

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

The Bonds are NOT designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – NOT Qualified Tax-Exempt Obligations.”

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

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

**\$16,000,000**

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

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

**UNLIMITED TAX BONDS**

**SERIES 2021**

**Dated: May 1, 2021**

**Due: April 1 (as shown below)**

Interest on the Bonds (the “Bonds” or the “Series 2021 Bonds”) will accrue from May 1, 2021, and will be payable on April 1 and October 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 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</u> <u>Amount</u>	<u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Yield (a)</u>	<u>Principal</u> <u>Amount</u>	<u>Maturity</u>	<u>Interest</u> <u>Rate</u>	<u>Yield (a)</u>
\$350,000	2024	4.50%	0.55%	\$500,000	2033(b)	2.00%	1.80%
\$400,000	2025	4.50%	0.70%	\$525,000	2034(b)	2.00%	1.90%
\$400,000	2026	4.50%	0.85%	\$550,000	2035(b)	2.00%	2.00%
\$400,000	2027	4.50%	1.00%	\$550,000	2036(b)	2.00%	2.05%
\$400,000	2028	4.50%	1.15%	\$575,000	2037(b)	2.00%	2.10%
\$450,000	2029(b)	2.00%	1.30%	\$600,000	2038(b)	2.00%	2.15%
\$450,000	2030(b)	2.00%	1.50%	\$600,000	2039(b)	2.00%	2.22%
\$475,000	2031(b)	2.00%	1.60%	\$650,000	2040(b)	2.00%	2.25%
\$500,000	2032(b)	2.00%	1.70%				

\$1,325,000 2.125% Term Bond Due April 1, 2042 to Yield 2.30% (a) (b) (c)

\$1,425,000 2.250% Term Bond Due April 1, 2044 to Yield 2.35% (a) (b) (c)

\$1,525,000 2.250% Term Bond Due April 1, 2046 to Yield 2.39% (a) (b) (c)

\$1,625,000 2.250% Term Bond Due April 1, 2048 to Yield 2.41% (a) (b) (c)

\$1,725,000 2.375% Term Bond Due April 1, 2050 to Yield 2.44% (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, 2029, are subject to redemption in whole or from time to time in part, at the option of the District, on April 1, 2028, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 423 (the “District”) to: (1) refund the principal and accrued interest on the District’s outstanding \$8,430,000 Bond Anticipation Note, Series 2020 which was used to fund certain water, sewer, and drainage improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional water, sewer, and drainage expenditures for facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of capitalized interest on the Bonds; and (4) pay bond issuance expenses. See “USE OF BOND PROCEEDS.”

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS – Source of and Security for Payment.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Harris County, or the City of Houston is pledged to the payment of the principal of, or interest on, the Bonds. **The Bonds are subject to certain investment considerations described under the caption “RISK FACTORS.”**

The Bonds are offered when, as, and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. The Issuer will be advised on certain legal matters concerning disclosure by Sanford Kuhl Hagan Kugle Parker Kahn LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about May 20, 2021.

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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

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

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

**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 B – Specimen Municipal Bond Insurance Policy."**

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.001719% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.425645%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

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

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

### **Prices and Marketability**

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

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

## **Securities Laws**

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

## **CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12**

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 material events, to the Municipal Securities Rulemaking Board ("MSRB"). The MSRB has established the Electronic Municipal Market Access ("EMMA") system.

## **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB via EMMA. The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "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 may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 ("the Rule"). The updated information will include audited financial statements if the District commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, the District will provide unaudited financial statements for the applicable fiscal year to the MSRB within such six-month period and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond 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 July 31. Accordingly, it must provide updated information by January 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change.

## **Event Notices**

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

The District has complied in all material respects with its continuing disclosure agreement in accordance with the Rule.

### **MUNICIPAL BOND RATING**

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 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.

### *Current 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 UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE"), 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 AGUK and AGE were determined in accordance with accounting principles generally accepted in the United States of America.

### *Merger of MAC into AGM*

On April 1, 2021, MAC was merged into AGM, with AGM as the surviving company. Prior to that merger transaction, MAC was an indirect subsidiary of AGM (which indirectly owned 60.7% of MAC) and AGM's affiliate, Assured Guaranty Corp., a Maryland-domiciled insurance company ("AGC") (which indirectly owned 39.3% of MAC). In connection with the merger transaction, AGM and AGC each reassumed the remaining outstanding par they ceded to MAC in 2013, and AGC sold its indirect share of MAC to AGM. All of MAC's direct insured par exposures have become insured obligations of AGM.

### *Incorporation of Certain Documents by 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**

<b>Description:</b>	The \$16,000,000 Unlimited Tax Bonds, Series 2021, are dated May 1, 2021. The Bonds represent the second series of bonds to be issued by the District. The Bonds mature on April 1 in the years shown in the table on the cover page of this Official Statement. See "THE BONDS."
<b>Source of Payment:</b>	The Bonds are payable from a continuing direct annual ad valorem tax upon all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision or agency. See "THE BONDS."
<b>Redemption Provisions:</b>	The Bonds maturing on or after April 1, 2029, are subject to early redemption, in whole or in part, on April 1, 2028, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on April 1 in the years 2042, 2044, 2046, 2048 and 2050 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on April 1 in the years 2041, 2043, 2045, 2047, and 2049 respectively. See "THE BONDS – Mandatory Redemption."
<b>Book-Entry-Only System:</b>	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, and interest on, the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
<b>Use of Proceeds:</b>	Proceeds from the sale of the Bonds will be used to: (1) refund the principal and accrued interest on the District's outstanding \$8,430,000 Bond Anticipation Note, Series 2020, which was used to fund certain improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional expenditures for water, sewage and drainage facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of capitalized interest on the Bonds; and (4) pay bond issuance expenses. See "USE OF BOND PROCEEDS."
<b>Legal Opinion:</b>	Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
<b>Paying Agent/Registrar:</b>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.
<b>Payment Record:</b>	The Bonds represents the District's second bond issue. The District has never defaulted in the payment of principal or interest on any bonds or outstanding obligations.
<b>Risk Factors:</b>	The Bonds are subject to certain investment considerations as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "RISK FACTORS" and "LEGAL MATTERS."
<b>NOT Qualified Tax Exempt Obligations:</b>	The Bonds are NOT designated as "qualified tax-exempt obligations" for financial institutions.
<b>Municipal Bond Insurance and Rating:</b>	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 "MUNICIPAL BOND RATING," "BOND INSURANCE," and "APPENDIX B – SPECIMEN MUNICIPAL BOND INSURANCE POLICY."

### **THE DISTRICT**

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

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

**Status of Land Development:**

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

<u>Type of Land Use</u>	<u>Approximate Acres</u>	
Developed Acres	242	(a)
Under Development	95	(b)
Remaining Developable Acreage	34	
Undevelopable Acreage	<u>28</u>	(c)
<b>Total Approximate Acres</b>	<b>399</b>	

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(a) Represents the developable acres located in Balmoral, Sections 4-8, 15, 18-22, 24, and Balmoral Crystal Lagoon; such sections include 1068 lots.

(b) Represents acres in Balmoral, Sections 25-26 which includes approximately 90 acres currently under development into 302 lots and 5 commercial acres under development.

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

**Home Building Development:**

As of February 15, 2021, residential development in the District included 446 completed homes, 228 homes under construction, and 394 vacant developed lots. Homes are currently being constructed by Westin Homes, Ashton Wood Homes, Empire Homes, Highland Homes, Lennar Homes, Trendmaker Homes, Taylor Morrison Homes, and Shea Homes; and being marketed in the \$250,000 - \$450,000 price range.

**The Developer:**

Substantially all of the land in the District has been developed by three special purpose entities created by Mr. Al P. Brende/the Land Tejas Companies. Those entities include: Balmoral LT LLC; Balmoral 168 LT; and Balmoral LT 25 and 26, LLC. Those entities are collectively referred to herein as the "Developer". (See "THE DISTRICT'S DEVELOPER")

Balmoral LT LLC (Balmoral LT), is a special purpose entity created by Land Tejas Companies, Ltd. solely for the purpose of developing approximately 146 acres known as Balmoral, Sections 4-8, 15 and 18. The General Partner of the Developer is L.T. Partnership, Ltd., which includes Mr. Al P. Brende who is also the President of Land Tejas Company, Ltd. A portion of the development financing for Balmoral LT has been provided by Varde Mortgage Fund II Sub Reit LLC. The development loan documents include a Loan Agreement, Note, Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al P. Brende. The development loan is secured by the land in the District owned by Balmoral LT, lot sale revenues, and future District receivables to be paid by the District to Balmoral LT from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan with a maturity date of November 1, 2021. According to representatives of Balmoral LT, as of February 28, 2021, the development loan had an outstanding balance of \$10,000,000. According to the Balmoral LT, the development loan is presently current and has never been in default.

The developer for 75 acres located on the eastern side of the District, known as Balmoral, Sections 19-22 is Balmoral 168 LT. Balmoral 168 LT is a special purpose entity established solely for the purpose of developing such land located within the District. All of the 75 acres have been developed and substantially all of the land has been sold to 6 different homebuilders. As of March 15, 2021, Balmoral 168 LT has no outstanding development loans associated with such acreage.

Balmoral LT 25 and 26, LLC ("LT 25 & 26") is a special purpose entity created solely to develop approximately 93 acres in the District known as Balmoral, Sections 25 & 26. The general partner of LT 25 & 26 is LT Management, Inc., a Nevada Corporation whose president is Mr. Al P. Brende. Development financing for LT 25 & 26 has been provided BancorpSouth. The development loan

documents include a Loan Agreement, Note, Deed of Trust and limited personal guarantee agreement provided by Mr. Al P. Brende. The development loan is secured by the land owned by LT 25 & 26, lot sale revenues, and future District receivables to be paid by the District from future bond anticipation note issues and future bond issues. As of February 28, 2021 the balance on the loan was \$5,865,549; the loan matures on July 20, 2022.

**The System:**

The System currently obtains all of its water from Harris County Municipal Utility District No. 400 ("MUD 400"). The area served by MUD 400 Water Plant No. 2, including the System, is served by a water interconnect to an existing 16-inch City of Houston surface water line located at John Ralston Road. MUD 400 Water Plant No. 2 is capable of serving 1,000 connections based on TCEQ minimum requirements and is currently under construction to expand the facility to serve 2,500 connections. Per the Wastewater Facilities Supply Agreement dated December 18, 2017, between Harris County MUD No. 423 and Harris County MUD No. 400, Harris County MUD No. 423 owns 28.96% or 724 connections of the 2,500 ESFC facility.

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

**100-Year Flood Plain**

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

**Infectious Disease  
Outlook (COVID-19):**

The World Health Organization 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. On March 2, 2021, the Governor issued Executive Order GA-34 whereby he ordered there be no operating limits for any business or other establishment, except in Trauma Service Areas that have had seven consecutive days in which the number of COVID-19 hospitalized patients as a percentage of total hospital capacity exceeds 15 percent, in which case the county judge may order COVID-19 mitigating measures not to include requiring the use of face coverings. Pursuant to Executive Order GA-34, such COVID-19 mitigating measures would remain in effect until such time as the Trauma Service Area has seven consecutive days in which the number of COVID-19 hospitalized patients as a percentage of total hospital capacity is 15 percent or less.

