DATA—Principal Taxpayers."
Status of Development...	Single-family residential development in the District consists of Lakewood Pines, Section Two and Sections Seven through Ten (309 single-family residential lots on approximately 72 acres). As of July 31, 2020, 198 homes were completed and occupied, 15 homes were under construction and 95 vacant developed lots were available for home construction. The District also includes approximately 167 acres of developable land that have not been served with utilities, approximately 19 acres owned by Humble Independent School District for development of an elementary school and 40 undevelopable acres consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. See "THE DISTRICT—Land Use" and "—Status of Development."
	The District has entered into a wholesale Water Supply Agreement with the City of Houston Agreement, dated October 9, 2015. Pursuant to the Water Supply Agreement, the City of Houston has allocated a maximum annual specified amount of water to the District, which is calculated to be adequate to serve approximately 100 equivalent single-family connections (the "Initial Allocation"). The City of Houston's water supply infrastructure required to supply the Initial Allocation is in place. As provided in the Water Supply Agreement, the District can request an increase in the Initial Allocation on an annual basis. In response to the District's request for an increase, the City of Houston notified the District that it cannot increase the allocated amount of water supplied under the Water Supply Agreement until the City of Houston's surface water plant has been expanded, which is estimated by the City of Houston to be on or about 2025. On June 29, 2020, the District entered into an Agreement for Lease of Interim Water Supply Capacity (the "Interim Water Supply Lease Agreement") with Harris County Municipal Utility District No. 321 ("MUD 321") and Harris County Municipal Utility District No. 406 ("MUD 406"). Pursuant to the Interim Water Supply Lease Agreement, MUD 321 and MUD 406 have agreed to allocate a total amount not to exceed 76,725 gallons per day of additional water supply capacity to the District to serve approximately 279 additional equivalent single-family connections for eighteen months from the date of the Interim Water Supply Agreement. Design of a water well and water plant is underway that will provide permanent water supply capacity to serve 586 equivalent single-family connections. Construction of such water supply facilities are anticipated to commence by the end of 2020 with completion anticipated in the fall of 2021. As of July 31, 2020, the District was serving approximately 213 active connections (198 completed homes and 15 homes under construction or in a builder's name). See "RISK FACTORS—Water Supply Restrictions" and "THE SYSTEM—Water Supply."
Homebuilding…	The Developer is currently the sole homebuilder in the District at sales prices ranging from approximately $237,000 to over $361,000. See "THE DISTRICT—Homebuilding."

Payment Record... The District has previously issued $2,800,000 principal amount of unlimited tax bonds for water, sewer and drainage purposes in one series, and $3,375,000 principal amount of unlimited tax bonds for road purposes in one series, of which $6,090,000 collectively remains outstanding (the "Outstanding Bonds") as of the date hereof. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The Bonds are the District's second issuance of unlimited tax bonds for road facilities. The District has never defaulted on its debt obligations. The District will capitalize twelve months (12) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

THE BONDS

Description... The $1,575,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds") are being issued pursuant to a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the District's Board of Directors. The Bonds are scheduled to mature serially on September 1 in each of the years 2022 through 2025, both inclusive, and as term bonds on September 1 in each of the years 2027, 2029, 2031, 2033, 2036, 2039, 2042, and 2045 (the "Term Bonds") in the principal amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from November 1, 2020, and is payable March 1, 2021, and each September 1 and March 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of $5,000 or integral multiples of $5,000. See "THE BONDS."

Book-Entry-Only System… The Depository Trust Company (defined as "DTC"), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption... Bonds maturing on or after September 1, 2026 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2025, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions."

Use of Proceeds... Proceeds of the Bonds will be used to pay for construction costs shown herein under "USE AND DISTRIBUTION OF BOND PROCEEDS." In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds; to pay interest on funds advanced by the Developer on behalf of the District; and to pay administrative and certain other costs of issuance of the Bonds.

Authority for Issuance... The Bonds are the second series of bonds issued out of an aggregate of $65,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of constructing and/or acquiring road facilities and for refunding such bonds. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See "RISK FACTORS—Future Debt," "THE BONDS—Authority for Issuance," and "—Issuance of Additional Debt."

Source of Payment... Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See "THE BONDS—Source of Payment."

Municipal Bond Rating and Municipal Bond Insurance…	It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), will assign its municipal bond rating of "AA" (stable outlook) to the 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"). No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See "RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance," "MUNICIPAL BOND RATING," "MUNICIPAL BOND INSURANCE" and "APPENDIX B."
Qualified Tax-Exempt Obligations...	The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS—Qualified Tax-Exempt Obligations."
Bond Counsel...	Allen Boone Humphries Robinson LLP, Houston, Texas. See "MANAGEMENT OF THE DISTRICT," "LEGAL MATTERS" and "TAX MATTERS."
Financial Advisor...	Masterson Advisors LLC, Houston, Texas. See "MANAGEMENT OF THE DISTRICT."
Disclosure Counsel...	McCall, Parkhurst & Horton, L.L.P., Houston, Texas.
Paying Agent/Registrar...	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS—Method of Payment of Principal and Interest."

RISK FACTORS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned "RISK FACTORS."

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2020 Taxable Assessed Valuation	$51,559,643	(a)
Estimated Taxable Assessed Valuation as of July 1, 2020	$56,800,223	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds)	$7,665,000	(c)
Estimated Overlapping Debt	1,892,273	(d)
Gross Direct Debt and Estimated Overlapping Debt	$9,557,273	
Ratios of Gross Direct Debt to:		
2020 Taxable Assessed Valuation	14.87%	
Estimated Taxable Assessed Valuation as of July 1, 2020	13.49%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation	18.54%	
Estimated Taxable Assessed Valuation as of July 1, 2020	16.83%	
Funds Available for Debt Service:		
Water/Sewer/Drainage Debt Service Funds Available as of September 9, 2020	$118,157	
Road Debt Service Funds Available as of September 9, 2020	118,125	
Capitalized Interest from proceeds of the Bonds (Twelve (12) months)	43,350	(e)
Total Debt Service Funds Available	$279,632	(e)
Water/Sewer/Drainage Capital Projects Funds Available as of September 9, 2020	$494,739	
Road Capital Projects Funds Available as of September 9, 2020	$ 14,097	
Operating Funds Available as of September 9, 2020	$221,589	
2020 Debt Service Tax Rate	$0.50	
2020 Maintenance and Operations Tax Rate	1.00	
2020 Total Tax Rate	$1.50	
Average Annual Debt Service Requirement (2021-2045)	$447,819	(f)
Maximum Annual Debt Service Requirement (2042)	$499,550	(f)
Tax Rates Required to Pay Average Annual Debt Service (2021-2045) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	$0.92	(g)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2020	$0.83	(g)
Tax Rates Required to Pay Maximum Annual Debt Service (2042) at a 95% Collection Rate		
Based upon 2020 Taxable Assessed Valuation	$1.02	(g)
Based upon Estimated Taxable Assessed Valuation as of July 1, 2020	$0.93	(g)
Status of Development as of July 31, 2020 (h):		
Homes Completed and Occupied	198	
Homes Under Construction	15	
Lots Available for Home Construction	95	
Estimated Population	693	(i)

(a) The Harris County Appraisal District (the "Appraisal District") has certified $43,168,303 of taxable value as of January 1, 2020. An additional $8,391,340 of taxable value remains uncertified. The uncertified value is the landowner's opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 1, 2020. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2020 and December 31, 2020, will be certified as of January 1, 2021 and provided for purposes of taxation in the summer of 2021. See "TAXING PROCEDURES."

(c) After issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT—Outstanding Bonds."

(d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "— Overlapping Taxes."

(e) The District will capitalize twelve (12) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS." Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities, including the Bonds. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities, including the Bonds and are not available to pay debt service on the District's bonds issued for water, sewer and drainage facilities. See "THE BONDS—Funds."

(f) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

(g) See "RISK FACTORS—Possible Impact on District Tax Rates" and "TAX DATA—Tax Adequacy for Debt Service."

(h) See "THE DISTRICT—Land Use" and "—Status of Development."

(i) Based upon 3.5 persons per occupied single-family residence.

OFFICIAL STATEMENT

$1,575,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 422

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

UNLIMITED TAX ROAD BONDS
SERIES 2020

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 422 (the "District") of its $1,575,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds").

The Bonds are issued by the District pursuant to a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board"), an election held within the District , Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, KB Home Lone Star, Inc., a Texas corporation (the "Developer"), and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

RISK FACTORS

General

The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any entity other than the District. Payment of the principal of and interest on the Bonds depends upon the ability of the District to collect taxes levied on taxable property within the District in an amount sufficient to service the District's bonded debt or in the event of foreclosure, on the value of the taxable property in the District and the taxes levied by the District and other taxing authorities upon the property within the District. See "THE BONDS—Source of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by registered owners of the Bonds ("Registered Owners") of the District's obligation to collect sufficient taxes may be a costly and lengthy process. Furthermore, the District cannot and does not make any representations that continued development of taxable property within the District will accumulate or maintain taxable values sufficient to justify continued payment of taxes by property owners or that there will be a market for the property or that owners of the property will have the ability to pay taxes. See "Registered Owners' Remedies and Bankruptcy Limitations" below.

Infectious Disease Outlook (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 this disaster and issuing executive orders that have the force and effect of law. The Governor has issued a number of executive orders relating to COVID-19 preparedness and mitigation. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

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 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.

While the potential impact of the Pandemic 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.

Potential Effects of Oil Price Declines on the Houston Area

The recent declines in oil prices in the U.S. and globally, which at times have led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries 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. As previously stated, 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.

Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

According to Jones & Carter, Inc. (the "Engineer") and the Developer, the water and sewer system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

River (or Fluvial) Flood: occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheetflow overland. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee or dam has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam or levee also could potentially create a flooding condition in rivers or man-made drainage systems (canals or channels) downstream.

Ponding (or Pluvial) Flood: occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can over capacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam or levee.

Atlas 14

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

Economic Factors and Interest Rates

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

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on construction activity in the District, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 23 miles northeast of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston or a decline in the nation's real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District's property tax base.

Competition

The demand for and construction of single-family homes in the District could be affected by competition from other residential developments located in the northern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developer in the sale of developed lots and the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District.

The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2020 Taxable Assessed Valuation is $51,559,643 ($43,168,303 of certified value plus $8,391,340 of uncertified value). After issuance of the Bonds, the maximum annual debt service requirement will be $499,550 (2042), and the average annual debt service requirement will be $447,819 (2021-2045 inclusive). Assuming no increase or decrease from the 2020 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of $1.02 and $0.92 per $100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively. The Estimated Taxable Assessed Valuation as of July 1, 2020 is $56,800,223, which reduces the above tax calculations to $0.93 and $0.83 per $100 of taxable assessed valuation, respectively. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements" and "TAX DATA—Tax Adequacy for Debt Service."

No representation or suggestion is made that the uncertified portion of the 2020 Taxable Assessed Valuation will not be adjusted downward or that the Estimated Taxable Assessed Valuation as of July 1, 2020 will be the amount certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

Undeveloped Acreage and Vacant Lots

There are approximately 187 developable acres of land within the District that have not been provided with water, wastewater and storm drainage facilities necessary to the construction of new development, and 19 acres owned by Humble Independent School District for development of an elementary school. In addition, as of July 31, 2020, 95 vacant developed lots were available for new home construction. The District makes no representation as to when or if development of the undeveloped acreage will occur or the success of any homebuilding programs. See "THE DISTRICT—Land Use" and "—Status of Development."

