

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 THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE “TAX MATTERS” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 41419Q

**RATINGS: Underlying “Baa3” Moody’s
Insured “A2” Moody’s / “AA” (stable outlook) S&P**
See “BOND INSURANCE” and “MUNICIPAL BOND RATING” herein

\$1,955,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 459

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

**UNLIMITED TAX REFUNDING BONDS
SERIES 2021**

Dated: April 1, 2021

Due: April 1 (as shown below)

Interest on the \$1,955,000 Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds” or the “Series 2021 Refunding Bonds”) will accrue from April 1, 2021, and will be payable on October 1 and April 1 of each year, commencing October 1, 2021. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.”

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. (“AGM”).



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

| <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Yield to Maturity(a)</u> | <u>Principal Amount</u> | <u>Maturity</u> | <u>Interest Rate</u> | <u>Yield to Maturity(a)</u> |
|-------------------------|-----------------|----------------------|-----------------------------|-------------------------|-----------------|----------------------|-----------------------------|
| \$85,000 | 2022 | 3.00% | 0.38% | \$85,000 | 2026 | 3.00% | 1.03% |
| \$85,000 | 2023 | 3.00% | 0.48% | \$85,000 | 2027(b) | 2.00% | 1.16% |
| \$85,000 | 2024 | 3.00% | 0.65% | \$110,000 | 2028(b) | 2.00% | 1.30% |
| \$85,000 | 2025 | 3.00% | 0.87% | \$110,000 | 2029(b) | 2.00% | 1.44% |

\$325,000 2.00% Term Bond Due April 1, 2032 to Yield 2.00% (a) (b) (c)
\$360,000 2.00% Term Bond Due April 1, 2035 to Yield 2.18% (a) (b) (c)
\$540,000 2.25% Term Bond Due April 1, 2039 to Yield 2.37% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2027, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on April 1, 2026, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS – Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 459 (the “District”) to currently refund certain of the District’s Unlimited Tax Bonds, Series 2016 and to pay bond issuance expenses. See “PLAN OF FINANCING.” The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Baytown, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Baytown, is pledged to the payment of the principal of or interest on the Bonds. **The Bonds are subject to certain investment considerations described under the caption “RISK FACTORS.”**

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Certain legal matters will be passed upon for the Underwriter by Norton Rose Fulbright US LLP, Houston, Texas, Underwriter’s Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about April 15, 2021.

SAMCO CAPITAL

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

Any information and expressions of opinion herein contained are subject to change 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.

All of the summaries of the statutes, resolutions, contracts, audited financial statements, engineering, and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM, supplied by AGM and presented under the heading "BOND INSURANCE" and "APPENDIX C – Specimen Municipal Bond Insurance Policy."

The following statement is provided by the Underwriter. In accordance with its responsibilities under the federal securities laws, the Underwriter has reviewed the information in this Official Statement but does not guarantee its accuracy or completeness.

UNDERWRITING

Award of the Bonds

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the "Underwriter") pursuant to a proposal submitted to the District at a price of \$1,961,437.05 which represents the principal amount of the Bonds of \$1,955,000.00 plus a net original issue premium of \$20,122.05 less an Underwriter's discount of \$13,685.00 plus accrued interest on the Bonds from the Dated Date to the date of delivery. Such price produces a net effective interest rate of 2.073797%.

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

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

The Underwriter and its respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriter and its respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriter and its respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the District. The Underwriter and its respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriter and its respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the District.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Underwriter on or before the date of delivery of the Bonds stating the prices at which a substantial number of the Bonds of each

maturity have been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds after their initial sale by the District. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission ("SEC") under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions in such other jurisdiction.

CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12

In the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The information to be updated with respect to the District includes the quantitative financial information and operating data of the District of the general type included in "DISTRICT DEBT" (except for "Estimated Overlapping Debt"), "DISTRICT TAX DATA," and "APPENDIX A" (Auditor's Report and Financial Statements of the District) of this Official Statement. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to EMMA.

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

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

Event Notices

The District will provide timely notices of certain events to the MRSB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect beneficial owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under the Rule. The term "material" when used in this paragraph shall have the meaning ascribed

to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provisions for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MUNICIPAL BOND RATING

In connection with the sale of the Bonds, the District made application to Moody's Investors Service, Inc. ("Moody's") which assigned the underlying rating of "Baa3" on the Bonds based upon the District's underlying credit without bond insurance. The underlying rating of the District to be released by Moody's will be maintained by Moody's. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's, and the District makes no representation as to the appropriateness of such rating. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if, in the judgment of Moody's, circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

Moody's has assigned its municipal bond rating of "A2" 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 AGM. The District can make no assurance that the Moody's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by Moody's if in the judgment of Moody's circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

S&P Global Ratings ("S&P") has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. The District can make no assurance that S&P's rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See "BOND INSURANCE."

BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix 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.

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM’s financial strength is rated “AA” (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC (“S&P”), “AA+” (stable outlook) by Kroll Bond Rating Agency, Inc. (“KBRA”) and “A2” (stable outlook) by Moody’s Investors Service, Inc. (“Moody’s”). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM’s long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM 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 relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Credit Financial Strength Ratings

On October 29, 2020, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 16, 2020, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On August 13, 2019, Moody’s announced it had affirmed AGM’s insurance financial strength rating of “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2020.

Capitalization of AGM

At December 31, 2020:

- The policyholders’ surplus of AGM was approximately \$2,864 million.
- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$940 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,112 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiaries Assured Guaranty (Europe) plc (“AGE UK”) and Assured Guaranty (Europe) SA (“AGE SA”), and (iii) 60.7% of the net unearned premium reserve of MAC.

The policyholders’ surplus of AGM and the contingency reserves, net unearned premium reserves and deferred ceding commission income of AGM and MAC were determined in accordance with statutory accounting principles. The net unearned premium reserves and net deferred ceding commissions of AGE UK and AGE SA were determined in accordance with accounting principles generally accepted in the United States of America.

Incorporation of Certain Documents for Reference

Portions of the following document filed by AGL with the Securities and Exchange Commission (the “SEC”) that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof: the Annual Report on Form 10-K for the fiscal year ended December 31, 2020 (filed by AGL with the SEC on February 26, 2021).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof “furnished” under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC’s website at <http://www.sec.gov>, at AGL’s website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department

(telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

Any information regarding AGM included herein under the caption "BOND INSURANCE – Assured Guaranty Municipal Corp." or included in a document incorporated by reference herein (collectively, the "AGM Information") shall be modified or superseded to the extent that any subsequently included AGM Information (either directly or through incorporation by reference) modifies or supersedes such previously included AGM Information. Any AGM Information so modified or superseded shall not constitute a part of this Official Statement, except as so modified or superseded.

Miscellaneous Matters

AGM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, AGM 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 AGM supplied by AGM and presented under the heading "BOND INSURANCE."

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

- Description:** \$1,955,000 Unlimited Tax Refunding Bonds, Series 2021, are dated April 1, 2021. The Bonds represent the sixth series of bonds to be issued by Harris County Municipal Utility District No. 459 (the "District"). The Bonds mature on April 1 in the years as shown in the table on the cover page of this Official Statement. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing direct annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Baytown, or any other political subdivision or agency. See "THE BONDS – Source of and Security for Payment."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
- Plan of Financing:** Proceeds from the sale of the Bonds will be used to pay certain costs incurred in connection with the issuance of the Bonds and to refund certain of the District's Unlimited Tax Bonds, Series 2016, in an aggregate principal amount of \$1,850,000 (the "Refunded Bonds") in order to achieve present value savings in the District's debt service expense. See "PLAN OF FINANCING."
- Redemption Provisions:** The Bonds maturing on or after April 1, 2027, are subject to early redemption, in whole or from time to time in part, on April 1, 2026, or on any date thereafter at the option of the District at a price of par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on April 1 in the years 2032, 2035, and 2039 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on April 1 in the years 2030, 2033, and 2036, respectively. See "THE BONDS – Mandatory Redemption."
- Payment Record:** The District has previously issued four (4) series of unlimited tax bonds and one (1) series of unlimited tax refunding bonds, of which \$11,860,000 principal amount was outstanding as of February 1, 2021 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of or interest on the Outstanding Bonds. See "DISTRICT DEBT."
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds particularly the sections captioned "RISK FACTORS."
- 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."
- Municipal Bond Rating:** In connection with the sale of the Bonds, the District made application to Moody's which assigned the underlying rating of "Baa3" on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from Moody's. The rating reflects only the view of Moody's, and the District makes no representation as to the appropriateness of such rating. See "MUNICIPAL BOND RATING."
- Municipal Bond Insurance and Rating:** Moody's has assigned its municipal bond rating of "A2" 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 AGM.
- S&P has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by AGM. See "BOND INSURANCE," "MUNICIPAL BOND RATING," and "APPENDIX C – Specimen Municipal Bond Insurance Policy."
- Legal Opinion:** Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."

Verification Agent: Robert Thomas CPA, LLC, Minneapolis, Minnesota. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.”

THE DISTRICT

Description: The District is a municipal utility district created on January 17, 2006, by an order of the Texas Commission on Environmental Quality (“TCEQ”). The District was created pursuant to the authority of Chapters 49 and 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The District includes two non-contiguous tracts of land, which are located entirely within Harris County, Texas, and entirely within the corporate boundaries of the City of Baytown, Texas (the “City”). The Hunters Creek subdivision lies approximately 28 miles east of the Houston central business district and is approximately one-half mile south of Interstate Highway 10. The Hunters Creek subdivision is located south of Needlepoint Road, east of Sjolander Road and west of State Highway 146. The Goose Creek Reserve subdivision lies approximately 24 miles east of the Houston central business district and is approximately three (3) miles south of Interstate Highway 10. The Goose Creek Reserve subdivision fronts on Emmett Hutto Boulevard and is approximately one (1) mile northeast of Texas Highway 330 and one-half mile south of Baker Road. See “THE DISTRICT” and “THE DISTRICT’S DEVELOPERS – Vicinity Map.”

Development of the District: The District, as it was originally created, included approximately 138 acres, all within the corporate boundaries of the City. Since the creation of the District there have been two annexations totaling approximately 134 acres and no exclusions of property within the District. The District currently includes approximately 272 acres, all within the corporate boundaries of the City.

Land within the Hunters Creek subdivision, which is being developed by Affinity Hunters Creek Development, Ltd. (“Affinity”), is relatively flat with elevations ranging from 30 feet above mean sea level in the northern areas to 25 feet above mean sea level in the southern areas. The Hunters Creek subdivision lies in the Magee-Gully/Cedar Bayou watershed and, according to the District’s engineer, none of the land within the Hunters Creek subdivision would be subject to flooding during a hypothetical 100-year flood.

Land within the Goose Creek Reserve subdivision, which is being developed by D.R. Horton – Texas, Ltd. (“D.R. Horton”), is relatively flat with elevations ranging from 22 feet above mean sea level in the lot areas to 20 feet above mean sea level in the street areas. The Goose Creek Reserve subdivision drains into the Goose Creek detention pond at the southeastern end of the subdivision and then outfalls into Goose Creek. According to D.R. Horton’s engineer, a Letter of Map Revision became effective December 31, 2019, which removed all areas that have been developed or are in the process of being developed for future single-family lots out of the 100-year floodplain. Certain undevelopable areas remain in the 100-year floodplain; such areas will be used for future detention facilities for the Harris County Flood Control District.

As of January 1, 2021, the District, in the aggregate, included approximately 775 completed homes, 25 homes under construction, and approximately 137 vacant developed lots.

As of January 1, 2021, the District included approximately 120 acres that have been fully developed by Affinity for single-family residential purposes in Hunters Creek, Sections 1 – 8. Hunters Creek, Sections 1 – 8 includes approximately 355 completed homes, 23 homes under construction, and 137 vacant developed lots. Approximately 22 acres in the Hunters Creek subdivision are undevelopable.

The District annexed approximately 134 acres in 2015 and 2016 known as Goose Creek Reserve, which is being developed by D.R. Horton. As of January 1, 2021, the District included approximately 109 acres that have been fully developed by D.R. Horton for single-family residential purposes in Goose Creek Reserve, Sections 1A, 1B, 2A, 2B, and 3 – 5, which includes 420 completed homes, 2 homes under construction, and no vacant developed lots. See “THE DISTRICT – Status of Development” and “APPENDIX B – Photographs taken in the District.”

The Developers: Affinity is a Texas limited partnership whose sole general partner is Affinity Development Company, LLC. As noted above, Affinity has developed Hunters Creek, Sections 1 – 8 and has sold, or will sell, 373 of the developed lots to Chesmar Homes, LLC (“Chesmar”). The principal owner and manager of both Affinity and Chesmar is Mr. Don Klein; according to Mr. Klein, there is no financial or operational connection between the two entities, other than Mr. Klein’s ownership. Affinity sold 38 lots to Horizon Homes, which constructed 38 homes in the District between June 2014 and June 2016. Additionally, Affinity has sold 58 lots in Hunters Creek, Section 7 to Anglia Homes since March 2018 and has sold or will sell 46 lots in Hunters Creek, Section 8 to K. Hovnanian Homes pursuant to separate lot sale contracts.

D.R. Horton began development work on the 134 acres in the subdivision known as Goose Creek Reserve during the first quarter of 2016 and began homebuilding in the second quarter of 2016. D.R. Horton is currently marketing homes in Goose Creek Reserve in the \$199,990 – \$276,990 price range.

Affinity and D.R. Horton are collectively referred to herein as the “Developers.” See “THE DISTRICT’S DEVELOPERS.”

Homebuilders: The homebuilders currently building homes in the District include Chesmar Homes, Anglia Homes, K. Hovnanian Homes, and D.R. Horton.

The System: The District residents receive water supply and wastewater treatment directly from the City. The District does not own or operate a water supply or wastewater treatment plant facility. The District has entered into a Utility Functions and Services Allocation Agreement (the “Utility Agreement”) with the City. The Utility Agreement provides for and includes the terms and conditions whereby the land within the District will be served by the City’s water and sewer systems. The City has reserved adequate water supplies and wastewater treatment capacity to serve the District at build out. See “DESCRIPTION OF THE SYSTEM.”

Utility Agreement: The District has entered into the Utility Agreement with the City. The Utility Agreement (i) describes how the system servicing the District will be constructed; (ii) provides that upon completion and acquisition of the system by the District, that the District will convey the System to the City for operation and maintenance; and (iii) provides that all revenues derived from water and sewer utilities serving the District are revenues of and belong to the City. The Utility Agreement also provides for the terms of the dissolution of the District by the City and the assumption of the District’s obligations (including the Bonds and any outstanding bonds) by the City upon dissolution. See “THE DISTRICT – Utility Functions and Services Allocation Agreement with the City of Baytown.”

Hurricane Harvey: The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey’s landfall along the Texas gulf coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the District’s engineer, the System serving the District did not sustain any significant damage from Hurricane Harvey and there was no interruption of water and sewer service provided by the City during or after the storm. According to the developer of the Hunters Creek subdivision, approximately five homes within the Hunters Creek subdivision experienced flooding as a result of the storm. No homes within the Goose Creek Reserve subdivision experienced flooding during as a result of the storm. See “RISK FACTORS – Hurricane Harvey.”