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)**

2/1/2021 Estimated Taxable Value	\$171,851,419	(a)
2020 Certified Taxable Value	\$88,986,203	(b)
Direct Debt (See "DISTRICT DEBT")		
Outstanding Bonds	\$6,110,000	
The Bonds	<u>\$16,000,000</u>	
Total Direct Debt	\$22,110,000	
Estimated Overlapping Debt (See "DISTRICT DEBT")	<u>\$5,316,477</u>	
Direct and Estimated Overlapping Debt	\$27,426,477	
Percentage of Direct Debt to:		
2/1/2021 Estimated Taxable Value	12.87%	
2020 Certified Taxable Value	24.85%	
See "DISTRICT DEBT"		
Percentage of Direct and Estimated Overlapping Debt to:		
2/1/2021 Estimated Taxable Value	15.96%	
2020 Certified Taxable Value	30.82%	
See "DISTRICT DEBT"		
2020 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.25	
Maintenance Tax	<u>\$1.11</u>	
Total 2020 Tax Rate	\$1.36	
Cash and Temporary Investment Balances as of March 22, 2021		
General Fund	\$648,548	
Road Debt Service Fund	\$234,639	(c)
Debt Service Fund Cash Balance	\$388,312	(d)

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- (a) Reflects data supplied by Harris County Appraisal District ("HCAD"). The Estimated Taxable Values as of 2/1/2021 prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA."
- (b) Reflects the 2020 Certified Taxable Value according to data supplied by HCAD. See "DISTRICT TAX DATA - Analysis of Tax Base."
- (c) Funds in the Road Debt Service Fund are available to pay debt service on the district's bonds issued for road facilities and are not available to pay debt service on the District's bonds issued for water, sewer, and drainage facilities (including the Bonds.) neither Texas Law nor any bond resolution required the District to maintain any minimum balance in the Road Debt Service Fund.
- (d) The cash and investment balance in the Debt Service Fund includes 12 months of capitalized interest to be funded with the proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA - Tax Adequacy of Tax Revenue" and "DISTRICT DEBT".

## DEBT SERVICE REQUIREMENTS

The following sets forth the debt service on the District's Outstanding Bonds and the debt service requirements for the Bonds.

<u>Year</u>	<u>Existing Debt Service Requirements</u>	<u>Debt Service on the 2021 Bonds</u>		<u>Total Debt Service Requirements</u>
		<u>Principal</u>	<u>Interest</u>	
2021	\$152,825		\$161,796	\$314,621
2022	\$152,825		\$388,312	\$541,137
2023	\$152,825		\$388,312	\$541,137
2024	\$284,787	\$350,000	\$380,437	\$1,015,224
2025	\$293,375	\$400,000	\$363,562	\$1,056,937
2026	\$286,625	\$400,000	\$345,562	\$1,032,187
2027	\$279,875	\$400,000	\$327,562	\$1,007,437
2028	\$297,562	\$400,000	\$309,562	\$1,007,124
2029	\$289,687	\$450,000	\$296,062	\$1,035,749
2030	\$284,000	\$450,000	\$287,062	\$1,021,062
2031	\$280,500	\$475,000	\$277,812	\$1,033,312
2032	\$301,750	\$500,000	\$268,062	\$1,069,812
2033	\$297,750	\$500,000	\$258,062	\$1,055,812
2034	\$293,750	\$525,000	\$247,812	\$1,066,562
2035	\$289,750	\$550,000	\$237,062	\$1,076,812
2036	\$285,750	\$550,000	\$226,062	\$1,061,812
2037	\$306,500	\$575,000	\$214,812	\$1,096,312
2038	\$302,000	\$600,000	\$203,062	\$1,105,062
2039	\$297,500	\$600,000	\$191,062	\$1,088,562
2040	\$317,593	\$650,000	\$178,562	\$1,146,155
2041	\$312,281	\$650,000	\$165,156	\$1,127,437
2042	\$306,812	\$675,000	\$151,078	\$1,132,890
2043	\$325,906	\$700,000	\$136,031	\$1,161,937
2044	\$319,718	\$725,000	\$120,000	\$1,164,718
2045	\$313,531	\$750,000	\$103,406	\$1,166,937
2046	\$332,062	\$775,000	\$86,250	\$1,193,312
2047	\$325,312	\$800,000	\$68,531	\$1,193,843
2048	\$343,281	\$825,000	\$50,250	\$1,218,531
2049	\$335,968	\$850,000	\$30,875	\$1,216,843
2050	\$328,656	\$975,000	\$10,390	\$1,214,046
<b>TOTALS</b>	<b>\$8,690,756</b>	<b>\$16,000,000</b>	<b>\$6,472,566</b>	<b>\$31,163,322</b>

Maximum Annual Debt Service Requirements (2048).....\$1,218,531

\$0.75 tax rate on the 2/1/2021 Estimated Taxable Value of \$171,851,419

@ 95% collections produces .....\$1,224,441

\$1.45 tax rate on 2020 Certified Taxable Valuation of \$88,986,203

@ 95% collections produces .....\$1,225,785

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

## **OFFICIAL STATEMENT**

**Relating to**

**\$16,000,000**

**Harris County Municipal Utility District No. 423**

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

**UNLIMITED TAX BONDS**

**SERIES 2021**

### **INTRODUCTION**

This Official Statement provides certain information in connection with the issuance of the \$16,000,000 Harris County Municipal Utility District No. 423 Unlimited Tax 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, an order of the Texas Commission on Environmental Quality ("TCEQ"), pursuant to a resolution (the "Bond Resolution") adopted by the Board of Directors of Harris County Municipal Utility District No. 423 (the "District"), and an election held within the District.

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

### **RISK FACTORS**

#### **General**

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

#### **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 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 taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by: (a) cumbersome, time consuming and expensive collection procedures; (b) a bankruptcy court's stay of tax collection procedures against a taxpayer; (c) market conditions affecting the marketability of taxable property within the District and limitation of the proceeds from a foreclosure sale of such property; (d) adverse effects on the proceeds of a foreclosure sale resulting from a taxpayer's limited right to redeem its foreclosed property as set forth below; or (e) insufficient foreclosure bids to satisfy the tax liens of all state and local taxing authorities which have parity liens on the property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of the property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayers' right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. See "TAXING PROCEDURES."

### **Registered Owners' Remedies**

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

### **Bankruptcy Limitation to Registered Owners' Rights**

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

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

has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

A District cannot be placed into bankruptcy involuntarily.

### **Approval of the Bonds**

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

### **Economic Factors**

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

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

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

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

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

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

### **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/Developer under No Obligation to the District**

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

#### **Dependence on Principal Taxpayers**

Based upon the 2020 certified tax rolls, the top ten taxpayers were responsible for approximately 35% of the District's 2020 taxes. The ability of the principal taxpayers to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, the principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to use other funds available for debt service purposes to the extent available. The District has no understanding with any of the principal taxpayers regarding their future level of operations in the District. The District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds. Therefore, failure by the principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. See "THE DISTRICT'S DEVELOPER" and "DISTRICT TAX DATA – Principal Taxpayers."

#### **Dependence on Future Development and Potential Impact on District Tax Rates**

The District's 2020 tax rate of \$1.36 per \$100 of assessed valuation is slightly higher than the tax rate that is common among many other similar utility districts providing water, sanitary sewer, and storm drainage services in Harris County. An increase in the District's tax rate substantially above such a level could have an adverse impact on future development in the District and on the District's ability to collect such tax.

Assuming no further residential building development within the District, other than that which has been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay ad valorem taxes levied by the District. After the issuance of the Bonds, the maximum annual debt service requirement will be \$1,218,531 (2048). The District's 2/1/2021 Estimated Taxable Value is \$171,851,419, assuming no increase or decrease from the 2/1/2021 Estimated Taxable Value and no use of other District funds, a tax rate of \$0.75 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the maximum annual debt service requirement. The District's 2020 certified taxable value is \$88,986,203. Assuming no increase or decrease from the 2020 certified taxable value and no use of other District funds, a tax rate of 1.45 per \$100 of Assessed Valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirements. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

#### **Future Debt**

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

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

After the issuance of the Bonds, the District will have \$166,000,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$58,890,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$19,500,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

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

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for said purpose, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b)



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

### **Financing Parks and Recreational Facilities**

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The District held a park and recreational facilities bond election on May 6, 2017, that authorized \$19,500,000 of park bonds.

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

### **Continuing Compliance with Certain Covenants**

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

### **Environmental Regulations**

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

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

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

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

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 developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a "serious" nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. 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.

### **2021 Legislative Session**

The 87th Regular Legislative Session convened on January 12, 2021, and will conclude on May 31, 2021. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

### **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 observations of the District's Operator and the District's Engineer, the District's System did not sustain any significant damage and there was no interruption of water and sewer service to District customers as a result of Hurricane Harvey.

According to the observations of the District's Engineer and members of the District's Board of Directors, no homes in the District experienced flooding as a result of Hurricane Harvey.

### **Specific Flood 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 tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date. See "TAXING PROCEDURES."

### **Harris County and City of Houston Floodplain Regulations**

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

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

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

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

#### **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.

#### **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.

## USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to: (1) refund the principal and accrued interest on the District's outstanding \$8,430,000 Bond Anticipation Note, Series 2020 which was used to fund certain improvements in the District and pay interest on funds advanced by the Developer for those costs; (2) fund certain additional expenditures for facilities previously advanced by the Developer on behalf of the District; (3) fund 12 months of capitalized interest on the Bonds; and (4) pay bond issuance expenses. The Engineer has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

<b><u>CONSTRUCTION COSTS</u></b>	<b><u>Total Amount</u></b>	<b>(a)</b>
<b>Developer Contribution Items</b>		
Balmoral Bay and Victoria Reach - W/WW/D	\$1,134,229	
HCMUD 400 Balmoral Drainage Phase I Cost Share	\$364,268	
Engineering	\$243,323	
<b>Total Developer Contribution Items</b>	<b>\$1,741,820</b>	
<b>District Items</b>		
HCMUD 400 Water Plant No. 2 Phase 1	\$409,883	
HCMUD 400 Water Plant No. 2 Phase 2	\$217,584	
Park Lakes North Surface Waterline Extension	\$75,984	
Interim WWTP No. 2 Expansion to 0.6 MGD Share	\$329,241	
Capacity in WWTP Expansion	\$1,085,752	
Balmoral Swing Tract Drainage Channel	\$627,225	
Balmoral Phase II Detention	\$2,513,015	
HCMUD 400 Water Plant No. 2 Phase 3	\$3,032,652	
Balmoral Lift Station No. 1 Phases 1 & 2 Share	\$429,398	
Land Acquisition Costs:		
Drainage Channel Swing Tract	\$199,330	
Balmoral Phase II Detention	\$414,549	
Lift Station No. 2	\$2,444	
Water Plant No. 2	\$3,764	
City of Houston Waterline with HCMUD 278	\$21,438	
City of Houston 2015 Impact Fees	\$10,147	
Contingency	\$299,900	
Engineering	1,265,651	
<b>Total District Items</b>	<b>\$10,937,957</b>	
<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$12,679,777</b>	
<b><u>NON-CONSTRUCTION COSTS</u></b>		
Legal Fees	\$355,000	
Financial Agent Fees	\$320,000	
Interest Costs		
Capitalized Interest	\$388,312	
Developer Interest	\$526,646	
BAN Interest	\$311,910	
Bond Discount	\$479,725	
Interim WWTP Lease Payments	\$109,201	
Operating Advances	\$222,868	
BAN Issuance Costs	\$187,590	
Market Study	\$10,000	
Bond Issuance Expenses	\$37,508	
Bond Application Report Costs	\$70,000	
Attorney General Fee	\$9,500	
TCEQ Bond Issuance Fee	\$40,000	
Contingency	\$251,963	(b)
<b>TOTAL NON-CONSTRUCTION COSTS</b>	<b>\$3,320,223</b>	
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b><u>\$16,000,000</u></b>	

(a) TCEQ rules require, with certain exceptions, that developers contribute a minimum of 30% of the construction costs of certain district system facilities. The District was granted a waiver from the TCEQ's 30% developer contribution requirement pursuant to 30 TEX. ADMIN. CODE §293.47(a)(3).

