

OFFICIAL STATEMENT DATED AUGUST 12, 2021

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MORTON ROAD MUNICIPAL UTILITY DISTRICT. IN THE OPINION OF SPECIAL TAX COUNSEL, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION. SEE “LEGAL MATTERS” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF THE OPINIONS OF BOND COUNSEL AND SPECIAL TAX COUNSEL.

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

NEW ISSUE - Book-Entry Only

**Ratings: S&P Global Ratings (BAM Insured).... “AA” (stable outlook)
Moody’s Investors Service, Inc. (Underlying)“A3”
See “BOND INSURANCE” and “RATINGS” herein**

\$3,075,000

**MORTON ROAD MUNICIPAL UTILITY DISTRICT
(A Political Subdivision of the State of Texas located within Harris County, Texas)
UNLIMITED TAX REFUNDING BONDS, SERIES 2021**

Dated: September 1, 2021

**Due: September 1, as shown
on the inside cover**

Principal of the above bonds (the “Bonds”) is payable by the paying agent/registrar, initially, The Bank of New York Mellon Trust Company, N.A., currently in Dallas, Texas, or any successor paying agent/registrar (the “Paying Agent,” “Registrar” or “Paying Agent/Registrar”). Interest on the Bonds accrues from September 1, 2021, and is payable on September 1, 2022 (twelve-month interest payment), and on each March 1 and September 1 thereafter until the earlier of maturity or redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof in fully registered form only.

The Bonds maturing on and after September 1, 2027, are subject to redemption prior to maturity at the option of Morton Road Municipal Utility District (the “District”), as a whole or in part, on September 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under “BOOK-ENTRY-ONLY SYSTEM”) of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See “BOOK-ENTRY- ONLY SYSTEM.”

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company (“BAM” or the “Insurer”). See “BOND INSURANCE” herein.



See Maturity Schedule on the inside cover

The proceeds of the sale of the Bonds, plus certain other lawfully available funds of the District, will be applied to refund certain outstanding bonds of the District and to pay the costs of issuance of the Bonds. See “PLAN OF FINANCING — Use of Bond Proceeds.” The Bonds, when issued, will constitute valid and legally binding obligations of the District, payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. 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. See “THE BONDS – Source of Payment.” Investment in the Bonds is subject to special investment considerations as described herein. See “INVESTMENT CONSIDERATIONS.”

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. Certain legal matters will be passed on for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Houston, Texas. Delivery of the Bonds in book entry form through DTC is expected on or about September 14, 2021.

SAMCO CAPITAL MARKETS

RBC CAPITAL MARKETS

MATURITY SCHEDULE

CUSIP Prefix (a): 619385

| <u>Maturity (September 1)</u> | <u>Principal Amount</u> | <u>Interest Rate</u> | <u>Initial Reoffering Yield (b)</u> | <u>CUSIP Suffix (a)</u> |
|-----------------------------------|-----------------------------|--------------------------|---|-----------------------------|
| 2022 | \$430,000 | 3.00% | 0.25% | FL6 |
| 2023 | 490,000 | 3.00 | 0.35 | FM4 |
| 2024 | 505,000 | 3.00 | 0.46 | FN2 |
| 2025 | 530,000 | 3.00 | 0.67 | FP7 |
| 2026 | 550,000 | 3.00 | 0.88 | FQ5 |
| 2027 (c) | 570,000 | 2.00 | 1.00 | FR3 |

- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District, the Financial Advisor (as defined herein), nor the Underwriters (as defined herein) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriters. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriters for public offerings, and which subsequently may be changed. Accrued interest from September 1, 2021, is to be added to the price.
- (c) Subject to optional redemption as described on the front cover.

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APPENDIX A - LOCATION MAP

APPENDIX B - INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

APPENDIX C - SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY

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

All of the summaries of the statutes, orders, resolutions, contracts, audited financial statements, and engineering and other related reports set forth in the 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 Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 1400, Houston, Texas 77056 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 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 the Official Statement until delivery of the Bonds to the Underwriters (as defined herein), and thereafter only as described under "OFFICIAL STATEMENT - Updating of Official Statement."

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have 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.

Neither the District nor the Underwriters make any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will" or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "INVESTMENT CONSIDERATIONS" in this Official Statement, as well as additional factors beyond the District's control. The important investment considerations and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward-looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

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

SALE AND DISTRIBUTION OF THE BONDS

Underwriting

SAMCO Capital Markets, Inc. and RBC Capital Markets, LLC (“RBC”) (together referred to herein as the “Underwriters”) have agreed, pursuant to a Bond Purchase Agreement, to purchase the Bonds from the District for \$3,251,250.25 (an amount equal to the principal amount of the Bonds, less an Underwriters’ discount of \$30,486.25, plus an original issue premium on the Bonds of \$206,736.50), plus accrued interest on the Bonds to the date of delivery. The obligation of the Underwriters to purchase the Bonds is subject to the conditions contained in the Bond Purchase Agreement. The Underwriters 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 inside cover page hereof. The initial offering price may be changed from time to time by the Underwriters.

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

Prices and Marketability

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

The prices and other terms respecting the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering price, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon 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 acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in

which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM. The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com. BAM is licensed and subject to regulation as a financial guaranty corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

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

Capitalization of BAM

BAM’s total admitted assets, total liabilities, and total capital and surplus, as of June 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$488.6 million, \$165.5 million and \$323.1 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM’s most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM’s website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published

BAM makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “BOND INSURANCE.”

Additional Information Available from BAM

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

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

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

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

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 Policy for such payments.