Water Supply Restrictions

The District has entered into a wholesale Water Supply Agreement with the City of Houston Agreement, dated October 9, 2015. Pursuant to the Water Supply Agreement, the City of Houston has allocated a maximum annual specified amount of water to the District, which is calculated to be adequate to serve approximately 100 equivalent single-family connections (the "Initial Allocation"). The City of Houston's water supply infrastructure required to supply the Initial Allocation is in place. As provided in the Water Supply Agreement, the District can request an increase in the Initial Allocation on an annual basis. In response to the District's request for an increase, the City of Houston notified the District that it cannot increase the allocated amount of water supplied under the Water Supply Agreement until the City of Houston's surface water plant has been expanded, which is estimated by the City of Houston to be on or about 2025. On June 29, 2020, the District entered into an Agreement for Lease of Interim Water Supply Capacity (the "Interim Water Supply Lease Agreement") with Harris County Municipal Utility District No. 321 ("MUD 321") and Harris County Municipal Utility District No. 406 ("MUD 406"). Pursuant to the Interim Water Supply Lease Agreement, MUD 321 and MUD 406 have agreed to allocate a total amount not to exceed 76,725 gallons per day of additional water supply capacity to the District to serve approximately 279 additional equivalent single-family connections for eighteen months from the date of the Interim Water Supply Agreement. Design of a water well and water plant is underway that will provide permanent water supply capacity to serve 586 equivalent single-family connections. Construction of such water supply facilities are anticipated to commence by the end of 2020 with completion anticipated in the fall of 2021. As of July 31, 2020, the District was serving approximately 213 active connections (198 completed homes and 15 homes under construction or in a builder's name). See "THE SYSTEM—Water Supply."

Tax Collections Limitations and Foreclosure Remedies

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 local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial 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, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

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

Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owner's remedies, including mandamus. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision such as the District may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Special districts such as the District must obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

Notwithstanding noncompliance by a district with Texas law requirements, 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 appealable, the concomitant delay and loss of remedies to the Registered Owner could potentially and adversely impair the value of the Registered Owner's claim.

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

A district may not be forced into bankruptcy involuntarily.

Dependence on Major Taxpayers and the Developer

The ten principal taxpayers in the District represent $6,890,993 or 15.96% of the certified portion ($43,168,303) of the 2020 Taxable Assessed Valuation of $51,559,643 within the District. The Developer represents $4,294,980 or 9.95% of the certified portion of the 2020 Taxable Assessed Valuation. See "THE DEVELOPER" and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes could have a material adverse effect upon the District's ability to pay debt service on the Bonds.

The Developer has informed the District that its current plans are to continue developing its property in the District and/or marketing lots. However, neither the Developer nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developer to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developer or any other landowners.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid purpose. A total of $65,000,000 principal amount of unlimited tax bonds has been authorized by the District's voters for the purpose of constructing or acquiring road facilities and for refunding such bonds, $234,000,000 principal amount of unlimited tax bonds for the purpose of constructing water, wastewater and drainage facilities and for refunding such bonds and $32,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/ or acquiring park and recreational facilities and for refunding such bonds. After the issuance of the Bonds, $60,050,000 principal amount of the unlimited tax bonds for road facilities and refunding such bonds, $231,200,000 principal amount of the unlimited tax bonds for water, wastewater and drainage facilities and refunding such bonds and all of the principal amount of the unlimited tax bonds for park and recreational facilities and refunding such bonds will remain authorized but unissued. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and could adversely affect the security for, and the investment quality and value of, the Bonds.

To date, the Developer has advanced certain funds for engineering and construction of water, wastewater and drainage facilities, recreational facilities and roads and related facilities for which they have not been reimbursed. After the reimbursements are made with Bond proceeds, the District will continue to owe approximately $11,720,000 plus interest to the Developer. The District intends to issue additional bonds in order to reimburse the Developer for existing development and to develop the remainder of undeveloped but developable land (approximately 187 acres). The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for water, wastewater and drainage facilities and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

Environmental Regulation

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

On September 12, 2019, the EPA and USACE finalized a rule repealing the CWR, thus reinstating the regulatory text that existed prior to the adoption of the CWR. This repeal officially became final on December 23, 2019, but the repeal itself has 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 is effective June 22, 2020, and is currently the subject of ongoing litigation.

Due to 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.

Marketability of the Bonds

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

Changes in Tax Legislation

Certain tax legislation, whether currently proposed or proposed in the future, may directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal 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.

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

The Underwriter has entered into an agreement with Build America Mutual Assurance Company ("BAM" or the "Insurer") for the purchase of a municipal bond insurance policy (the "Policy"). At the time of entering into the agreement, the Insurer was rated "AA" (stable outlook) by S&P. See "MUNICIPAL BOND INSURANCE."

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

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

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

THE BONDS

Description

The Bonds will be dated and accrue interest from November 1, 2020, with interest payable each March 1 and September 1, beginning March 1, 2021 (the "Interest Payment Date"), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of $5,000 or any integral multiple of $5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the "Record Date"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "Register") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

Source of Payment

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

Funds

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

The District also maintains a Water/Sewer/Drainage Debt Service Fund that is not pledged to the Road Bonds. Funds in the Water/Sewer/Drainage Debt Service Fund are not available to pay principal and interest on the Bonds and funds in the Road Debt Service Fund are not available to pay principal and interest on the Outstanding Bonds.

Accrued interest on the Bonds and twelve (12) months of capitalized interest shall be deposited into the Road Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Road Capital Projects Fund, to be used for the purpose of reimbursing the Developer for certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Road Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Road Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

No Arbitrage

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

Redemption Provisions

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2027, 2029, 2031, 2033, 2036, 2039, 2042 and 2045 (the "Term Bonds") shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

$100,000 Term Bonds
Due September 1, 2027

Mandatory Redemption Date	Principal Amount
2026	$ 50,000
2027 (maturity)	50,000

$110,000 Term Bonds
Due September 1, 2029

Mandatory Redemption Date	Principal Amount
2028	$ 55,000
2029 (maturity)	55,000

$115,000 Term Bonds
Due September 1, 2031

Mandatory Redemption Date	Principal Amount
2030	$ 55,000
2031 (maturity)	60,000

$125,000 Term Bonds
Due September 1, 2033

Mandatory Redemption Date	Principal Amount
2032	$ 60,000
2033 (maturity)	65,000

$200,000 Term Bonds
Due September 1, 2036

Mandatory Redemption Date	Principal Amount
2034	$ 65,000
2035	65,000
2036 (maturity)	70,000

$220,000 Term Bonds
Due September 1, 2039

Mandatory Redemption Date	Principal Amount
2037	$ 70,000
2038	75,000
2039 (maturity)	75,000

$245,000 Term Bonds
Due September 1, 2042

Mandatory Redemption Date	Principal Amount
2040	$ 80,000
2041	80,000
2042 (maturity)	85,000

$270,000 Term Bonds
Due September 1, 2045

Mandatory Redemption Date	Principal Amount
2043	$ 85,000
2044	90,000
2045 (maturity)	95,000

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

Optional Redemption: The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2026, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of $5,000, on September 1, 2025, or on any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities of Bonds to be redeemed shall be selected by the District. If less than all the Bonds of any maturity are redeemed at any time, the particular Bonds within a maturity to be redeemed shall be selected by the Paying Agent/Registrar by lot or other customary method of selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

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

Authority for Issuance

At bond elections held within the District, voters of the District have authorized the issuance of $65,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring road facilities and for refunding such bonds. The Bonds are issued pursuant to such authorization.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, an election held within the District, Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

Lost, Stolen or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of $65,000,000 principal amount of unlimited tax bonds for the purpose of constructing and/or acquiring road facilities and for refunding such bonds, $234,000,000 principal amount of unlimited tax bonds for the purpose of constructing water, sewer and drainage facilities and for refunding such bonds and $32,500,000 principal amount of unlimited tax bonds for the purpose of constructing and/ or acquiring park and recreational facilities and for refunding such bonds. The District could authorize additional amounts. After the issuance of the Bonds, $60,050,000 principal amount of the unlimited tax bonds for road facilities and for refunding such bonds, all of the amount of the unlimited tax bonds for park and recreational facilities and for refunding such bonds and $231,200,000 principal amount of the unlimited tax bonds for constructing and/or acquiring water, sewer and drainage improvements and for refunding such bonds will remain authorized but unissued. See "RISK FACTORS—Future Debt."

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purposes by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. The outstanding principal amount of park bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board has approved a park plan and, at an election held on May 10, 2014, and voters of the District authorized the issuance of $32,500,000 in unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities, all of which remains authorized but unissued.

If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

Annexation by 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 consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City of Houston cannot annex territory within the District unless it annexes the entire District; however, the City of Houston may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. The District currently does not have a Strategic Partnership Agreement with the City.

If the District is annexed, the City of Houston will assume the District's assets and obligations (including the Bonds) and dissolve the District. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and therefore, the District makes no representation that the City of Houston will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should 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 assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

Remedies in Event of Default

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Defeasance

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

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

There is no assurance that the current law will not be changed in the future in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

BOOK-ENTRY-ONLY SYSTEM

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect 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 the District (or the Trustee on behalf thereof) 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).

Principal, premium, if any, interest payments and redemption proceeds 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 Paying Agent, 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, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, interest payments and redemption proceeds 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, 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. 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered.

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Jones & Carter, Inc., the District's engineer (the "Engineer"). Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (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 review by the District's auditor. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used.

I.	**CONSTRUCTION COSTS**		
	• Clearing and Grubbing Phase IV	$	154,924
	• Lakewood Pines Section 8 Paving		14,133
	• Lakewood Pines Section 9 Paving		327,362
	• Lakewood Pines Boulevard Section 2 Paving		27,113
	• Lakewood Pines Partial Replat Section 9 Paving		83,935
	• Lakewood Pines Boulevard Section 2 Right of Way		80,817
	• Lakewood Pines Boulevard Section 3 Right of Way		224,107
	• Lakewood Pines Section 9 Right of Way		111,062
	• Engineering & Testing		209,235
	Total Construction Costs	**$**	**1,232,690**
III.	**NON-CONSTRUCTION COSTS**		
	• Bond Discount (a)	$	47,113
	• Capitalized Interest (a)		43,350
	• Developer Interest		104,359
	Total Non-Construction Costs	**$**	**194,822**
IV.	**ISSUANCE COSTS AND FEES**		
	• Issuance Costs and Professional Fees	$	107,938
	• Engineering Fee		30,000
	• Attorney General's Fee		1,575
	• Contingency (a)		7,975
	Total Issuance Costs and Fees	**$**	**147,488**
	TOTAL BOND ISSUE	**$**	**1,575,000**

(a) Contingency represents the difference in the estimated and actual amounts of bond discount and capitalized interest.

THE DISTRICT

General

The District is a political subdivision of the State of Texas, created by the TCEQ effective December 12, 2006, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District contains approximately 298 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes. 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 voters of the District. Additionally, the District may, subject to certain limitations, develop and finance roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, the District is required to observe certain requirements of the City of Houston which: (i) limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, the provision of parks and recreational facilities and roads; (ii) limit the net effective interest rate on such bonds and other terms of such bonds; (iii) require approval by the City of Houston of District construction plans; and (iv) permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City of Houston and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

Description and Location

The District consists of approximately 298 acres of land situated in central Harris County approximately 23 miles northeast of the central business district of the City of Houston. The District is bounded on the east by Lakewood Pines Subdivision within Harris County Municipal Utility District No. 499 ("MUD 499"), on the west by Harris County Municipal Utility District No. 423 ("MUD 423"), on the north by a drainage channel owned by Harris County Municipal Utility District No. 423, and on the south by the subdivision of Summerwood. The entire District lies within the extraterritorial jurisdiction of the City of Houston. See "AERIAL PHOTOGRAPH."