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. 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 or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available, but are generally as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not necessarily indicative of the economic impact of the Pandemic on the District’s financial condition.

SELECTED FINANCIAL INFORMATION
(Unaudited)

| | | |
|--|---------------------|-----|
| 10/1/2020 Estimated Taxable Value | \$176,300,956 | (a) |
| 2020 Certified Taxable Value | \$145,396,661 | (b) |
| Direct Debt: | | |
| Remaining Outstanding Bonds | \$10,010,000 | (c) |
| The Bonds | <u>\$1,955,000</u> | |
| Total Direct Debt | \$11,965,000 | |
| See "DISTRICT DEBT" | | |
| Estimated Overlapping Debt | <u>\$13,765,439</u> | (d) |
| Direct and Estimated Overlapping Debt | \$25,730,439 | |
| Percentage of Direct Debt to: | | |
| 10/1/2020 Estimated Taxable Value | 6.79% | |
| 2020 Certified Taxable Value | 8.23% | |
| See "DISTRICT DEBT" | | |
| Percentage of Direct and Estimated Overlapping Debt to: | | |
| 10/1/2020 Estimated Taxable Value | 14.59% | |
| 2020 Certified Taxable Value | 17.70% | |
| See "DISTRICT DEBT" | | |
| 2020 Tax Rate Per \$100 of Assessed Value: | | |
| Debt Service Tax | \$0.47 | |
| Maintenance Tax | <u>\$0.22</u> | |
| Total 2020 Tax Rate | \$0.69 | |
| Cash and Temporary Investment Balances as of February 11, 2021 | | |
| General Fund | \$863,662 | (e) |
| Debt Service Fund | \$857,151 | (f) |

-
- (a) Reflects data supplied by Harris County Appraisal District ("HCAD" or the "Appraisal District"). The Estimated Taxable Value as of October 1, 2020, was prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 2020 Certified Taxable Value according to data supplied to the District by HCAD. See "DISTRICT TAX DATA."
- (c) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Outstanding Bonds."
- (d) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (e) Unaudited figure per the District's records. See "DESCRIPTION OF THE SYSTEM – General Fund Operating History."
- (f) Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

DEBT SERVICE REQUIREMENTS

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds, plus the debt service on the Series 2021 Refunding Bonds.

| <u>Year</u> | <u>Existing Debt Service Requirements</u> | <u>Less: Debt Service on Refunded Bonds</u> | <u>Plus: Debt Service on the Series 2021 Refunding Bonds</u> | | <u>Total Debt Service Requirements</u> |
|---------------|---|---|--|------------------|--|
| | | | <u>Principal</u> | <u>Interest</u> | |
| 2021 | \$569,190 | \$31,416 | | \$22,350 | \$560,124 |
| 2022 | \$664,287 | \$136,950 | \$85,000 | \$43,425 | \$655,762 |
| 2023 | \$682,205 | \$135,094 | \$85,000 | \$40,875 | \$672,986 |
| 2024 | \$699,255 | \$133,069 | \$85,000 | \$38,325 | \$689,511 |
| 2025 | \$685,705 | \$130,931 | \$85,000 | \$35,775 | \$675,549 |
| 2026 | \$701,130 | \$128,719 | \$85,000 | \$33,225 | \$690,636 |
| 2027 | \$715,199 | \$126,431 | \$85,000 | \$31,100 | \$704,868 |
| 2028 | \$777,692 | \$148,694 | \$110,000 | \$29,150 | \$768,148 |
| 2029 | \$758,617 | \$145,494 | \$110,000 | \$26,950 | \$750,073 |
| 2030 | \$744,142 | \$142,219 | \$110,000 | \$24,750 | \$736,673 |
| 2031 | \$774,167 | \$138,894 | \$110,000 | \$22,550 | \$767,823 |
| 2032 | \$783,142 | \$135,469 | \$105,000 | \$20,400 | \$773,073 |
| 2033 | \$761,811 | \$131,969 | \$105,000 | \$18,300 | \$753,142 |
| 2034 | \$789,893 | \$153,031 | \$130,000 | \$15,950 | \$782,812 |
| 2035 | \$771,962 | \$148,500 | \$125,000 | \$13,400 | \$761,862 |
| 2036 | \$773,368 | \$143,813 | \$125,000 | \$10,744 | \$765,299 |
| 2037 | \$798,727 | \$139,047 | \$125,000 | \$7,931 | \$792,611 |
| 2038 | \$797,959 | \$158,719 | \$145,000 | \$4,894 | \$789,134 |
| 2039 | \$697,218 | <u>\$152,906</u> | <u>\$145,000</u> | <u>\$1,631</u> | \$690,943 |
| 2040 | \$554,562 | | | | \$554,562 |
| 2041 | \$563,875 | | | | \$563,875 |
| 2042 | \$547,515 | | | | \$547,515 |
| 2043 | \$310,687 | | | | \$310,687 |
| 2044 | <u>\$303,562</u> | | | | <u>\$303,562</u> |
| TOTALS | \$16,225,870 | \$2,561,365 | \$1,955,000 | \$441,725 | \$16,061,230 |

Maximum Annual Debt Service Requirements (2037).....\$792,611

Requires a \$0.48 debt service tax rate on the October 1, 2020 Estimated Taxable Value
at 95% collections.....\$803,932

Requires a \$0.58 debt service tax rate on the 2020 Certified Taxable Value
at 95% collections.....\$801,136

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

OFFICIAL STATEMENT

relating to

\$1,955,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 459

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

UNLIMITED TAX REFUNDING BONDS SERIES 2021

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$1,955,000 Harris County Municipal Utility District No. 459 Unlimited Tax Refunding Bonds, Series 2021 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and general laws of the State of Texas, specifically, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, an election held within the District, and pursuant to a resolution (the "Bond Resolution") adopted by the Board of Directors (the "Board") of Harris County Municipal Utility District No. 459 (the "District").

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

RISK FACTORS

General

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

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 or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem

tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

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

Marketability

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

Tax Collections

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be impaired by (a) repetitive, annual, expensive collection procedures, (b) a federal bankruptcy court's stay of tax collection procedures, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding.

Registered Owners' Remedies

If the District defaults in the payment of principal of, interest on, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution 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. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of, and interest on, the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

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

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (a) is generally authorized to file for federal bankruptcy protection by the State law; (b) is insolvent or unable to meet its debts as they mature; (c) desires to effect a plan to adjust such debts; and (d) has either obtained the agreement of, or negotiated in good faith with, its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must obtain the approval of the TCEQ prior to filing bankruptcy. Such law requires that the TCEQ investigate the financial condition of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

Approval of the Bonds

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

Economic Factors

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

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

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

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

Nationally, there was a significant downturn in new housing construction from 2008 – 2012 caused, in part, by increasing foreclosures, reduced builder financing, the unavailability of mortgage funds, and contraction in the national economy resulting in a decline in the market value of homes. That downturn did not have a significant effect on the value of homes in the District. However, the Houston area did experience reduced levels of home construction in 2009, 2010, 2011 and 2012 when compared to similar periods in prior years (i.e., 2004 – 2007).

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

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.

Landowners/Developers Under No Obligation to the District

Neither of the Developers nor any other landowner within the District have any commitments or obligations to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Currently, there is no restriction on any landowner's right (including the Developers') to sell its land. Failure to construct taxable improvements on developed lots (anticipated to be created by the Developers) or commercial tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District as it has in the past. The District is also dependent upon certain principal taxpayers (see "DISTRICT TAX DATA – Principal Taxpayers") for the timely payment of ad

valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such conditions may have on their ability to pay taxes.

Dependence on Future Development and Potential Impact on District Tax Rates

Assuming no further construction of single-family residential, multi-family, and/or commercial projects within the District other than those that have been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the District's Maximum Annual Debt Service Requirement will be \$792,611 (2037). Assuming no increase or decrease from the October 1, 2020 Estimated Taxable Value of \$176,300,956, and no use of other District funds, a District tax rate of \$0.48 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. Assuming no increase or decrease from the 2020 Certified Taxable Value of \$145,396,661, and no use of other District funds, a District tax rate of \$0.58 per \$100 of Assessed Valuation at 95% collection would be necessary to pay the Maximum Annual Debt Service Requirement. See "DISTRICT TAX DATA."

Operating Funds

Landowners within the District receive water and sewer service from the City. The District does not operate the water and sewer system and therefore does not receive payments from customers for water and sewer service. The District set a 2020 maintenance tax rate in the amount of \$0.22 per \$100 assessed valuation. The revenue produced from the maintenance tax must be sufficient to offset the operating expenses of the District. The District's 2020 operations and maintenance tax levy amount is approximately \$319,872, which is deposited into the District's General Fund. Additionally, for the fiscal year ending March 31, 2021, the District is currently budgeting expenditures of approximately \$106,250. Maintenance of a positive General Fund balance will depend upon continued development and increased amounts of maintenance tax revenue. If its General Fund balance is depleted, then the District will be required to levy a maintenance tax at a rate sufficient to fund its operating expenses. Such a tax, when added to the District's debt service tax, may result in a total District tax which could adversely affect continued development of the District, as well as the willingness of taxpayers to pay taxes on their property. The District expects that it will be able to maintain a total tax rate of \$0.69 subsequent to the sale of the Bonds. The Developers have entered into separate agreements with the District memorializing their obligation to make operating advances to the District as may be required from time to time. The District is not currently budgeting, nor anticipating the need for, any operating advances for the foreseeable future.

Overlapping City of Baytown Tax Rate

According to the City's tax office, the City set a total tax rate of \$0.795150 per \$100 of assessed valuation for the 2020 tax year. The District's 2020 tax rate of \$0.69 per \$100 of assessed valuation plus the overlapping tax rate of the City (\$0.795150) totals \$1.485150; such combined tax rate of the City and the District is slightly higher than the tax rate that is common among many other similar utility districts providing water, sanitary sewer, and storm drainage services in the Harris County area. However, it should be noted that the residents of the District also receive additional services from the City that are not provided to residents of utility districts located in the unincorporated areas of the county. An increase in the District's tax rate or the City's tax rate substantially above the current level could have an adverse impact on future development in the District and on the District's ability to collect such tax.

The District has no control over the City of Baytown's tax rate as in effect from time to time, and can make no assurances that any particular rate will be maintained by it or by the City of Baytown.

Future Debt

The District has \$11,705,000 of unlimited tax bonds for water, sewer, and drainage facilities, \$2,500,000 of unlimited tax bonds for parks and recreational facilities, and \$23,740,000 of unlimited tax refunding bonds that will remain authorized, but unissued, after the sale of the Bonds. The District has the right to issue additional new money bonds as may hereafter be approved by both the Board and the voters of the District, and may issue refunding bonds to refund outstanding District bonds without voter approval. Such additional new money bonds or refunding bonds would be issued on a parity basis with the Bonds. Any future new money bonds to be issued by the District must also be approved by the TCEQ.

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. In addition, the District has prepared a detailed park plan, and the parks and recreational facility bonds have been authorized by the qualified voters in the District. However, before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of a City ordinance authorizing park bonds; (b) approval of the park project and bonds by the TCEQ; (c) approval of the bonds by the Attorney General of Texas; and (d) approval of the Bonds by the City. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board is not considering issuing parks and recreational facility bonds at this time.

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

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Changes in Tax Legislation

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

Bond Insurance Risk Factors

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

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

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

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

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

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

Severe Weather

The District is located approximately 30 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

The greater Houston area has experienced four storms exceeding a 0.2% probability of occurrence (i.e., "500-year flood" events) since 2015. If the District were to sustain damage to its facilities as a result of such a storm (or any other severe weather event) requiring substantial repair or replacement, or if substantial damage to taxable property within the District were to occur as a result of a severe weather event, the investment security of the Bonds could be adversely affected.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the District's engineer, the System serving the District did not sustain any significant damage from Hurricane Harvey and there was no interruption of water and sewer service provided by the City during or after the storm.

According to the developer of the Hunters Creek subdivision, approximately five homes within the Hunters Creek subdivision experienced flooding as a result of the storm. No homes within the Goose Creek Reserve subdivision experienced flooding during as a result of the storm.

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Coastal (or Storm Surge) Flooding – Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

Temporary Tax Exemption for Property Damaged by Disaster

The Property Tax Code (hereinafter defined) 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. See "TAXING PROCEDURES."

Tax Payment Installments

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

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 Service Area 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 Service Area. 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.

PLAN OF FINANCING

Purpose

The Bonds are being issued to currently refund \$1,850,000 principal amount of the District's Unlimited Tax Bonds, Series 2016 (the "Refunded Bonds"). Bond proceeds will also be used to pay bond issuance and administrative expenses. The refunding is being implemented in order to produce present value savings in the District's annual debt service expense.

The District's currently Outstanding Bonds (the "Remaining Outstanding Bonds") totaling \$10,010,000 will remain outstanding after the issuance of the Bonds and the refunding of the Refunded Bonds. The Refunded Bonds are scheduled to mature in various amounts on April 1 in the years 2022 through 2039 and will be redeemed at par in advance of their respective maturities on April 15, 2021.

Outstanding Bonds

The table below summarizes the District's previously issued series of bonds.

| <u>Original Principal Amount</u> | <u>Series</u> | <u>Principal Amount Outstanding</u> | <u>Principal Amount Outstanding After the Bonds</u> |
|--|---|---|---|
| \$1,750,000 | Unlimited Tax Bonds, Series 2013 | \$0 | \$0 |
| \$2,000,000 | Unlimited Tax Bonds, Series 2016 | \$1,900,000 | \$50,000 |
| \$3,750,000 | Unlimited Tax Bonds, Series 2017 | \$3,650,000 | \$3,650,000 |
| \$4,750,000 | Unlimited Tax Bonds, Series 2020 | \$4,750,000 | \$4,750,000 |
| \$1,560,000 | Unlimited Tax Refunding Bonds, Series 2020A | \$1,560,000 | \$1,560,000 |
| \$13,810,000 | | \$11,860,000 | \$10,010,000 |

Refunded Bonds

Proceeds of the Bonds will be applied to currently refund \$1,850,000 in principal amount of the Refunded Bonds. The principal amounts and maturity dates of the Refunded Bonds to be refunded are set out in the table below, all with maturity dates of April 1 in the years shown. All of the Refunded Bonds will be called for redemption on the date of delivery of the Bonds.

| <u>Years</u> | <u>Series 2016 Bonds Principal Amount</u> | |
|--------------|---|-----|
| 2021 | - | |
| 2022 | \$75,000 | |
| 2023 | \$75,000 | |
| 2024 | \$75,000 | |
| 2025 | \$75,000 | |
| 2026 | \$75,000 | |
| 2027 | \$75,000 | |
| 2028 | \$100,000 | |
| 2029 | \$100,000 | |
| 2030 | \$100,000 | |
| 2031 | \$100,000 | |
| 2032 | \$100,000 | |
| 2033 | \$100,000 | |
| 2034 | \$125,000 | (a) |
| 2035 | \$125,000 | |
| 2036 | \$125,000 | (b) |
| 2037 | \$125,000 | |
| 2038 | \$150,000 | |
| 2039 | \$150,000 | (c) |
| | \$1,850,000 | |

- (a) Represents the \$325,000 Term Bond with mandatory sinking fund provisions beginning in 2032 through and including the 2034 maturity.
- (b) Represents the \$250,000 Term Bond with mandatory sinking fund provisions beginning in 2035 through and including the 2036 maturity.
- (c) Represents the \$425,000 Term Bond with mandatory sinking fund provisions beginning in 2037 through and including the 2039 maturity.