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

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

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

RATINGS

The Bonds are expected to receive an insured rating of “AA” (stable outlook) from S&P Global Ratings (“S&P”) a business unit of Standard & Poor’s Financial Services LLC, based upon the issuance of the Policy by the Insurer at the time of delivery of the Bonds. The underlying credit rating of the Bonds assigned by Moody’s Investors Service, Inc. (“Moody’s”) is “A3.”

An explanation of the significance of the foregoing ratings may only be obtained from S&P and Moody’s. The foregoing ratings express only the view of S&P and Moody’s at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that the ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by S&P and Moody’s, if, in any of their judgment, circumstances so warrant. Any such downward change in or withdrawal of such ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any ratings assigned the Bonds other than the ratings of S&P and Moody’s. See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.”

OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

| | |
|-----------------------------|---|
| The Issuer | Morton Road Municipal Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.” |
| The Issue..... | Morton Road Municipal Utility District Unlimited Tax Refunding Bonds, Series 2021, in the aggregate principal amount of \$3,075,000 are dated September 1, 2021. Interest accrues from September 1, 2021, and is payable on September 1, 2022 (twelve-month interest payment), and on each March 1 and September 1 thereafter until maturity or prior redemption. The Bonds mature on September 1 in each of the years and in the amounts shown on the inside cover page of this Official Statement. The Bonds scheduled to mature on and after September 1, 2027, are subject to redemption, in whole or in part, prior to their scheduled maturities, on September 1, 2026, or on any date thereafter at the option of the District. Upon redemption, the Bonds will be payable at a price equal to the principal amount of the Bonds, or portions thereof, so called for redemption, plus accrued interest to the date of redemption. The Bonds will be issued pursuant to a Bond Order (the “Bond Order”) adopted by the Board of Directors of the District. The Bonds are being issued under the authority of Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 1207 of the Texas Government Code, as amended. |
| Book-Entry-Only System..... | The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (defined herein), 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 (hereinafter defined) 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”). |
| Source of Payment..... | Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. See “THE BONDS – Source and Security for Payment,” “TAX DATA - Tax Rate Calculations,” and “INVESTMENT CONSIDERATIONS - Maximum Impact on District Tax Rates.” The Bonds are obligations of the District, and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any entity other than the District. |

Other Characteristics

The Bonds are issued in fully registered form, without coupons, in the denomination of \$5,000 each, or any integral multiple thereof.

Use of Bond Proceeds

Proceeds of the sale of the Bonds, together with other lawfully available funds of the District, will be used to refund \$3,165,000 in principal amount of the District's Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds"). The Series 2014 Refunding Bonds that are being refunded by the Bonds are hereinafter referred to as the "Refunded Bonds." The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Refunded Bonds will be redeemed on their redemption date, at a price equal to the principal amount thereof plus accrued interest from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the "Escrow Agent"). The sale of the Bonds and the refunding of the Refunded Bonds will (i) reduce the District's debt service payments, and (ii) provide present value savings in the District's debt service.

Payment Record.....

The District has previously issued its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 (the "Series 1980 Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1982 (the "Series 1982 Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985 (the "Series 1985 Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 (the "Series 1997 Bonds"); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998A (the "Series 1998A Bonds"), Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2002 (the "Series 2002 Bonds") and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2007 (the "Series 2007 Bonds") for acquisition and construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities (collectively, the "System") to serve the District. The District also has issued its Unlimited Tax Refunding Bonds, Series 1991 (the "Series 1991 Refunding Bonds"); Unlimited Tax Refunding Bonds, Series 1998 (the "Series 1998 Refunding Bonds"); Unlimited Tax Refunding Bonds, Series 2011 (the "Series 2011 Refunding Bonds") and the Series 2014 Refunding Bonds to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all of such previously issued bonds as the "Prior Bonds." As of September 2, 2021, the District will have timely paid all principal of and interest on the Prior Bonds when due, including \$450,000 in principal amount of the Series 2014 Refunding Bonds. Before the issuance of the Bonds, the principal amount of the Prior Bonds that will not have been retired by the District is \$3,165,000 (the "Outstanding Bonds"). As the entirety of the Outstanding Bonds is being refunded by the Bonds, the aggregate principal amount of

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| | the District’s total direct bonded indebtedness as of the date of delivery of the Bonds, consisting solely of the Bonds, will be \$3,075,000. |
| Qualified Tax-Exempt Obligations | The District has designated the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “TAX MATTERS - Qualified Tax-Exempt Obligations for Financial Institutions.” |
| Authorized But Unissued Bonds..... | \$21,700,000 bonds for waterworks, wastewater and drainage facilities and \$30,588,309.70 for refunding purposes will remain authorized but unissued after issuance of the Bonds. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” “THE SYSTEM” and “INVESTMENT CONSIDERATIONS-Future Debt.” |
| Municipal Bond Insurance | Build America Mutual Assurance Company (“BAM”). See “BOND INSURANCE” and “BOND INSURANCE RISK FACTORS.” |
| Municipal Bond Rating | S&P Global Ratings (BAM Insured) “AA” (stable outlook. Moody’s Investors Service, Inc. (Underlying) “A3.” See “BOND INSURANCE” and “RATINGS.” |
| Legal and Tax Opinions..... | Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, and McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel. See “THE DISTRICT - Management of the District,” “LEGAL MATTERS” and “TAX MATTERS.” |
| Verification Agent | Robert Thomas CPA, LLC. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS.” |

THE DISTRICT

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| Description | The District is a governmental agency and a political subdivision of the State of Texas, created by Order of the Texas Water Rights Commission, a predecessor of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”) on June 11, 1974. The District contains approximately 292.04 acres of land. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). The District is located approximately twenty-three miles west of the central business district of the City. The District is bounded on the east by Greenhouse Road (formerly, Barker-Cypress Road) and on the west by Fry Road, and is located approximately 1.5 miles north of Interstate Highway 10 (the “Katy Freeway”). See “THE DISTRICT - General” and - “Description,” “AERIAL PHOTOGRAPH OF THE DISTRICT” and “APPENDIX A - LOCATION MAP.” |
| Authority | The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 of the Constitution of the State of Texas and the general laws |

of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - General.”