Land Use

The District's land plan currently includes approximately 72 acres developed as 309 single-family residential lots; approximately 167 developable acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities; approximately 19 acres owned by Humble Independent School District for development of an elementary school; and approximately 40 undevelopable acres consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate Acres	Lots
Lakewood Pines:		
Section Two………………………	8	30
Section Seven……………………	18	68
Section Eight…………………….	10	30
Section Nine……………………...	13	57
Section Nine Partial Re-Plat…….	1	5
Section Ten…………………….....	22	119
Subtotal…………………...…….	72	309
School (a)	19	---
Future Development …………….	167	---
Undevelopable (b) ……………….	40	---
Totals……….……………………	298	309

(a) Humble Independent School District owns approximately 19 acres for development of an elementary school.
(b) Includes rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space.

Status of Development

Single-family residential development in the District consists of Lakewood Pines, Section Two, and Sections Seven through Ten (309 single-family residential lots on approximately 72 acres). As of July 31, 2020, 198 homes were completed and occupied, 15 homes were under construction and 95 vacant developed lots were available for home construction. There are approximately 167 acres of developable land that have not been served with utilities, approximately 19 acres owned by Humble Independent School District for development of an elementary school and approximately 40 undevelopable acres of consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. See "THE SYSTEM—Water Supply."

Homebuilding

KB Home Lone Star is actively marketing and building homes in the District. Sales prices for homes in the District range from approximately $237,000 to over $361,000. See "THE DEVELOPERS."

THE DEVELOPER

General

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of the Developer should not be construed as an indication that further development within the District will occur, or that construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. See "RISK FACTORS."

KB Home Lone Star Inc.

KB Home Lone Star Inc., a Texas corporation (the "Developer") and an indirect wholly-owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol KBH, is the developer of approximately 183 acres within the District being marketed as Lakewood Pines. The Developer continues to own 93 undeveloped acres. See "RISK FACTORS—Dependence on Major Taxpayers and the Developers," "THE DISTRICT—Land Use," and "TAX DATA—Principal Taxpayers."

Acquisition and Development Financing: All funds required by the Developer for home construction, development activities and payment of taxes are provided by KB Home. The Developer is dependent on its parent company to provide funds for developing and operating the District. The parent company is not legally obligated to continuing providing funds for development of the District or to provide funds to pay taxes on the Developer's taxable property within the District or to pay any other obligations of the Developer. the Developer has stated that there are no liens securing third party indebtedness against the land or lots in the District owned by the Developer.

Financial Information KB Home

KB Home files annual, quarterly and current reports, proxy statements and other information with the SEC. KB Home filings are available to the public over the internet at the SEC's website at http://www.sec.gov. You may also read and copy any document that KB Home has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, KB Home makes available on its web sites http://www.kbhome.com its annual reports on form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC. Unless otherwise specified, information contained on KB Home's web site, available by hyperlink from KB Home's web site or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT. The District has not obtained any representations from KB Home concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

Obligations of the Developer

The Developer does not have any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of their property within the District, or any other assets, at any time. Further, the financial condition of the Developer is subject to change at any time. See "RISK FACTORS—Dependence on Major Taxpayers and the Developer" and "TAX DATA—Principal Taxpayers."

Other Property Owners

CBA Strategic Fund I LP owns approximately 94 vacant acres in the District. The District is not aware of any plans to develop such acreage. See "TAX DATA—Principal Taxpayers."

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. None of the Board members resides within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of the Developer. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

Name	Title	Term Expires
Norm Scholes	President	May 2024
Matthew Behrmann	Vice President	May 2022
George Bravenec	Secretary	May 2022
Gareth Young	Assistant Vice President	May 2022
Glen Crocker	Assistant Secretary	May 2024

District Consultants

The District does not have a general manager or other full-time employees, but contracts for certain necessary services as described below.

Bond Counsel/Attorney: The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

Financial Advisor: Masterson Advisors LLC serves as the District's Financial Advisor. The fee for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued, sold and delivered and, therefore, such fee is contingent upon the sale and delivery of the Bonds.

Auditor: The District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ending March 31, 2020, were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's audited financial statements for the fiscal year ending March 31, 2020.

Engineer: The District's consulting engineer is Jones & Carter, Inc.

Tax Appraisal: The Harris County Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

Bookkeeper: The District has contracted with McLennan & Associates, LP (the "Bookkeeper") for bookkeeping services.

Utility System Operator: The operator of the District's water and wastewater system is Environmental Development Partners, LLC.

THE SYSTEM

Regulation

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

Water Supply

The District has entered into a wholesale Water Supply Agreement with the City of Houston Agreement, dated October 9, 2015. Pursuant to the Water Supply Agreement, the City of Houston has allocated a maximum annual specified amount of water to the District, which is calculated to be adequate to serve approximately 100 equivalent single-family connections (the "Initial Allocation"). The City of Houston's water supply infrastructure required to supply the Initial Allocation is in place. As provided in the Water Supply Agreement, the District can request an increase in the Initial Allocation on an annual basis. In response to the District's request for an increase, the City of Houston notified the District that it cannot increase the allocated amount of water supplied under the Water Supply Agreement until the City of Houston's surface water plant has been expanded, which is estimated by the City of Houston to be on or about 2025. On June 29, 2020, the District entered into an Agreement for Lease of Interim Water Supply Capacity (the "Interim Water Supply Lease Agreement") with Harris County Municipal Utility District No. 321 ("MUD 321") and Harris County Municipal Utility District No. 406 ("MUD 406"). Pursuant to the Interim Water Supply Lease Agreement, MUD 321 and MUD 406 have agreed to allocate a total amount not to exceed 76,725 gallons per day of additional water supply capacity to the District to serve approximately 279 additional equivalent single-family connections for eighteen months from the date of the Interim Water Supply Agreement. Design of a 600 gallons per minute ("gpm") water well and water plant consisting of one 15,000 gallon pressure tank, one 220,000 gallon ground storage tank and 1,700 gpm booster pump capacity is underway, which will serve 586 equivalent single-family connections. Construction of such water supply facilities are anticipated to commence by the end of 2020 with completion anticipated in the fall of 2021. As of July 31, 2020, the District was serving approximately 213 active connections (198 completed homes and 15 homes under construction or in a builder's name).

Water rates charged by the District to its customers within its boundaries are adopted in the District's rate order and such revenue belongs to the District. See "Water and Wastewater Operations" herein.).

Subsidence District Requirements

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. Because the District is served by the City of Houston with water, the District has no potable water well subject to regulation by the Subsidence District.

Wastewater Treatment

The District has entered into an Amended and Restated Wastewater Treatment Plant Agreement, dated July 1, 2013 (the "Wastewater Agreement") with Harris County Municipal Utility District No. 400 ("MUD 400"), MUD 423, MUD 499 and Harris County Freshwater Supply District No. 48 ("FWSD 48"). Under the Wastewater Agreement, wastewater treatment is provided to the District by an interim 600,000 gallons per day ("gpd") regional wastewater treatment plant constructed and owned by MUD 400 to serve the participants.

As of the date hereof, the participants in the interim wastewater treatment plant are MUD 400, MUD 423, MUD 499, FWSD 48 and the District. The interim wastewater treatment plant is capable of serving 2,000 equivalent single-family connections, of which 11.75% (or 235 connections) is allocated to the District. As of July 31, 2020, the District was serving approximately 213 active connections (198 completed homes and 15 homes under construction or in a builder's name).

The District also entered into a Wastewater Treatment Plant Agreement on December 18, 2017, with MUD 400 and MUD 423. This agreement allows the District to fund the costs of an additional 450 connections of capacity in the next interim plant expansion.

Water Distribution, Wastewater Collection and Storm Drainage Facilities

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 308 single-family residential lots on approximately 71 acres. See "RISK FACTORS—Water Supply Restrictions."

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency (FEMA) has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is no assurance that homes built in such area will not be flooded. The District's drainage system has been designed and constructed to all current standards.

According to the Engineer, none of the developable acreage within the District planned for development is located within the 100-year flood plain. See "RISK FACTORS—Extreme Weather Events; Hurricane Harvey."

Atlas 14

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

Water and Wastewater Operations

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenue from operations of the District's system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Outstanding Bonds and the Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Outstanding Bonds and Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District's audited financial statements for the period of inception to the fiscal year ending March 31, 2017, and the fiscal years ending March 31, 2018 through 2020. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

	Fiscal Year Ended March 31			
	2020	2019	2018	2017
Revenues				
Water Service	$ 49,394	$ 32,137	$ 13,137	$ 1,341
Sewer Service	81,204	45,622	18,364	1,954
Property Taxes	436,699	404,601	68,167	5,424
Penalties and Interest	1,797	8,838	929	134
Surface Water Fees	-	-	4,650	171
Tap Connection and Inspection	129,960	108,425	52,965	50,744
Investment Earnings	6,083			
Miscellaneous Revenues	1,514	563	59	144
Total Revenues	$ 706,651	$ 600,186	$ 158,271	$ 59,912
Expenditures				
Purchased Services	$ 252,266	$ 71,271	$ 49,802	$ -
Professional Fees	205,248	128,237	118,847	106,840
Contracted Services	120,487	93,113	59,197	45,435
Repairs and maintenance	77,254	39,315	71,667	21,279
Adminsitrative	24,197	18,869	18,746	13,891
Capital Outlay	-	-	-	287,257
Other	24,499	3,816	1,719	-
Total Expenditures	$ 703,951	$ 354,621	$ 319,978	$ 474,702
Revenues Over (Under) Expenditures	$ 2,700	$ 245,565	$ (161,707)	$ (414,790)
Other Sources	$ -	$ 91,711		
Other Sources (Developer Advances)	$ -	$ 232,000	$ 90,000	$ 422,257
Fund Balance (Beginning of Year)	$ 499,398	$ (69,878)	$ 1,829	$ (5,638)
Fund Balance (End of Year)	$ 502,098	$ 499,398	$ (69,878)	$ 1,829

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2020 Taxable Assessed Valuation	$51,559,643	(a)
Estimated Taxable Assessed Valuation as of July 1, 2020	$56,800,223	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds)	$7,665,000	(c)
Estimated Overlapping Debt	1,892,273	(d)
Gross Direct Debt and Estimated Overlapping Debt	$9,557,273	
Ratios of Gross Direct Debt to:		
2020 Taxable Assessed Valuation	14.87%	
Estimated Taxable Assessed Valuation as of July 1, 2020	13.49%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2020 Taxable Assessed Valuation	18.54%	
Estimated Taxable Assessed Valuation as of July 1, 2020	16.83%	
Funds Available for Debt Service:		
Water/Sewer/Drainage Debt Service Funds Available as of September 9, 2020	$118,157	
Road Debt Service Funds Available as of September 9, 2020	118,125	
Capitalized Interest from proceeds of the Bonds (Twelve (12) months)	43,350	(e)
Total Debt Service Funds Available	$279,632	(e)
Water/Sewer/Drainage Capital Projects Funds Available as of September 9, 2020	$494,739	
Road Capital Projects Funds Available as of September 9, 2020	$14,097	
Operating Funds Available as of September 9, 2020	$221,589	

____

(a) The Harris County Appraisal District (the "Appraisal District") has certified $43,168,303 of taxable value as of January 1, 2020. An additional $8,391,340 of taxable value remains uncertified. The uncertified value is the landowner's opinion of the value; however, such value is subject to review and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."

(b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on July 1, 2020. No tax will be levied on such amount until it is certified. Increases in value occurring between January 1, 2020 and December 31, 2020, will be certified as of January 1, 2021 and provided for purposes of taxation in the summer of 2021. See "TAXING PROCEDURES."