(b) The District will designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the estimated rate as a contingency line item. Such funds will be used by the District only in accordance with the TCEQ rules.

## **THE DISTRICT**

### **Authority**

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

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

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

### **Description**

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

### **Status of Land Development/Land Uses in the District**

<b><u>Type of Land Use</u></b>	<b><u>Approximate Acres</u></b>	
Developed Acres	242	(a)
Under Development	95	(b)
Remaining Developable Acreage	34	
Undevelopable Acreage	<u>28</u>	(c)
<b>Total Approximate Acres</b>	<b>399</b>	

- 
- (a) Represents the developable acres located in Balmoral, Sections 4-8, 15, 18-22, 24, and Balmoral Crystal Lagoon; such sections include 1068 lots.
- (b) Includes approximately 90 acres located in Balmoral, Sections 25 and 26 that are in the process of being developed into approximately 302 single family lots and 5 commercial acres that are currently under development.
- (c) Includes street rights-of-way, detention ponds, drainage easements, parks and recreation, open spaces, District plant sites, and drilling sites.

## Homebuilding Development

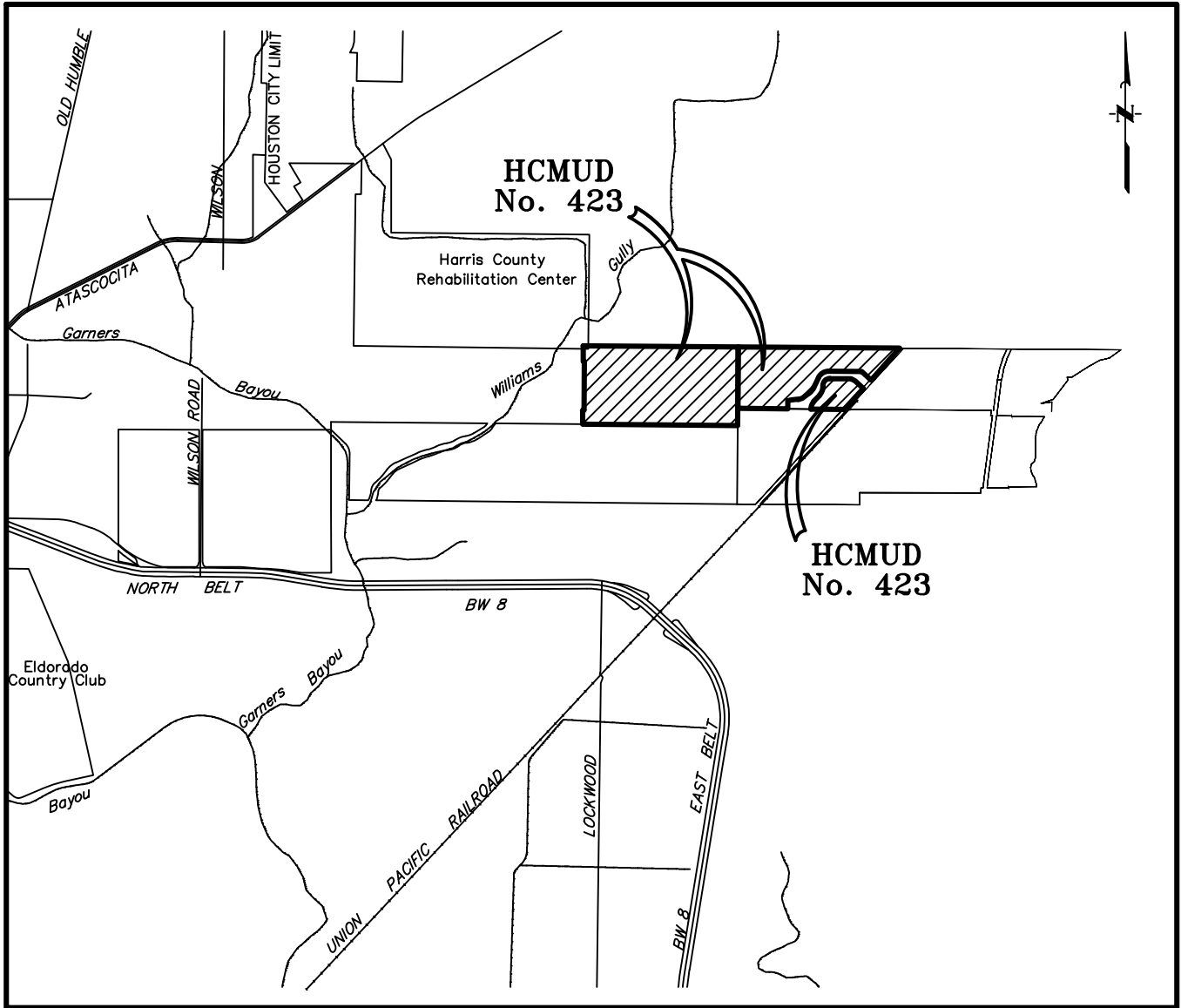
A tabulation of the single family development and potential future commercial development within the District as of February 15, 2021, is approximately as follows:

<u>Section</u>	<u>Acreage</u>	<u>Total Lots</u>	<u>Completed</u>	<u>Under Construction</u>	<u>Vacant Developed Lots</u>
Balmoral, Section 4 (a)	37	112	81	19	12
Balmoral, Section 5 (b)	22	112	110	2	0
Balmoral, Section 6 (c)	27	66	51	7	8
Balmoral, Section 7 (d)	5	13	10	1	2
Balmoral, Section 8 (e)	22	89	57	8	24
Balmoral, Section 15 (f)	21	86	51	14	21
Balmoral, Section 18 (g)	12	44	17	2	25
Balmoral, Section 19 (g)	23	190	22	25	143
Balmoral, Section 20 (g)	7	31	0	0	31
Balmoral, Section 21 (h)	21	89	29	15	45
Balmoral, Section 22 (h)	16	73	18	24	31
Balmoral, Section 24 (i)	20	163	0	111	52
Other Balmoral Sections (j)	—	—	—	—	—
<b>TOTAL</b>	<b>233</b>	<b>1068</b>	<b>446</b>	<b>228</b>	<b>394</b>

- (a) Homes in Balmoral, Section 4 are being constructed by Westin Homes and Ashton Woods Homes. Homes in this section are currently being marketed in the \$330,000 to \$450,000 price range.
- (b) Homes in Balmoral, Section 5 are being constructed by Empire Homes and Highland Homes. Homes in this section are currently being marketed in the \$250,000 to \$310,000 price range.
- (c) Homes in Balmoral, Section 6 are being constructed by Lennar Homes. Homes in this section are currently being marketed in the \$230,000 to \$270,000 price range.
- (d) Homes in Balmoral, Section 7 are being constructed as a model home court.
- (e) Homes in Balmoral, Section 8 are being constructed by Trendmaker Homes and Taylor Morrison Homes. Homes in this section are currently being marketed in the \$250,000 to \$350,000 price range.
- (f) Homes in Balmoral, Section 15 are being constructed by Westin Homes and Shea Homes. Homes in this section are currently being marketed in the \$250,000 to \$320,000 price range.
- (g) Homes in Balmoral, Section 18 are being constructed by Westin Homes and Shea Homes. Homes in this section are currently being marketed in the \$300,000 price range.
- (h) Homes in these sections will be constructed by Ashton Woods, Empire, and Highland and according to the Developer it is presently anticipated that homes in these sections will be marketed in the \$275,000 to \$325,000 price range.
- (i) Balcara at Balmoral (also known as Balmoral, Section 24) has been developed by affiliates of the Balcara Group, LLC into approximately 167 single family lots to develop as a rental home community.
- (j) Includes 3 tracts of land totaling approximately 15 acres that have been developed for commercial purposes and 4 tracts totaling approximately 27 acres that may be developed for commercial purposes at some point in time in the future. The District can make no representation that such tracts will ever be developed for such purpose. Also includes approximately 90 acres located in Balmoral, Sections 25 and 26 that are in the process of being developed into approximately 302 single family lots.



**LOCATION MAP**



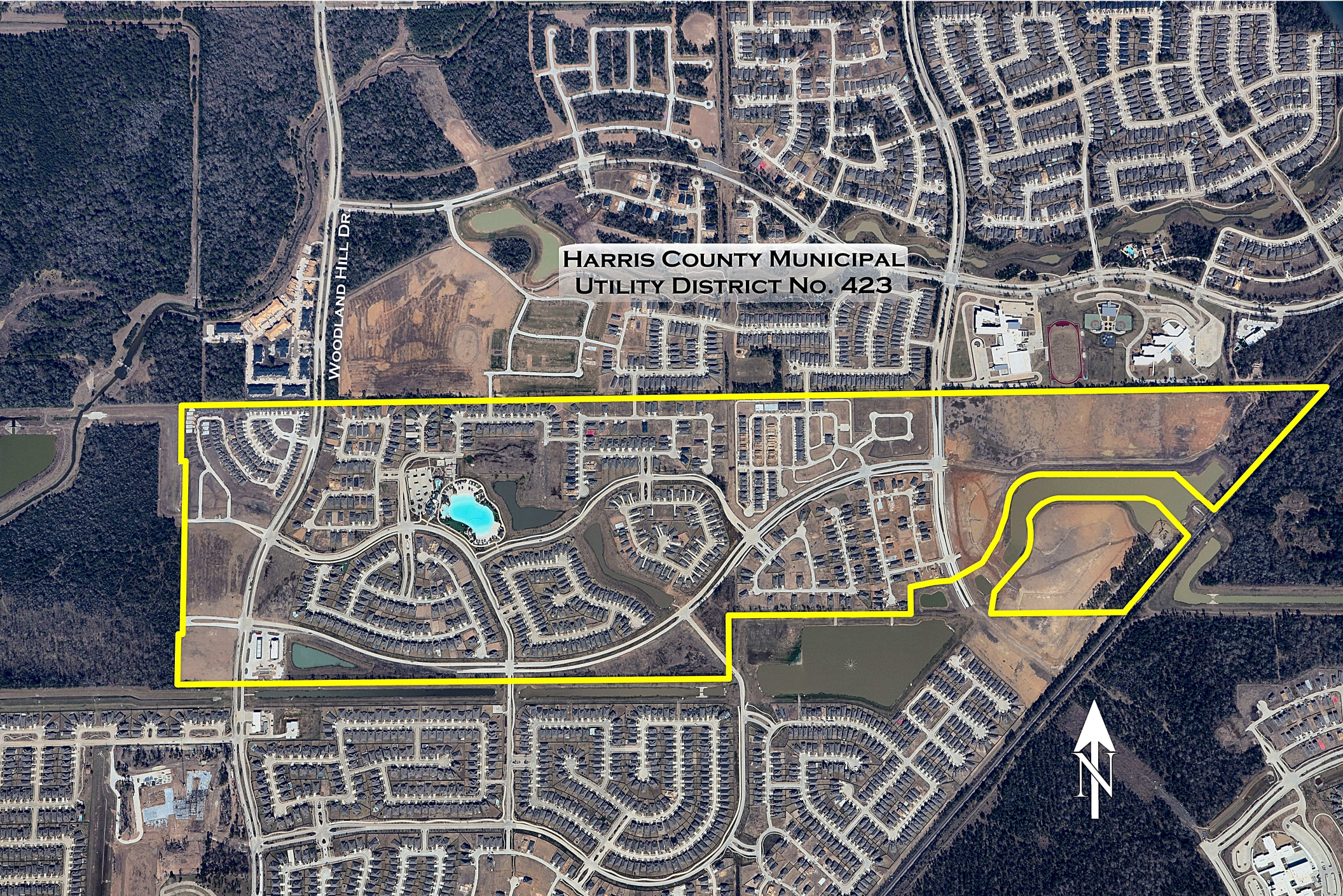
**ATTACHMENT IV  
VICINITY MAP**  
HARRIS COUNTY, TEXAS  
MUNICIPAL UTILITY DISTRICT No. 423  
MARCH 2020



**JONES | CARTER**

Texas Board of Professional Engineers Registration No. F-439  
1575 Sawdust Road, Suite 400 • The Woodlands, Texas 77380  
281.363.4039





HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT No. 423



## **THE DISTRICT'S DEVELOPER**

### **Role of a Developer**

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

### **The Developer**

Substantially all of the land within the District has been developed by three different special purpose entities created by Mr. Al P. Brende/the Land Tejas Companies. The three entities are collectively referred to herein as the "Developer". The paragraphs below provide brief descriptions of each of those special purpose entities.