Development of the District

All but approximately 7.34 acres of the developable land located within the District has been developed to date. The development of nine sections of single-family residential lots (Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, and Creek Bend Estates Models), which contain an aggregate of 926 single-family residential lots plus certain reserves and other acres (a total of approximately 211.64 acres) has been completed. Homes have been constructed on all of such 926 single-family residential lots and all of such homes have been sold to home purchasers. A total of approximately 17.90 acres of land located within the District have been developed and are being utilized or are expected to be utilized for commercial purposes. Commercial above-ground improvements that have been constructed within the District include an approximately 76,000 square foot shopping center which includes an El Rancho Supermarket, a gasoline service station, a tire center, several small restaurants and various small businesses. In addition, approximately 1.25 acres of land located within the District is currently being used as a food truck court and used car lot.

The District financed the acquisition or construction of water supply and distribution, wastewater collection and treatment, and storm drainage facilities (the “System”) to serve Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, Creek Bend Estates Models, and other facilities, with portions of the proceeds of the sale of the Prior Bonds. The District has, with the issuance of the Prior Bonds, financed all of the water, sanitary sewer and drainage facilities that it expects to finance to complete the System to serve the entirety of the District except the approximately 7.34 acres of land within the District described in this Official Statement under the caption “DEVELOPMENT AND HOME CONSTRUCTION” that are currently undeveloped. The District cannot predict whether the development of such approximately 7.34 acres will necessitate the issuance of bonds in the future or whether future repairs to the System might necessitate such issuance. See “THE BONDS - Issuance of Additional Debt,” “THE SYSTEM” and “INVESTMENT CONSIDERATIONS - Future Debt.”

The remaining approximately 7.34 acres of undeveloped land located within the District are expected to be developed for future commercial use. Since no owner of any of such approximately 7.34 currently undeveloped acres has reported any plans for the development of such land to the District, the District cannot predict when, or whether, the development thereof might occur. Approximately 53.90 acres of land located within the District are contained within easements, rights-of-way, or are otherwise not available for development. See

“FUTURE DEVELOPMENT” and “INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments.”

Infectious Disease Outbreak (COVID-19) ...

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment except in counties with an “area with high hospitalizations” where a county judge may impose COVID-19 related mitigation strategies. Harris County is not currently an “area with high hospitalizations.” The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

With the decrease in the number of active COVID-19 cases and the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

INVESTMENT CONSIDERATIONS

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

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

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|--|----|------------------|
| 2020 Assessed Valuation | \$ | 191,850,298 (a) |
| (As of January 1, 2020) | | |
| See "TAX DATA" and "TAXING PROCEDURES" | | |
| 2021 Preliminary Valuation..... | \$ | 210,067,437 (b) |
| (As of January 1, 2021) | | |
| See "TAX DATA" and "TAXING PROCEDURES" | | |
| Direct Debt as of the Date of Delivery of the Bonds: The Bonds | \$ | 3,075,000 (c) |
| Estimated Overlapping Debt | \$ | <u>8,706,608</u> |
| Total Direct and Estimated Overlapping Debt | \$ | 11,781,608 |
| Direct Debt Ratio | | |
| : as a percentage of 2020 Assessed Valuation..... | | 1.60 % |
| : as a percentage of 2021 Preliminary Valuation..... | | 1.46 % |
| Direct and Overlapping Debt Ratio | | |
| : as a percentage of 2020 Assessed Valuation..... | | 6.14 % |
| : as a percentage of 2021 Preliminary Valuation..... | | 5.61 % |
| Bond Fund Balance Estimated as of the Date of Delivery of the Bonds | \$ | 256,624 (d) |
| General Fund Balance as of June 23, 2021..... | \$ | 3,520,556 |
| 2020 Tax Rate per \$100 of Assessed Valuation | | |
| Debt Service Tax..... | \$ | 0.32 |
| Maintenance Tax..... | | <u>0.28</u> |
| Total | \$ | 0.60 (e) |
| Average Percentage of Total Tax Collections (2010-2019) as of May 31, 2021..... | | 99.85 % |
| Percentage of Tax Collections of 2020 Levy as of May 31, 2021 (In process of collection)..... | | 97.84 % |
| Average Annual Debt Service Requirements on the Bonds (2021-2027) | \$ | 566,764 |
| Maximum Annual Debt Service Requirements on the Bonds (2027) | \$ | 581,400 |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds (2021-2027) at 95% Tax Collections | | |
| Based Upon 2020 Assessed Valuation..... | \$ | 0.32 |
| Based Upon 2021 Preliminary Valuation..... | \$ | 0.29 |
| Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds (2027) at 95% Tax Collections | | |
| Based Upon 2020 Assessed Valuation..... | \$ | 0.32 |
| Based Upon 2021 Preliminary Valuation..... | \$ | 0.30 |