(c) After issuance of the Bonds. See "Outstanding Bonds" herein.

(d) See "—Estimated Overlapping Debt" and "—Overlapping Taxes" herein.

(e) The District will capitalize twelve (12) months of interest from Bond proceeds. See "USE AND DISTRIBUTION OF BOND PROCEEDS." Funds in the Water, Sewer and Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities and are not available to pay debt service on bonds issued for road facilities, including the Bonds. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities, including the Bonds and are not available to pay debt service on the District's bonds issued for water, sewer and drainage facilities. See "THE BONDS—Funds."

Investments of the District

The District has adopted an Investment Policy as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code. The District's goal is to preserve principal and maintain liquidity while securing a competitive yield on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of, long term securities or derivative products in the District portfolio.

Outstanding Bonds

The District has previously issued one series of unlimited tax bonds for acquiring or constructing water, sewer, and drainage facilities and one series of unlimited tax road bonds for acquiring or constructing road facilities. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds outstanding as of the date hereof (the "Outstanding Bonds").

Series		Original Principal Amount	Outstanding Bonds
2019		$ 2,800,000	$ 2,715,000
2019	(a)	3,375,000	3,375,000
Total		$ 6,175,000	$ 6,090,000

(a) Unlimited Tax Road Bonds.

Debt Service Requirements

The following sets forth the debt service requirements on the Outstanding Bonds (see "Outstanding Bonds" in this section) and debt service on the Bonds. This schedule does not reflect the fact that twelve (12) months of interest will be capitalized from Bonds proceeds to pay debt service on the Bonds. See "USE AND DISTRIBUTION OF BOND PROCEEDS."

Year	Outstanding Bonds Debt Service Requirements	Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2021	$ 353,260.00	$ -	$ 36,125.00	$ 36,125.00	$ 389,385.00
2022	349,780.00	45,000	43,350.00	88,350.00	438,130.00
2023	356,230.00	45,000	41,325.00	86,325.00	442,555.00
2024	362,380.00	50,000	39,300.00	89,300.00	451,680.00
2025	368,120.00	50,000	37,050.00	87,050.00	455,170.00
2026	363,377.50	50,000	35,050.00	85,050.00	448,427.50
2027	368,412.50	50,000	34,050.00	84,050.00	452,462.50
2028	373,072.50	55,000	33,050.00	88,050.00	461,122.50
2029	377,228.75	55,000	31,950.00	86,950.00	464,178.75
2030	380,858.75	55,000	30,850.00	85,850.00	466,708.75
2031	383,940.00	60,000	29,750.00	89,750.00	473,690.00
2032	386,450.00	60,000	28,550.00	88,550.00	475,000.00
2033	388,375.00	65,000	27,350.00	92,350.00	480,725.00
2034	389,825.00	65,000	26,050.00	91,050.00	480,875.00
2035	390,787.50	65,000	24,750.00	89,750.00	480,537.50
2036	391,412.50	70,000	23,450.00	93,450.00	484,862.50
2037	391,506.25	70,000	22,050.00	92,050.00	483,556.25
2038	391,256.25	75,000	19,950.00	94,950.00	486,206.25
2039	400,456.25	75,000	17,700.00	92,700.00	493,156.25
2040	398,762.50	80,000	15,450.00	95,450.00	494,212.50
2041	396,512.50	80,000	13,050.00	93,050.00	489,562.50
2042	403,900.00	85,000	10,650.00	95,650.00	499,550.00
2043	405,562.50	85,000	8,100.00	93,100.00	498,662.50
2044	211,662.50	90,000	5,550.00	95,550.00	307,212.50
2045	-	95,000	2,850.00	97,850.00	97,850.00
Total	$ 8,983,128.75	$ 1,575,000	$ 637,350.00	$ 2,212,350.00	$ 11,195,478.75

Average Annual Debt Service Requirements (2021-2045) $447,819
Maximum Annual Debt Service Requirement (2042) $499,550

Estimated Overlapping Debt

The following table indicates the outstanding debt payable from ad valorem taxes, of governmental entities within which the District is located and the estimated percentages and amounts of such indebtedness attributable to property within the District. Debt figures equated herein to outstanding obligations payable from ad valorem taxes are based upon data obtained from individual jurisdictions or Texas Municipal Reports compiled and published by the Municipal Advisory Council of Texas. Furthermore, certain entities listed below may have issued additional obligations since the date listed and may have plans to incur significant amounts of additional debt. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for the purposes of operation, maintenance and/or general revenue purposes in addition to taxes for the payment of debt service and the tax burden for operation, maintenance and/or general revenue purposes is not included in these figures. The District has no control over the issuance of debt or tax levies of any such entities.

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping Percent	Overlapping Amount
Harris County…………………………………………	$ 1,885,182,125	7/31/2020	0.01%	$ 188,518
Harris County Flood Control District…………………	83,075,000	7/31/2020	0.01%	8,308
Harris County Hospital District………………………	86,050,000	7/31/2020	0.01%	8,605
Harris County Department of Education……………	6,320,000	7/31/2020	0.01%	632
Port of Houston Authority……………………………	572,569,397	7/31/2020	0.01%	57,257
Humble Independent School District………………	757,495,000	7/31/2020	0.20%	1,514,990
Lone Star College District……………………………	569,815,000	7/31/2020	0.02%	113,963
Total Estimated Overlapping Debt………………………………………………………………………………………				$ 1,892,273
The District…………………………………………	7,665,000	(a)	100.00%	7,665,000
Total Direct and Estimated Overlapping Debt…………………………………………………………………………				$ 9,557,273

Direct and Estimated Overlapping Debt as a Percentage of:
- 2020 Taxable Assessed Valuation of $51,559,643 ....18.54%
- Estimated Taxable Assessed Valuation as of July 1, 2020 of $56,800,223 ....16.83%

(a) The Bonds and the Outstanding Bonds.

Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. On January 1 of each year a tax lien attaches to property to secure the payment of all taxes, penalties and interest imposed on such property. The lien exists in favor of each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with tax liens of taxing authorities shown below. In addition to ad valorem taxes required to pay debt service on bonded debt of the District and other taxing authorities (see "Estimated Overlapping Debt" above), certain taxing jurisdictions, including the District, are also authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below are all of the taxes levied by all taxing jurisdictions overlapping the District and the District's 2020 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	Tax Rate per $100 of Taxable Assessed Valuation
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, Harris County County Flood Control, and the Port of Houston Authority) (a)………..…………	$ 0.61670
Humble Independent School District (b)………………………………………………	1.38405
Lone Star College System (b)…………………………………………………………	0.10780
Total Overlapping Tax Rate…………………………………..…………………	$ 2.10855
The District………………………………………………………………………	1.50000 (c)
Total Tax Rate……………………………………………………………………	$ 3.60855

(a) 2019 tax rate.
(b) 2020 tax rate.
(c) See "TAX DATA—Historical Tax Rate Distribution."

TAX DATA

Debt Service Tax

The District covenants in the Bond Resolution to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Historical Tax Rate Distribution" and "Tax Roll Information" below, and "TAXING PROCEDURES."

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted May 10, 2014, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed $1.50 per $100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

Historical Tax Rate Distribution

	2020	2019	2018	2017	2016
Debt Service	$ 0.50	$ 0.45	$ -	$ -	$ -
Maintenance and Operations	1.00	1.05	1.50	1.50	1.50
Total	$ 1.50	$ 1.50	$ 1.50	$ 1.50	$ 1.50

Exemptions

For tax year 2020, the District did not grant any exemptions.

Additional Penalties

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

Historical Tax Collections

The following statement of tax collections sets forth in condensed form a portion of the historical tax experience of the District. Such table has been prepared for inclusion herein, based upon information obtained from the District's Tax Assessor/Collector. Reference is made to such statements and records for further and complete information. See "Tax Roll Information" below.

Tax Year	Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections as of August 31, 2020 (c) Amount	Percent
2015	$ 366,721	$ 1.50	$ 5,501	$ 5,501	100.00%
2016	365,469	1.50	5,482	5,482	100.00%
2017	11,019,605	1.50	165,294	165,294	100.00%
2018	19,784,585	1.50	296,769	296,220	99.82%
2019	34,946,897	1.50	524,203	516,297	98.49%

(a) As certified by the Appraisal District less any exemptions granted. See "Tax Roll Information" below for gross appraised value and exemptions granted by the District.
(b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
(c) Unaudited.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2016 through 2020 Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. Breakdowns of the uncertified portion ($8,391,340) of the 2020 Taxable Assessed Valuation of $51,559,643 and the Estimated Taxable Assessed Valuation as of July 1, 2020, of $56,800,223 are not available.

Tax Year	Type of Property: Land	Improvements	Personal Property	Gross Assessed Valuations	Deferments and Exemptions	Uncertified Value	Taxable Assessed Valuations
2016	$ 6,949,502	$ 352,945	$ -	$ 7,302,447	$ (6,936,978)	$ -	$ 365,469
2017	8,775,048	2,291,562	-	11,066,610	(47,005)	-	11,019,605
2018	11,530,271	9,036,748	51,961	20,618,980	(834,395)	-	19,784,585
2019	14,080,911	22,059,023	124,635	36,264,569	(1,317,672)	-	34,946,897
2020	11,933,987	32,125,313	135,700	44,195,000	(1,026,697)	8,391,340	51,559,643

Principal Taxpayers

The following table represents the ten major taxpayers, the taxable assessed valuation of such property, and such property's taxable assessed valuation as a percentage of the certified portion ($43,168,303) of the 2020 Taxable Assessed Valuation of $51,559,643. Principal taxpayer lists related to the uncertified portion ($8,391,340) of the 2020 Taxable Assessed Valuation and the Estimated Taxable Assessed Valuation as of July 1, 2020 of $56,800,223 are not available.

Taxpayer (a)	2020 Certified Taxable Assessed Valuation	% of 2020 Certified Taxable Assessed Valuation
KB Homes Lone Star Inc. (a)	$ 4,294,980	9.95%
Individual	312,004	0.72%
Individual	301,168	0.70%
Individual	288,973	0.67%
Individual	288,095	0.67%
Individual	287,195	0.67%
Individual	282,296	0.65%
Individual	280,295	0.65%
Individual	278,500	0.65%
Individual	277,487	0.64%
Total	$ 6,890,993	15.96%

(a) See "THE DEVELOPER—KB Home Lone Star Inc."

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per $100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2020 Taxable Assessed Valuation of $51,559,643 ($43,168,303 of certified value plus $8,391,340 of uncertified value) and the Estimated Taxable Assessed Valuation as of July 1, 2020, of $56,800,223. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds, when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "RISK FACTORS—Possible Impact on District Tax Rates" and "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."

Average Annual Debt Service Requirement (2021-2045) $447,819
$0.92 Tax Rate on the 2020 Taxable Assessed Valuation $450,631
$0.83 Tax Rate on the Estimated Taxable Assessed Valuation as of July 1, 2020 .... $447,870

Maximum Annual Debt Service Requirement (2042)... $499,550
$1.02 Tax Rate on the 2020 Taxable Assessed Valuation $499,613
$0.93 Tax Rate on the Estimated Taxable Assessed Valuation as of July 1, 2020 .... $501,830

No representation or suggestion is made that the value comprising the uncertified portion of the 2020 Taxable Assessed Valuation will not be adjusted downward or that the value comprising the estimated values of land and improvements provided by the Appraisal District as of July 1, 2020, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See "TAXING PROCEDURES."

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS—Future Debt") and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the District may also levy and collect an annual ad valorem tax for the operation and maintenance of the District. See "TAX DATA—Debt Service Tax" and "—Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between $3,000 and $12,000 of taxable valuation depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption for the full amount of the veteran's residential homestead. Additionally, effective January 1, 2012, 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. Effective January 1, 2014, 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. Also, effective January 1, 2014, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See "TAX DATA."