Defeasance of the Refunded Bonds

By the deposit of cash with the Paying Agent for the Refunded Bonds, Zions Bancorporation, National Association (successor to Amegy Bank, a division of ZB, National Association), the District will have affected the defeasance of the Refunded Bonds pursuant to the terms of the resolution authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such a deposit, and in reliance upon the verification report of Robert Thomas CPA, LLC, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding.

Sources and Uses of Funds

The proceeds from the sale of the Bonds will be applied as follows:

| Sources of Funds: | |
|---------------------------------|-----------------------|
| Principal Amount of the Bonds | \$1,955,000.00 |
| Plus Net Original Issue Premium | \$20,122.05 |
| Plus Accrued Interest | \$1,738.33 |
| Total Sources of Funds | \$1,976,860.38 |

| Uses of Funds: | |
|----------------------------|-----------------------|
| Deposit to Refund Bonds | \$1,852,443.44 |
| Issuance Expenses (a) | \$108,993.61 |
| Underwriter's Discount | \$13,685.00 |
| Accrued Interest | \$1,738.33 |
| Total Uses of Funds | \$1,976,860.38 |

(a) Includes municipal bond insurance premium.

THE DISTRICT

Authority

The District is a municipal utility district created on January 17, 2006, by an order of the Texas Commission on Environmental Quality ("TCEQ"). The District was created pursuant to the authority of Chapters 49 and 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water.

Description and Location

The District, as it was originally created, included approximately 138 acres, all within the corporate boundaries of the City. Since the creation of the District there have been two annexations totaling approximately 134 acres and no exclusions of property within the District. The District currently includes approximately 272 acres, all within the corporate boundaries of the City. The Hunters Creek subdivision lies approximately 28 miles east of the Houston central business district and is approximately one-half mile south of Interstate Highway 10. The Hunters Creek subdivision is located south of Needlepoint Road, east of Sjolander Road and west of State Highway 146. The Goose Creek Reserve subdivision lies approximately 24 miles east of the Houston central business district and is approximately three (3) miles south of Interstate Highway 10. The Goose Creek Reserve subdivision fronts on Emmett Hutto Boulevard and is approximately one (1) mile northeast of Texas Highway 330 and one-half mile south of Baker Road.

Land within the Hunters Creek subdivision, which is being developed by Affinity Hunters Creek Development, Ltd. ("Affinity"), is relatively flat with elevations ranging from 30 feet above mean sea level in the northern areas to 25 feet above mean sea level in the southern areas. The Hunters Creek subdivision lies in the Magee-Gully/Cedar Bayou watershed and, according to the District's engineer, none of the land within the Hunters Creek subdivision would be subject to flooding during a hypothetical 100-year flood.

Land within the Goose Creek Reserve subdivision, which is being developed by D.R. Horton – Texas, Ltd. ("D.R. Horton"), is relatively flat with elevations ranging from 22 feet above mean sea level in the lot areas to 20 feet above mean sea level in the street areas. The Goose Creek Reserve subdivision drains into the Goose Creek detention pond at the southeastern end of the subdivision and then outfalls into Goose Creek. According to D.R. Horton's engineer, a Letter of Map Revision became effective December 31, 2019, which removed all areas that have been developed or are in the process of being developed for future single-family lots out of the 100-year floodplain. Certain undevelopable areas remain in the 100-year floodplain; such areas will be used for future detention facilities for the Harris County Flood Control District.

Utility Functions and Services Allocation Agreement with the City of Baytown

The District operates pursuant to a certain Utility Functions and Services Allocation Agreement with the City of Baytown (the "City") dated as of March 30, 2005 (the "Utility Agreement"), which has been amended from time to time to accommodate annexations of land by the District. Pursuant to the Utility Agreement, the City must (i) provide water supply services to the District, and (ii) upon completion and acceptance by the City of its Northeast District Wastewater Treatment Plant, accept wastewater from and provide wastewater services to the District. Such City wastewater treatment plant has been completed and the City provides wastewater treatment services to the District. The City is required to provide up to 1,015 equivalent single-family connections ("ESFCs") to serve the District. In exchange, the District must design and construct certain water supply and distribution, sanitary sewer collection, transportation and treatment, storm water collection, detention, and drainage systems to serve lands within and adjacent to the District's boundaries (the "Facilities"). In addition, the District must pay to the City impact fees, in the amount as adopted by the City Council, for water supply and wastewater services.

-The Facilities-

The Utility Agreement provides that the Facilities must be designed and constructed in compliance with all applicable requirements and criteria of the City, including the City's Consent Resolution, and of any other authorities having regulatory jurisdiction or authority over the financing, construction or operation of the Facilities. The design and construction of the Facilities is subject to the review and approval of the City. The Utility Agreement provides that the Facilities must be constructed by or on behalf of the District at the District's sole expense. Certain of the Facilities are to be oversized to serve areas not within the District (the "Regional Improvements"). The District must provide the necessary engineering and construction for the Regional Improvements. As with all of the Facilities, the plans and specifications for the Regional Improvements are subject to review and approval of the City.

-Authority of District to Issue Bonds-

The District has the authority to issue, sell, and deliver bonds from time to time, as deemed necessary and appropriate by the District's Board of Directors, as permitted by federal law, state law, the City's Consent Resolution, and the City's Procedures for the Creation of In-City Municipal Utility Districts. Unless and until the City dissolves the District and assumes the District's assets and obligations, bonds issued by the District remain obligations solely of the District and may not be construed to be obligations or indebtedness of the City.

-Ownership, Operation, and Maintenance of the Facilities-

The Utility Agreement provides that, as the Facilities are acquired and constructed, the District must convey the Facilities (except for storm water detention facilities and temporary wastewater treatment systems) to the City, including all warranties. As construction of each phase of the Facilities is completed, representatives of the City must inspect the completed Facilities. If the City finds that the Facilities have been completed in accordance with the final plans and specifications, the City must accept the Facilities, and the District must convey the Facilities to the City. If the Facilities have not been completed in accordance with the final plans and specifications, the City must advise the District of the manner in which the Facilities do not comply. The District must immediately correct any defects, at which time the City must again inspect the Facilities, and accept them if the defects have been corrected. After conveyance of Facilities to the City by the District, the City must operate and maintain the Facilities at its sole expense.

-Rates for Service-

Under the Utility Agreement, the City agrees to bill and collect from customers of the Facilities such rates and charges from such customers of the Facilities as the City, in its sole discretion, determines are necessary, provided that the rates and charges for services afforded by the Facilities will be equal and uniform to those charged other similar classifications of users in non-municipal utility district areas of the City. In addition, the City may impose a charge for connection to the Facilities at a rate determined by the City, provided the charge is equal to sums charged to other City users for comparable connections. As noted above, the District must pay to the City impact fees, in the amount as adopted by the City Council, for water supply and wastewater services.

-Dissolution of the District-

The City has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations in accordance with state law. The Utility Agreement provides, however, that the City may not dissolve the District until the Facilities required to serve the District have been completed. Furthermore, the City may not dissolve the District until (i) the Developer(s) developing Facilities in the District have been reimbursed by the District to the maximum extent permitted by state law, or (ii) the City assumes any obligation for such reimbursement of the District. To discharge any remaining District obligations, the City may (i) if requested by the District in writing, authorize the District to sell its bonds before or during a transition period prior to the effective date of the dissolution, as established by the City, (ii) pursuant to state law, issue and sell bonds of the City in at least the amount necessary to discharge the District's obligations, including those under any utility development and reimbursement agreements with Developers in the District, or (iii) provide written notice to the District that the City has sufficient funds available from other sources to discharge the District's obligations, including those under the utility development and reimbursement agreements with Developers in the District.

Status of Development

The status of development in the District as of January 1, 2021, is summarized in the table below:

| <u>Subdivision/Section</u> | <u>Approx. Acres</u> | <u>Total Lots</u> | <u>Homes</u> | | <u>Vacant Lots</u> |
|--|--------------------------|-----------------------|-----------------|-------------------------------|------------------------|
| | | | <u>Complete</u> | <u>Under Construction</u> | |
| Hunters Creek, Section 1 (a) | 26 | 126 | 118 | 0 | 8 |
| Hunters Creek, Section 2 (b) | 12 | 62 | 61 | 0 | 1 |
| Hunters Creek, Section 3 (c) | 17 | 92 | 92 | 0 | 0 |
| Hunters Creek, Section 4 (d) | 17 | 65 | 46 | 6 | 13 |
| Hunters Creek, Section 5 (e) | 7 | 11 | 11 | 0 | 0 |
| Hunters Creek, Section 6 (f) | 6 | 7 | 7 | 0 | 0 |
| Hunters Creek, Section 7 (g) | 15 | 58 | 20 | 8 | 30 |
| Hunters Creek, Section 8 (h) | 20 | 94 | 0 | 9 | 85 |
| Goose Creek Reserve, Section 1A & 1B (i) | 36 | 98 | 98 | 0 | 0 |
| Goose Creek Reserve, Section 2A (i) | 6 | 33 | 33 | 0 | 0 |
| Goose Creek Reserve, Section 2B (i) | 24 | 82 | 82 | 0 | 0 |
| Goose Creek Reserve, Section 3 (i) | 16 | 81 | 81 | 0 | 0 |
| Goose Creek Reserve, Section 4 (i) | 17 | 76 | 76 | 0 | 0 |
| Goose Creek Reserve, Section 5 (i) | 10 | 52 | 50 | 2 | 0 |
| Non-Developable Acreage (j) | 43 | - | - | - | - |
| TOTAL | 272 | 937 | 775 | 25 | 137 |

- (a) According to Chesmar, homes in this section were marketed in the \$180,000 price range.
- (b) Homes in this section were constructed by Horizon Homes and Chesmar and were marketed in the \$210,000 price range.
- (c) Homes in this section were constructed by Horizon Homes and Chesmar and were marketed in the \$230,000 price range.
- (d) According to Chesmar, homes in this section are being constructed on 55-foot and 80-foot lots and are being marketed with an average sales price of \$260,000.
- (e) According to Chesmar, homes in this section were marketed in the \$260,000 price range.
- (f) According to Chesmar, homes in this section were marketed in the \$280,000 price range.
- (g) Homes in this section are being constructed by Anglia Homes on 50-foot lots and are being marketed in the \$230,000 price range.
- (h) Homes in this section are being constructed by Chesmar and K. Hovnanian Homes on 50-foot, 55-foot, and 80-foot lots and are being marketed with an average sales price of \$270,000.
- (i) Lots and homes in these sections have been developed and constructed by D.R. Horton. D.R. Horton is currently marketing homes in the \$199,990 – \$276,990 price range.
- (j) Represents non-developable acreage located within the Hunters Creek subdivision and the Goose Creek Reserve subdivision; acreage amounts noted above represent detention facilities, drainage easements, and reserves.

THE DISTRICT'S DEVELOPERS

Role of a Developer

In general, the activities of developers in a municipal utility district such as the District include purchasing the land within a district, designing the streets in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities, and selling improved lots and commercial reserves to builders, other developers, or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing the water, wastewater, and drainage facilities (the "Facilities") in the utility district. In addition, a developer is ordinarily a major taxpayer within a utility district during the development phase of property, and a developer's inability to pay the taxes assessed on its property within a district would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by a district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally

under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a district.

Descriptions of the Developers

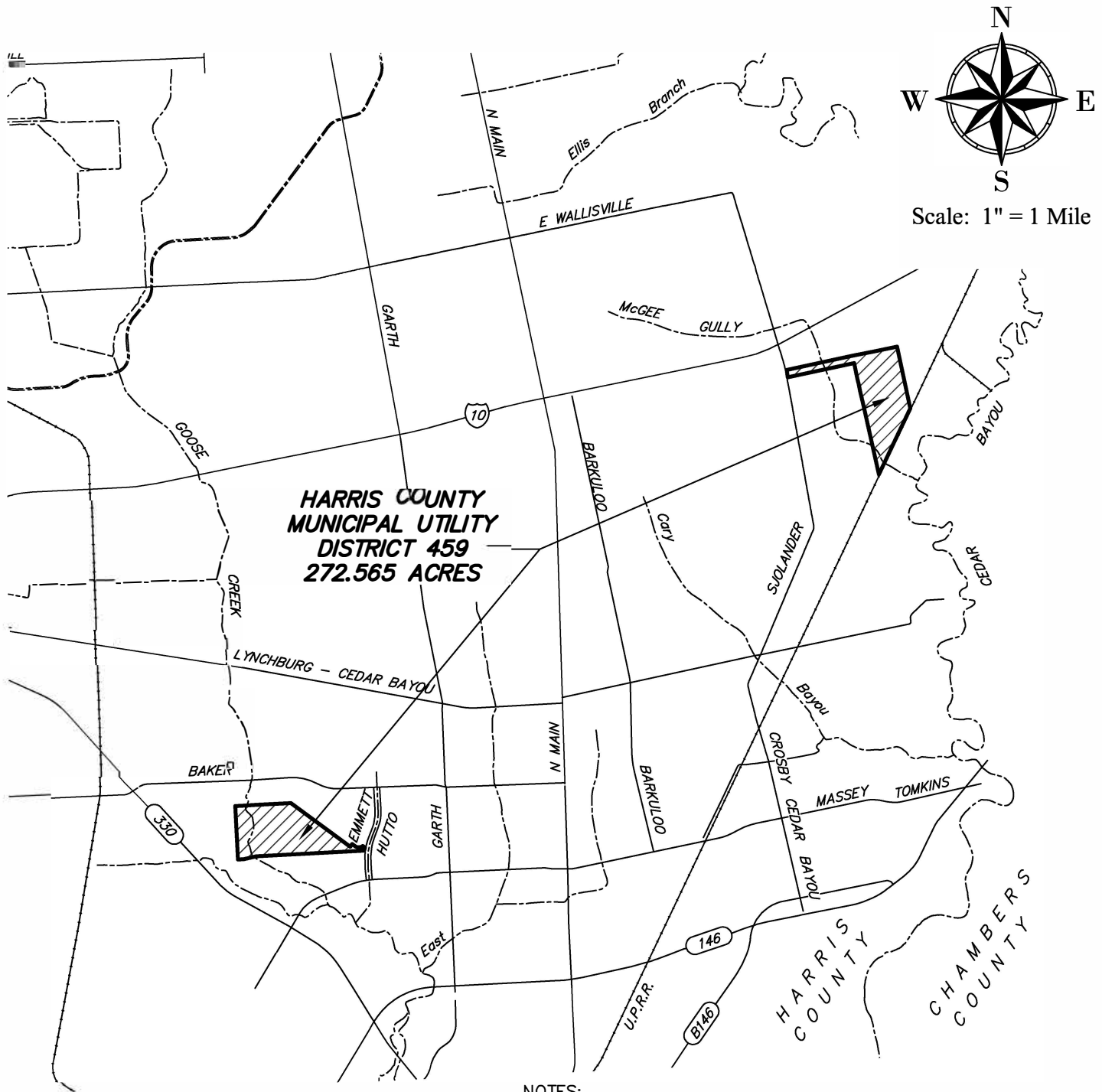
Affinity is a Texas limited partnership whose sole general partner is Affinity Development Company, LLC. Affinity has developed Hunters Creek, Sections 1 – 8 and has sold, or will sell, 373 of the developed lots in such sections to Chesmar Homes, LLC (“Chesmar”). As previously noted, the principal owner and manager of both Affinity and Chesmar is Mr. Don Klein; according to Mr. Klein, there is no financial or operational connection between the two entities other than Mr. Klein’s ownership. Affinity sold 38 lots to Horizon Homes, which constructed 38 homes in the District between June 2014 and June 2016. Additionally, Affinity has sold 58 lots in Hunters Creek, Section 7 to Anglia Homes since March 2018 and has sold or will sell 46 lots in Hunters Creek, Section 8 to K. Hovnanian Homes pursuant to separate lot sale contracts.