- (a) As of January 1, 2020, and comprises the District's 2020 tax roll. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."
- (b) This amount is the sum of the preliminary values of all taxable property located within the District as of January 1, 2021, as reflected on the District's preliminary 2021 tax roll supplied to the District by the Appraisal District, and includes the preliminary 2021 values resulting from the construction of taxable improvements from January 1, 2020, through December 31, 2020. When the Appraisal District supplies a taxing entity with a preliminary tax roll, such preliminary tax roll does not include personal property values. Therefore, this amount includes the 2020 taxable value of personal property located within the District. The taxable value of personal property on the District's 2020 tax roll was \$5,998,472. The District's ultimate 2021 Assessed Valuation may vary significantly from such preliminary tax roll once the Appraisal Review Board certifies the value thereof for 2021. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT." Excludes the Refunded Bonds. The District's only direct debt following the issuance of the Bonds and the refunding of the Refunded Bonds will be the Bonds. In addition to the components of the System that the District has financed with the proceeds of the Prior Bonds, the District may finance additional components of the System or improvements thereto with the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt," "FUTURE DEVELOPMENT," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS - Future Debt."
- (d) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund. Such fund balance reflects the timely payment by the District of the entirety of its debt service requirements on the Outstanding Bonds that were due for 2021, and the contribution by the District of \$36,000 to the refunding of the Refunded Bonds. The District's initial payment on the Bonds is due on September 1, 2022, and consists of a principal payment and twelve months of interest thereon.
- (e) The District levied a debt service tax in the amount of \$0.32 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.28 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2020 tax levies of all units of government which levy taxes against the property located within the District, plus the 2020 tax of the District is \$2.676993 per \$100 of Assessed Valuation. Such aggregate levy is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area and the area of the District, which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

\$3,075,000
MORTON ROAD MUNICIPAL UTILITY DISTRICT
UNLIMITED TAX REFUNDING BONDS
SERIES 2021

INTRODUCTION

This Official Statement provides certain information with respect to the issuance by Morton Road Municipal Utility District (the “District”) of its Unlimited Tax Refunding Bonds, Series 2021 (the “Bonds”). The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54, Texas Water Code, as amended, and Chapter 1207, Texas Government Code, as amended, and an order authorizing issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”).

There follow in this Official Statement descriptions of the Bonds, and certain information about the District and its finances. 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 the District upon request and payment of the costs of duplication therefor.

THE BONDS

General

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

Description

The Bonds will be dated September 1, 2021, with interest payable on September 1, 2022 (twelve-month interest payment), and on each March 1 and September 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds initially accrues from September 1, 2021, and thereafter, from the most recent Interest Payment Date. The Bonds mature on September 1 of the years and in the amounts shown under “MATURITY SCHEDULE” on the inside cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

Authority for Issuance

At elections held within the District on May 5, 1990 and May 9, 2009, voters of the District authorized a total of \$33,705,000 in bonds for the purpose of refunding bonds of the District. Following the issuance of the Bonds, \$30,588,309.70 in bonds for refunding purposes will remain authorized but unissued. The Bonds are issued by the District pursuant to said elections and the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; Chapter 1207, Texas Government Code, as amended; City of Houston Ordinance No.97-416; and Chapters 49 and 54 of the Texas Water Code, as amended.

Source and Security for Payment

The Bonds and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District (see “TAX PROCEDURES”). Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this Official Statement with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the City of Houston, Harris County, the State of Texas, or any political subdivision or entity other than the District.

Funds

The Bond Order confirms the establishment of the District's Bond Fund (the “Bond Fund”), which was created and established pursuant to the order(s) of the Board of Directors of the District authorizing the issuance of the Outstanding Bonds. Accrued interest on the Bonds will be deposited from the proceeds of the sale of the Bonds into the Bond Fund. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, and any of the District's duly authorized additional bonds payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds, and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2027, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2026, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

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

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Dallas, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “BOOK-ENTRY-ONLY SYSTEM.”

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrars in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrars shall be required to accept the previous Paying Agent / Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrars selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a combined total of \$33,705,000 waterworks and sewer system combination unlimited tax and revenue bonds, and unlimited tax bonds, for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities and could authorize additional amounts. The District currently has \$21,700,000 unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized a total of \$33,705,000 unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. After the issuance of the Bonds, the District will have \$30,588,309.70 of unlimited tax refunding bonds authorized but unissued.

The Bond Order imposes no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, 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) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Financing Road Facilities

Pursuant to Chapter 54 of the Water Code, a municipal utility district may petition the TCEQ for the power to issue bonds supported by property taxes to finance roads. Before the District could issue such bonds, the District would be required to receive a grant of such power from the TCEQ, authorization from the District's voters to issue such bonds, and approval of the bonds by the Attorney General of Texas. The District has not considered filing an application to the TCEQ for road powers or calling such an election at this time. Issuance of bonds for roads could dilute the investment security for the Bonds.

Financing Recreational Facilities

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or an amount greater than the estimated cost of the plan, whichever amount is smaller; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District. The District has not considered calling an election for such purposes but could consider doing so in the future.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District for full purposes and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur. Under the terms of the SPA (as hereinafter defined) between the District and the City of Houston, however, the City has agreed not to annex the District for full purposes (a traditional municipal annexation) for at least thirty (30) years from the effective date

of the SPA. See "THE DISTRICT - Strategic Partnership Agreement." The District could consent to a full purpose annexation prior to that time by agreeing to amend the SPA to such effect, however, the District currently has no intention to do so.

Consolidation

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

Remedies in Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS - Registered Owners' Remedies and Bankruptcy."