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. To date, the District has not adopted a homestead exemption. See "TAX DATA."

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

Tax Abatement

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City of Houston and the District, under certain circumstances, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the appraised valuation of property covered by the agreement over its appraised valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, neither Harris County nor the City of Houston has designated land within the District as a reinvestment zone.

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 Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, for open space land, and timberland.

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

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

District and Taxpayer Remedies

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

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

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

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies districts differently based on the current operation and maintenance tax rate or on the percentage of build-out that the District has completed. Districts that have adopted an operation and maintenance tax rate for the current year that is 2.5 cents or less per $100 of taxable value are classified as "Special Taxing Units." Districts that have financed, completed, and issued bonds to pay for all improvements and facilities necessary to serve at least 95% of the projected build-out of the district are classified as "Developed Districts." Districts that do not meet either of the classifications previously discussed can be classified herein as "Developing Districts." The impact each classification has on the ability of a district to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

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

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

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

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

District's Rights in the Event of Tax Delinquencies

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

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, 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, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "RISK FACTORS—Tax Collection Limitations and Foreclosure Remedies."

The Effect of FIRREA on Tax Collections of the District

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

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

To the extent that the FDIC attempts to enforce the same, these provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC, ("S&P") will assign municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. An explanation of the rating may be obtained from S&P. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

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

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of 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 "MUNICIPAL BOND INSURANCE."

Additional Information Available from BAM

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

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

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

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

LEGAL MATTERS

Legal Proceedings

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

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

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

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

No Material Adverse Change

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

No-Litigation Certificate

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

TAX MATTERS

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

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

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

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

Qualified Tax-Exempt Obligations

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

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

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Masterson Advisors LLC is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the OFFICIAL STATEMENT, including the OFFICIAL NOTICE OF SALE and the OFFICIAL BID FORM for the sale of the Bonds. In its capacity as Financial Advisor, Masterson Advisors LLC has compiled and edited this OFFICIAL STATEMENT. The Financial Advisor has reviewed the information in this OFFICIAL STATEMENT in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

Consultants

In approving this OFFICIAL STATEMENT the District has relied upon the following consultants.

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Assessments of the Southwest, Inc., and is included herein in reliance upon the authority of such individual as an expert in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the District's water, wastewater and storm drainage system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Jones & Carter, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as the District's Engineer.

Auditor: The District's financial statements for the period ending March 31, 2020 were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2020, financial statements.

Updating the 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 the Underwriter 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 as required by law (but not more than 90 days after the date the District delivers the Bonds).

Certification of Official Statement

The District, acting through its Board in its official capacity, hereby certifies, as of the date hereof, that the information, statements, and descriptions or any addenda, supplement and amendment thereto pertaining to the District and its affairs contained herein, to the best of its knowledge and belief, contain no untrue statement of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. With respect to information included in this OFFICIAL STATEMENT other than that relating to the District, the District has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading; however, the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District. In rendering such certificate, the Board has relied in part upon its examination of records of the District, and upon discussions with, or certificates or correspondence signed by, certain other officials, employees, consultants and representatives of the District.

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the "SEC") regarding the District's continuing disclosure obligations because the District has less than $10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. In the Bond Resolution, the District has made the following agreement for the benefit of the registered and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") System.

Annual Reports

The District will provide certain financial information and operating data which is customarily prepared by the District and is publicly available, annually to the MSRB through EMMA. The financial information and operating data which will be provided with respect to the District is found in APPENDIX A (Auditor's Report and Financial Statements and Supplemental Schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2021. Any information so provided regarding the District 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 the audit report becomes available.

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 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 specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the "Rule"). The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

Since the District's first issuance of Bonds in 2019, ,the District has complied in all material respects with its prior continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

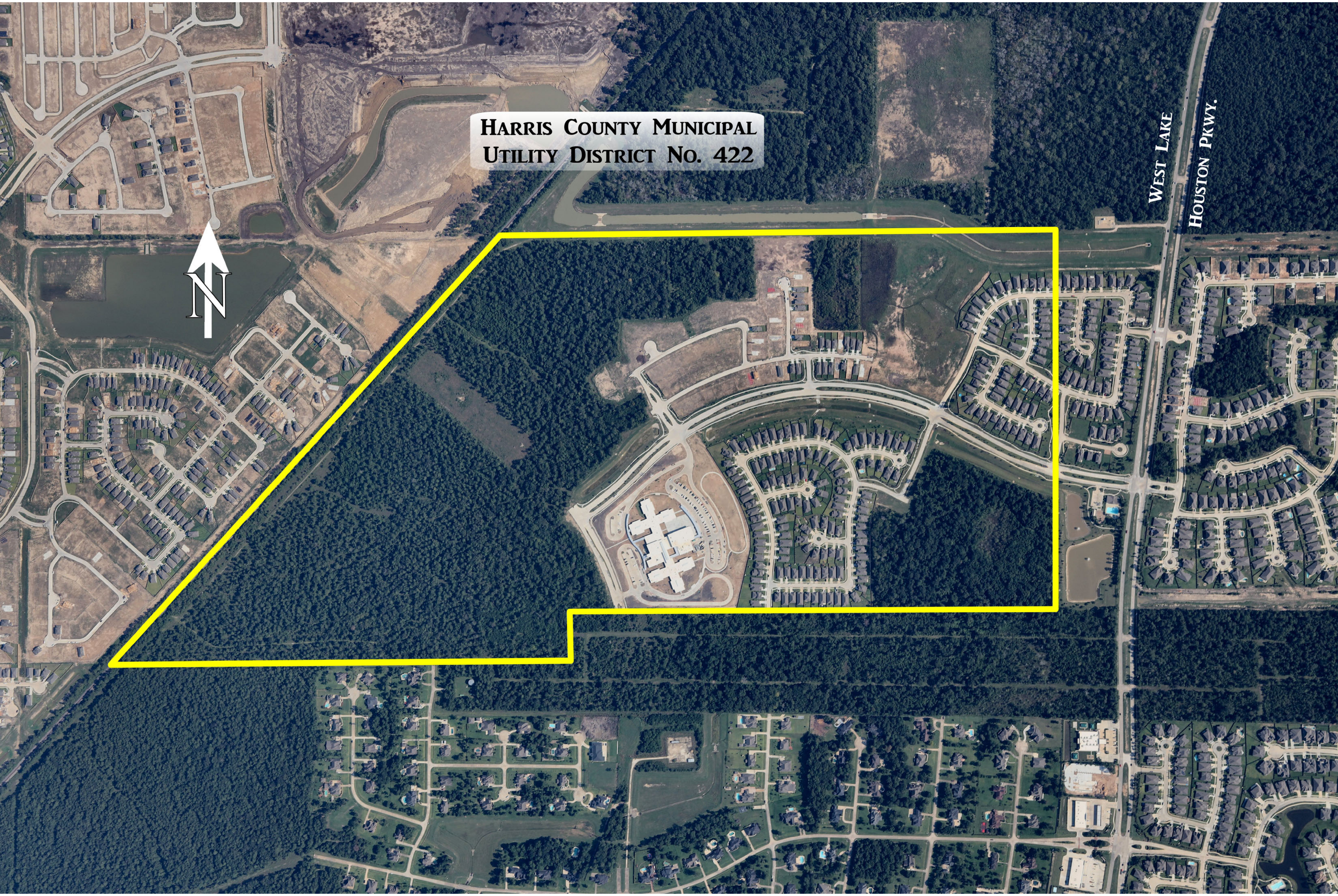
All estimates, statements and assumptions in this OFFICIAL STATEMENT and the APPENDICES hereto have been made on the basis of the best information available and are believed to be reliable and accurate. Any statements in this OFFICIAL STATEMENT involving matters of opinion or estimates, whether or not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

/s/ Norm Scholes
President, Board of Directors

ATTEST:

/s/ George Bravenec
Secretary, Board of Directors

AERIAL PHOTOGRAPH
(As of August 2020)


Harris County Municipal
Utility District No. 422
N
West Lake
Houston Pkwy.

PHOTOGRAPHS OF THE DISTRICT
(As of August 2020)


Sold


Sold


Sold


Sold


Sold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APPENDIX A

Financial Statement of the District for the fiscal year ended March 31, 2020

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 422

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

March 31, 2020

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McGRATH & CO., PLLC
Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Harris County Municipal Utility District No. 422
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 422, as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Mark W. McGrath, CPA mark@mcgrath-co.com	Colette M. Garcia, CPA colette@mcgrath-co.com	Tayo Ilori, CPA, CFE tayo@mcgrath-co.com	Crystal V. Horn, CPA crystal@mcgrath-co.com

Board of Directors
Harris County Municipal Utility District No. 422
Harris County, Texas

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 422, as of March 31, 2020, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

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

McGrath & Co, PLLC

Houston, Texas
July 8, 2020

Management's Discussion and Analysis

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Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 422 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2020. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

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

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

Overview of the Financial Statements

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

Government-Wide Financial Statements

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

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

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

Fund Financial Statements

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

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

Financial Analysis of the District as a Whole

The District's net position at March 31, 2020, was negative $7,439,146. This amount is negative because the District incurs debt to construct roads and storm water conveyance facilities which it conveys to Harris County. A comparative summary of the District's overall financial position, as of March 31, 2020 and 2019, is as follows:

	2020	2019
Current and other assets	$ 1,659,732	$ 530,038
Capital assets	11,989,462	6,876,811
Total assets	13,649,194	7,406,849
Current liabilities	292,105	1,715,367
Long-term liabilities	20,796,235	8,721,403
Total liabilities	21,088,340	10,436,770
Net position		
Net investment in capital assets	(1,551,610)	(527,867)
Restricted	427,219	
Unrestricted	(6,314,755)	(2,502,054)
Total net position	$ (7,439,146)	$ (3,029,921)

The total net position of the District decreased during the current fiscal year by $4,409,225. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2020	2019
Revenues		
Property taxes, penalties and interest	$ 602,340	$ 413,922
Water and sewer service	130,598	77,759
Other	145,497	108,992
Total revenues	878,435	600,673
Expenses		
Current service operations	816,686	527,362
Interest and fees	134,147	33,450
Developer interest	460,873	
Debt issuance costs	514,627	38,300
Depreciation and amortization	294,125	144,921
Total expenses	2,220,458	744,033
Change in net position before other items	(1,342,023)	(143,360)
Other items		
Capital recovery fees	526,714	
Transfers to other governments	(3,593,916)	(1,410,346)
Change in net position	(4,409,225)	(1,553,706)
Net position, beginning of year	(3,029,921)	(1,476,215)
Net position, end of year	$ (7,439,146)	$ (3,029,921)

Financial Analysis of the District's Funds

The District's combined fund balances, as of March 31, 2020, were $1,455,173, which consists of $502,098 in the General Fund, $422,432 in the Debt Service Fund and $530,643 in the Capital Projects Fund.

General Fund

A comparative summary of the General Fund's financial position as of March 31, 2020 and 2019, is as follows:

	2020	2019
Total assets	$ 701,519	$ 568,312
Total liabilities	$ 190,486	$ 65,387
Total deferred inflows	8,935	3,527
Total fund balance	502,098	499,398
Total liabilities, deferred inflows and fund balance	$ 701,519	$ 568,312

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

	2020	2019
Total revenues	$ 706,651	$ 600,186
Total expenditures	(703,951)	(354,621)
Revenues over/(under) expenditures	2,700	245,565
Other changes in fund balance		323,711
Net change in fund balance	$ 2,700	$ 569,276

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

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.

During the previous fiscal year, financial resources in the General Fund included advances from the District's developer to fund operating costs.