Balmoral LT LLC (Balmoral LT), is a special purpose entity created by Land Tejas Companies, Ltd. solely for the purpose of developing approximately 146 acres known as Balmoral, Sections 4-8, 15 and 18. The General Partner of the Developer is L.T. Partnership, Ltd., which includes Mr. Al P. Brende who is also the President of Land Tejas Company, Ltd. A portion of the development financing for Balmoral LT has been provided by Varde Mortgage Fund II Sub Reit LLC. The development loan documents include a Loan Agreement, Note, Deed of Trust, and a limited personal guarantee agreement provided by Mr. Al P. Brende. The development loan is secured by the land in the District owned by Balmoral LT, lot sale revenues, and future District receivables to be paid by the District to Balmoral LT from future bond anticipation note issues and future bond issues. The development loan is a fixed rate loan with a maturity date of November 1, 2021. According to representatives of Balmoral LT, as of February 28, 2021, the development loan had an outstanding balance of \$10,000,000. According to the Balmoral LT, the development loan is presently current and has never been in default.

The developer for 75 acres located on the eastern side of the District, known as Balmoral, Sections 19-22 is Balmoral 168 LT. Balmoral 168 LT is a special purpose entity established solely for the purpose of developing such land located within the District. All of the 75 acres have been developed and substantially all off of the land has been sold to 6 different homebuilders. As of March 15, 2021, Balmoral 168 LT has no outstanding development loans associated with such acreage.

Balmoral LT 25 and 26, LLC ("LT 25 & 26") is a special purpose entity created solely to develop approximately 93 acres in the District known as Balmoral, Sections 25 & 26. The general partner of LT 25 & 26 is LT Management, Inc., a Nevada Corporation whose president is Mr. Al P. Brende. Development financing for LT 25 & 26 has been provided BancorpSouth. The development loan documents include a Loan Agreement, Note, Deed of Trust and limited personal guarantee agreement provided by Mr. Al P. Brende. The development loan is secured by the land owned by LT 25 & 26, lot sale revenues, and future District receivables to be paid by the District from future bond anticipation note issues and future bond issues. As of February 28, 2021 the balance on the loan was \$5,865,549; the loan matures on July 20, 2022.

## **THE SYSTEM**

### **Regulation**

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

### **Water Supply**

The System currently obtains all of its water from MUD 400. The area served by MUD 400 Water Plant No. 2, including the System, is served by a water interconnect to an existing 16-inch City of Houston surface water line located at John Ralston Road. MUD 400 Water Plant No. 2 is capable of serving 1,000 connections based on TCEQ minimum requirements and is currently under construction to expand the facility to serve 2,500 connections. Per the Wastewater Facilities Supply Agreement dated December 18, 2017, between Harris County MUD No. 423 and Harris County MUD No. 400, Harris County MUD No. 423 owns 28.96% or 724 connections of the 2,500 ESFC facility. It should be noted that the District is funding an expansion of the water plant capacity with

proceeds of the Bonds. Upon completion of the plant expansion the District will have capacity capable of serving approximately 1,649 ESFC's. It is currently anticipated that the District will have to expand its water supply capacity in the future in order to serve the full buildout of the District.

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

### **Wastewater Treatment**

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

### **Storm Drainage Facilities**

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

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

### **Water Distribution, Wastewater Collection and Storm Drainage Facilities**

Water distribution, wastewater collection, and storm drainage facilities have been constructed to serve 1068 single family residential lots in the District.

### **100-Year Flood Plain**

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

## General Fund Operating History

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

	<b>For Years Ended July 31 (a)</b>				
	<b><u>2020</u></b>	<b><u>2019</u></b>	<b><u>2018**</u></b>	<b><u>2017**</u></b>	<b><u>2016**</u></b>
<b>REVENUES</b>					
Water Service	\$107,304	\$39,496	\$18	-	-
Sewer Service	\$125,452	\$37,236	\$25	-	-
Property taxes	\$337,101	\$68,434	\$38,217	-	-
Penalty and interest	\$5,750	\$1,471	\$17	-	-
Tap connection and inspection	\$436,540	\$188,862	\$65,953	-	-
Miscellaneous	\$3,713	\$8,560	\$650	-	-
Investment earnings	<u>\$1,905</u>	<u>\$162</u>	<u>\$14</u>	<u>\$6</u>	<u>\$1</u>
<b>TOTAL REVENUES</b>	<b>\$1,017,765</b>	<b>\$344,221</b>	<b>\$104,894</b>	<b>\$6</b>	<b>\$1</b>
<b>EXPENDITURES</b>					
Current service operations:					
Purchased services	\$295,698	\$15,788	\$0	-	-
Professional fees	\$275,082	\$261,951	\$166,524	\$13,708	\$975
Contracted services	\$256,566	\$204,391	\$4,050	\$1,988	-
Repairs and maintenance	\$215,648	\$46,232	\$0	-	-
Utilities	\$1,852	\$701	\$0	-	-
Administrative	\$23,467	\$16,258	\$12,902	\$6,112	\$4,662
Other	\$15,850	\$4,489	\$1,361	\$194	\$182
Capital outlay	<u>\$3,408,544</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>	<u>\$0</u>
<b>TOTAL EXPENDITURES</b>	<b>\$4,492,707</b>	<b>\$549,810</b>	<b>\$184,837</b>	<b>\$22,002</b>	<b>\$5,819</b>
<b>EXCESS REVENUES</b>					
<b>(EXPENDITURES) (b)</b>	<b><u>(\$3,474,942)</u></b>	<b><u>(\$205,589)</u></b>	<b><u>(\$79,943)</u></b>	<b><u>(\$21,996)</u></b>	<b><u>(\$5,818)</u></b>

(a) Per data provided in the District's audited financial statements. See "APPENDIX A" for the District's audited financial statements for the fiscal year ended July 31, 2020.

(b) As of March 22, 2021, the District's General Fund had an unaudited cash and investment balance of approximately \$648,458. For the fiscal year ending July 31, 2021, the District's General Fund is currently budgeting revenues of approximately \$748,700 and expenditures of approximately \$766,700.

\*Unaudited figures.

## **MANAGEMENT OF THE DISTRICT**

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

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Expires May</u></b>
Patricia Scholes	President	2022
Jennifer L. Hoff	Vice President	2024
Heather LaFleur	Secretary	2022
Louise Blair	Assistant Secretary	2024
Jennifer Trevino	Assistant Vice President	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, and annual auditing of its financial statements as follows:

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

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

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

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

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

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

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

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

## **DISTRICT INVESTMENT POLICY**

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

## DISTRICT DEBT

2/1/2021 Estimated Taxable Value	\$171,851,419	(a)
2020 Certified Taxable Value	\$88,986,203	(b)
Direct Debt		
Outstanding Bonds	\$6,110,000	
The Bonds	<u>\$16,000,000</u>	
Total Direct Debt	\$22,110,000	
Estimated Overlapping Debt	<u>\$5,316,477</u>	
Direct and Estimated Overlapping Debt	\$27,426,477	
Percentage of Direct Debt to:		
2/1/2021 Estimated Taxable Value	12.87%	
2020 Certified Taxable Value	24.85%	
Percentage of Direct and Estimated Overlapping Debt to:		
2/1/2021 Estimated Taxable Value	15.96%	
2020 Certified Taxable Value	30.82%	
2020 Tax Rate Per \$100 of Assessed Value		
Debt Service Tax	\$0.25	
Maintenance Tax	<u>\$1.11</u>	
Total 2020 Tax Rate	\$1.36	
Cash and Temporary Investment Balances as of March 22, 2021		
General Fund	\$648,458	
Road Debt Service Fund	\$234,639	(c)
Debt Service Fund Cash Balance	\$388,312	(d)

- 
- (a) The Estimated Taxable Values as of 2/1/2021 were prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA."
- (b) Reflects the 2020 Certified Taxable Value according to data supplied by HCAD. See "DISTRICT TAX DATA - Analysis of Tax Base."
- (c) Funds in the Road Debt Service Fund are available to pay debt service on the district's bonds issued for road facilities and are not available to pay debt service on the District's bonds issued for water, sewer, and drainage facilities (including the Bonds.) Neither Texas Law nor any bond resolution required the District to maintain any minimum balance in the Road Debt Service Fund.
- (d) The cash and investment balance in the Debt Service Fund includes 12 months of capitalized interest to be funded with the proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the 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.

<b><u>Taxing Jurisdiction</u></b>	<b><u>Outstanding Debt</u></b>	<b><u>Overlapping Debt</u></b>	
		<b><u>Overlapping %</u></b>	<b><u>Amount</u></b>
Humble Independent School District	\$897,120,000	0.522%	\$4,683,417
Harris County	\$1,293,922,125	0.018%	\$238,783
Harris County Flood Control District	\$334,270,000	0.019%	\$63,033
Port of Houston Authority	\$492,439,397	0.019%	\$93,152
Harris County Hospital District	\$81,540,000	0.019%	\$15,448
Harris County Department of Education	\$20,185,000	0.019%	\$3,776
Lone Star College System	\$518,505,000	0.042%	\$218,869
<b>Total Estimated Overlapping Debt</b>			<b>\$5,316,477</b>
The District (a)			<b>\$22,110,000</b>
<b>Total Direct and Estimated Overlapping Debt</b>			<b>\$27,426,477</b>

(a) Includes the Bonds.

### **DISTRICT TAX DATA**

#### **Tax Rate and Collections**

The following table sets forth the historical tax information collection experience of the District for the years 2017 through 2020. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<b><u>Year</u></b>	<b><u>Taxable Valuation</u></b>	<b><u>Tax Rate (a)</u></b>	<b><u>Tax Levy</u></b>	<b><u>Cumulative Tax Collections (b)</u></b>	<b><u>Year Ended September 30</u></b>
2020	\$88,986,203	\$1.36	\$1,210,212	95%(c)	2021
2019	\$25,051,175	\$1.36	\$340,696	100%	2020
2018	\$4,046,998	\$1.36	\$55,039	100%	2019
2017	\$3,795,013	\$1.36	\$51,612	100%	2018

(a) See "Tax Rate Distribution" herein.

(b) Represents cumulative tax collections as of September 30, 2020.

(c) The 2020 tax levy collection figure is as of March 22, 2021.

### **Maintenance Tax**

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



## Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2017 through 2020.