Defeasance

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) for obligations of the District payable from revenues or from ad valorem taxes or both, or a commercial bank or trust company designated in the proceedings authorizing such discharge, 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, including obligations that are unconditionally guaranteed by the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form, and shall 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. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, ("DTC") while the Bonds 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 and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor takes any responsibility for the accuracy or completeness thereof.

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

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

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

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

be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds 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 less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such issue to be redeemed.

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

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

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

PLAN OF FINANCING

Use of Bond Proceeds

Proceeds of the sale of the Bonds, together with other lawfully available funds of the District, will be used to refund \$3,165,000 in principal amount of the District's Unlimited Tax Refunding Bonds, Series 2014 (the "Series 2014 Refunding Bonds"). The Series 2014 Refunding Bonds that are being refunded by the Bonds are hereinafter referred to as the "Refunded Bonds." The proceeds of the sale of the Bonds will also be used to pay the costs of issuance of the Bonds. The Refunded Bonds will be redeemed on their redemption date, at a price equal to the principal amount thereof plus accrued interest from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., in Dallas, Texas (the "Escrow Agent"). The sale of the Bonds and the refunding of the Refunded Bonds will (i) reduce the District's debt service payments, and (ii) provide present value savings in the District's debt service.

The Refunded Bonds

The principal amounts and maturity dates (or mandatory redemption amounts and dates, as applicable) of the Refunded Bonds are set forth below.

| <u>Maturity Date</u> | <u>Series 2014 Refunding Bonds</u> |
|----------------------|------------------------------------|
| 9/1/2022 | \$465,000 |
| 9/1/2023 | 490,000 |
| 9/1/2024 | 510,000 |
| 9/1/2025 | 540,000 |
| 9/1/2026 | 565,000 |
| 9/1/2027 | <u>595,000</u> |
| | \$3,165,000 |
| Redemption Date: | 9/15/2021 |

| | |
|--|-------------|
| Principal Amount of Refunded Bonds | \$3,165,000 |
|--|-------------|

Escrow Agreement

The Refunded Bonds, and the interest due thereon, are to be paid on their scheduled interest payment dates until final payment or their redemption date from funds to be deposited with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as escrow agent (the “Escrow Agent”).

The Bond Order provides that the District and the Escrow Agent will enter into an escrow agreement (the “Escrow Agreement”) to be dated as of the date of the sale of the Bonds, but effective on the date of delivery of the Bonds (expected to be September 14, 2021). The Bond Order further provides that from the proceeds of the sale of the Bonds, along with certain other legally available funds of the District, if any, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. See “VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATION.” Such funds will be held by the Escrow Agent in a segregated escrow account (the “Escrow Fund”). Under the Escrow Agreement, the Escrow Fund is irrevocably pledged to the payment of principal of and interest on the Refunded Bonds and will not be available to pay principal of and interest on the Bonds.

Defeasance of the Refunded Bonds

By the deposit of certain proceeds of the Bonds, and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, the District will have effected the defeasance of the Refunded Bonds pursuant to the terms of the order authorizing the issuance of the Refunded Bonds. In the opinion of Bond Counsel, as a result of such deposit, firm banking and financial arrangements will have been made for the discharge and final payment of the Refunded Bonds pursuant to the Escrow Agreement, and such Refunded Bonds will be deemed under Texas law to be fully paid and no longer outstanding, except for the purpose of being paid from the funds provided therefor in the Escrow Fund.

The Non-Refunded Bonds

The District has previously issued its Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1980 (the “Series 1980 Bonds”); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1982 (the “Series 1982 Bonds”); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1985 (the “Series 1985 Bonds”); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1997 (the “Series 1997 Bonds”); Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1998A (the “Series 1998A Bonds”), Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2002 (the “Series 2002 Bonds”) and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2007 (the “Series 2007 Bonds”) for acquisition and construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention facilities (collectively, the “System”) to serve the District. The District also has issued its Unlimited Tax Refunding Bonds, Series 1991 (the “Series 1991 Refunding Bonds”); Unlimited Tax Refunding Bonds, Series 1998 (the “Series 1998 Refunding Bonds”); Unlimited Tax Refunding Bonds, Series 2011 (the “Series 2011 Refunding Bonds”) and the Series 2014 Refunding Bonds to refund outstanding bonds of the District. Collective reference is made in this Official Statement to all of such previously issued bonds as the “Prior Bonds.” As of September 2, 2021, the District will have timely paid all principal of and interest on the Prior Bonds when due, including \$450,000 in principal amount of the Series 2014 Refunding Bonds. Before the issuance of the Bonds, the principal amount of the Prior Bonds that will not have been retired by the District is \$3,165,000 (the “Outstanding Bonds”). As the entirety of the Outstanding Bonds is being refunded by the Bonds, the aggregate principal amount of the District’s total direct bonded indebtedness as of the date of delivery of the Bonds, consisting solely of the Bonds, will be \$3,075,000.

Sources and Uses of Funds

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

SOURCES OF FUNDS:

| | |
|---|-------------------|
| Principal Amount of Bonds | \$3,075,000.00 |
| Plus: Accrued Interest | 3,125.42 |
| District Contribution | 36,000.00 |
| Original Issue Premium on the Bonds | <u>206,736.50</u> |
| Total Sources of Funds | \$3,320,861.92 |

USES OF FUNDS:

| | |
|--|-------------------|
| Deposit with Escrow Agent | \$3,169,923.33 |
| Deposit Accrued Interest to Bond Fund | 3,125.42 |
| Expenses: | |
| Underwriter Discount | 30,486.25 |
| Municipal Bond Insurance Premium and Other Issuance Expenses | <u>117,326.92</u> |
| Total Uses of Funds | \$3,320,861.92 |

THE DISTRICT

General

The District is a municipal utility district created by an order of the Texas Water Rights Commission, a predecessor to the TCEQ, dated June 11, 1974, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapter 49 and Chapter 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston (except as described below under "Strategic Partnership Agreement"), is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities, or other political subdivisions, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See "THE BONDS - Issuance of Additional Debt," " - Financing Recreational Facilities," and " - Financing Road Facilities."