Debt Service Fund

The District issued bonded debt during the current fiscal year pursuant to a Bond Resolution adopted by the Board. As required by the Bond Resolution, a Debt Service Fund was established to account for the accumulation of financial resources restricted for debt service purposes. A summary of the financial position as of March 31, 2020 is as follows:

Total assets	$ 427,219
Total deferred inflows	$ 4,787
Total fund balance	422,432
Total deferred inflows and fund balance	$ 427,219

A summary of activities of the Debt Service Fund for the current year is as follows:

Total revenues	$ 158,615
Total expenditures	(126,613)
Revenues over expenditures	32,002
Other changes in fund balance	390,430
Net change in fund balance	$ 422,432

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

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of March 31, 2020 and 2019 is as follows:

	2020	2019
Total assets	$ 530,994	$ 228
Total liabilities	$ 351	$ 40,032
Total fund balance	530,643	(39,804)
Total liabilities and fund balance	$ 530,994	$ 228

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

	2020	2019
Total revenues	$ 2,975	$ 4
Total expenditures	(4,128,812)	(1,654,808)
Revenues under expenditures	(4,125,837)	(1,654,804)
Other changes in fund balance	4,696,284	1,615,000
Net change in fund balance	$ 570,447	$ (39,804)

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2019 Unlimited Tax Bonds and Series 2019 Unlimited Tax Road Bonds in the current year and issuance of its Series 2018 Bond Anticipation Note in the prior year.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was $86,631 less than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

Capital Assets

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

Capital assets held by the District at March 31, 2020 and 2019 are summarized as follows:

	2020	2019
Capital assets not being depreciated		
Land and improvements	$ 1,347,123	$ 1,347,123
Capital assets being depreciated/amortized		
Infrastructure	7,440,444	3,005,938
Interest in joint facilities	2,355,670	2,299,975
Landscaping improvements	1,436,297	519,722
	11,232,411	5,825,635
Less accumulated depreciation/amortization		
Infrastructure	(259,756)	(93,386)
Interest in joint facilities	(216,946)	(161,005)
Landscaping improvements	(113,370)	(41,556)
	(590,072)	(295,947)
Depreciable capital assets, net	10,642,339	5,529,688
Capital assets, net	$ 11,989,462	$ 6,876,811

Capital asset additions during the current year include the following:

- Utilities to serve Lakewood Pines, Sections 2, 3 and 10
- Landscaping improvements to serve Lakewood Pines, Sections 8 - 10, Lakewood Pines Boulevard and Timber Forest Boulevard
- Interest in joint facilities for the purchase option of the lease of the 200,000 gallon per day interim wastewater treatment plant

The District, Harris County Municipal Utility District No. 499 ("MUD 499"), and other participating Districts (see Notes 12 and 13), have entered into cost sharing agreements for the construction of certain capital assets in proration to the benefit that each District receives. The District's interest in joint facilities reflects the District's right to capacity in the completed facilities pursuant to the regional agreements among participating districts.

Harris County assumes responsibility for all road and storm water conveyance facilities constructed within the county. Consequently, these projects are not recorded as capital assets on the District's financial statements but are recorded as transfers to other governments upon completion of construction. For the year ended March 31, 2020, capital assets in the amount of $3,593,916 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of March 31, 2020, the District owes $14,706,235 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of $1,918,946 for projects under construction by the developers. As noted, the District will owe its developers for these projects upon completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developers is trued up when the developers are reimbursed.

During the current year, the District issued $2,800,000 in unlimited tax bonds and $3,375,000 in unlimited tax road bonds, all of which were outstanding as of the end of the fiscal year. The District did not have any bonded debt as of March 31, 2019.

At March 31, 2020, the District had $231,200,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; $32,500,000 for parks and recreational facilities and the refunding of such bonds; and $61,625,000 for road improvements and the refunding of such bonds.

Next Year's Budget

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

	2020 Actual	2021 Budget
Total revenues	$ 706,651	$ 684,177
Total expenditures	(703,951)	(552,583)
Revenues over/(under) expenditures	2,700	131,594
Beginning fund balance	499,398	502,098
Ending fund balance	$ 502,098	$ 633,692

Infectious Disease Outlook (COVID-19)

As further discussed in Note 17, the World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory virus currently affecting many parts of the world, including the United States and Texas. The pandemic has negatively affected the economic growth and financial markets worldwide and within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak could have an adverse effect on the District's operations and financial condition by negatively affecting property taxes and ad valorem tax revenues within the District .

Basic Financial Statements

Harris County Municipal Utility District No. 422
Statement of Net Position and Governmental Fund Balance Sheet
March 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	$ 54,717	$ 24,855	$ 843	$ 80,415	$ -	$ 80,415
Investments	465,188	418,687	592,646	1,476,521		1,476,521
Taxes receivable	8,935	4,787		13,722		13,722
Customer service receivables	17,411			17,411		17,411
Internal balances	83,605	(21,110)	(62,495)			
Operating Reserve - Wastewater Treatment Plant	71,663			71,663		71,663
Capital assets not being depreciated					1,347,123	1,347,123
Capital assets, net					10,642,339	10,642,339
Total Assets	$ 701,519	$ 427,219	$ 530,994	$1,659,732	11,989,462	13,649,194
Liabilities						
Accounts payable	$ 96,530	$ -	$ 351	$ 96,881		96,881
Customer deposits	25,525			25,525		25,525
Unearned revenue	48,840			48,840		48,840
Due to other governments	19,591			19,591		19,591
Accrued interest payable					16,268	16,268
Due to developers					14,706,235	14,706,235
Long-term debt						
Due within one year					85,000	85,000
Due after one year					6,090,000	6,090,000
Total Liabilities	190,486		351	190,837	20,897,503	21,088,340
Deferred Inflows of Resources						
Deferred property taxes	8,935	4,787		13,722	(13,722)	
Fund Balance/Net Position						
Fund Balance						
Nonspendable	71,663			71,663	(71,663)	
Restricted		422,432	530,643	953,075	(953,075)	
Unassigned	430,435			430,435	(430,435)	
Total Fund Balance	502,098	422,432	530,643	1,455,173	(1,455,173)	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	$ 701,519	$ 427,219	$ 530,994	$1,659,732		
Net Position						
Net investment in capital assets					(1,551,610)	(1,551,610)
Restricted for debt service					427,219	427,219
Unrestricted					(6,314,755)	(6,314,755)
Total Net Position					$ (7,439,146)	$ (7,439,146)

See notes to basic financial statements.

Harris County Municipal Utility District No. 422
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes in Fund Balance
For the Year Ended March 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	$ 49,394	$ -	$ -	$ 49,394	$ -	$ 49,394
Sewer service	81,204			81,204		81,204
Property taxes	436,699	152,754		589,453	9,002	598,455
Penalties and interest	1,797	896		2,693	1,192	3,885
Tap connection and inspection	129,960			129,960		129,960
Investment earnings	6,083	4,965	2,975	14,023		14,023
Miscellaneous	1,514			1,514		1,514
Total Revenues	706,651	158,615	2,975	868,241	10,194	878,435
Expenditures/Expenses						
Current service operations						
Purchased services	252,266			252,266		252,266
Professional fees	205,248		33,773	239,021		239,021
Contracted services	120,487	9,200	58,500	188,187		188,187
Repairs and maintenance	77,254		9,995	87,249		87,249
Administrative	24,197	391	30	24,618		24,618
Other	24,499	846		25,345		25,345
Capital outlay			3,015,860	3,015,860	(3,015,860)	
Debt service						
Interest and fees		116,176	35,154	151,330	(17,183)	134,147
Developer interest			460,873	460,873		460,873
Debt issuance costs			514,627	514,627		514,627
Depreciation and amortization					294,125	294,125
Total Expenditures/Expenses	703,951	126,613	4,128,812	4,959,376	(2,738,918)	2,220,458
Revenues Over/(Under) Expenditures/Expenses	2,700	32,002	(4,125,837)	(4,091,135)	2,749,112	(1,342,023)
Other Financing Sources/Uses						
Proceeds from sale of bonds		390,430	5,784,570	6,175,000	(6,175,000)	
Repayment of bond anticipation note			(1,615,000)	(1,615,000)	1,615,000	
Other Items						
Capital recovery fees			526,714	526,714		526,714
Transfers to other governments					(3,593,916)	(3,593,916)
Net Change in Fund Balance	2,700	422,432	570,447	995,579	(995,579)	
Change in Net Position					(4,409,225)	(4,409,225)
Fund Balance/Net Position						
Beginning of the year	499,398	-	(39,804)	459,594	(3,489,515)	(3,029,921)
End of the year	$ 502,098	$ 422,432	$ 530,643	$1,455,173	$ (8,894,319)	$ (7,439,146)

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 422 (the "District") conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board ("GASB"). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated December 12, 2006, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on October 3, 2013 and the first bonds were issued on April 11, 2019.

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

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District's financial statements as component units.

Government-Wide and Fund Financial Statements

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

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

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Note 1 – Summary of Significant Accounting Policies (continued)

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At March 31, 2020, an allowance for uncollectible accounts was not considered necessary.

Interfund Activity

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

Capital Assets

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

Depreciable capital assets, which primarily consist of the District's interest in joint facilities, water, wastewater and drainage facilities, and landscaping improvements are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Interest in joint facilities	40 years
Landscaping improvements	10-20 years

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

Deferred Inflows and Outflows of Financial Resources

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

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources (continued)

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

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of operating reserves paid to Harris County Municipal Utility District No. 400 for the regional wastewater treatment plant (Note 12).

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

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental fund		$ 1,455,173
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental fund.		
Historical cost	$ 12,579,534	
Less accumulated depreciation/amortization	(590,072)	
Change due to capital assets		11,989,462
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable, net	(6,175,000)	
Interest payable on bonds	(16,268)	
Change due to long-term debt		(6,191,268)
Amounts due to the District's developers for prefunded construction and developer advances are recorded as a liability in the *Statement of Net Position*.		(14,706,235)
Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		13,722
Total net position - governmental activities		$ (7,439,146)

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

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

Net change in fund balance - total governmental fund		$ 995,579
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest.		10,194
Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities,* the costs of capital assets are capitalized and charged to expense over the remaining life of the asset. Public roads conveyed to the Harris County are recorded as transfers to other governments.		
Capital outlays	$ 3,015,860	
Transfers to other governments	(3,593,916)	
Depreciation/amortization expense	(294,125)	
		(872,181)
The issuance of long-term debt provides current financial resources to governmental funds. However, this amount is recognized as a liability on the *Statement of Net Position*. Other elements of debt financing are reported differently between the fund and government wide statements.		
Issuance of long-term debt	(6,175,000)	
Repayment of bond anticipation note	1,615,000	
Interest expense accrual	17,183	
		(4,542,817)
Change in net position of governmental activities		$ (4,409,225)

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Note 3 – Deposits and Investments (continued)

Investments

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

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

As of March 31, 2020, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
TexPool	General	$ 465,188		
	Debt Service	418,687		
	Capital Projects	592,646		
Total		$ 1,476,521	AAAm	32 days

TexPool

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

Note 3 – Deposits and Investments (continued)

TexPool (continued)

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

Investment Credit and Interest Rate Risk

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

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at March 31, 2020, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	$ 21,110	Maintenance tax collections not remitted as of year end
Capital Projects Fund	General Fund	6,000	Repayment of excess reimbursement for bond application fees
General Fund	Capital Projects Fund	68,495	Tap connection fees and capital outlay paid by the General Fund

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended March 31, 2020, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	$ 1,347,123	$ -	$ 1,347,123
Capital assets being depreciated/amortized			
Infrastructure	3,005,938	4,434,506	7,440,444
Interest in joint facilities	2,299,975	55,695	2,355,670
Landscaping improvements	519,722	916,575	1,436,297
	5,825,635	5,406,776	11,232,411
Less accumulated depreciation/amortization			
Infrastructure	(93,386)	(166,370)	(259,756)
Interest in joint facilities	(161,005)	(55,941)	(216,946)
Landscaping improvements	(41,556)	(71,814)	(113,370)
	(295,947)	(294,125)	(590,072)
Subtotal depreciable capital assets, net	5,529,688	5,112,651	10,642,339
Capital assets, net	$ 6,876,811	$ 5,112,651	$ 11,989,462

Depreciation/amortization expense for the current year was $294,125.