D.R. Horton began land development work in the approximately 134-acre Goose Creek Reserve subdivision during the first quarter of 2016 and homebuilding in the second quarter of 2016. D.R. Horton is the sole homebuilder in the Goose Creek Reserve subdivision. According to D.R. Horton, homes in Goose Creek Reserve are being marketed in the \$199,990 – \$276,990 price range.

Note Regarding Vicinity Maps and Aerial Photographs of the District Shown on the Following Pages

The vicinity map on the following page shows the general location of the two tracts that constitute the District, which include the Hunters Creek subdivision to the northeast and the Goose Creek Reserve subdivision to the southwest.

The aerial photographs on the pages following the vicinity map show only the Hunters Creek subdivision and the Goose Creek Reserve subdivision, respectively.



**HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT 459
272.565 ACRES**

**HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT
459
VICINITY MAP EXHIBIT**

272.565 ACRES OF LAND LOCATED IN THE HARVEY WHITING SURVEY, ABSTRACT 840, THE WILLIAM BLOODGOOD SURVEY, ABSTRACT 4, AND THE SJOLANDER SURVEY, ABSTRACT 1644, ALL IN HARRIS COUNTY, TEXAS

NOTES:

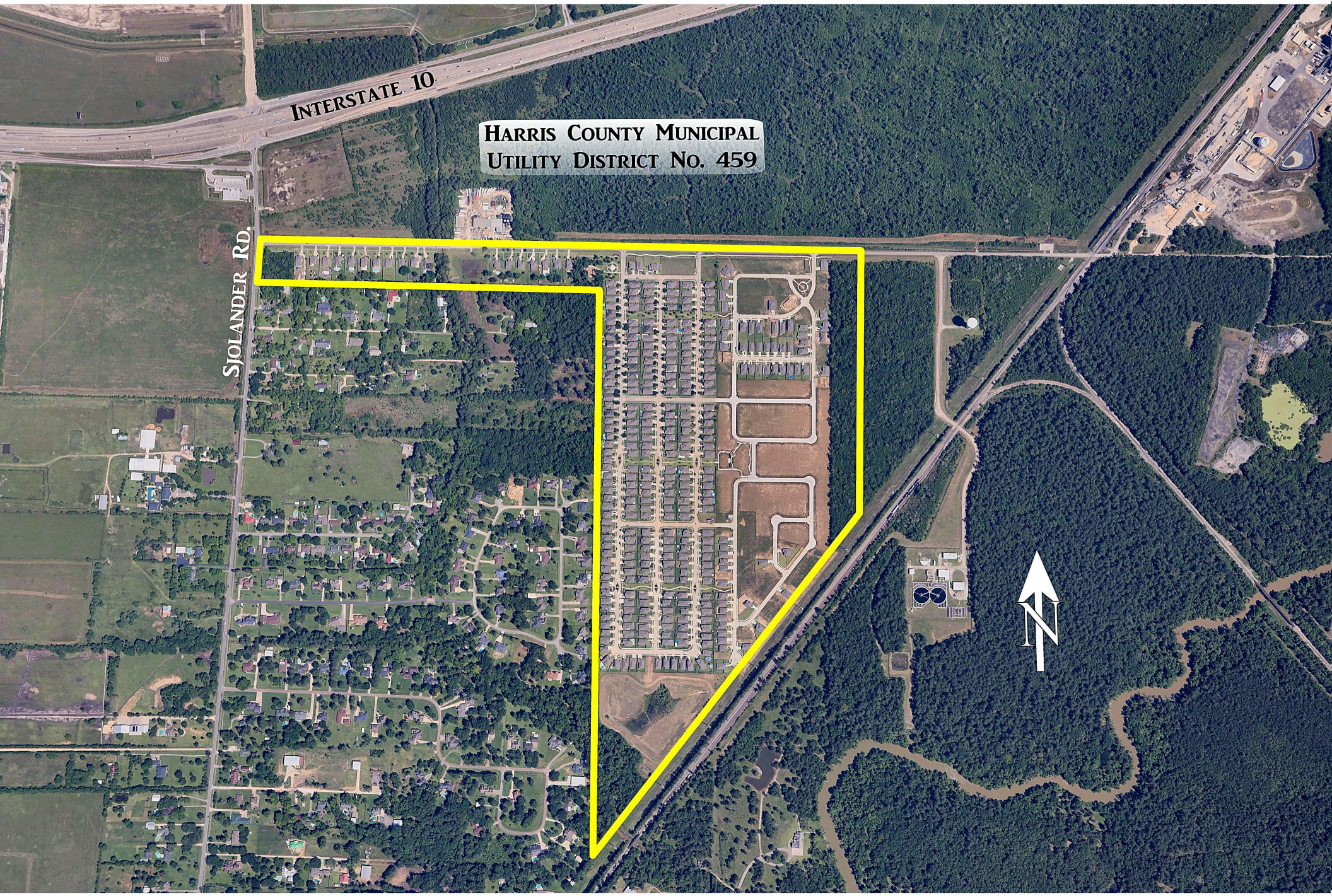
1. This document was prepared under 22 TAC §663.21, does not reflect the results of an on the ground survey, and is not to be used to convey or establish interests in real property except those rights and interests implied or established by the creation or reconfiguration of the boundary of the political subdivision for which it was prepared.
2. This exhibit was prepared to graphically depict the general location of the District. Some existing roadways have been omitted due to the scale and to improve the clarity of this exhibit.



GBI PARTNERS, L.P.

LAND SURVEYING CONSULTANTS
13340 S. GESSNER RD. • MISSOURI CITY, TX 77489
PHONE: 281-499-4539 • www.gbisurvey.com
TBPLS FIRM #10130300

| | | |
|--------------------|-----------------|------------------|
| SCALE: 1" = 1 MILE | JOB NO. 159408 | DATE: 05/10/2016 |
| CREW CHIEF: N/A | FIELD BOOK: N/A | DWG.: 459 V-MAP |



INTERSTATE 10

SJOLANDER RD.

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT No. 459



Aerial Photograph of the Goose Creek Reserve Subdivision



WEST BAKER RD.

HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 459

SPUR 330



DESCRIPTION OF THE SYSTEM

Description of the System and Regulation

The District has financed the acquisition and construction of a portion of the water, wastewater, and drainage facilities to serve property in the District (the "System") with the proceeds of the sale of previously-issued bonds. Such facilities have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, as applicable among others, the TCEQ, Harris County, and the City of Baytown (the "City"). According to the District's engineer, all such facilities constructed to date have been approved by all required governmental agencies. During construction, such facilities are subject to inspection by the foregoing governmental agencies having jurisdiction. Upon completion, the water and wastewater facilities will be transferred to the City.

The water and wastewater facilities constructed in the District are owned and operated by the City, and the customers of such facilities in the District pay rates and charges directly to the City. See "THE DISTRICT – Utility Functions and Services Allocation Agreement with the City of Baytown". Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ, and the Texas Department of Health. According to the District's engineer, the Flood Insurance Rate Map currently in effect published by the Federal Emergency Management Agency which covers land located in the District indicates that none of the land located in the Hunters Creek subdivision is located within the 100-year floodplain. According to D.R. Horton's engineer, a Letter of Map Revision became effective December 31, 2019, which removed all areas that have been developed or are in the process of being developed for future single-family lots out of the 100-year floodplain. Certain undevelopable areas remain in the 100-year floodplain; such areas will be used for future detention facilities for the Harris County Flood Control District.

Water Supply, Wastewater Treatment and Drainage System

Residents in the District receive their water and sewer service from the City and pay their water and sewer bills directly to the City. Pursuant to the Utility Functions and Services Allocation Agreement with the City (the "Utility Agreement"), the District has conveyed or will convey its water, sewer, and drainage facilities to the City and the City will operate and maintain the water and sewer utilities so conveyed.

-Water Supply-

The Hunters Creek subdivision receives water from the City by way of a 12-inch waterline and the Goose Creek Reserve subdivision receives water through another 12-inch water line from the City's water plants. The District has reserved 1,015 ESFCs of water capacity, which is adequate to serve the build-out of the District given currently anticipated development plans.

-Wastewater Treatment -

The District has access to wastewater treatment plant capacity that is adequate to serve 1,015 ESFCs which is adequate to serve the full build out of the District. Such capacity is located at two of the City's wastewater treatment plants.

-Drainage System-

The underground storm water facilities to serve Hunters Creek, Sections 1 – 8 and Goose Creek Reserve, Sections 1A, 1B, 2A, 2B, and 3 – 5 are complete.

Drainage within the Hunters Creek subdivision is provided by curb and gutter streets and closed storm sewer systems. The storm sewer lines outfall into the District's detention facility through a 66" round concrete pipe, which outfalls into Magee Gully, which flows into Cedar Bayou. For rainfall events in excess of the 100-year event, the extreme event overflow swale allows the excess flows to leave the detention system before adverse flooding impacts to the development within the Hunters Creek subdivision. The detention system will also provide the required Water Quality Measurements to treat the runoff of the more frequent events before such runoff is discharged to Magee Gully. During Hurricane Harvey, approximately five homes located in the Hunters Creek subdivision experienced flooding. See "RISK FACTORS – Hurricane Harvey."

Drainage within the Goose Creek Reserve subdivision is provided by curb and gutter streets and closed storm sewer systems. Such storm sewer lines outfall into the District's detention facility and then into Goose Creek through three 24" round concrete pipes at elevation four feet, which flows into Tabbs Bay further downstream. For rainfall events in excess of the 100-year event, the extreme event overflow swale allows the excess flows to leave the detention system before adverse flooding impacts to the development within the Goose Creek Reserve subdivision. The detention system will also provide the required Water Quality Measurements to treat the runoff of the more frequent events before such runoff is discharged to Goose Creek. No homes in the Goose Creek Reserve subdivision flooded during Hurricane Harvey.

General Fund Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. The information included in the table below relating to the District's operations is provided for information purposes only.

| | Fiscal Year Ended March 31 (a) | | | | |
|---|---------------------------------------|------------------|------------------|------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| GENERAL FUND | | | | | |
| REVENUES | | | | | |
| Property taxes | \$283,635 | \$293,957 | \$227,585 | \$154,786 | \$90,342 |
| Investment earnings | \$10,909 | \$6,244 | \$1,711 | \$207 | \$87 |
| TOTAL REVENUES | \$294,544 | \$300,201 | \$229,296 | \$154,993 | \$90,429 |
| EXPENDITURES | | | | | |
| <i>Operating and administrative</i> | | | | | |
| Professional fees | \$79,565 | \$62,402 | \$66,124 | \$58,126 | \$114,144 |
| Contracted services | \$12,244 | \$12,469 | \$12,038 | \$12,000 | \$14,443 |
| Administrative | \$15,688 | \$17,374 | \$16,840 | \$14,346 | \$13,712 |
| Other | \$6,027 | \$1,553 | \$1,734 | \$1,214 | \$1,131 |
| TOTAL EXPENDITURES | \$113,524 | \$93,798 | \$96,736 | \$85,686 | \$143,430 |
| REVENUES OVER (UNDER) EXPENDITURES (b) | \$181,020 | \$206,403 | \$132,560 | \$69,307 | (\$53,001) |

(a) Data is taken from District's audited financial statements. See "APPENDIX A."

(b) As of February 11, 2021, the District's General Fund had an unaudited cash and investment balance of approximately \$863,662. For the fiscal year ending March 31, 2021, the District's General Fund is currently budgeting revenues of approximately \$273,500 and expenditures of approximately \$106,250. As noted elsewhere in this Official Statement, the Developers have entered into separate agreements with the District memorializing their obligation to make operating advances to the District as may be required from time to time. The District is not currently budgeting, nor anticipating the need for, any operating advances for the foreseeable future. See "RISK FACTORS – Operating Funds."

MANAGEMENT OF THE DISTRICT

The District is governed by a board of directors (the "Board"), which has control over and management supervision of all affairs of the District. Each of the directors resides within the District. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> <u>May</u> |
|---------------|---------------------|-----------------------------------|
| Thomas Parent | President | 2022 |
| Danny Ochoa | Vice President | 2022 |
| Brian Miller | Secretary | 2024 |
| Daniel Lopez | Assistant Secretary | 2022 |
| Teresa Rising | Assistant Secretary | 2024 |

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

Tax Assessor/Collector – The District's Tax Assessor/Collector is Utility Tax Service, LLC, who is employed under an annual contract to perform the District's tax collection functions.

Bookkeeper – The District has contracted with Myrtle Cruz, Inc. for bookkeeping services.

Auditor – The District's annual financial statements as of and for the year ended March 31, 2020, have been audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2020, audited financial statements.

Engineer – The consulting engineer for the District is GC Engineering, Inc. (the "Engineer").

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

Legal Counsel – Allen Boone Humphries Robinson LLP serves as Bond Counsel to the District and as general counsel for the District on matters other than the issuance of bonds. Payment for General Counsel services is based upon hourly fee charges. Payment of fees for Bond Counsel services are contingent upon sale and delivery of the Bonds.