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

Description

The District contains approximately 292.04 acres of land. The District is located entirely within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the “City”). The District is located approximately twenty-three miles west of the central business district of the City. The District is bounded on the east by Greenhouse Road (formerly, Barker-Cypress Road) and on the west by Fry Road, and is located approximately 1.5 miles north of Interstate Highway 10 (the “Katy Freeway”). See “THE DISTRICT - General” and - “Description,” “AERIAL PHOTOGRAPH OF THE DISTRICT” and “APPENDIX A - LOCATION MAP.”

Strategic Partnership Agreement

The District and the City of Houston (the “City”) have entered into a Strategic Partnership Agreement dated effective April 3, 2007 (the “SPA”) pursuant to Chapter 43 of the Texas Local Government Code. The SPA provides for a “limited purpose annexation” for that portion of the District which is developed for retail and commercial purposes in order to apply certain City health, safety, planning and zoning ordinances within the District. Areas of residential development within the District are not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for “full purposes” for at least thirty (30) years from the effective date of the SPA. Also, as a condition to full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater and drainage facilities must be assumed by the City to the maximum extent permitted by Commission rules.

As of the effective date of the SPA, the City was authorized to impose the one percent (1%) City sales and use tax within the portion of the District included in the limited purpose annexation. Such portion includes primarily the 17.90 acres of retail and commercial development within the District. The City pays to the District an amount equal to one half (½) of all sales and use tax revenue generated within such area of the District and received by the City from the Comptroller of Public Accounts of the State of Texas (herein defined as the “Sales Tax Revenue”). Pursuant to State law, the District is authorized to use Sales Tax Revenue generated under the SPA for any lawful purpose. None of the anticipated Sales Tax Revenue is pledged toward the payment of principal and interest on the Bonds.

Management of the District

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in even numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. All of the Directors currently reside within the District.

| <u>Name</u> | <u>Position</u> | <u>Term Expires in May</u> |
|-----------------|---------------------|--------------------------------|
| Alan D. Seitz | President | 2024 |
| Lisa Manriquez | Vice President | 2022 |
| Cindy Perry | Secretary | 2024 |
| David Tannahill | Assistant Secretary | 2022 |
| Vacant | Director | |

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

Tax Assessor/Collector - The District has engaged Wheeler & Associates, Inc., Houston, Texas, as the District's Tax Assessor/Collector. According to Wheeler & Associates, Inc., it presently serves approximately 100 taxing units as tax assessor/collector. The Tax Assessor/Collector applies the District's tax rate to appraisal rolls prepared by the Appraisal District and bills and collects taxes levied.

Utility System Operator – Texas Operations and Professional Service is employed by the District as the general operator of the District's System. According to Texas Operations and Professional Service, it serves as operator of the systems of approximately 15 districts.

Consulting Engineers - The District has engaged the firm of Sander Engineering Corporation, Houston, Texas, as Consulting Engineer in connection with the overall planning activities and the design of the System.

Bookkeeper - The District has engaged Municipal Accounts & Consulting, L.P. as the District's Bookkeeper. According to Municipal Accounts & Consulting, L.P., it currently serves approximately 400 districts as bookkeeper.

Auditor - As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audited financial statements are filed with the TCEQ. The financial statements of the District as of October 31, 2020, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX B."

Bond Counsel and General Counsel – Schwartz, Page & Harding, L.L.P. ("Bond Counsel") serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Special Tax Counsel - McCall, Parkhurst & Horton L.L.P., Dallas, Texas, serves as Special Tax Counsel to the District. The fees to be paid Special Tax Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor - The District has engaged Rathmann & Associates, L.P., as financial advisor (the "Financial Advisor") to the District. The fees paid the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the "SEC") and the Municipal Securities Rulemaking Board (the "MSRB"). Rathmann & Associates, L.P.'s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.'s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.'s registration filings, may be accessed through http://www.sec.gov/edgar/searchedgar/company_search.html.

DEVELOPMENT OF THE DISTRICT

All but approximately 7.34 acres of the developable land located within the District has been developed to date. The development of nine sections of single-family residential lots (Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, and Creek Bend Estates Models), which contain an aggregate of 926 single-family residential lots plus certain reserves and other acres (a total of approximately 211.64 acres) has been completed. Homes have been constructed on all of such 926 single-family residential lots and all of such homes have been sold to home purchasers. A total of approximately 17.90 acres of land located within the District have been developed and are being utilized or are expected to be utilized for commercial purposes. Commercial above-ground improvements that have been constructed within the District include an approximately 76,000 square foot shopping center which includes an El Rancho Supermarket, a gasoline service station, a tire center, several small restaurants and various small businesses. In addition, approximately 1.25 acres of land located within the District is currently being used as a food truck court and used car lot.

The District financed the acquisition or construction of water supply and distribution, wastewater collection and treatment, and storm drainage facilities (the "System") to serve Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, Creek Bend Estates Models, and other facilities, with portions of the proceeds of the sale of the Prior Bonds. The District has, with the issuance of the Prior Bonds, financed all of the water, sanitary sewer and drainage facilities that it expects to finance to complete the System to serve the entirety of the District except the approximately 7.34 acres of land within the District described below that are currently undeveloped. The District cannot predict whether the development of such approximately 7.34 acres will necessitate the issuance of bonds in the future or whether future repairs to the System might necessitate such issuance. See "THE BONDS - Issuance of Additional Debt," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS - Future Debt."