Note 6 – Bond Anticipation Note

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

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of $1,615,000. This BAN was repaid on April 11, 2019 with proceeds from the issuance of the District's Series 2019 Unlimited Tax Bonds.

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

Beginning balance	$ 1,615,000
Amounts repaid	(1,615,000)
Ending balance	$ -

Note 7 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer, drainage, park and recreational facilities and road improvements. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. The initial cost is estimated based on construction costs plus 10-15% for engineering and other fees. Estimates are trued up when the developers are reimbursed.

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

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

Due to developers, beginning of year	$ 8,721,403
Developer reimbursements	(2,922,148)
Developer funded construction and adjustments	8,906,980
Due to developers, end of year	$ 14,706,235

In addition, the District will owe the developers approximately $1,918,946 which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Lakewood Pines, Section 11 - utilities	$ 553,405	$ -	$ 553,405
Lakewood Pines, Section 11 - paving	843,325		843,325
Lakewood Pines, Phase 5 - clearing and grubbing	522,216		522,216
	$ 1,918,946	$ -	$ 1,918,946

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	$ 6,175,000
Due within one year	$ 85,000

Note 8 – Long-Term Debt (continued)

The District's bonds payable at March 31, 2020, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2019	$ 2,800,000	$ 2,800,000	2.30% - 4.00%	September 1, 2020/2043	September 1, March 1	September 1, 2024
2019 Road	3,375,000	3,375,000	2.00% - 3.25%	September 1, 2021/2044	September 1, March 1	September 1, 2024
	$ 6,175,000					

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

At March 31, 2020, the District had authorized but unissued bonds in the amount of $231,200,000 for water, sewer and drainage facilities and the refunding of such bonds; $32,500,000 for park and recreational facilities and the refunding of such bonds; and $61,625,000 for road improvements and the refunding of such bonds.

On April 11, 2019, the District issued its $2,800,000 Series 2019 Unlimited Tax Bonds at a net effective interest rate of 3.867972%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering, clearing and grubbing, and other costs associated with the construction of capital assets; the acquisition of land for certain District facilities; operating advances; and creation costs, (2) to pay developer interest at the net effective interest rate of the bonds; (3) to repay a $1,615,000 BAN issued in the previous fiscal year; and (4) to pay capitalized interest into the Debt Service Fund.

On November 13, 2019, the District issued its $3,375,000 Series 2019 Unlimited Tax Road Bonds at a net effective interest rate of 3.232508%. Proceeds of the bonds were used to reimburse a developer for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds and to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	$ -
Bonds issued	6,175,000
Bonds payable, end of year	$ 6,175,000

Note 8 – Long-Term Debt (continued)

As of March 31, 2020, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2021	$ 85,000	$ 194,238	$ 279,238
2022	160,000	191,520	351,520
2023	160,000	188,005	348,005
2024	170,000	184,305	354,305
2025	180,000	180,250	360,250
2026	190,000	175,749	365,749
2027	190,000	170,895	360,895
2028	200,000	165,742	365,742
2029	210,000	160,151	370,151
2030	220,000	154,044	374,044
2031	230,000	147,400	377,400
2032	240,000	140,195	380,195
2033	250,000	132,412	382,412
2034	260,000	124,100	384,100
2035	270,000	115,306	385,306
2036	280,000	106,100	386,100
2037	290,000	96,459	386,459
2038	300,000	86,382	386,382
2039	310,000	75,856	385,856
2040	330,000	64,609	394,609
2041	340,000	52,638	392,638
2042	350,000	40,206	390,206
2043	370,000	27,231	397,231
2044	385,000	13,613	398,613
2045	205,000	3,331	208,331
	$ 6,175,000	$ 2,990,737	$ 9,165,737

Note 9 – Property Taxes

On May 10, 2014, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to $1.50 per $100 of assessed value and an operation and maintenance tax for toad facilities limited to $0.25 per $100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

Note 9 – Property Taxes (continued)

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

Property taxes are collected based on rates adopted in the year of the levy. The District's 2020 fiscal year was financed through the 2019 tax levy, pursuant to which the District levied property taxes of $1.50 per $100 of assessed value, of which $1.05 was allocated to maintenance and operations and $0.45 was allocated to debt service. The resulting tax levy was $521,161 on the adjusted taxable value of $34,744,038.

Total property taxes receivable, at March 31, 2020, consisted of the following:

Current year taxes receivable	$ 11,981
Prior years taxes receivable	548
	12,529
Penalty and interest receivable	1,193
Property taxes receivable	$ 13,722

Note 10 – Transfers to Other Governments

Harris County assumes responsibility for the maintenance of public roads, including storm sewer conveyance facilities, constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of Harris County, not the District. The estimated cost of each project is trued-up when the developers are subsequently reimbursed. For the year ended March 31, 2020, the District recorded transfers to other governments in the amount of $3,593,916 for road facilities constructed by developers within the District.

Note 11 – Water Supply Contract with the City of Houston

On October 9, 2015, the District entered into a water supply contract with the City of Houston (the "City") for purchase of treated water from the City. The City will calculate the District's billing statements in accordance with the formula, rates, and fees established in Subsection 47-61(f) of the City of Houston Code of Ordinances. The term of the agreement is 40 years.

Water and sewer rates charged by the District to the customers within its boundaries are adopted within the District's rate order. All revenues derived by these charges belong to the District. During the current year, the District has paid $142,191 to the City for the acquisition of treated water.

Note 12 – Regional Wastewater Treatment Plant Agreement

The District and Harris County Municipal Utility District No. 400 ("MUD 400"), Harris County Municipal Utility District No. 499 ("MUD 499"), Harris County Municipal Utility District No. 423 and Harris County Fresh Water Supply District No. 48 (the "Parties") entered into a Regional Wastewater Treatment Plan Agreement (the "WWTP Agreement"), which was effective July 1, 2008, as amended July 1, 2013, to provide regional wastewater treatment services for the Parties ongoing development. The Parties have constructed an interim wastewater treatment plant (the "Interim Plant") to treat approximately 200,000 gallons per day (gpd) which was expanded to 600,000 gpd. MUD 400 has been designated project manager for the Interim Plant.

The District is billed monthly based on its pro-rata share of fixed expenses and variable costs. During the current year, the District paid $110,075 for purchased sewer services. Additionally, the District has paid $71,663 for an operating reserve.

Note 13 – Wastewater Treatment Plant Agreement

The District and Harris County Municipal Utility District No. 400 ("MUD 400"), Harris County Municipal Utility District No. 422 ("MUD 422") and Harris County Municipal Utility District No. 423 ("MUD 423") entered into a Wastewater Treatment Plant Agreement (the "WWTP Agreement"), which was effective December 18, 2017, as amended January 1, 2019, to expand the capacity of the Interim Plant (as referenced in Note 12) by 700,000 gpd for their benefit only and not for the benefit of the other parties to the Regional WWTP Agreement (the "Expansion"). The term of this agreement is 40 years.

MUD 400 has been designated project manager for the Expansion. Each party will be responsible for its share of the design and construction cost of the Expansion based on its pro rata share of the proposed equivalent single family connections ("ESFCs") to be served by the Expansion. The District has agreed that MUD 400 shall hold legal title to the facilities, with the District having an undivided, equitable interest. The District's proportionate share of the Expansion is 19.29%.

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

Note 14 – Capital Recovery Fees

Pursuant to the District's Rate Order, non-taxable users who are exempt from ad valorem taxation by the District, shall pay a tap fee equal to the District's actual costs of installing any necessary service lines plus the users pro-rata share of the District's actual costs of the facilities necessary to provide the service. During the current year, the District received $526,714 from Humble Independent School District for capital recovery fees associated with the construction of Centennial Elementary School.

Note 15 – Risk Management

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

Note 16 – Concentration of Risk

Approximately 28% of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are the primary source of revenue for both the General Fund and the Debt Service Fund, the continued ability of these taxpayers to continue to pay their property taxes is an important factor in the District's ability to meet its future obligations.

Note 17 – Infectious Disease Outlook (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. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. On March 31, 2020, the Governor issued an executive order closing all non-essential businesses in the State. This order expired on April 30, 2020. Additionally, all the counties in the greater Houston area adopted various "Work Safe – Stay Home." Such actions are focused on limiting instances where the public can congregate or interact with each other. These precautions resulted in the temporary closure of all non-essential businesses in the State.

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 the economic growth and financial markets worldwide and within Texas. These negative impacts may reduce or negatively affect property taxes and ad valorem tax revenues within 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.

Required Supplementary Information

Harris County Municipal Utility District No. 422
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2020

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	$ 37,100	$ 40,993	$ 49,394	$ 8,401
Sewer service	58,800	64,919	81,204	16,285
Property taxes	265,518	422,143	436,699	14,556
Penalties and interest		716	1,797	1,081
Tap connection and inspection	87,000	77,557	129,960	52,403
Investment earnings	120	8,482	6,083	(2,399)
Miscellaneous		375	1,514	1,139
Total Revenues	448,538	615,185	706,651	91,466
Expenditures				
Current service operations				
Purchased Services	48,276	215,901	252,266	(36,365)
Professional fees	87,000	151,433	205,248	(53,815)
Contracted services	107,335	82,409	120,487	(38,078)
Repairs and maintenance	47,628	48,496	77,254	(28,758)
Administrative	24,885	24,466	24,197	269
Other	7,440	3,149	24,499	(21,350)
Total Expenditures	322,564	525,854	703,951	(178,097)
Revenues Over/(Under) Expenditures	125,974	89,331	2,700	(86,631)
Fund Balance				
Beginning of the year	499,398	499,398	499,398	
End of the year	$ 625,372	$ 588,729	$ 502,098	$ (86,631)

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

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

[X] Retail Water	[ ] Wholesale Water	[ ] Solid Waste / Garbage	[X] Drainage
[X] Retail Wastewater	[ ] Wholesale Wastewater	[ ] Flood Control	[X] Irrigation
[X] Parks / Recreation	[ ] Fire Protection	[X] Roads	[ ] Security

[X] Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)

[ ] Other (Specify): ____________________

2. Retail Service Providers
(You may omit this information if your district does not provide retail services)

a. Retail Rates for a 3/4" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels		
Water:	$ 18.00	10,000	N	$ 1.00	10,001	to	15,000
				$ 2.00	15,001	to	20,000
				$ 3.00	20,001	to	25,000
				$ 4.00	25,001	to	no limit
Wastewater:	$ 40.85	N	Y			to	

District employs winter averaging for wastewater usage? [ ] Yes [X] No

Total charges per 10,000 gallons usage: Water $ 18.00 Wastewater $ 40.85

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
3/4" or less	215	213	x 1.0	213
1"			x 2.5	
1.5"	1	1	x 5.0	5
2"	3	3	x 8.0	24
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	219	217		242
Total Wastewater	209	207	x 1.0	207

See accompanying auditor's report.