DISTRICT INVESTMENT POLICY

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

DISTRICT DEBT

| | | |
|--|---------------------|-----|
| 10/1/2020 Estimated Taxable Value | \$176,300,956 | (a) |
| 2020 Certified Taxable Value | \$145,396,661 | (b) |
| Direct Debt: | | |
| Remaining Outstanding Bonds | \$10,010,000 | (c) |
| The Bonds | <u>\$1,955,000</u> | |
| Total Direct Debt | \$11,965,000 | |
| Estimated Overlapping Debt | <u>\$13,765,439</u> | (d) |
| Direct and Estimated Overlapping Debt | \$25,730,439 | |
| Percentage of Direct Debt to: | | |
| 10/1/2020 Estimated Taxable Value | 6.79% | |
| 2020 Certified Taxable Value | 8.23% | |
| Percentage of Direct and Estimated Overlapping Debt to: | | |
| 10/1/2020 Estimated Taxable Value | 14.59% | |
| 2020 Certified Taxable Value | 17.70% | |
| 2020 Tax Rate Per \$100 of Assessed Value: | | |
| Debt Service Tax | \$0.47 | |
| Maintenance Tax | <u>\$0.22</u> | |
| Total 2020 Tax Rate | \$0.69 | |
| Cash and Temporary Investment Balances as of February 11, 2021 | | |
| General Fund | \$863,662 | (e) |
| Debt Service Fund | \$857,151 | (f) |

-
- (a) Reflects data supplied by HCAD. The Estimated Taxable Value as of October 1, 2020, was prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the 2020 Certified Taxable Value according to data supplied to the District by HCAD. See "DISTRICT TAX DATA."
- (c) Excludes the Refunded Bonds. See "PLAN OF FINANCING – Outstanding Bonds."
- (d) See "Estimated Overlapping Debt" herein.
- (e) Unaudited figure per the District's records. See "DESCRIPTION OF THE SYSTEM – General Fund Operating History."
- (f) Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

Estimated Overlapping Debt

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in the "Texas Municipal Reports," published by the Municipal Advisory Council of Texas and from information obtained directly from certain jurisdictions. Except for the amounts relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds, the amount of which has not been reported. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

| <u>Taxing Jurisdiction</u> | <u>Outstanding Debt</u> | <u>Overlapping Debt</u> | |
|--|--------------------------------|--------------------------------|----------------------------|
| | | <u>Percent</u> | <u>Amount</u> |
| Goose Creek Consolidated Independent School District | \$665,383,572 | 0.91% | \$6,041,597 |
| Lee Junior College District | \$39,460,000 | 0.90% | \$354,208 |
| Harris County | \$1,293,922,125 | 0.03% | \$372,019 |
| Harris County Department of Education | \$20,185,000 | 0.03% | \$5,735 |
| Harris County Flood Control District | \$334,270,000 | 0.03% | \$98,014 |
| Harris County Hospital District | \$86,050,000 | 0.03% | \$25,226 |
| Port of Houston Authority | \$492,439,397 | 0.03% | \$144,398 |
| City of Baytown | \$223,100,000 | 3.01% | <u>\$6,724,241</u> |
| Total Estimated Overlapping Debt | | | \$13,765,439 |
| The District (a) | | | <u>\$11,965,000</u> |
| Total Direct and Estimated Overlapping Debt | | | \$25,730,439 |

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

DISTRICT TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax information collection experience of the District for the years 2016 through 2020. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

| <u>Tax Year</u> | <u>Taxable Valuation</u> | <u>Tax Rate (a)</u> | <u>Tax Levy</u> | <u>Cumulative Collections Total (b)</u> | <u>Year Ending September 30</u> |
|------------------------|---------------------------------|----------------------------|------------------------|--|--|
| 2020 | \$145,396,661 | \$0.69 | \$1,003,237 | (c) | 2021 |
| 2019 | \$109,220,155 | \$0.72 | \$786,385 | 99% | 2020 |
| 2018 | \$83,011,836 | \$0.75 | \$622,589 | 99% | 2019 |
| 2017 | \$64,545,353 | \$0.80 | \$516,363 | 100% | 2018 |
| 2016 | \$42,702,670 | \$0.80 | \$341,621 | 100% | 2017 |

(a) See "Tax Rate Distribution" herein.

(b) Represents cumulative collections as of January 31, 2021. According to the District's records, the current tax collections have averaged 97% for the past five years.

(c) The District's 2020 tax levy is in the process of collections; such taxes became delinquent if not paid before February 1, 2021. See "TAXING PROCEDURES." As of March 1, 2021, the District had collected approximately 96% of the 2020 tax levy.

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. The District's voters have authorized a maintenance tax of up to \$1.50 per \$100.00 of assessed valuation at an election held on May 13, 2006. See "Tax Rate Distribution" herein.

Additional Penalties

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

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2016 through 2020.

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|-----------------------|---------------|---------------|---------------|---------------|---------------|
| Debt Service | \$0.47 | \$0.45 | \$0.39 | \$0.44 | \$0.43 |
| Maintenance/Operation | <u>\$0.22</u> | <u>\$0.27</u> | <u>\$0.36</u> | <u>\$0.36</u> | <u>\$0.37</u> |
| Total | \$0.69 | \$0.72 | \$0.75 | \$0.80 | \$0.80 |

Principal Taxpayers

The list of principal taxpayers for 2020 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

| <u>Property Owner</u> | <u>Property Description</u> | <u>Property Value</u> | <u>Percent of Total</u> |
|--|---|-----------------------|-------------------------|
| DR Horton Texas Ltd | Land, Improvements, and Personal Property | \$2,608,483 | 1.79% |
| Anglia Homes LP | Land and Improvements | \$1,423,938 | 0.98% |
| Chesmar Homes LLC (a) | Land and Improvements | \$1,061,385 | 0.73% |
| Affinity Hunters Creek Development Ltd (a) | Land and Improvements | \$857,761 | 0.59% |
| Homeowner | Land and Improvements | \$571,845 | 0.39% |
| Centerpoint Energy Hou Ele | Personal Property | \$565,370 | 0.39% |
| Homeowner | Land and Improvements | \$363,335 | 0.25% |
| Homeowner | Land and Improvements | \$356,376 | 0.25% |
| Homeowner | Land and Improvements | \$350,004 | 0.24% |
| Homeowner | Land and Improvements | \$349,145 | 0.24% |
| TOTALS | | \$8,507,642 | 5.85% |

(a) Represent related parties that have common ownership. See "THE DISTRICT'S DEVELOPERS – Descriptions of the Developers."

Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2016 through 2020 and includes the October 1, 2020 Estimated Taxable Value.

| <u>Tax Roll Year</u> | <u>Type of Property</u> | | | <u>Gross Valuations</u> | <u>Exemptions</u> | <u>Taxable Valuations</u> |
|----------------------|-------------------------|---------------------|--------------------------|-------------------------|-------------------|---------------------------|
| | <u>Land</u> | <u>Improvements</u> | <u>Personal Property</u> | | | |
| 10/1/2020 | | | | | | \$176,300,956 (a) |
| 2020 | \$33,197,386 | \$115,205,000 | \$642,564 | \$149,044,950 | \$3,648,289 | \$145,396,661 |
| 2019 | \$26,563,991 | \$84,907,031 | \$645,285 | \$112,116,307 | \$2,896,152 | \$109,220,155 |
| 2018 | \$21,291,884 | \$63,523,174 | \$377,219 | \$85,192,277 | \$2,180,441 | \$83,011,836 |
| 2017 | \$16,624,537 | \$48,591,563 | \$273,588 | \$65,489,688 | \$944,335 | \$64,545,353 |
| 2016 | \$11,223,168 | \$32,032,990 | \$231,998 | \$43,488,156 | \$785,486 | \$42,702,670 |

(a) Reflects data supplied by HCAD. The Estimated Taxable Value as of October 1, 2020, was prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

Estimated Overlapping Taxes

The following table sets forth all 2020 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

| <u>Taxing Entities</u> | <u>2020 Tax Rates</u> |
|---|-----------------------|
| Goose Creek Independent School District | \$1.341100 |
| Lee Junior College District | \$0.230100 |
| Harris County (a) | \$0.604193 |
| City of Baytown | <u>\$0.795150</u> |
| Overlapping Taxes | \$2.970543 |
| | |
| The District | <u>\$0.690000</u> |
| Total Direct & Overlapping Taxes | \$3.660543 |

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

Tax Adequacy of Tax Revenue

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

| | |
|---|-----------|
| Maximum Annual Debt Service Requirements (2037)..... | \$792,611 |
| Requires a \$0.48 debt service tax rate on the October 1, 2020 Estimated Taxable Value at 95% collections..... | \$803,932 |
| Requires a \$0.58 debt service tax rate on the 2020 Certified Taxable Value at 95% collections..... | \$801,136 |

TAXING PROCEDURES

Authority to Levy Taxes

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

Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the “Property Tax Code”) specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by HCAD. HCAD have the responsibility for appraising property for all taxing units within their respective county. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel

trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

Residential Homestead Exemptions. The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has never adopted an order granting a general residential homestead exemption.

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

Tax Abatement

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

Valuation of Property for Taxation

Generally, property in the District must be appraised by HCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review 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 100% of market value, as such is defined in the Property Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

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

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

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

District and Taxpayer Remedies

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

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

Levy and Collection of Taxes

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

Rollback of Operation and Maintenance Tax Rate

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 Board of Directors designated the District as a Developing District for purposes of setting the 2020 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

DISSOLUTION BY THE CITY OF BAYTOWN

Under existing Texas law, because the District lies wholly within the corporate limits of the City, the District must conform to a City ordinance consenting to the creation of the District. In addition, the District may be dissolved by the City without the District's consent. If the District is dissolved, the City will assume the District's assets and obligations (including the Bonds). Dissolution of the District by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and, therefore, the District makes no representation as to whether or not dissolution will occur.

THE BONDS

General

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

The Bonds are dated and will bear interest from April 1, 2021, at the per annum rates shown on the cover page hereof. The Bonds are fully registered serial bonds maturing on April 1 in the years 2022 through 2039, inclusive, in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable October 1, 2021, and each April 1 and October 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

The Bonds will be issued only in fully registered form in any integral multiple of \$5,000 of principal amount for any one maturity and will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC") pursuant to the Book-Entry-Only System described herein (see "BOOK-ENTRY-ONLY SYSTEM"). No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the beneficial owners of the Bonds.

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

Optional Redemption

The Bonds maturing on or after April 1, 2027, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on April 1, 2026, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

Mandatory Redemption

The Bonds maturing on April 1 in the years 2032, 2035, and 2039 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the tables below.

\$325,000 Term Bond, due April 1, 2032

| <u>Mandatory Redemption Date</u> | <u>Principal Amount</u> |
|----------------------------------|-------------------------|
| April 1, 2030 | \$110,000 |
| April 1, 2031 | \$110,000 |
| April 1, 2032 (maturity) | \$105,000 |

\$360,000 Term Bond, due April 1, 2035

| <u>Mandatory Redemption Date</u> | <u>Principal Amount</u> |
|----------------------------------|-------------------------|
| April 1, 2033 | \$105,000 |
| April 1, 2034 | \$130,000 |
| April 1, 2035 (maturity) | \$125,000 |

\$540,000 Term Bond, due April 1, 2039

| <u>Mandatory Redemption Date</u> | <u>Principal Amount</u> |
|----------------------------------|-------------------------|
| April 1, 2036 | \$125,000 |
| April 1, 2037 | \$125,000 |
| April 1, 2038 | \$145,000 |
| April 1, 2039 (maturity) | \$145,000 |

Notice of Redemption; Partial Redemption

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

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

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

Source of and Security for Payment

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

Defeasance

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

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

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

Funds

The Bond Resolution confirms the District's Debt Service Fund, which is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, any outstanding bonds, and any additional bonds payable from taxes that may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

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 that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

Paying Agent/Registrar

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

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

Registration and Transfer

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

Lost, Stolen or Destroyed Bonds

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – Authority." The District's voters have authorized the issuance of a total of \$23,955,000 of unlimited tax water, sewer, and drainage facility bonds, \$2,500,000 unlimited tax parks and recreational facility bonds, and \$23,955,000 unlimited tax refunding bonds and could authorize additional amounts.

The District has \$11,705,000 of unlimited tax bonds for water, sewer, and drainage facilities, \$2,500,000 of unlimited tax bonds for parks and recreational facilities, and \$23,740,000 of unlimited tax refunding bonds that will remain authorized, but unissued, after the sale of the Bonds. Depending upon the District's future issuance of tax-supported debt and the development of the District's tax base, increases in the District's annual ad valorem tax rate may be required to provide for the payment of principal of and interest on the District's current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Resolution imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ). The District anticipates issuing additional bonds in the future to fully reimburse the Developers for funds advanced to construct facilities for the District. See "THE DISTRICT'S DEVELOPERS" herein.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. In addition, the District has prepared a detailed park plan, and the parks and recreational facility bonds have been authorized by the qualified voters in the District. However, before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of a City ordinance authorizing park bonds; (b) approval of the park project and bonds by the TCEQ; (c) approval of the bonds by the Attorney General of Texas; and (d) approval of the bonds by the City. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The Board is not considering issuing parks and recreational facilities bonds at this time.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

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

To facilitate subsequent transfers, all Securities deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Securities with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Securities; DTC's records reflect

only the identity of the Direct Participants to whose accounts such Securities are credited, which may or may not be the Beneficial Owners.

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

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

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

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

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

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

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

LEGAL MATTERS

Legal 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.

Legal Review

In its capacity as Bond Counsel, Allen Boone Humphries Robinson LLP has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12," "THE DISTRICT – Authority," and "– Utility Functions and Services Allocation Agreement with the City of Baytown," "TAXING PROCEDURES," "THE BONDS," "LEGAL MATTERS – Legal Opinions" (to the extent such section relates to the opinion of Bond Counsel) and "– Legal Review," "TAX MATTERS," and "REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS" solely to determine whether such information fairly summarizes the documents and legal matters referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind, with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

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

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

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, 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.

No Material Adverse Change

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

TAX MATTERS

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

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

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross

income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures, the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2021 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 2021.

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

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

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

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

OFFICIAL STATEMENT

Sources of Information

The information contained in this Official Statement has been obtained primarily from the District's records, the Engineer, the Tax Assessor/Collector, and other sources that are believed to be reliable, but no representation is made as to the accuracy or completeness of the information derived from such other sources. The summaries of the statutes, orders, resolutions and engineering and other related reports set forth in the Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

The GMS Group, L.L.C. 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. In its capacity as Financial Advisor, The GMS Group, L.L.C. 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.

Engineer – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "DESCRIPTION OF THE SYSTEM" and certain engineering matters included in "THE DISTRICT – Description and Location" and "THE DISTRICT – Status of Development," have been provided by GC Engineering, Inc., and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

Tax Assessor/Collector – The information contained in this Official Statement relating to the estimated assessed valuation of property and, in particular, such information contained in the section captioned "DISTRICT TAX DATA," has been provided by the Harris County Appraisal District and by Utility Tax Service, LLC, in reliance upon their authority as experts in the field of tax assessing and collecting.

Auditor – The District's annual financial statements as of and for the year ended March 31, 2020, have been audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2020, audited financial statements, which have been published with the agreement of such firm.

Continuing Availability of Financial Information

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

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying

charges. Requests for copies should be addressed to the District in care of Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

Updating of Official Statement

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

Certification as to Official Statement

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 459 as of the date shown on the cover page.

APPENDIX A

AUDITED FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED MARCH 31, 2020

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 459**

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. 459
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. 459, 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.

***Board of Directors
Harris County Municipal Utility District No. 459
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. 459, 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.

W.C. Gault & Co, P.C.

Houston, Texas
July 9, 2020

Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 459 (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.

***Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020***

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 \$13,190,733. The District's net position is negative because the District incurs debt to construct water, sewer and drainage facilities which it conveys to the City of Baytown. A comparative summary of the District's overall financial position, as of March 31, 2020 and 2019, is as follows:

| | <u>2020</u> | <u>2019</u> |
|----------------------------------|------------------------|------------------------|
| Current and other assets | \$ 1,220,788 | \$ 1,046,075 |
| Capital assets | 4,772,724 | 4,828,917 |
| Total assets | <u>5,993,512</u> | <u>5,874,992</u> |
| Current liabilities | 210,858 | 214,587 |
| Long-term liabilities | 18,973,387 | 17,397,185 |
| Total liabilities | <u>19,184,245</u> | <u>17,611,772</u> |
| Net position | | |
| Net investment in capital assets | (1,100,825) | (911,266) |
| Restricted | 439,697 | 434,380 |
| Unrestricted | (12,529,605) | (11,259,894) |
| Total net position | <u>\$ (13,190,733)</u> | <u>\$ (11,736,780)</u> |

***Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020***

The total net position of the District decreased during the current fiscal year by \$1,453,953. 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 | \$ 787,129 | \$ 622,458 |
| Other | 20,398 | 15,394 |
| Total revenues | <u>807,527</u> | <u>637,852</u> |
| Expenses | | |
| Operating and administrative | 151,316 | 125,921 |
| Debt interest and fees | 283,533 | 285,531 |
| Depreciation and amortization | 56,193 | 56,193 |
| Total expenses | <u>491,042</u> | <u>467,645</u> |
| Change in net position before other item | 316,485 | 170,207 |
| Other item | | |
| Transfers to other governments | <u>(1,770,438)</u> | <u>(751,884)</u> |
| Change in net position | (1,453,953) | (581,677) |
| Net position, beginning of year | <u>(11,736,780)</u> | <u>(11,155,103)</u> |
| Net position, end of year | <u>\$ (13,190,733)</u> | <u>\$ (11,736,780)</u> |

Financial Analysis of the District's Funds

The District's combined fund balances, as of March 31, 2020, were \$1,153,543, which consists of \$668,656 in the General Fund, \$402,837 in the Debt Service Fund and \$82,050 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 | <u>\$ 698,861</u> | <u>\$ 506,466</u> |
| Total liabilities | \$ 10,678 | \$ 7,637 |
| Total deferred inflows | 19,527 | 11,193 |
| Total fund balance | <u>668,656</u> | <u>487,636</u> |
| Total liabilities, deferred inflows and fund balance | <u>\$ 698,861</u> | <u>\$ 506,466</u> |

***Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020***

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

| | <u>2020</u> | <u>2019</u> |
|----------------------------|-------------------|-------------------|
| Total revenues | \$ 294,544 | \$ 300,201 |
| Total expenditures | <u>(113,524)</u> | <u>(93,798)</u> |
| Revenues over expenditures | <u>\$ 181,020</u> | <u>\$ 206,403</u> |

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues decreased from prior year because the District decreased the maintenance and operations component of the levy.

Debt Service Fund

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

| | <u>2020</u> | <u>2019</u> |
|---|-------------------|-------------------|
| Total assets | <u>\$ 439,697</u> | <u>\$ 434,380</u> |
| Total deferred inflows | \$ 36,860 | \$ 15,152 |
| Total fund balance | <u>402,837</u> | <u>419,228</u> |
| Total deferred inflows and fund balance | <u>\$ 439,697</u> | <u>\$ 434,380</u> |

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

| | <u>2020</u> | <u>2019</u> |
|-----------------------------|--------------------|--------------------|
| Total revenues | \$ 481,313 | \$ 332,488 |
| Total expenditures | <u>(497,704)</u> | <u>(374,179)</u> |
| Revenues under expenditures | <u>\$ (16,391)</u> | <u>\$ (41,691)</u> |

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

Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020

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 | <u>\$ 82,230</u> | <u>\$ 105,229</u> |
| Total liabilities | \$ 180 | \$ 6,950 |
| Total fund balance | <u>82,050</u> | <u>98,279</u> |
| Total liabilities and fund balance | <u>\$ 82,230</u> | <u>\$ 105,229</u> |

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

| | 2020 | 2019 |
|-----------------------------|--------------------|--------------------|
| Total revenues | \$ 1,628 | \$ 1,440 |
| Total expenditures | <u>(17,857)</u> | <u>(12,713)</u> |
| Revenues under expenditures | <u>\$ (16,229)</u> | <u>\$ (11,273)</u> |

The District did not have any significant capital asset activity in the past two years.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$80,770 greater 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.

***Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020***

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

| | <u>2020</u> | <u>2019</u> |
|--|---------------------|---------------------|
| Capital assets not being depreciated | | |
| Land and improvements | <u>\$ 3,141,761</u> | <u>\$ 3,141,761</u> |
| Capital assets being depreciated/amortized | | |
| Infrastructure | 1,274,365 | 1,274,365 |
| Impact fees | 601,070 | 601,070 |
| | <u>1,875,435</u> | <u>1,875,435</u> |
| Less accumulated depreciation/amortization | | |
| Infrastructure | (109,402) | (77,542) |
| Impact fees | (135,070) | (110,737) |
| | <u>(244,472)</u> | <u>(188,279)</u> |
| Depreciable capital assets, net | <u>1,630,963</u> | <u>1,687,156</u> |
| Capital assets, net | <u>\$ 4,772,724</u> | <u>\$ 4,828,917</u> |

The District and the City of Baytown (The "City") have entered into an agreement which obligates the District to construct water, wastewater and certain storm drainage facilities to serve the District and, when completed, to convey title to facilities to the City. These assets are recorded as transfers to other governments upon completion of construction. Detention facilities and certain other capital assets are retained by the District. For the year ended March 31, 2020, capital assets in the amount of \$1,770,438 have been recorded as transfers to other governments in the government wide statements. Additional information is presented in Note 9.

Long-Term Debt and Related Liabilities

As of March 31, 2020, the District owes \$12,287,281 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 6, the District has an additional commitment in the amount of \$573,432 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.

Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020

At March 31, 2020 and 2019, the District had total bonded debt outstanding as shown below:

| Series | 2020 | 2019 |
|--------|--------------|--------------|
| 2013 | \$ 1,450,000 | \$ 1,500,000 |
| 2016 | 1,900,000 | 1,950,000 |
| 2017 | 3,650,000 | 3,750,000 |
| | \$ 7,000,000 | \$ 7,200,000 |

At March 31, 2020, the District had \$16,455,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District; \$2,500,000 for parks and recreational facilities and \$23,955,000 for refunding purposes.

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 the projected cost of operating the District. 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 | \$ 294,544 | \$ 273,500 |
| Total expenditures | (113,524) | (106,250) |
| Revenues over expenditures | 181,020 | 167,250 |
| Beginning fund balance | 487,636 | 668,656 |
| Ending fund balance | \$ 668,656 | \$ 835,906 |

Property Taxes

The District's property tax base increased approximately \$38,455,000 for the 2020 tax year from \$107,987,852 to \$146,443,087. This increase was primarily due to new construction in the District.

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 limit instances where the public can congregate or interact with each other. These precautions resulted in the temporary closure of all non-essential businesses in 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 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.

*Harris County Municipal Utility District No. 459
Management's Discussion and Analysis
March 31, 2020*

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.

Basic Financial Statements

Harris County Municipal Utility District No. 459
Statement of Net Position and Governmental Funds Balance Sheet
March 31, 2020

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|-------------------|-------------------------|-----------------------------|--------------------|------------------------|------------------------------|
| Assets | | | | | | |
| Cash | \$ 3,880 | \$ 166,418 | \$ 859 | \$ 171,157 | \$ - | \$ 171,157 |
| Investments | 658,098 | 243,716 | 81,371 | 983,185 | | 983,185 |
| Taxes receivable | 19,527 | 36,860 | | 56,387 | | 56,387 |
| Accrued Interest receivable | 5,168 | 2,010 | | 7,178 | | 7,178 |
| Internal balances | 9,393 | (9,393) | | | | |
| Prepaid items | 2,795 | | | 2,795 | | 2,795 |
| Other receivables | | 86 | | 86 | | 86 |
| Capital assets not being depreciated | | | | | 3,141,761 | 3,141,761 |
| Capital assets, net | | | | | 1,630,963 | 1,630,963 |
| Total Assets | \$ 698,861 | \$ 439,697 | \$ 82,230 | \$1,220,788 | 4,772,724 | 5,993,512 |
| Liabilities | | | | | | |
| Accounts payable | \$ 10,055 | \$ - | \$ 180 | \$ 10,235 | | 10,235 |
| Other payables | 623 | | | 623 | | 623 |
| Due to developers | | | | | 12,287,281 | 12,287,281 |
| Long-term debt | | | | | | |
| Due within one year | | | | | 200,000 | 200,000 |
| Due after one year | | | | | 6,686,106 | 6,686,106 |
| Total Liabilities | 10,678 | | 180 | 10,858 | 19,173,387 | 19,184,245 |
| Deferred Inflows of Resources | | | | | | |
| Deferred property taxes | 19,527 | 36,860 | | 56,387 | (56,387) | |
| Fund Balances/Net Position | | | | | | |
| Fund Balances | | | | | | |
| Nonspendable | 2,795 | | | 2,795 | (2,795) | |
| Restricted | | 402,837 | 82,050 | 484,887 | (484,887) | |
| Unassigned | 665,861 | | | 665,861 | (665,861) | |
| Total Fund Balances | 668,656 | 402,837 | 82,050 | 1,153,543 | (1,153,543) | |
| Total Liabilities, Deferred Inflows of Resources and Fund Balances | \$ 698,861 | \$ 439,697 | \$ 82,230 | \$1,220,788 | | |
| Net Position | | | | | | |
| Net investment in capital assets | | | | | (1,100,825) | (1,100,825) |
| Restricted for debt service | | | | | 439,697 | 439,697 |
| Unrestricted | | | | | (12,529,605) | (12,529,605) |
| Total Net Position | | | | | \$ (13,190,733) | \$ (13,190,733) |

See notes to basic financial statements.

Harris County Municipal Utility District No. 459

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

For the Year Ended March 31, 2020

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|------------------------------------|-------------------|-------------------------|-----------------------------|---------------------|------------------------|----------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 283,635 | \$ 467,133 | \$ - | \$ 750,768 | \$ 27,567 | \$ 778,335 |
| Penalties and interest | | 6,319 | | 6,319 | 2,475 | 8,794 |
| Investment earnings | 10,909 | 7,861 | 1,628 | 20,398 | | 20,398 |
| Total Revenues | 294,544 | 481,313 | 1,628 | 777,485 | 30,042 | 807,527 |
| Expenditures/Expenses | | | | | | |
| Operating and administrative | | | | | | |
| Professional fees | 79,565 | 2,182 | 17,857 | 99,604 | | 99,604 |
| Contracted services | 12,244 | 14,589 | | 26,833 | | 26,833 |
| Administrative | 15,688 | 3,164 | | 18,852 | | 18,852 |
| Other | 6,027 | | | 6,027 | | 6,027 |
| Debt service | | | | | | |
| Principal | | 200,000 | | 200,000 | (200,000) | |
| Interest and fees | | 277,769 | | 277,769 | 5,764 | 283,533 |
| Depreciation and amortization | | | | | 56,193 | 56,193 |
| Total Expenditures/Expenses | 113,524 | 497,704 | 17,857 | 629,085 | (138,043) | 491,042 |
| Revenues Over/(Under) | | | | | | |
| Expenditures/Expenses | 181,020 | (16,391) | (16,229) | 148,400 | 168,085 | 316,485 |
| Other Item | | | | | | |
| Transfers to other governments | | | | | (1,770,438) | (1,770,438) |
| Net Change in Fund Balances | 181,020 | (16,391) | (16,229) | 148,400 | (148,400) | |
| Change in Net Position | | | | | (1,453,953) | (1,453,953) |
| Fund Balances/Net Position | | | | | | |
| Beginning of the year | 487,636 | 419,228 | 98,279 | 1,005,143 | (12,741,923) | (11,736,780) |
| End of the year | \$ 668,656 | \$ 402,837 | \$ 82,050 | \$ 1,153,543 | \$ (14,344,276) | \$ (13,190,733) |

See notes to basic financial statements.

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Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 459 (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 January 17, 2006, under the terms and conditions of Article XVI, Section 59 of the Texas Constitution, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on March 2, 2006, and the first bonds were issued on December 12, 2013.

The District’s primary activities include construction of water, sewer and drainage facilities. As further discussed in Note 10, the District transfers these facilities (with the exception of defined detention tracts, defined temporary wastewater systems and defined stormwater detention facilities to the City of Baytown upon completion of construction. 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*.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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.

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

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

Measurement Focus and Basis of Accounting

The government-wide financial statements use the economic resources measurement focus and the 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 and interest earned on investments. 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

Prepaid Items

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At 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 drainage facilities and impact fees paid to the City of Baytown using the straight-line method as follows:

| Assets | Useful Life |
|----------------|----------------------------|
| Infrastructure | 40 years |
| Impact Fees | Remaining life of contract |

The District’s detention facilities are considered improvements to land and are non-depreciable.

Note 1 – Summary of Significant Accounting Policies (continued)

Deferred Inflows and Outflows of Financial Resources

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

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

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

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

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

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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.

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 the City of Baytown; 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.

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 2 – Adjustment from Governmental to Government-wide Basis

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

| | | |
|---|------------------|-------------------------------|
| Total fund balance, governmental funds | | \$ 1,153,543 |
| Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds. | | |
| Historical cost | \$ 5,017,196 | |
| Less accumulated depreciation/amortization | <u>(244,472)</u> | |
| Change due to capital assets | | 4,772,724 |
| Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of</i> | | (12,287,281) |
| 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. | | (6,886,106) |
| 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. | | 56,387 |
| Total net position - governmental activities | | <u><u>\$ (13,190,733)</u></u> |

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

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

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

Net change in fund balances - total governmental funds \$ 148,400

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 penalties and interest. 30,042

In the *Statement of Activities*, the cost of capital assets is charged to depreciation/amortization expense over the estimated useful life of the asset. (56,193)

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

| | | | |
|--------------------|----|---------|---------|
| Principal payments | \$ | 200,000 | |
| Interest expense | | (5,764) | |
| | | | 194,236 |

The District conveys its infrastructure to the City of Baytown upon completion of construction. Since these improvements are funded by the developers, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (1,770,438)

Change in net position of governmental activities \$ (1,453,953)

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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.

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

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:

| <u>Type</u> | <u>Fund</u> | <u>Carrying Value</u> | <u>Rating</u> | <u>Weighted Average Maturity</u> |
|-------------------------|------------------|-----------------------|---------------|----------------------------------|
| Certificates of deposit | General | \$ 200,000 | N/A | N/A |
| | Debt Service | 202,509 | | |
| | | <u>402,509</u> | | |
| TexPool | General | 458,098 | AAAm | 32 days |
| | Debt Service | 41,207 | | |
| | Capital Projects | 81,371 | | |
| | | <u>580,676</u> | | |
| Total | | <u>\$ 983,185</u> | | |

The District's investments in certificates of deposit are reported at cost.

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 3 – Deposits and Investments (continued)

TexPool

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

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

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:

| <u>Receivable Fund</u> | <u>Payable Fund</u> | <u>Amounts</u> | <u>Purpose</u> |
|------------------------|---------------------|----------------|--|
| General Fund | Debt Service Fund | \$ 9,393 | Maintenance tax collections not remitted as of year end. |

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

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 5 – Capital Assets

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

| | Beginning Balances | Adjustments | Ending Balances |
|--|-----------------------|--------------------|---------------------|
| Capital assets not being depreciated | | | |
| Land and improvements | \$ 3,141,761 | \$ - | \$ 3,141,761 |
| Capital assets being depreciated/amortized | | | |
| Infrastructure | 1,274,365 | | 1,274,365 |
| Impact fees | 601,070 | | 601,070 |
| | <u>1,875,435</u> | | <u>1,875,435</u> |
| Less accumulated depreciation/amortization | | | |
| Infrastructure | (77,542) | (31,860) | (109,402) |
| Impact fees | (110,737) | (24,333) | (135,070) |
| | <u>(188,279)</u> | <u>(56,193)</u> | <u>(244,472)</u> |
| Subtotal depreciable capital assets, net | <u>1,687,156</u> | <u>(56,193)</u> | <u>1,630,963</u> |
| Capital assets, net | <u>\$ 4,828,917</u> | <u>\$ (56,193)</u> | <u>\$ 4,772,724</u> |

Depreciation/amortization expense for the current year was \$56,193.