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Debt Service	\$0.25	\$0.00	\$0.00	\$0.00
Maintenance/Operations	<u>\$1.11</u>	<u>\$1.36</u>	<u>\$1.36</u>	<u>\$1.36</u>
<b>Total</b>	<b>\$1.36</b>	<b>\$1.36</b>	<b>\$1.36</b>	<b>\$1.36</b>

## Additional Penalties

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

## Principal Taxpayers

The list of principal taxpayers for 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>% of Total</u>
Balmoral LT LLC (a)	Lots/Tracts/Houses	\$19,933,055	22.40%
Westin Homes & Properties LP	Lots/Houses	\$2,927,814	3.29%
Lennar Homes of Texas Land	Lots / Houses	\$2,555,405	2.87%
Perry Homes LLC	Lots / Houses	\$1,244,613	1.40%
Highland Homes Houston LLC	Lots / Houses	\$1,073,680	1.21%
Taylor Morrison of Texas Inc	Lots / Houses	\$910,500	1.02%
Ashton Houston Residential LLC	Lots / Houses	\$825,126	0.93%
EHT of Texas LP	Lots / Houses	\$636,207	0.71%
Brende Park Lakes 1023 LLC	Tract	\$594,725	0.67%
Tran Quoc A	Lots / House	\$447,397	0.50%
<b>TOTAL TOP 10 VALUE</b>		<b>\$31,148,522</b>	<b>35.00%</b>

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

## Analysis of Tax Base

Based on information provided to the District by HCAD and its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2017 through 2021.

<u>Year</u>	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>	<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
2/1/2021						\$171,851,419 (a)
2020	\$36,293,606	\$55,868,678	\$250,495	\$91,888,214	\$3,426,576	\$88,986,203 (b)
2019	\$14,453,803	\$10,884,321	\$68,244	\$25,406,368	\$355,193	\$25,051,175
2018	\$4,169,864	\$0	\$0	\$4,169,864	\$122,866	\$4,046,998
2017	\$3,795,013	\$0	\$0	\$3,795,013	\$0	\$3,795,013

(a) The 2/1/2021 Estimated Taxable Value was prepared by HCAD and provided to the District. Such value is not binding on HCAD and provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

(b) Reflects the 2020 Certified Taxable Value according to data supplied by HCAD. See "TAXING PROCEDURES."

### **Estimated Overlapping Taxes**

The following table sets forth all 2020 taxes levied by overlapping taxing jurisdictions for substantially all of the completed homes and homes under construction that are located within the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<b><u>Taxing Jurisdictions</u></b>	<b><u>2020 Tax Rate</u></b>
Humble Independent School District	\$1.384050
Harris County (a)	\$0.604193
Lone Star College System	\$0.107800
Emergency Service District No. 1	\$0.097210
Emergency Service District No. 10	<u>\$0.100000</u>
<b>Overlapping Taxes</b>	<b><u>\$2.293253</u></b>
The District (2020)	<u>\$1.360000</u>
<b>Total Direct &amp; Overlapping Taxes</b>	<b><u>\$3.653253</u></b>

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

### **Tax Adequacy of Tax Revenue**

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the 2/1/2021 Estimated Taxable Valuation and the 2020 Certified Taxable Valuation. The calculations utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2048).....	\$1,218,531
Requires a \$0.75 debt service tax rate on the 2/1/2021 Estimated Taxable Value at 95% collections.....	\$1,224,441
Requires a \$1.45 debt service tax rate on the 2020 Certified Taxable Value at 95% collections .....	\$1,225,785

## **TAXING PROCEDURES**

### **Authority to Levy Taxes**

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

### **Tax Code and County-Wide Appraisal District**

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

## **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

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

## **Tax Abatement**

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

including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

### **Valuation of Property for Taxation**

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

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

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

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

### **District and Taxpayer Remedies**

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

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

### **Levy and Collection of Taxes**

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

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

### **Rollback of Operation and Maintenance Tax Rate**

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."

### **The Effect of FIRREA on Tax Collections of the District**

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

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

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

## **ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION**

### **Annexation by the City of Houston**

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

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

### **Strategic Partnership Agreement**

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

### **Consolidation**

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

## **THE BONDS**

### **General**

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

The Bonds will be dated and will bear interest from May 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 and 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 15<sup>th</sup> day of the calendar month next preceding the interest payment date.

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

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

### **Optional Redemption**

The Bonds maturing on and after April 1, 2029, 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, 2028, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

### **Mandatory Redemption**

The Bonds maturing April 1 in the years 2042, 2044, 2046, 2048 and 2050 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown on the table(s) below.

#### **\$1,325,000 Term Bonds, due April 1, 2042**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2041	\$650,000
April 1, 2042 (maturity)	\$675,000

#### **\$1,425,000 Term Bonds, due April 1, 2044**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2043	\$700,000
April 1, 2044 (maturity)	\$725,000

#### **\$1,525,000 Term Bonds, due April 1, 2046**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2045	\$750,000
April 1, 2046 (maturity)	\$775,000

**\$1,625,000 Term Bonds, due April 1, 2048**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2047	\$800,000
April 1, 2048 (maturity)	\$825,000

**\$1,725,000 Term Bonds, due April 1, 2050**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2049	\$850,000
April 1, 2050 (maturity)	\$875,000

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

**Notice of Redemption; Partial Redemption**

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

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

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

**Source of and Security for Payment**

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

**Defeasance**

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



issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and that mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

### **Funds**

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

Accrued interest on the Bonds and 12 months of capitalized interest, funded with proceeds of the Bonds, shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose of reimbursing the Developer for certain construction and land acquisition costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Resolution or in accordance with TCEQ rules.

### **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, consultants, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

### **Paying Agent/Registrar**

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

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

### **Registration and Transfer**

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

will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

### **Lost, Stolen, or Destroyed Bonds**

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

### **Legal Investment and Eligibility to Secure Public Funds in Texas**

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

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

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

### **Issuance of Additional Debt**

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

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

After the issuance of the Bonds, the District will have \$166,000,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$58,890,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$19,500,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

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

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

### **BOOK-ENTRY-ONLY SYSTEM**

*This section describes how ownership of the Bonds (which in this section are referred to as 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 ("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](http://www.dtcc.com).

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

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

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

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

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

All payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding

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

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

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

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

### **Legal Review**

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

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

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

### **No-Litigation Certificate**

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

## **No Material Adverse Change**

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

## **TAX MATTERS**

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

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

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

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

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

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

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

## **Tax Accounting Treatment of Original Issue Discount Bonds**

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

such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner.

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

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

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

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

#### **NOT Qualified Tax-Exempt Obligations**

The District did NOT designate the Bonds as "qualified tax-exempt obligations" for financial institutions.

#### **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

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

#### **OFFICIAL STATEMENT**

##### **Sources of Information**

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

##### **Consultants**

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

**Engineer** - The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM," "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description," and "THE DISTRICT - Status of Land

Development/Land Uses in the District" has been provided by Jones & Carter, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

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

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

### **Continuing Availability of Financial Information**

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

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

### **Certification as to Official Statement**

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

### **Updating of Official Statement**

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

### **MISCELLANEOUS**

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

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

**APPENDIX A**

**AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT**

**FOR THE FISCAL YEAR ENDED JULY 31, 2020**



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

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**July 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. 423  
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 423, as of and for the year ended July 31, 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. 423  
Harris County, Texas***

**Opinion**

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

*McGuire & Co, LLC*

Houston, Texas  
November 16, 2020

## **Management's Discussion and Analysis**

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***Harris County Municipal Utility District No. 423  
Management's Discussion and Analysis  
July 31, 2020***

**Using this Annual Report**

Within this section of the financial report of Harris County Municipal Utility District No. 423 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended July 31, 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. 423***  
***Management's Discussion and Analysis***  
***July 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 July 31, 2020, was negative \$11,329,745. This amount is negative because the District incurs debt to construct paving facilities which it conveys to Harris County. A comparative summary of the District's overall financial position, as of July 31, 2020 and 2019, is as follows:

	2020	2019
Current and other assets	\$ 2,934,605	\$ 183,155
Capital assets	28,606,696	8,832,450
Total assets	<u>31,541,301</u>	<u>9,015,605</u>
Current liabilities	8,891,848	4,966,372
Long-term liabilities	33,979,198	10,588,564
Total liabilities	<u>42,871,046</u>	<u>15,554,936</u>
Net position		
Net investment in capital assets	(1,824,441)	(289,379)
Restricted	152,838	
Unrestricted	(9,658,142)	(6,249,952)
Total net position	<u>\$ (11,329,745)</u>	<u>\$ (6,539,331)</u>

***Harris County Municipal Utility District No. 423***  
***Management's Discussion and Analysis***  
***July 31, 2020***

The total net position of the District decreased during the current fiscal year by \$4,790,414. 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	\$ 346,727	\$ 69,905
Water and sewer service	232,756	76,732
Other	442,294	197,716
Total revenues	<u>1,021,777</u>	<u>344,353</u>
Expenses		
Current service operations	1,145,871	568,846
Debt interest and fees	169,166	32,344
Developer interest	99,910	
Debt issuance costs	636,159	103,092
Depreciation and amortization	629,526	180,083
Total expenses	<u>2,680,632</u>	<u>884,365</u>
Change in net position before other item	(1,658,855)	(540,012)
Other item		
Transfers to other governments	<u>(3,131,559)</u>	<u>(5,875,761)</u>
Change in net position	(4,790,414)	(6,415,773)
Net position, beginning of year	<u>(6,539,331)</u>	<u>(123,558)</u>
Net position, end of year	<u>\$ (11,329,745)</u>	<u>\$ (6,539,331)</u>

**Financial Analysis of the District's Funds**

The District's combined fund balances, as of July 31, 2020, were \$2,371,631, which consists of \$39,957 in the General Fund, \$152,838 in the Debt Service Fund and \$2,178,836 in the Capital Projects Fund.

*General Fund*

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

	2020	2019
Total assets	<u>\$ 418,305</u>	<u>\$ 198,538</u>
Total liabilities	\$ 374,472	\$ 300,882
Total deferred inflows	3,876	
Total fund balance	<u>39,957</u>	<u>(102,344)</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 418,305</u>	<u>\$ 198,538</u>

***Harris County Municipal Utility District No. 423***  
***Management's Discussion and Analysis***  
***July 31, 2020***

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

	2020	2019
Total revenues	\$ 1,017,765	\$ 344,221
Total expenditures	<u>(4,492,707)</u>	<u>(549,810)</u>
Revenues under expenditures	(3,474,942)	(205,589)
Other changes in fund balance	<u>3,617,243</u>	<u>44,000</u>
Net change in fund balance	<u><u>\$ 142,301</u></u>	<u><u>\$ (161,589)</u></u>

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

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. Property tax revenues increased from prior year because assessed values increased from prior year.
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District.
- Developers in the District advance funds to the District as needed to pay operating and construction costs.

*Debt Service Fund*

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

Total assets	<u><u>\$ 152,838</u></u>
Total fund balance	<u><u>\$ 152,838</u></u>

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

Total revenues	\$ 62
Total expenditures	<u>(49)</u>
Revenues over expenditures	13
Other changes in fund balance	<u>152,825</u>
Net change in fund balance	<u><u>\$ 152,838</u></u>

***Harris County Municipal Utility District No. 423  
Management's Discussion and Analysis  
July 31, 2020***

The District's financial resources in the Debt Service Fund in the current year are from capitalized interest from the sale of bonds.

***Capital Projects Fund***

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

	2020	2019
Total assets	<u>\$ 2,215,688</u>	<u>\$ 3,617</u>
Total liabilities	\$ 36,852	\$ 22,500
Total fund balance	<u>2,178,836</u>	<u>(18,883)</u>
Total liabilities and fund balance	<u>\$ 2,215,688</u>	<u>\$ 3,617</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	\$ 74	\$ 132
Total expenditures	<u>(6,498,649)</u>	<u>(4,648,661)</u>
Revenues under expenditures	(6,498,575)	(4,648,529)
Other changes in fund balance	<u>8,696,294</u>	<u>4,629,646</u>
Net change in fund balance	<u>\$ 2,197,719</u>	<u>\$ (18,883)</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2020 Unlimited Tax Road Bonds and Series 2020 Bond Anticipation Note in the current year and issuance of its Series 2019 Bond Anticipation Note in the prior year.