The remaining approximately 7.34 acres of undeveloped land located within the District are expected to be developed for future commercial use. Since no owner of any of such approximately 7.34 currently undeveloped acres has reported any plans for the development of such land to the District, the District cannot predict when, or whether, the development thereof might occur. Approximately 53.90 acres of land located within the District are contained within easements, rights-of-way, or are otherwise not available for development. See "FUTURE DEVELOPMENT" and "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments."

FUTURE DEVELOPMENT

According to the District's Engineer, underground water, sewer and drainage facilities and street paving have been extended to all but approximately 7.34 acres of the developable land that is located within the District, including approximately 211.64 acres developed into 926 single-family residential lots (on all 926 of which lots single-family homes have been constructed and sold to home purchasers) as is described above under the caption "DEVELOPMENT AND HOME CONSTRUCTION," and approximately 17.90 acres currently used and expected to be used for commercial purposes. No owner of any of the aforementioned approximately 7.34 currently undeveloped acres located in the District has reported any plan for the development thereof to the District. Therefore, the District cannot predict when, or whether, the development thereof might occur. Approximately 53.90 acres of land within the District are contained in easements, rights-of-way, or are otherwise not available for development. See "INVESTMENT CONSIDERATIONS - Economic Factors Affecting Taxable Values and Tax Payments" and - "Future Debt."

The District financed the acquisition or construction of water supply and distribution, wastewater collection and treatment, and storm drainage facilities (the "System") to serve Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, Creek Bend Estates Models, and other facilities, with portions of the proceeds of the sale of the Prior Bonds. The District has, with the issuance of the Prior Bonds, financed all of the water, sanitary sewer and drainage facilities that it expects to finance to complete the System to serve the entirety of the District except the approximately 7.34 acres of land within the District described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION" that are currently undeveloped. The District cannot predict whether the development of such approximately 7.34 acres will necessitate the issuance of bonds in the future or whether future repairs to the System might necessitate such issuance. See "THE BONDS - Issuance of Additional Debt," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS - Future Debt."

THE SYSTEM

Regulation

According to the District's Engineer, the System has been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities, including, among others, the TCEQ, the City, Harris County, and the Harris County Flood Control District.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. The total number of connections estimated at this time for the District upon the full development of its 292.04 acres is 1,246 with a total estimated population of 4,361 people. The following descriptions are based upon information supplied by the District's Engineer.

Description

The District financed the components of the System which presently serve Westlake Place, Sections 1 and 2, Creek Bend Estates, Sections 1 through 6, Creek Bend Estates Models, and other facilities with portions of the proceeds of the sale of the Prior Bonds and certain non-reimbursable contributions made by the developers of the land serviced by such facilities in accordance with the rules of the TCEQ. The District has, with the issuance of the Prior Bonds, financed all of the water, sanitary sewer and drainage facilities that it expects to finance to complete the System to serve the entirety of the District except the approximately 7.34 acres of land within the District described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION" that are currently undeveloped. The District cannot predict whether the development of such approximately 7.34 acres will necessitate the issuance of bonds in the future or whether future repairs to the System might necessitate such issuance. See "THE BONDS - Issuance of Additional Debt," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS - Future Debt."

Water Supply

The District's permanent water supply system was financed with portions of the proceeds of the sale of the Prior Bonds, and includes (i) Water Plant No. 1, consisting of an approximately 550 gallons-per-minute ("g.p.m.") water well, a ground storage tank containing 210,000 gallons, a 20,000 gallon pressure tank, booster pumps aggregating 1,560 g.p.m., and appurtenant facilities, and (ii) Water Plant No. 2, which consists of a 1,000 g.p.m. water well, a ground storage tank containing 210,000 gallons, a 15,000 gallon pressure tank, and 2,250 g.p.m. of booster pump capacity. Such capacity is sufficient to serve approximately 2,317 connections. The District also financed emergency water supply interconnection lines with the adjoining Westlake Municipal Utility District No. 1, Ricewood Municipal Utility District and Harris County Municipal Utility District No. 238 with portions of the proceeds of the sale of the Prior Bonds.

According to the District's Engineer, the District has adequate water supply to provide capacity to all of the connections that have been developed within the District as described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION," plus all additional connections which are expected to be developed in the District upon full development of the District.

During routine water quality testing of the District's Water Well No. 2 by the TCEQ in 2013, it was determined that a criterion of the Environmental Protection Agency's ("EPA's") "National Interim Primary Drinking Water Regulations," which is "gross alpha excluding radon and uranium" ("Gross Alpha") was exceeded at Water Well No. 2, which is the water source for Water Plant No. 2. In February 2014, the TCEQ issued a Notice of Enforcement (the "Notice") to the District for exceeding the MCL for Gross Alpha Particle Activity at Water Well No. 2. The District responded to the Notice and received an Agreed Order (the "Order") from the TCEQ dated July 28, 2014, outlining the violation and an agreed timeline for the District to achieve compliance. The District voluntarily ceased using Water Well No. 2 and Water Plant No. 2 as a source of potable water for the District. Water Plant No. 2 is exercised weekly and the water is discharged to a drainage ditch.