Note 6 – Due to Developers

The District has entered into financing agreements with its developers for the financing of the construction of water, sewer and drainage facilities. Under the agreements, the developers will advance funds for the construction of facilities to serve the District. The developers will be reimbursed from proceeds of future bond issues or other lawfully available funds, subject to approval by TCEQ, as applicable. The District does not record the capital asset and related liability on the government-wide statements until construction of the facilities is complete. 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 | \$ 10,516,843 |
| Developer funded construction and adjustments | <u>1,770,438</u> |
| Due to developers, end of year | <u>\$ 12,287,281</u> |

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 6 – Due to Developers (continued)

In addition, the District will owe the developers approximately \$573,432, 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.

| | <u>Contract Amount</u> | <u>Amounts Paid</u> | <u>Remaining Commitment</u> |
|--|----------------------------|-------------------------|---------------------------------|
| Goose Creek Reserve, Section 5 - utilities | \$ 573,432 | \$ 382,304 | \$ 191,128 |

Note 7 – Long-Term Debt

Long-term debt is comprised of the following:

| | |
|-----------------------|---------------------|
| Bonds payable | \$ 7,000,000 |
| Unamortized discounts | <u>(113,894)</u> |
| | <u>\$ 6,886,106</u> |
| | |
| Due within one year | <u>\$ 200,000</u> |

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 |
|--------|------------------------|-------------------|-------------------|---|------------------------------|------------------|
| 2013 | \$ 1,450,000 | \$ 1,750,000 | 3.00% - 5.25% | April 1, 2015/2038 | October 1, April 1 | April 1, 2019 |
| 2016 | 1,900,000 | 2,000,000 | 2.00% - 3.875% | April 1, 2018/2039 | October 1, April 1 | April 1, 2021 |
| 2017 | 3,650,000 | 3,750,000 | 2.20% - 4.00% | April 1, 2020/2042 | October 1, April 1 | April 1, 2023 |
| | <u>\$ 7,000,000</u> | | | | | |

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

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 7 – Long-Term Debt (continued)

At March 31, 2020, the District had authorized but unissued bonds in the amount of \$16,455,000 for water, sewer and drainage facilities; \$2,500,000 for park and recreational facilities; and \$23,955,000 for refunding purposes.

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

| | |
|----------------------------------|----------------------------|
| Bonds payable, beginning of year | \$ 7,200,000 |
| Bonds retired | <u>(200,000)</u> |
| Bonds payable, end of year | <u><u>\$ 7,000,000</u></u> |

The debt service payment due April 1 was made during the current fiscal year. The following schedule was prepared presuming this practice will continue. As of March 31, 2020, annual debt service requirements on bonds outstanding are as follows:

| Year | Principal | Interest | Totals |
|------|----------------------------|----------------------------|-----------------------------|
| 2021 | \$ 200,000 | \$ 271,444 | \$ 471,444 |
| 2022 | 225,000 | 266,244 | 491,244 |
| 2023 | 225,000 | 260,006 | 485,006 |
| 2024 | 250,000 | 253,256 | 503,256 |
| 2025 | 250,000 | 245,306 | 495,306 |
| 2026 | 250,000 | 237,056 | 487,056 |
| 2027 | 275,000 | 228,556 | 503,556 |
| 2028 | 325,000 | 218,557 | 543,557 |
| 2029 | 325,000 | 206,407 | 531,407 |
| 2030 | 325,000 | 193,407 | 518,407 |
| 2031 | 350,000 | 180,357 | 530,357 |
| 2032 | 375,000 | 165,907 | 540,907 |
| 2033 | 375,000 | 150,307 | 525,307 |
| 2034 | 400,000 | 135,044 | 535,044 |
| 2035 | 400,000 | 118,469 | 518,469 |
| 2036 | 425,000 | 101,531 | 526,531 |
| 2037 | 450,000 | 83,594 | 533,594 |
| 2038 | 475,000 | 64,188 | 539,188 |
| 2039 | 375,000 | 43,811 | 418,811 |
| 2040 | 225,000 | 29,000 | 254,000 |
| 2041 | 250,000 | 20,000 | 270,000 |
| 2042 | 250,000 | 10,000 | 260,000 |
| | <u><u>\$ 7,000,000</u></u> | <u><u>\$ 3,482,447</u></u> | <u><u>\$ 10,482,447</u></u> |

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 8 – Property Taxes

On May 13, 2006, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

All property values and exempt status, if any, are determined by the 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 \$0.72 per \$100 of assessed value, of which \$0.27 was allocated to maintenance and operations and \$0.45 was allocated to debt service. The resulting tax levy was \$777,513 on the adjusted taxable value of \$107,987,852.

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

| | |
|---------------------------------|-------------------------|
| Current year taxes receivable | \$ 47,343 |
| Prior years taxes receivable | 3,794 |
| | <u>51,137</u> |
| Penalty and interest receivable | 5,250 |
| Total property taxes receivable | <u><u>\$ 56,387</u></u> |

Note 9 – Transfers to Other Governments

In accordance with an agreement between the District and the City of Baytown (the “City”), the District transfers all of its water, sewer and drainage facilities to the City (see Note 10). Accordingly, the District does not record these capital assets in the *Statement of Net Position*, but instead reports the completed projects as transfers to other governments on the *Statement of Activities*. The estimated cost of each project is trued-up when the developers are subsequently reimbursed. For the year ended March 31, 2020, the District reported transfers to other governments in the amount of \$1,770,438 for projects completed and transferred to the City.

Note 10 – Utility Agreement with the City of Baytown

On March 18, 2005, the City entered into a Utility Functions and Services Allocation Agreement (“UFA”) with Moody Simmons Baytown, LTD and Moody Simmons Baytown II, LTD, on behalf of the then proposed district. The UFA was assigned to the District on June 22, 2006, and the assignment was approved by the City. The UFA was amended December 21, 2015 and on March 17, 2016. Pursuant to the amended agreement, the City will provide water supply and wastewater services to the District for up to 1,015 equivalent single family connections. The District agrees to construct various water distribution lines, sanitary sewer collection systems for construction and extension of water distribution lines, sanitary sewer collection systems and drainage facilities to serve the District. As the system is acquired or constructed, the District shall transfer the system to the City (with the exception of defined detention tracts, defined temporary wastewater systems and defined storm water detention systems) and the City will own, operate and maintain the facilities at its own expense.

Note 11 – 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 12 – 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 Texas. This order expired on April 30, 2020. Additionally, all the counties in the greater Houston area adopted various “Work Safe – Stay Home” orders. 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 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 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.

Harris County Municipal Utility District No. 459
Notes to Basic Financial Statements
March 31, 2020

Note 13 – Subsequent Event

On June 11, 2020, the District awarded the sale of its Series 2020 Unlimited Tax Bonds in the amount of \$4,750,000 at a net effective interest rate of 2.31241%. Proceeds of the bonds will be used to reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds. The bonds are scheduled to close on July 14, 2020.

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Required Supplementary Information

*Harris County Municipal Utility District No. 459
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended March 31, 2020*

| | Original and Final Budget | Actual | Variance Positive (Negative) |
|-----------------------------------|------------------------------|-------------------|------------------------------------|
| Revenues | | | |
| Property taxes | \$ 200,000 | \$ 283,635 | \$ 83,635 |
| Investment earnings | 500 | 10,909 | 10,409 |
| Total Revenues | <u>200,500</u> | <u>294,544</u> | <u>94,044</u> |
| Expenditures | | | |
| Operating and administrative | | | |
| Professional fees | 64,500 | 79,565 | (15,065) |
| Contracted services | 13,000 | 12,244 | 756 |
| Administrative | 20,750 | 15,688 | 5,062 |
| Other | 2,000 | 6,027 | (4,027) |
| Total Expenditures | <u>100,250</u> | <u>113,524</u> | <u>(13,274)</u> |
| Revenues Over Expenditures | 100,250 | 181,020 | 80,770 |
| Fund Balance | | | |
| Beginning of the year | 487,636 | 487,636 | |
| End of the year | <u>\$ 587,886</u> | <u>\$ 668,656</u> | <u>\$ 80,770</u> |

Harris County Municipal Utility District No. 459
Notes to Required Supplementary Information
March 31, 2020

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Harris County Municipal Utility District No. 459

TSI-1. Services and Rates

March 31, 2020

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

- | | | | |
|---|---|--|--|
| <input type="checkbox"/> Retail Water | <input type="checkbox"/> Wholesale Water | <input type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control | <input type="checkbox"/> Irrigation |
| <input type="checkbox"/> Parks / Recreation | <input type="checkbox"/> Fire Protection | <input type="checkbox"/> Roads | <input type="checkbox"/> Security |
| <input type="checkbox"/> Participates in joint venture, regional system and/or wastewater service (other than emergency intercom) | | | |
| <input checked="" type="checkbox"/> Other (Specify): <u>Water and wastewater services provided by the City of Baytown</u> | | | |

2. Retail Service Providers N/A

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

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

| | Minimum Charge | Minimum Usage | Flat Rate (Y / N) | Rate per 1,000 Gallons Over Minimum | Usage Levels |
|-------------|----------------|---------------|-------------------|-------------------------------------|----------------|
| Water: | _____ | _____ | _____ | _____ | _____ to _____ |
| Wastewater: | _____ | _____ | _____ | _____ | _____ to _____ |
| Surcharge: | _____ | _____ | _____ | _____ | _____ to _____ |

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water _____ Wastewater _____

b. Water and Wastewater Retail Connections:

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFC'S |
|------------------|-------------------|--------------------|-------------|---------------|
| Unmetered | _____ | _____ | x 1.0 | _____ |
| less than 3/4" | _____ | _____ | x 1.0 | _____ |
| 1" | _____ | _____ | x 2.5 | _____ |
| 1.5" | _____ | _____ | x 5.0 | _____ |
| 2" | _____ | _____ | x 8.0 | _____ |
| 3" | _____ | _____ | x 15.0 | _____ |
| 4" | _____ | _____ | x 25.0 | _____ |
| 6" | _____ | _____ | x 50.0 | _____ |
| 8" | _____ | _____ | x 80.0 | _____ |
| 10" | _____ | _____ | x 115.0 | _____ |
| Total Water | _____ | _____ | _____ | _____ |
| Total Wastewater | _____ | _____ | x 1.0 | _____ |

See accompanying auditor's report.

Harris County Municipal Utility District No. 459
TSI-1. Services and Rates
March 31, 2020

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 pumped into system: N/A Water Accountability Ratio:
(Gallons billed / Gallons pumped)
Gallons billed to customers: N/A N/A

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

Does the District have Debt Service standby fees? Yes No

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

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

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

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

Is the District located entirely within one county? Yes No

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

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

City(ies) in which the District is located: City of Baytown

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

Entirely Partly Not at all

ETJs in which the District is located: _____

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

If Yes, by whom? _____

See accompanying auditors' report.

*Harris County Municipal Utility District No. 459
 TSI-2 General Fund Expenditures
 For the Year Ended March 31, 2020*

| | | |
|------------------------------|--|--------------------------|
| Professional fees | | |
| Legal | | \$ 68,405 |
| Audit | | 10,500 |
| | | <u>79,565</u> |
| Contracted services | | |
| Bookkeeping | | <u>12,244</u> |
| Administrative | | |
| Directors fees | | 6,600 |
| Printing and office supplies | | 2,115 |
| Insurance | | 3,035 |
| Other | | 3,939 |
| | | <u>15,688</u> |
| Other | | <u>6,027</u> |
| Total expenditures | | <u><u>\$ 113,524</u></u> |

Reporting of Utility Services in Accordance with HB 3693:

| | <u>Usage</u> | <u>Cost</u> |
|-------------|--------------|-------------|
| 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. 459
TSI-3. Investments
March 31, 2020

| <u>Fund</u> | <u>Interest Rate</u> | <u>Maturity Date</u> | <u>Balance at End of Year</u> |
|-------------------------|--------------------------|--------------------------|-----------------------------------|
| General | | | |
| TexPool | Variable | N/A | \$ 458,098 |
| Certificates of deposit | 2.75% | 04/23/20 | <u>200,000</u> |
| | | | <u>658,098</u> |
| Debt Service | | | |
| TexPool | Variable | N/A | 41,207 |
| Certificates of deposit | 2.25% | 10/22/20 | <u>202,509</u> |
| | | | <u>243,716</u> |
| Capital Projects | | | |
| TexPool | Variable | N/A | <u>81,371</u> |
| Total - All Funds | | | <u><u>\$ 983,185</u></u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459

TSI-4. Taxes Levied and Receivable

March 31, 2020

| | Maintenance Taxes | Debt Service Taxes | Totals | |
|---|----------------------|-----------------------|---------------|---------------|
| Taxes Receivable, Beginning of Year | \$ 11,193 | \$ 12,377 | \$ 23,570 | |
| Adjustments to Prior Year Tax Levy | 402 | 422 | 824 | |
| Adjusted Receivable | 11,595 | 12,799 | 24,394 | |
| 2019 Original Tax Levy | 234,357 | 390,594 | 624,951 | |
| Adjustments | 57,211 | 95,351 | 152,562 | |
| Adjusted Tax Levy | 291,568 | 485,945 | 777,513 | |
| Total to be accounted for | 303,163 | 498,744 | 801,907 | |
| Tax collections: | | | | |
| Current year | 273,814 | 456,356 | 730,170 | |
| Prior years | 9,822 | 10,778 | 20,600 | |
| Total Collections | 283,636 | 467,134 | 750,770 | |
| Taxes Receivable, End of Year | \$ 19,527 | \$ 31,610 | \$ 51,137 | |
| Taxes Receivable, By Years | | | | |
| 2019 | \$ 17,754 | \$ 29,589 | \$ 47,343 | |
| 2018 | 1,053 | 1,141 | 2,194 | |
| 2017 | 720 | 880 | 1,600 | |
| Taxes Receivable, End of Year | \$ 19,527 | \$ 31,610 | \$ 51,137 | |
| | 2019 | 2018 | 2017 | 2016 |
| Property Valuations: | | | | |
| Land | \$ 26,474,649 | \$ 21,291,884 | \$ 16,624,537 | \$ 11,223,168 |
| Improvements | 83,764,070 | 62,927,818 | 48,591,563 | 32,032,990 |
| Personal Property | 627,553 | 377,219 | 273,588 | 231,998 |
| Exemptions | (2,878,420) | (2,180,441) | (944,335) | (785,486) |
| Total Property Valuations | \$ 107,987,852 | \$ 82,416,480 | \$ 64,545,353 | \$ 42,702,670 |
| Tax Rates per \$100 Valuation: | | | | |
| Maintenance tax rates | \$ 0.27 | \$ 0.36 | \$ 0.36 | \$ 0.37 |
| Debt service tax rates | 0.45 | 0.39 | 0.44 | 0.43 |
| | \$ 0.72 | \$ 0.75 | \$ 0.80 | \$ 0.80 |
| Adjusted Tax Levy: | \$ 777,513 | \$ 618,124 | \$ 516,363 | \$ 341,621 |
| Percentage of Taxes Collected to Taxes Levied ** | 93.91% | 99.65% | 99.69% | 100.00% |