**General Fund Budgetary Highlights**

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$270,501 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

***Harris County Municipal Utility District No. 423***  
***Management's Discussion and Analysis***  
***July 31, 2020***

**Capital Assets**

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

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

	2020	2019
Capital assets not being depreciated		
Land and improvements	\$ 2,541,499	\$ 924,571
Construction in progress	816,463	
	<u>3,357,962</u>	<u>924,571</u>
Capital assets being depreciated/amortized		
Infrastructure	19,302,620	8,103,765
Interest in joint facilities	5,092,920	
Landscaping improvements	1,106,473	
Impact fees	572,133	
	<u>26,074,146</u>	<u>8,103,765</u>
Less accumulated depreciation/amortization		
Infrastructure	(624,832)	(195,886)
Interest in joint facilities	(130,587)	
Landscaping improvements	(55,323)	
Impact fees	(14,670)	
	<u>(825,412)</u>	<u>(195,886)</u>
Depreciable capital assets, net	<u>25,248,734</u>	<u>7,907,879</u>
Capital assets, net	<u>\$ 28,606,696</u>	<u>\$ 8,832,450</u>

Capital asset additions during the current year include the following:

- Clearing and grubbing for various tracts within the District
- Impact fees paid to Harris County MUD No. 400
- Water Plant No. 2 - Phases 1 and 2, and Phase III expansion
- Greens Road Street Dedication. No. 1 - utilities
- Greens Road and Timber Forest Drive – utilities
- Balmoral Phase III drainage facilities
- Balmoral drainage channel
- Balmoral Section 5, 6, 7 and 8 – landscaping improvements
- Balmoral Sections 6, 15, 18, 19, 20, 21, 22 and 24 – utilities
- Balmoral Hills, Balmoral Bend and Greens Road – utilities

***Harris County Municipal Utility District No. 423***  
***Management's Discussion and Analysis***  
***July 31, 2020***

The District's construction in progress is for the construction of utilities and paving to serve Thorncastle Drive Street Dedication and Reserve and Balmoral Swing Tract drainage channel.

Harris County assumes responsibility for public roads constructed within the county. Consequently, these projects are not recorded as capital assets on the District's financial statements, but are recorded as transfers to other governments upon completion of construction. For the year ended July 31, 2020, capital assets in the amount of \$3,131,559 have been completed and recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

**Long-Term Debt and Related Liabilities**

As of July 31, 2020, the District owes approximately \$27,784,620 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$6,985,511 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 are trued up when the developers are reimbursed.

During the current year, the District issued \$6,110,000 in unlimited tax road bonds, all of which were outstanding as of the end of the fiscal year. The District did not have any bonded debt as of July 31, 2019.

At July 31, 2020, the District had \$182,000,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and for the refunding such bonds; \$19,500,000 for parks and recreational facilities and for the refunding such bonds; and \$58,890,000 for road improvements and for the refunding such bonds.

During the current year, the District issued a \$8,430,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

***Harris County Municipal Utility District No. 423***  
***Management's Discussion and Analysis***  
***July 31, 2020***

**Next Year's Budget**

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

	<u>2020 Actual</u>	<u>2021 Budget</u>
Total revenues	\$ 1,017,765	\$ 748,700
Total expenditures	<u>(4,492,707)</u>	<u>(766,700)</u>
Revenues under expenditures	(3,474,942)	(18,000)
Other changes in fund balance	<u>3,617,243</u>	
Net change in fund balance	142,301	(18,000)
Beginning fund balance	<u>(102,344)</u>	<u>39,957</u>
Ending fund balance	<u>\$ 39,957</u>	<u>\$ 21,957</u>

**Property Taxes**

The District's property tax base increased approximately \$58,576,000 for the 2020 tax year from \$25,071,792 to \$83,648,173. This increase was primarily due to new construction in the District. For the 2020 tax year, the District has levied a tax rate of \$1.36, all of which is allocated to maintenance and operations. This is the same rate levied for the 2019 tax year.

**Infectious Disease Outlook (COVID-19)**

As further discussed in Note 16, the World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory virus currently affecting many parts of the world, including the United States and Texas. The pandemic has negatively affected the economic growth and financial markets worldwide and within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak could have an adverse effect on the District's operations and financial condition by negatively affecting property taxes and ad valorem tax revenues within the District.



## **Basic Financial Statements**

**Harris County Municipal Utility District No. 423**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**July 31, 2020**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 88,975	\$ 152,838	\$ 2,266,511	\$ 2,508,324	\$ -	\$ 2,508,324
Taxes receivable	3,876			3,876		3,876
Customer service receivables	37,929			37,929		37,929
Internal balances	50,823		(50,823)			
Prepaid items	5,222			5,222		5,222
Other receivables	16,214			16,214		16,214
Restricted assets:						
Cash	215,266			215,266		215,266
Prepaid bond insurance, net					147,774	147,774
Capital assets not being depreciated					3,357,962	3,357,962
Capital assets, net					25,248,734	25,248,734
Total Assets	<u>\$ 418,305</u>	<u>\$ 152,838</u>	<u>\$ 2,215,688</u>	<u>\$ 2,786,831</u>	<u>28,754,470</u>	<u>31,541,301</u>
<b>Liabilities</b>						
Accounts payable	\$ 212,531	\$ -	\$ 8,500	\$ 221,031		221,031
Other payables	66,589			66,589		66,589
Customer deposits	24,775			24,775		24,775
Builder deposits	40,000			40,000		40,000
Retainage payable	15,312		28,352	43,664		43,664
Unearned revenue	15,265			15,265		15,265
Accrued interest payable					50,524	50,524
Bond anticipation note payable					8,430,000	8,430,000
Due to developers					27,784,620	27,784,620
Long-term debt						
Due after one year					6,194,578	6,194,578
Total Liabilities	<u>374,472</u>		<u>36,852</u>	<u>411,324</u>	<u>42,459,722</u>	<u>42,871,046</u>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	<u>3,876</u>			<u>3,876</u>	<u>(3,876)</u>	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	5,222			5,222	(5,222)	
Restricted	174,973	152,838	2,178,836	2,506,647	(2,506,647)	
Unassigned	(140,238)			(140,238)	140,238	
Total Fund Balances	<u>39,957</u>	<u>152,838</u>	<u>2,178,836</u>	<u>2,371,631</u>	<u>(2,371,631)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balances	<u>\$ 418,305</u>	<u>\$ 152,838</u>	<u>\$ 2,215,688</u>	<u>\$ 2,786,831</u>		
<b>Net Position</b>						
Net investment in capital assets					(1,824,441)	(1,824,441)
Restricted for debt service					152,838	152,838
Unrestricted					(9,658,142)	(9,658,142)
Total Net Position					<u>\$(11,329,745)</u>	<u>\$(11,329,745)</u>

See notes to basic financial statements.

**Harris County Municipal Utility District No. 423****Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended July 31, 2020**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Water service	\$ 107,304	\$ -	\$ -	\$ 107,304	\$ -	\$ 107,304
Sewer service	125,452			125,452		125,452
Property taxes	337,101			337,101	3,876	340,977
Penalties and interest	5,750			5,750		5,750
Tap connection and inspection	436,540			436,540		436,540
Miscellaneous	3,713			3,713		3,713
Investment earnings	1,905	62	74	2,041		2,041
<b>Total Revenues</b>	<b>1,017,765</b>	<b>62</b>	<b>74</b>	<b>1,017,901</b>	<b>3,876</b>	<b>1,021,777</b>
<b>Expenditures/Expenses</b>						
Current service operations						
Purchased services	295,698			295,698		295,698
Professional fees	275,082		57,569	332,651		332,651
Contracted services	256,566			256,566		256,566
Repairs and maintenance	215,648			215,648		215,648
Utilities	1,852			1,852		1,852
Administrative	23,467			23,467		23,467
Other	15,850	49	4,090	19,989		19,989
Capital outlay	3,408,544		5,399,343	8,807,887	(8,807,887)	
Debt service						
Interest and fees			148,878	148,878	20,288	169,166
Developer interest			99,910	99,910		99,910
Debt issuance costs			788,859	788,859	(152,700)	636,159
Depreciation and amortization					629,526	629,526
<b>Total Expenditures/Expenses</b>	<b>4,492,707</b>	<b>49</b>	<b>6,498,649</b>	<b>10,991,405</b>	<b>(8,310,773)</b>	<b>2,680,632</b>
<b>Revenues Over/(Under)</b>						
<b>Expenditures/Expenses</b>	<b>(3,474,942)</b>	<b>13</b>	<b>(6,498,575)</b>	<b>(9,973,504)</b>	<b>8,314,649</b>	<b>(1,658,855)</b>
<b>Other Financing Sources/(Uses)</b>						
Proceeds from sale of bonds		152,825	5,957,175	6,110,000	(6,110,000)	
Proceeds from bond anticipation note			8,430,000	8,430,000	(8,430,000)	
Bond premium			87,397	87,397	(87,397)	
Developer advances	3,617,243			3,617,243	(3,617,243)	
Repayment of bond anticipation note			(4,629,646)	(4,629,646)	4,629,646	
Repayment of developer advances			(1,148,632)	(1,148,632)	1,148,632	
<b>Other Items</b>						
Transfers to other governments					(3,131,559)	(3,131,559)
<b>Net Change in Fund Balances</b>	<b>142,301</b>	<b>152,838</b>	<b>2,197,719</b>	<b>2,492,858</b>	<b>(2,492,858)</b>	
<b>Change in Net Position</b>					<b>(4,790,414)</b>	<b>(4,790,414)</b>
Fund Balance/Net Position						
Beginning of the year	(102,344)	-	(18,883)	(121,227)	(6,418,104)	(6,539,331)
<b>End of the year</b>	<b>\$ 39,957</b>	<b>\$ 152,838</b>	<b>\$ 2,178,836</b>	<b>\$ 2,371,631</b>	<b>\$ (13,701,376)</b>	<b>\$ (11,329,745)</b>

See notes to basic financial statements.

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***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 31, 2020***

**Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Harris County Municipal Utility District No. 423 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

**Creation**

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated December 12, 2006, and operates in accordance with Article 59 of the Texas Constitution and the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on July 23, 2015 and the first bonds were issued on April 1, 2020.

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

**Reporting Entity**

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

**Government-Wide and Fund Financial Statements**

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

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

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The 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. During the current year, financial resources included capitalized interest from the sale of bonds.
- 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, and road improvements.

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Use of Restricted Resources**

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Prepaid Items**

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

**Prepaid Bond Insurance**

Prepaid bond insurance reduces the District's borrowing costs and is, therefore, recorded as asset in the government-wide *Statement of Net Position* and amortized to interest expense over the life of the bonds.

**Receivables**

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

**Unbilled Service Revenues**

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

**Interfund Activity**

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

**Capital Assets**

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

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

Assets	Useful Life
Infrastructure	20-45 years
Landscaping improvements	20 years
Interest in joint facilities	40 years (max)
Impact fees	40 years (max)

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

**Deferred Inflows and Outflows of Financial Resources**

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

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.



**Note 1 – Summary of Significant Accounting Policies (continued)**

**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 capitalized interest from the sale of bonds in Debt Service Fund; and amounts restricted for the construction of certain assets in the General Fund (see Note 3).

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

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

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 value of unbilled utility revenues and receivables; the useful lives and impairment of capital assets; the value of amounts due to developers; the value of capital assets transferred to the Harris County, and the value of capital assets for which the developers have not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 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	\$ 2,371,631
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Prepaid bond insurance is recorded as an expenditure at the fund level, but is recorded as a prepaid asset and amortized to interest expense over the life of the bonds in the government wide statements.	147,774
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 29,432,108	
Less accumulated depreciation/amortization	<u>(825,412)</u>	
Change due to capital assets		28,606,696

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	(6,194,578)	
Bond anticipation note payable	(8,430,000)	
Interest payable on bonds	<u>(50,524)</u>	
Change due to long-term debt		(14,675,102)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(27,784,620)
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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.	3,876
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Total net position - governmental activities	<u><u>\$ (11,329,745)</u></u>
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***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 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 \$ 2,492,858

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. 3,876

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 8,807,887	
Depreciation and amortization expense	<u>(629,526)</u>	8,178,361

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.