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

Gallons purchased from the City of Houston:	17,823,000	Water Accountability Ratio: (Gallons billed / Gallons pumped)
Gallons billed to customers:	20,094,000	112.74%

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

   Does the District have Debt Service standby fees? Yes [ ] No [X]

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

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

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

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

   Is the District located entirely within one county? Yes [X] No [ ]

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

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

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

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

   Entirely [X] Partly [ ] Not at all [ ]

   ETJs in which the District is located: City of Houston

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

   If Yes, by whom? ____________

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-2 General Fund Expenditures
For the Year Ended March 31, 2020

Purchased services	$ 252,266
Professional fees	
Legal	105,258
Audit	8,000
Engineering	91,990
	205,248
Contracted services	
Bookkeeping	20,662
Operator	6,229
Garbage collection	29,256
Tap connection and inspection	64,340
	120,487
Repairs and maintenance	77,254
Administrative	
Directors fees	7,350
Printing and office supplies	7,139
Insurance	3,080
Other	6,628
	24,197
Other	24,499
Total expenditures	$ 703,951

Reporting of Utility Services in Accordance with HB 3693:

	Usage	Cost
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-3. Investments
March 31, 2020

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexPool	Variable	N/A	$ 465,188
Debt Service			
TexPool	Variable	N/A	418,687
Capital Projects			
TexPool	Variable	N/A	592,646
Total - All Funds			$ 1,476,521

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-4. Taxes Levied and Receivable
March 31, 2020

	Maintenance Taxes	Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	$ 3,527	$ -	$ 3,527
Adjustments to Prior Year Tax Levy	77,294		77,294
Adjusted Receivable	80,821		80,821
2019 Original Tax Levy	255,696	109,584	365,280
Adjustments	109,117	46,764	155,881
Adjusted Tax Levy	364,813	156,348	521,161
Total to be accounted for	445,634	156,348	601,982
Tax collections:			
Current year	356,426	152,754	509,180
Prior years	80,273		80,273
Total Collections	436,699	152,754	589,453
Taxes Receivable, End of Year	$ 8,935	$ 3,594	$ 12,529
Taxes Receivable, By Years			
2019	$ 8,387	$ 3,594	$ 11,981
2018	548		548
Taxes Receivable, End of Year	$ 8,935	$ 3,594	$ 12,529

	2019	2018	2017	2016
Property Valuations:				
Land	$ 14,080,911	$ 11,504,781	$ 8,775,048	$ 6,949,502
Improvements	21,843,430	9,062,238	2,291,562	352,945
Personal Property	125,369	51,961		
Exemptions	(1,305,672)	(834,395)	(47,005)	(6,936,978)
Total Property Valuations	$ 34,744,038	$ 19,784,585	$ 11,019,605	$ 365,469
Tax Rates per $100 Valuation:				
Maintenance tax rate	$ 1.05	$ 1.50	$ 1.50	$ 1.50
Debt service tax rate	0.45			
Total Tax Rates per $100 Valuation	$ 1.50	$ 1.50	$ 1.50	$ 1.50
Adjusted Tax Levy:	$ 521,161	$ 296,769	$ 165,294	$ 5,482
Percentage of Taxes Collected to Taxes Levied **	97.70%	99.82%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: $1.50 on May 10, 2014.
* Maximum Road Maintenance Tax Rate Approved by Voters: $0.25 on May 10, 2014.

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-5. Long-Term Debt Service Requirements
Series 2019--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	$ 85,000	$ 96,854	$ 181,854
2022	70,000	95,036	165,036
2023	70,000	93,321	163,321
2024	75,000	91,471	166,471
2025	80,000	89,416	169,416
2026	85,000	87,146	172,146
2027	85,000	84,681	169,681
2028	90,000	82,056	172,056
2029	95,000	79,222	174,222
2030	100,000	76,113	176,113
2031	105,000	72,716	177,716
2032	110,000	69,019	179,019
2033	115,000	65,081	180,081
2034	120,000	60,894	180,894
2035	125,000	56,375	181,375
2036	130,000	51,594	181,594
2037	135,000	46,625	181,625
2038	140,000	41,469	181,469
2039	145,000	36,125	181,125
2040	155,000	30,403	185,403
2041	160,000	24,200	184,200
2042	165,000	17,700	182,700
2043	175,000	10,900	185,900
2044	185,000	3,700	188,700
	$ 2,800,000	$ 1,462,117	$ 4,262,117

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-5. Long-Term Debt Service Requirements
Series 2019 Road--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	$ -	$ 97,384	$ 97,384
2022	90,000	96,484	186,484
2023	90,000	94,684	184,684
2024	95,000	92,834	187,834
2025	100,000	90,834	190,834
2026	105,000	88,603	193,603
2027	105,000	86,214	191,214
2028	110,000	83,686	193,686
2029	115,000	80,929	195,929
2030	120,000	77,931	197,931
2031	125,000	74,684	199,684
2032	130,000	71,176	201,176
2033	135,000	67,331	202,331
2034	140,000	63,206	203,206
2035	145,000	58,931	203,931
2036	150,000	54,506	204,506
2037	155,000	49,834	204,834
2038	160,000	44,913	204,913
2039	165,000	39,731	204,731
2040	175,000	34,206	209,206
2041	180,000	28,438	208,438
2042	185,000	22,506	207,506
2043	195,000	16,331	211,331
2044	200,000	9,913	209,913
2045	205,000	3,331	208,331
	$ 3,375,000	$ 1,528,620	$ 4,903,620

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	$ 85,000	$ 194,238	$ 279,238
2022	160,000	191,520	351,520
2023	160,000	188,005	348,005
2024	170,000	184,305	354,305
2025	180,000	180,250	360,250
2026	190,000	175,749	365,749
2027	190,000	170,895	360,895
2028	200,000	165,742	365,742
2029	210,000	160,151	370,151
2030	220,000	154,044	374,044
2031	230,000	147,400	377,400
2032	240,000	140,195	380,195
2033	250,000	132,412	382,412
2034	260,000	124,100	384,100
2035	270,000	115,306	385,306
2036	280,000	106,100	386,100
2037	290,000	96,459	386,459
2038	300,000	86,382	386,382
2039	310,000	75,856	385,856
2040	330,000	64,609	394,609
2041	340,000	52,638	392,638
2042	350,000	40,206	390,206
2043	370,000	27,231	397,231
2044	385,000	13,613	398,613
2045	205,000	3,331	208,331
	$ 6,175,000	$ 2,990,737	$ 9,165,737

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-6. Change in Long-Term Bonded Debt
March 31, 2020

	Bond Issue		
	Series 2019	Series 2019 Road	Totals
Interest rate	2.30% - 4.00%	2.00% - 3.25%	
Dates interest payable	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/20 - 9/1/43	9/1/21 - 9/1/44	
Beginning bonds outstanding	$ -	$ -	$ -
Bonds issued	2,800,000	3,375,000	6,175,000
Ending bonds outstanding	$ 2,800,000	$ 3,375,000	$ 6,175,000
Interest paid during fiscal year	$ 89,679	$ 32,461	$ 122,140

Paying agent's name and city
All Series — The Bank of New York Mellon Trust Company, N.A., Dallas Texas

Bond Authority:	Water, Sewer and Drainage Bonds	Park and Recreational Facilities	Road Bonds
Amount Authorized by Voters	$ 234,000,000	$ 32,500,000	$ 65,000,000
Amount Issued	(2,800,000)		(3,375,000)
Remaining To Be Issued	$ 231,200,000	$ 32,500,000	$ 61,625,000

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

Debt Service Fund cash and investment balances as of March 31, 2020:	$ 443,542
Average annual debt service payment (principal and interest) for remaining term of all debt:	$ 366,629

See accompanying auditors’ report.

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Harris County Municipal Utility District No. 422
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2020	2019	2018	2017	2016**
Revenues					
Water service	$ 49,394	$ 32,137	$ 13,137	$ 1,341	$ -
Sewer service	81,204	45,622	18,364	1,954	
Property taxes	436,699	404,601	68,167	5,424	5,900
Penalties and interest	1,797	8,838	929	134	25
Surface water fees			4,650	171	
Tap connection and inspection	129,960	108,425	52,965	50,744	
Investment earnings	6,083	163			
Miscellaneous	1,514	400	59	144	
Total Revenues	706,651	600,186	158,271	59,912	5,925
Expenditures					
Current service operations					
Purchased services	252,266	71,271	49,802		
Professional fees	205,248	128,237	118,847	106,840	80,085
Contracted services	120,487	93,113	59,197	44,715	10,297
Repairs and maintenance	77,254	39,315	71,667	21,279	
Administrative	24,197	18,869	18,746	13,891	9,737
Other	24,499	3,816	1,719		40
Capital outlay				287,257	
Total Expenditures	703,951	354,621	319,978	473,982	100,159
Revenues Over/(Under) Expenditures	$ 2,700	$ 245,565	$ (161,707)	$ (414,070)	$ (94,234)
Total Active Retail Water Connections	217	138	69	32	N/A
Total Active Retail Wastewater Connections	207	134	67	30	N/A

*Percentage is negligible
** Unaudited

See accompanying auditors’ report.

Percent of Fund Total Revenues				
2020	2019	2018	2017	2016**
7%	5%	8%	2%	
11%	8%	12%	3%	
62%	68%	43%	9%	100%
*	1%	1%	*	*
		3%	*	
18%	18%	33%	86%	
1%	*			
*	*	*	*	
99%	100%	100%	100%	100%
36%	12%	31%		
29%	21%	75%	178%	1352%
17%	16%	37%	75%	174%
11%	7%	45%	36%	
3%	3%	12%	23%	164%
3%	1%	1%		1%
			479%	
99%	60%	201%	791%	1691%
-	40%	(101%)	(691%)	(1591%)

Harris County Municipal Utility District No. 422
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Current Fiscal Year

	Amounts 2020	Percent of Fund Total Revenues 2020
Revenues		
Property taxes	$ 152,754	96%
Penalties and interest	896	1%
Investment earnings	4,965	3%
Total Revenues	158,615	100%
Expenditures		
Tax collection services	9,591	6%
Other	846	1%
Debt service		
Interest and fees	116,176	73%
Total Expenditures	126,613	80%
Revenues Over Expenditures	$ 32,002	20%

*Percentage is negligible

See accompanying auditors' report.

Harris County Municipal Utility District No. 422
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended March 31, 2020

Complete District Mailing Address:	3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number:	(713) 860-6400
Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	March 11, 2020
Limit on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution -- TWC Section 49.0600)	$ 7,200

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse-ments	Title at Year End
Board Members				
Norm Scholes	05/16 - 05/20	$ 1,800	$ 502	President
Matthew Behrmann	05/18 - 05/22	1,050	65	Vice President
George Bravenec	05/18 - 05/22	1,800	458	Secretary
Gareth Young	05/18 - 05/22	1,050	250	Assistant Vice President
Glen Crocker	09/16 - 05/20	1,650	165	Assistant Secretary
Consultants		Amounts Paid		
Allen Boone Humphries Robinson LLP	2013			Attorney
General legal fees		$ 112,105		
Bond counsel		183,555		
Environmental Development Partners, LLC	2014	147,229		Operator
McLennan & Associates, LP	2013	30,271		Bookkeeper
Assessments of the Southwest, Inc.	2013	3,600		Tax Collector
Harris County Appraisal District	Legislation	5,597		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2014	248		Delinquent Tax Attorney
Jones & Carter, Inc.	2013	118,496		Engineer
McGrath & Co., PLLC	2017	19,000		Auditor
Masterson Advisors, LLC	2013	133,745		Financial Advisor

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

APPENDIX B

Specimen Municipal Bond Insurance Policy

MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _________

Risk Premium: $__________
Member Surplus Contribution: $ _________
Total Insurance Payment: $_________

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
200 Liberty Street, 27th floor
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)