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 13, 2006

** 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. 459
TSI-5. Long-Term Debt Service Requirements
Series 2013--by Years
March 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due April 1</u> | <u>Interest Due October 1, April 1</u> | <u>Total</u> |
|---|----------------------------------|--|---------------------|
| 2021 | \$ 50,000 | \$ 71,138 | \$ 121,138 |
| 2022 | 50,000 | 69,388 | 119,388 |
| 2023 | 50,000 | 67,512 | 117,512 |
| 2024 | 50,000 | 65,512 | 115,512 |
| 2025 | 50,000 | 63,412 | 113,412 |
| 2026 | 50,000 | 61,212 | 111,212 |
| 2027 | 75,000 | 58,962 | 133,962 |
| 2028 | 75,000 | 55,475 | 130,475 |
| 2029 | 75,000 | 51,725 | 126,725 |
| 2030 | 75,000 | 47,975 | 122,975 |
| 2031 | 100,000 | 44,225 | 144,225 |
| 2032 | 100,000 | 39,125 | 139,125 |
| 2033 | 100,000 | 34,025 | 134,025 |
| 2034 | 100,000 | 28,825 | 128,825 |
| 2035 | 100,000 | 23,625 | 123,625 |
| 2036 | 100,000 | 18,375 | 118,375 |
| 2037 | 125,000 | 13,125 | 138,125 |
| 2038 | 125,000 | 6,563 | 131,563 |
| | <u>\$ 1,450,000</u> | <u>\$ 820,199</u> | <u>\$ 2,270,199</u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459
TSI-5. Long-Term Debt Service Requirements
Series 2016--by Years
March 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due April 1</u> | <u>Interest Due October 1, April 1</u> | <u>Total</u> |
|---|----------------------------------|--|---------------------|
| 2021 | \$ 50,000 | \$ 63,881 | \$ 113,881 |
| 2022 | 75,000 | 62,831 | 137,831 |
| 2023 | 75,000 | 61,069 | 136,069 |
| 2024 | 75,000 | 59,119 | 134,119 |
| 2025 | 75,000 | 57,019 | 132,019 |
| 2026 | 75,000 | 54,844 | 129,844 |
| 2027 | 75,000 | 52,594 | 127,594 |
| 2028 | 100,000 | 50,269 | 150,269 |
| 2029 | 100,000 | 47,119 | 147,119 |
| 2030 | 100,000 | 43,869 | 143,869 |
| 2031 | 100,000 | 40,569 | 140,569 |
| 2032 | 100,000 | 37,219 | 137,219 |
| 2033 | 100,000 | 33,719 | 133,719 |
| 2034 | 125,000 | 30,219 | 155,219 |
| 2035 | 125,000 | 25,844 | 150,844 |
| 2036 | 125,000 | 21,156 | 146,156 |
| 2037 | 125,000 | 16,469 | 141,469 |
| 2038 | 150,000 | 11,625 | 161,625 |
| 2039 | 150,000 | 5,811 | 155,811 |
| | <u>\$ 1,900,000</u> | <u>\$ 775,245</u> | <u>\$ 2,675,245</u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
March 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due April 1</u> | <u>Interest Due October 1, April 1</u> | <u>Total</u> |
|---|----------------------------------|--|---------------------|
| 2021 | \$ 100,000 | \$ 136,425 | \$ 236,425 |
| 2022 | 100,000 | 134,025 | 234,025 |
| 2023 | 100,000 | 131,425 | 231,425 |
| 2024 | 125,000 | 128,625 | 253,625 |
| 2025 | 125,000 | 124,875 | 249,875 |
| 2026 | 125,000 | 121,000 | 246,000 |
| 2027 | 125,000 | 117,000 | 242,000 |
| 2028 | 150,000 | 112,813 | 262,813 |
| 2029 | 150,000 | 107,563 | 257,563 |
| 2030 | 150,000 | 101,563 | 251,563 |
| 2031 | 150,000 | 95,563 | 245,563 |
| 2032 | 175,000 | 89,563 | 264,563 |
| 2033 | 175,000 | 82,563 | 257,563 |
| 2034 | 175,000 | 76,000 | 251,000 |
| 2035 | 175,000 | 69,000 | 244,000 |
| 2036 | 200,000 | 62,000 | 262,000 |
| 2037 | 200,000 | 54,000 | 254,000 |
| 2038 | 200,000 | 46,000 | 246,000 |
| 2039 | 225,000 | 38,000 | 263,000 |
| 2040 | 225,000 | 29,000 | 254,000 |
| 2041 | 250,000 | 20,000 | 270,000 |
| 2042 | 250,000 | 10,000 | 260,000 |
| | <u>\$ 3,650,000</u> | <u>\$ 1,887,003</u> | <u>\$ 5,537,003</u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
March 31, 2020

| <u>Due During Fiscal Years Ending</u> | <u>Principal Due April 1</u> | <u>Interest Due October 1, April 1</u> | <u>Total</u> |
|---|----------------------------------|--|----------------------|
| 2021 | \$ 200,000 | \$ 271,444 | \$ 471,444 |
| 2022 | 225,000 | 266,244 | 491,244 |
| 2023 | 225,000 | 260,006 | 485,006 |
| 2024 | 250,000 | 253,256 | 503,256 |
| 2025 | 250,000 | 245,306 | 495,306 |
| 2026 | 250,000 | 237,056 | 487,056 |
| 2027 | 275,000 | 228,556 | 503,556 |
| 2028 | 325,000 | 218,557 | 543,557 |
| 2029 | 325,000 | 206,407 | 531,407 |
| 2030 | 325,000 | 193,407 | 518,407 |
| 2031 | 350,000 | 180,357 | 530,357 |
| 2032 | 375,000 | 165,907 | 540,907 |
| 2033 | 375,000 | 150,307 | 525,307 |
| 2034 | 400,000 | 135,044 | 535,044 |
| 2035 | 400,000 | 118,469 | 518,469 |
| 2036 | 425,000 | 101,531 | 526,531 |
| 2037 | 450,000 | 83,594 | 533,594 |
| 2038 | 475,000 | 64,188 | 539,188 |
| 2039 | 375,000 | 43,811 | 418,811 |
| 2040 | 225,000 | 29,000 | 254,000 |
| 2041 | 250,000 | 20,000 | 270,000 |
| 2042 | 250,000 | 10,000 | 260,000 |
| | <u>\$ 7,000,000</u> | <u>\$ 3,482,447</u> | <u>\$ 10,482,447</u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459
TSI-6. Change in Long-Term Bonded Debt
March 31, 2020

| | Bond Issue | | | Totals |
|----------------------------------|----------------------------------|---------------------|---------------------|---------------------|
| | Series 2013 | Series 2016 | Series 2017 | |
| Interest rate | 3.00% - 5.25% | 2.00% - 3.875% | 2.20% - 4.00% | |
| Dates interest payable | 10/1; 4/1 | 10/1; 4/1 | 10/1; 4/1 | |
| Maturity dates | 4/1/15 - 4/1/38 | 4/1/18 - 4/1/39 | 4/1/20 - 4/1/42 | |
| Beginning bonds outstanding | \$ 1,500,000 | \$ 1,950,000 | \$ 3,750,000 | \$ 7,200,000 |
| Bonds retired | (50,000) | (50,000) | (100,000) | (200,000) |
| Ending bonds outstanding | <u>\$ 1,450,000</u> | <u>\$ 1,900,000</u> | <u>\$ 3,650,000</u> | <u>\$ 7,000,000</u> |
| Interest paid during fiscal year | <u>\$ 72,763</u> | <u>\$ 64,881</u> | <u>\$ 138,625</u> | <u>\$ 276,269</u> |
| Paying agent's name and city | Amegy Bank, N.A., Houston, Texas | | | |
| All Series | | | | |

| | Water, Sewer and | | |
|-----------------------------|----------------------|---------------------|----------------------|
| | Drainage Bonds | Park Bonds | Refunding Bonds |
| Bond Authority: | | | |
| Amount Authorized by Voters | \$ 23,955,000 | \$ 2,500,000 | \$ 23,955,000 |
| Amount Issued | (7,500,000) | | |
| Remaining To Be Issued | <u>\$ 16,455,000</u> | <u>\$ 2,500,000</u> | <u>\$ 23,955,000</u> |

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

| | |
|---|-------------------|
| Debt Service Fund cash and investments balances as of March 31, 2020: | <u>\$ 410,134</u> |
| Average annual debt service payment (principal and interest) for remaining term of all debt | <u>\$ 476,475</u> |

See accompanying auditors' report.

Harris County Municipal Utility District No. 459
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

| | Amounts | | | | |
|------------------------------------|-------------------|-------------------|-------------------|------------------|--------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenues | | | | | |
| Property taxes | \$ 283,635 | \$ 293,957 | \$ 227,585 | \$ 154,786 | \$ 90,342 |
| Investment earnings | 10,909 | 6,244 | 1,711 | 207 | 87 |
| Total Revenues | <u>294,544</u> | <u>300,201</u> | <u>229,296</u> | <u>154,993</u> | <u>90,429</u> |
| Expenditures | | | | | |
| Operating and administrative | | | | | |
| Professional fees | 79,565 | 62,402 | 66,124 | 58,126 | 114,144 |
| Contracted services | 12,244 | 12,469 | 12,038 | 12,000 | 14,443 |
| Administrative | 15,688 | 17,374 | 16,840 | 14,346 | 13,712 |
| Other | 6,027 | 1,553 | 1,734 | 1,214 | 1,131 |
| Total Expenditures | <u>113,524</u> | <u>93,798</u> | <u>96,736</u> | <u>85,686</u> | <u>143,430</u> |
| Revenues Over/(Under) Expenditures | <u>\$ 181,020</u> | <u>\$ 206,403</u> | <u>\$ 132,560</u> | <u>\$ 69,307</u> | <u>\$ (53,001)</u> |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|------|------|------|------|-------|
| 96% | 98% | 99% | 100% | 100% |
| 4% | 2% | 1% | * | * |
| 100% | 100% | 100% | 100% | 100% |
| 27% | 21% | 29% | 38% | 126% |
| 4% | 4% | 5% | 8% | 16% |
| 5% | 6% | 7% | 9% | 15% |
| 2% | 1% | 1% | 1% | 1% |
| 38% | 32% | 42% | 56% | 158% |
| 62% | 68% | 58% | 44% | (58%) |

Harris County Municipal Utility District No. 459

TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund

For the Last Five Fiscal Years

| | Amounts | | | | |
|------------------------------------|--------------------|--------------------|-----------------|-------------------|-----------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Revenues | | | | | |
| Property taxes | \$ 467,133 | \$ 319,390 | \$ 277,974 | \$ 180,742 | \$ 150,486 |
| Penalties and interest | 6,319 | 5,388 | 1,238 | | |
| Investment earnings | 7,861 | 7,710 | 1,916 | 1,478 | 670 |
| Total Revenues | <u>481,313</u> | <u>332,488</u> | <u>281,128</u> | <u>182,220</u> | <u>151,156</u> |
| Expenditures | | | | | |
| Tax collection services | 19,935 | 19,410 | 14,318 | 11,579 | 12,107 |
| Debt service | | | | | |
| Principal | 200,000 | 75,000 | 75,000 | 50,000 | 50,000 |
| Interest and fees | <u>277,769</u> | <u>279,769</u> | <u>181,936</u> | <u>129,003</u> | <u>79,263</u> |
| Total Expenditures | <u>497,704</u> | <u>374,179</u> | <u>271,254</u> | <u>190,582</u> | <u>141,370</u> |
| Revenues Over/(Under) Expenditures | <u>\$ (16,391)</u> | <u>\$ (41,691)</u> | <u>\$ 9,874</u> | <u>\$ (8,362)</u> | <u>\$ 9,786</u> |

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|------|-------|------|------|------|
| 97% | 96% | 99% | 99% | 100% |
| 1% | 2% | * | | |
| 2% | 2% | 1% | 1% | * |
| 100% | 100% | 100% | 100% | 100% |
| 4% | 6% | 5% | 6% | 8% |
| 42% | 23% | 27% | 27% | 33% |
| 58% | 84% | 65% | 71% | 52% |
| 104% | 113% | 97% | 104% | 93% |
| (4%) | (13%) | 3% | (4%) | 7% |

Harris County Municipal Utility District No. 459
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): December 12, 2019

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

(Set by Board Resolution -- TWC Section 49.0600)

| Names: | Term of Office (Elected or Appointed) or Date Hired | Fees of Office Paid * | Expense Reimburse- ments | Title at Year End |
|---|--|-----------------------------|--------------------------------|----------------------------|
| Board Members | | | | |
| Thomas Parent | 05/18 to 05/22 | \$ 1,350 | \$ - | President |
| Danny Ochoa | 05/18 to 05/22 | 1,350 | | Vice President |
| Ron Bryant | 05/16 to 05/20 | 2,250 | 2,603 | Secretary |
| Brad B. Bonnacaze | 05/16 to 05/20 | 600 | 110 | Assistant Secretary |
| Daniel Lopez | 12/19 to 05/22 | 450 | | Assistant Secretary |
| Alma Stafford | 05/18 to 12/19 | 600 | | Former Director |
| Consultants | | | | |
| | | Amounts Paid | | |
| Allen Boone Humphries Robinson LLP <i>General legal fees</i> | 03/02/06 | \$ 65,589 | | Attorney |
| Myrtle Cruz, Inc. | 07/15/15 | 14,119 | | Bookkeeper |
| Utility Tax Service, LLC | 03/02/06 | 8,882 | | Tax Collector |
| Harris County Appraisal District | Legislation | 5,707 | | Property Valuation |
| Perdue, Brandon, Fielder, Collins, & Mott, LLP | 06/18/08 | 2,182 | | Delinquent Tax Attorney |
| GC Engineering, Inc. | 11/02/06 | 1,200 | | Engineer |
| McGrath & Co, PLLC | 07/17/13 | 10,500 | | Auditor |
| The GMS Group, LLC | 06/20/12 | 1,610 | | 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

PHOTOGRAPHS TAKEN IN THE DISTRICT

















APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

ASSURED GUARANTY MUNICIPAL CORP. ("AGM"), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the "Trustee") or paying agent (the "Paying Agent") (as set forth in the documentation providing for the issuance of and securing the Bonds) for the Bonds, for the benefit of the Owners or, at the election of AGM, 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 Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the 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 AGM. 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 AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

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 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 AGM 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 of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount 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 or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, AGM 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 AGM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy.

This Policy sets forth in full the undertaking of AGM, 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, (a) 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 and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

In witness whereof, ASSURED GUARANTY MUNICIPAL CORP. has caused this Policy to be executed on its behalf by its Authorized Officer.

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

A subsidiary of Assured Guaranty Municipal Holdings Inc.
1633 Broadway, New York, N.Y. 10019
(212) 974-0100