Issuance of long-term debt	(6,110,000)	
Proceeds from bond anticipation note	(8,430,000)	
Bond premium	(87,397)	
Repayment of bond anticipation note	4,629,646	
Prepaid bond insurance	152,700	
Interest expense accrual	<u>(20,288)</u>	(9,865,339)

The District conveys public roads to Harris County 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. (3,131,559)

Amounts received from the District's developers for operating and construction advances provide financial resources at the fund level, but are recorded as a liability in the *Statement of Net Position*. (3,617,243)

Amounts repaid to the District's developers for construction advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 1,148,632

Change in net position of governmental activities	<u>\$ (4,790,414)</u>
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### **Note 3 – Deposits and Investments**

#### **Deposit Custodial Credit Risk**

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

#### **Restricted Cash**

On May 20, 2019, the District entered into a set aside agreement with Balmoral LT, LLC ("Developer") for the construction of water, sewer, drainage and paving in the right-of-way known as Thorncastle Drive. Pursuant to the agreement, the Developer deposited funds with the District which are restricted for use in the construction of the utilities and paving to serve the project. As of July 31, 2020, the District had \$215,266 remaining under the agreement.

#### **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.

***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 31, 2020***

**Note 4 – Interfund Balances and Transactions**

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

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Capital Projects Fund	\$ 50,823	Bond application fees paid by the General Fund

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

**Note 5 – Capital Assets**

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

	<u>Beginning Balances</u>	<u>Additions/ Adjustments</u>	<u>Ending Balances</u>
Capital assets not being depreciated			
Land and improvements	\$ 924,571	\$ 1,616,928	\$ 2,541,499
Construction in progress		816,463	816,463
	<u>924,571</u>	<u>2,433,391</u>	<u>3,357,962</u>
Capital assets being depreciated/amortized			
Infrastructure	8,103,765	11,198,855	19,302,620
Interest in joint facilities		5,092,920	5,092,920
Landscaping improvements		1,106,473	1,106,473
Impact fees		572,133	572,133
	<u>8,103,765</u>	<u>17,970,381</u>	<u>26,074,146</u>
Less accumulated depreciation/amortization			
Infrastructure	(195,886)	(428,946)	(624,832)
Interest in joint facilities		(130,587)	(130,587)
Landscaping improvements		(55,323)	(55,323)
Impact fees		(14,670)	(14,670)
	<u>(195,886)</u>	<u>(629,526)</u>	<u>(825,412)</u>
Subtotal depreciable capital assets, net	<u>7,907,879</u>	<u>17,340,855</u>	<u>25,248,734</u>
Capital assets, net	<u>\$ 8,832,450</u>	<u>\$ 19,774,246</u>	<u>\$ 28,606,696</u>

Depreciation and amortization expense for the current year was \$629,526.

***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 31, 2020***

**Note 6 – Bond Anticipation Note**

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

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$4,629,646. This BAN was repaid on April 1, 2020 with proceeds from the issuance of the District's Series 2020 Unlimited Tax Road Bonds.

On July 31, 2020, the District issued a \$8,430,000 BAN with an interest rate of 0.90%, which is due on July 30, 2021. The district intends to repay this BAN with proceeds from a future bond issue.

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

Beginning balance	\$ 4,629,646
Amounts borrowed	8,430,000
Amounts repaid	<u>(4,629,646)</u>
Ending balance	<u>\$ 8,430,000</u>

**Note 7 – Due to Developers**

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

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

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

Due to developers, beginning of year	\$ 10,588,564
Developer funded construction and adjustments	19,820,799
Operating advances from developers	60,000
Construction advances from developers	3,557,243
Repayment of construction advances	(1,148,632)
Developer reimbursements	<u>(5,093,354)</u>
Due to developers, end of year	<u>\$ 27,784,620</u>

***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 31, 2020***

**Note 7 – Due to Developers (continued)**

In addition, the District will owe the developers approximately \$6,985,511, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Balmoral Phase IV drainage	\$ 1,335,623	\$ 1,026,637	\$ 308,986
Balmoral Harbor Drive and Greens Road East Medians - landscaping	242,695	4,175	238,520
Greens Road and North Timber Forest - paving	1,133,234	975,763	157,471
Traffic Signal to serve Greens Road Street Dedication Section 3	256,249		256,249
Greens Road Street Dedication, Section 3 - utilities	276,600	259,393	17,207
Balmoral Section 4 - landscaping	533,841	478,070	55,771
Timber Forest Drive Street Dedication Section 5 - paving	694,278		694,278
Timber Forest Drive Street Dedication Section 5 - utilities	211,043		211,043
Balmoral Section 15 - landscaping	253,704	4,289	249,415
Balmoral Section 16 - landscaping	117,900	102,641	15,259
Balmoral Section 18 - landscaping	148,503	129,144	19,359
Balcara at Balmoral Section 24 - paving	901,840	799,462	102,378
Balmoral Sections 21 and 22 - landscaping	267,402	4,551	262,850
Thorncastle Drive street dedication - utilities and paving	297,770	245,554	52,216
Drainage Channel Facilities for Balmoral 33 Acre Tract - clearing and grubbing	58,320	52,488	5,832
Balmoral Swing Tract drainage channel	256,510	197,997	58,513
	<u>\$ 6,985,511</u>	<u>\$ 4,280,164</u>	<u>\$ 2,705,347</u>

**Note 8 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 6,110,000
Unamortized premium	87,397
	<u>\$ 6,194,578</u>
Due within one year	<u>\$ -</u>

***Harris County Municipal Utility District No. 423***  
***Notes to Basic Financial Statements***  
***July 31, 2020***

**Note 8 – Long-Term Debt (continued)**

The District's bonds payable at July 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
2020 Road	\$ 6,110,000	\$ 6,110,000	2.00% - 4.50%	April 1, 2024/2050	October 1, April 1	April 1, 2025

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

At July 31, 2020, the District had authorized but unissued bonds in the amount of \$182,000,000 for water, sanitary sewer and drainage facilities and for the refunding such bonds; \$19,500,000 for parks and recreational facilities and for the refunding such bonds; and \$58,890,000 for road improvements and for the refunding such bonds.

On April 1, 2020, the District issued its \$6,110,000 Series 2020 Unlimited Tax Road Bonds at a net effective interest rate of 2.453656%. Proceeds of the bonds were used (1) to reimburse its developer for the following: the cost of capital assets constructed within the District and the acquisition of land for certain District facilities plus interest expense at the net effective rate of the bonds; (2) to repay a \$4,629,646 BAN issued in the previous fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	\$ -
Bonds issued	6,110,000
Bonds payable, end of year	<u>\$ 6,110,000</u>



*Harris County Municipal Utility District No. 423*  
*Notes to Basic Financial Statements*  
*July 31, 2020*

**Note 8 – Long-Term Debt (continued)**

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

Year	Principal	Interest	Totals
2021	\$ -	\$ 152,825	\$ 152,825
2022		152,825	152,825
2023		152,825	152,825
2024	135,000	152,825	287,825
2025	150,000	146,750	296,750
2026	150,000	140,000	290,000
2027	150,000	133,250	283,250
2028	175,000	126,500	301,500
2029	175,000	118,625	293,625
2030	175,000	110,750	285,750
2031	175,000	107,250	282,250
2032	200,000	103,750	303,750
2033	200,000	99,750	299,750
2034	200,000	95,750	295,750
2035	200,000	91,750	291,750
2036	200,000	87,750	287,750
2037	225,000	83,750	308,750
2038	225,000	79,250	304,250
2039	225,000	74,750	299,750
2040	250,000	70,250	320,250
2041	250,000	64,938	314,938
2042	250,000	59,625	309,625
2043	275,000	54,000	329,000
2044	275,000	47,813	322,813
2045	275,000	41,624	316,624
2046	300,000	35,438	335,438
2047	300,000	28,687	328,687
2048	325,000	21,938	346,938
2049	325,000	14,625	339,625
2050	325,000	7,312	332,312
	<u>\$ 6,110,000</u>	<u>\$ 2,657,175</u>	<u>\$ 8,767,175</u>

**Note 9 – Property Taxes**

On May 6, 2017, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The voters also authorized the District's Board of Directors to levy a road maintenance tax limited to \$0.25 per \$100 of assessed value. The District has not levied a road maintenance tax. 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 \$1.36 per \$100 of assessed value, all of which was allocated to maintenance and operations. The resulting tax levy was \$340,977 on the adjusted taxable value of \$25,071,792.

**Note 10 – Transfers to Other Governments**

Harris County assumes responsibility for the maintenance of public roads constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of Harris County, not the District. The estimated cost of each project is trued-up when the developers are subsequently reimbursed. For the year ended July 31, 2020, the District recorded transfers to other governments in the amount of \$3,131,559 for road facilities constructed by its developer and partially funded by the District within the District's boundaries.

**Note 11 – Water Facilities Agreement**

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

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

**Note 12 – Regional Wastewater Treatment Plant Agreement**

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

The District is billed monthly based on its pro-rata share of fixed expenses and variable costs. During the current year, the District paid \$121,106 for purchased sewer services.

**Note 13 – Wastewater Treatment Plant Agreement**

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

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

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

**Note 14 – Risk Management**

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

**Note 15 – Economic Dependency**

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

**Note 16 – Infectious Disease Outlook (COVID-19)**

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. On March 31, 2020, the Governor issued an executive order closing all non-essential businesses in the State. This order expired on April 30, 2020. Additionally, all the counties in the greater Houston area adopted various "Work Safe – Stay Home" 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 the State.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting the economic growth and financial markets worldwide and within Texas. These negative impacts may reduce or negatively affect property taxes and ad valorem tax revenues within the District.

While the potential impact of the Pandemic on the District cannot be quantified at this time, the continued outbreak of the Pandemic could have an adverse effect on the District's operations and financial condition.

## **Required Supplementary Information**

*Harris County Municipal Utility District No. 423*

*Required Supplementary Information - Budgetary Comparison Schedule - General Fund*

*For the Year Ended July 31, 2020*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Water service	\$ 47,500	\$ 47,500	\$ 107,304	\$ 59,804
Sewer service	47,500	47,500	125,452	77,952
Property taxes	200,000	200,000	337,101	137,101
Penalties and interest			5,750	5,750
Tap connection and inspection	220,000	220,000	436,540	216,540
Miscellaneous			3,713	3,713
Investment earnings			1,905	1,905
Total Revenues	515,000	515,000	1,017,765	502,765
<b>Expenditures</b>				
Current service operations				
Purchased services	60,000	192,000	295,698	(103,698)
Professional fees	225,000	225,000	275,082	(50,082)
Contracted services	158,500	158,500	256,566	(98,066)
Repairs and maintenance	35,000	35,000	215,648	(180,648)
Utilities	2,000	2,000	1,852	148
Administrative	27,700	27,700	23,467	4,233
Other	3,000	3,000	15,850	(12,850)
Capital outlay			3,408,544	(3,408,544)
Total Expenditures	511,200	643,200	4,492,707	(3,849,507)
<b>Revenues Over/(Under) Expenditures</b>	3,800	(128,200)	(3,474,942)	(3,346,742)
<b>Other Financing Sources</b>				
Developer advances			3,617,243	3,617,243
<b>Net Change in Fund Balance</b>	3,800	(128,200)	142,301	270,501
<b>Fund Balance</b>				
Beginning of the year	(102,344)	(102,344)	(102,344)	
End of the year	\$ (98,544)	\$ (230,544)	\$ 39,957	\$ 270,501

***Harris County Municipal Utility District No. 423***  
***Notes to Required Supplementary Information***  
***July 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. The budget was amended during the year to reflect changes in anticipated expenditures.

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## **Texas Supplementary Information**

**Harris County Municipal Utility District No. 423**  
**TSI-1. Services and Rates**  
**July 31, 2020**

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

- ☒ Retail Water      ☐ Wholesale Water      ☒ Solid Waste / Garbage      ☒ Drainage  
☒ Retail Wastewater      ☐ Wholesale Wastewater      ☐ Flood Control      ☐ Irrigation  
☒ Parks / Recreation      ☐ Fire Protection      ☐ Roads      ☐ Security  
☐ Participates in joint venture, regional system and/or wastewater service (other than emergency interconnect)  
☐ Other (Specify): \_\_\_\_\_

2. Retail Service Providers

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

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

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

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
Less than 3/4"	329	329	x 1.0	329
1"	34	34	x 2.5	85
1.5"			x 5.0	
2"	11	11	x 8.0	88
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	374	374		502
Total Wastewater	365	365	x 1.0	365

See accompanying auditor's report.

***Harris County Municipal Utility District No. 423***  
***TSI-1. Services and Rates***  
***July 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 purchased from

Harris County MUD 400: 49,100,100

Water Accountability Ratio:

(Gallons billed / Gallons purchased)

Gallons billed to customers: 49,100,100

100.00%

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

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

Does the District have Debt Service standby fees?

Yes ☐

No ☒

If yes, Date of the most recent commission Order: \_\_\_\_\_

Does the District have Operation and Maintenance standby fees?

Yes ☐

No ☒

If yes, Date of the most recent commission Order: \_\_\_\_\_

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

Is the District located entirely within one county?

Yes ☒

No ☐

County in which the District is located:

Harris County

Is the District located within a city?

Entirely ☐

Partly ☐

Not at all ☒

City(ies) in which the District is located: \_\_\_\_\_

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

Entirely ☒

Partly ☐

Not at all ☐

ETJs in which the District is located:

City of Houston

Are Board members appointed by an office outside the district?

Yes ☐

No ☒

If Yes, by whom? \_\_\_\_\_

See accompanying auditors' report.

***Harris County Municipal Utility District No. 423***  
***TSI-2 General Fund Expenditures***  
***For the Year Ended July 31, 2020***

Purchased services		\$ 295,698
Professional fees		
Legal		191,230
Audit		8,000
Engineering		75,352
Financial advisor		500
		<u>275,082</u>
Contracted services		
Bookkeeping		13,800
Operator		31,346
Garbage collection		32,150
Tax collection fees		5,889
Appraisal district fees		4,006
Tap connection and inspection		168,100
Sludge removal		1,275
		<u>256,566</u>
Repairs and maintenance		<u>215,648</u>
Utilities		<u>1,852</u>
Administrative		
Directors fees		8,250
Printing and office supplies		7,093
Insurance		4,971
Other		3,153
		<u>23,467</u>
Other		<u>15,850</u>
Capital outlay		<u>3,408,544</u>
Total expenditures		<u><u>\$ 4,492,707</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	Usage	Cost
Electrical	6,483 kwh	\$ 1,393
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

*Harris County Municipal Utility District No. 423*  
*TSI-4. Taxes Levied and Receivable*  
*July 31, 2020*

	Maintenance Taxes
Taxes Receivable, Beginning of Year	<u>\$ -</u>
2019 Original Tax Levy	99,320
Adjustments	<u>241,657</u>
Adjusted Tax Levy	<u>340,977</u>
Total to be accounted for	<u>340,977</u>
Total Collections	<u>337,101</u>
Taxes Receivable, End of Year	<u><u>\$ 3,876</u></u>
Taxes Receivable, By Year 2019	<u><u>\$ 3,876</u></u>

	2019	2018	2017
Property Valuations:			
Land	\$ 25,426,985	\$ 4,169,864	\$ 3,795,013
Exemptions	<u>(355,193)</u>	<u>(122,866)</u>	
Total Property Valuations	<u><u>\$ 25,071,792</u></u>	<u><u>\$ 4,046,998</u></u>	<u><u>\$ 3,795,013</u></u>

Tax Rates per \$100 Valuation:			
Maintenance tax rates*	<u>\$ 1.36</u>	<u>\$ 1.36</u>	<u>\$ 1.36</u>
Adjusted Tax Levy:	<u>\$ 340,977</u>	<u>\$ 55,039</u>	<u>\$ 51,612</u>

Percentage of Taxes Collected to Taxes Levied ***	<u>98.86%</u>	<u>100.00%</u>	<u>100.00%</u>
------------------------------------------------------	---------------	----------------	----------------

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

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

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

See accompanying auditors' report.

*Harris County Municipal Utility District No. 423*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2020 Road--by Years*  
*July 31, 2020*

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2021	\$ -	\$ 152,825	\$ 152,825
2022		152,825	152,825
2023		152,825	152,825
2024	135,000	152,825	287,825
2025	150,000	146,750	296,750
2026	150,000	140,000	290,000
2027	150,000	133,250	283,250
2028	175,000	126,500	301,500
2029	175,000	118,625	293,625
2030	175,000	110,750	285,750
2031	175,000	107,250	282,250
2032	200,000	103,750	303,750
2033	200,000	99,750	299,750
2034	200,000	95,750	295,750
2035	200,000	91,750	291,750
2036	200,000	87,750	287,750
2037	225,000	83,750	308,750
2038	225,000	79,250	304,250
2039	225,000	74,750	299,750
2040	250,000	70,250	320,250
2041	250,000	64,938	314,938
2042	250,000	59,625	309,625
2043	275,000	54,000	329,000
2044	275,000	47,813	322,813
2045	275,000	41,624	316,624
2046	300,000	35,438	335,438
2047	300,000	28,687	328,687
2048	325,000	21,938	346,938
2049	325,000	14,625	339,625
2050	325,000	7,312	332,312
	<u>\$ 6,110,000</u>	<u>\$ 2,657,175</u>	<u>\$ 8,767,175</u>

See accompanying auditors' report.

***Harris County Municipal Utility District No. 423***  
***TSI-6. Change in Long-Term Bonded Debt***  
***July 31, 2020***

	Bond Issue
	Series 2020   Road
Interest rate	2.00% - 4.50%
Dates interest payable	10/1; 4/1
Maturity dates	4/1/24 - 4/1/50
Beginning bonds outstanding	\$            -
Bonds issued	6,110,000
Bonds retired	_____
Ending bonds outstanding	<u><u>\$        6,110,000</u></u>
Interest paid during fiscal year	<u><u>\$                    -</u></u>

Paying agent's name and city  
Series 2020 Road

The Bank of New York Mellon Trust Company, N.A., Dallas, TX

	Water, Sewer and Drainage Bonds	Parks and Recreational Bonds	Road Bonds
Bond Authority:			
Amount Authorized by Voters	\$    182,000,000	\$    19,500,000	\$        65,000,000
Amount Issued			(6,110,000)
Remaining To Be Issued	<u><u>\$    182,000,000</u></u>	<u><u>\$    19,500,000</u></u>	<u><u>\$        58,890,000</u></u>

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

Debt Service Fund cash and investment balances as of July 31, 2020:	<u>\$        152,838</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$        292,239</u>

See accompanying auditors' report.

**Harris County Municipal Utility District No. 423**

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

	Amounts				
	2020	2019	2018**	2017**	2016**
Revenues					
Water service	\$ 107,304	\$ 39,496	\$ 18	\$ -	\$ -
Sewer service	125,452	37,236	25		
Property taxes	337,101	68,434	38,217		
Penalties and interest	5,750	1,471	17		
Tap connection and inspection	436,540	194,862	65,953		
Miscellaneous	3,713	2,560	650		
Investment earnings	1,905	162	14	6	1
Total Revenues	1,017,765	344,221	104,894	6	1
Expenditures					
Current service operations					
Purchased services	295,698	15,788			
Professional fees	275,082	261,951	166,524	13,708	
Contracted services	256,566	204,391	4,050	1,988	975
Repairs and maintenance	215,648	46,232			
Utilities	1,852	701			
Administrative	23,467	16,258	12,902	6,112	4,662
Other	15,850	4,489	1,361	194	182
Capital outlay	3,408,544				
Total Expenditures	4,492,707	549,810	184,837	22,002	5,819
Revenues Under Expenditures	\$ (3,474,942)	\$ (205,589)	\$ (79,943)	\$ (21,996)	\$ (5,818)
Total Active Retail Water Connections	374	151	N/A	N/A	N/A
Total Active Retail Wastewater Connections	365	148	N/A	N/A	N/A

\*Percentage is negligible

\*\*Unaudited

See accompanying auditors' report.



Percent of Fund Total Revenues				
2020	2019	2018**	2017**	2016**
11%	11%	*		
12%	11%	*		
33%	20%	36%		
1%	*	*		
43%	57%	63%		
*	1%	1%		
*	*	*	100%	100%
100%	100%	100%	100%	100%
29%	5%			
27%	76%	159%	228467%	
25%	59%	4%	33133%	97500%
21%	13%			
*	*			
2%	5%	12%	101867%	466200%
2%	1%	1%	3233%	18200%
335%				
441%	159%	176%	366700%	581900%
(341%)	(59%)	(76%)	(366,600%)	(581,800%)

*Harris County Municipal Utility District No. 423*

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

*For the Current Fiscal Year*

	Amounts	Percent of Fund Total Revenues
	2020	2020
Revenues		
Investment earnings	\$ 62	100%
Total Revenues	62	100%
Expenditures		
Other	49	79%
Total Expenditures	49	79%
Revenues Over Expenditures	\$ 13	21%

See accompanying auditors' report.

***Harris County Municipal Utility District No. 423***  
***TSI-8. Board Members, Key Personnel and Consultants***  
***For the Year Ended July 31, 2020***

Complete District Mailing Address:	<u>3200 Southwest Freeway, Suite 2600, Houston, TX, 77027</u>
District Business Telephone Number:	<u>(713) 860-6400</u>
Submission Date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	<u>May 4, 2020</u>
Limit on Fees of Office that a Director may receive during a fiscal year: (Set by Board Resolution -- TWC Section 49.0600)	<u>\$ 7,200</u>

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Patricia Scholes	05/18 - 05/22	\$ 1,950	\$ 142	President
Jennifer Hoff	05/20 - 05/24	1,350	30	Vice President
Heather LaFleur	05/18 - 05/22	1,800	303	Secretary
Louise Blair	05/20 - 05/24	1,800	162	Assistant Secretary
Jennifer Trevino	05/20 - 05/24	1,050	58	Assistant Vice President
<b>Consultants</b>				
Allen Boone Humphries Robinson LLP	07/15	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 202,104		
<i>Bond counsel fees</i>		246,556		
Environmental Development Partners, LLC	11/17	311,679		Operator
Myrtle Cruz, Inc.	08/15	19,324		Bookkeeper
Assessments of the Southwest, Inc.	08/15	5,889		Tax Collector
Harris County Central Appraisal District	Legislation	3,493		Property Valuation
Perdue, Brandon, Collins & Mott, LLP	03/18	25		Delinquent Tax Attorney
Jones & Carter, Inc.	08/15	148,234		Engineer
KGA/DeForest Design, LLC	02/17			Landscape Architect
McGrath & Co., PLLC	04/19	19,200		Auditor
The GMS Group, LLC	09/17	208,625		Financial Advisor

\* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.

See accompanying auditors' report.

**APPENDIX B**

**SPECIMEN MUNICIPAL BOND INSURANCE POLICY**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

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