The District has a commitment from the West Harris County Regional Water Authority ("WHCRWA") to deliver surface water to Water Plant No. 2. The WHCRWA has initiated Contract 50 to design and construct a surface water line to Water Plant No. 2. The design of the surface water line has been completed. Construction is expected to begin in the third quarter of 2021 and is expected to be complete by the end of 2022. The TCEQ has been informed of the District's plan to utilize surface water to achieve compliance with the Order and has granted the District an extension to December 31, 2022, to do so.

When WHCRWA surface water is delivered to the District, it is expected to be the sole source of potable water for the District. In the event that surface water needs to be augmented, the District will augment it with water from the District's Water Well No. 1 and Water Plant No. 1, and the District would not use water from Water Well No. 2 and Water Plant No. 2 unless necessary. If water from Water Well No. 2 and Water Plant No. 2 is needed, it will be blended with surface water in an amount calculated to reduce the concentration of Gross Alpha in the water delivered to customers in the District to a level below the maximum level set by the EPA.

Wastewater Treatment

Wastewater from the District is treated at a wastewater treatment plant operated by the adjoining Westlake Municipal Utility District No. 1, in which facility the District currently owns approximately 387,900 gallons-per-day of wastewater treatment capacity. Such capacity is sufficient to serve approximately 1,251 connections. The District financed its cost of such capacity with a portion of the proceeds of the sale of the Prior Bonds. According to the District's Engineer, the District's share of the facility is adequate to provide service to all of the connections which have been developed in the District to date, including all connections located in Westlake Place, Sections 1 and 2 and Creek Bend Estates, Sections 1 through 6, and the commercial connections that have been developed within the District as described in this Official Statement under the caption "DEVELOPMENT AND HOME CONSTRUCTION," plus all additional connections which are expected to be developed in the District upon full development of the District.

100-Year Flood Plain

"Flood Insurance Rate Map" or "FIRM" means an official map of a community on which the Federal Emergency Management Agency ("FEMA") has delineated the appropriate areas of flood hazards. The 1% chance of probable inundation, also known as the 100-year flood plain, is depicted on these maps. The "100-year flood plain" (or 1% chance of probable inundation) as shown on the FIRM is the estimated geographical area that would be flooded by a rain storm of such intensity to statistically have a one percent chance of occurring in any given year. Generally speaking, homes must be built above the 100-year flood plain in order to meet local regulatory requirements and to be eligible for federal flood insurance. An engineering or regulatory determination that an area is above the 100-year flood plain is not an assurance that homes built in such area will not be flooded, and a number of neighborhoods in the greater Houston area that are above the 100-year flood plain have flooded multiple times in the last several years.

A FEMA Flood Hazard Boundary Map (the "Map") covers the land located within the District. Harris County and FEMA modified the Map (48201C0615M) in 2019 to reflect a new 100-year flood plain based on Hurricane Harvey. According to the District's Engineer, the Map as revised November 15, 2019, indicates that approximately 60 acres of the District which lie within Westlake Place, Sections 1 and 2 and Creek Bend Estates, Sections 1 and 2 are located within "Zone AE," which is defined as a Special Flood Hazard Area that would be inundated by a 100-year flood event, and that approximately 67 acres of the District which lie within Westlake Place, Section 2 and Creek Bend Estates, Sections 1 and 2 are located within "Zone X," which delimits (i) an area which lies within the 500-year flood plain, or (ii) an area which lies within the 100-year flood plain with average depths of less than one foot or with drainage areas less than one square mile, or (iii) an area which is protected by levees from the 100-year flood event. According to the Engineer, the revised Map indicates that 247 total lots that are located within the District are located within Zone AE, and 293 total lots that are located within the District are located within Zone X.

Among the effects of the aforementioned defined flood plain for the District could be the requirement on the part of mortgage lenders that homeowners whose property is now defined to be within the designated 100-year flood plain pay for flood insurance, thereby increasing a homeowner's cost of maintaining his property. Homeowners that are uninsured would sustain the entire cost of a flood event if one were to occur. The assessed valuation of properties that are defined to be within the designated 100-year flood plain could be reduced as a consequence of the designation.

The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e. "500 year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the District's Operator and Engineer, the District's System did not sustain any material damage and there was no interruption of water and sewer service from Hurricane Harvey. Although there was no official accounting of the number of homes within the District that experienced structural flooding as a result of Hurricane Harvey, it is believed that approximately 135 homes, or

approximately 14.6% of the homes located within the District were affected. Substantially all of such homes have since been repaired and are occupied. See “INVESTMENT CONSIDERATIONS – Extreme Weather Events.” As is stated above, and under such caption, if a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District's tax rate. As is enumerated in this Official Statement under the caption “TAX DATA – Historical Values and Tax Collection History,” the District's January 1, 2017, Assessed Valuation, which was the District's tax base prior to Hurricane Harvey, was \$169,047,549. The District's January 1, 2018, Assessed Valuation, which was the District's tax base immediately subsequent to Hurricane Harvey, was \$172,397,645, and the District's Assessed Value has increased every year thereafter. The District's January 1, 2020 Assessed Valuation was \$191,850,298, and its January 1, 2021 Preliminary Valuation is \$210,067,437.

Harris County Flood Control District (“HCFCF”), the county agency responsible for improvements and maintenance of storm water and drainage systems, has initiated a flood damage reduction project along South Mayde Creek (southern border of the district) to increase the discharge from the ditch to Addicks Reservoir. The Preliminary Engineering Report is currently being prepared which will recommend widening of the ditch along with a bypass channel. In addition, multiple other HCFCF flood reduction projects in the general area of the District have either begun or are in the planning stage

Subsidence and Conversion to Surface Water Supply

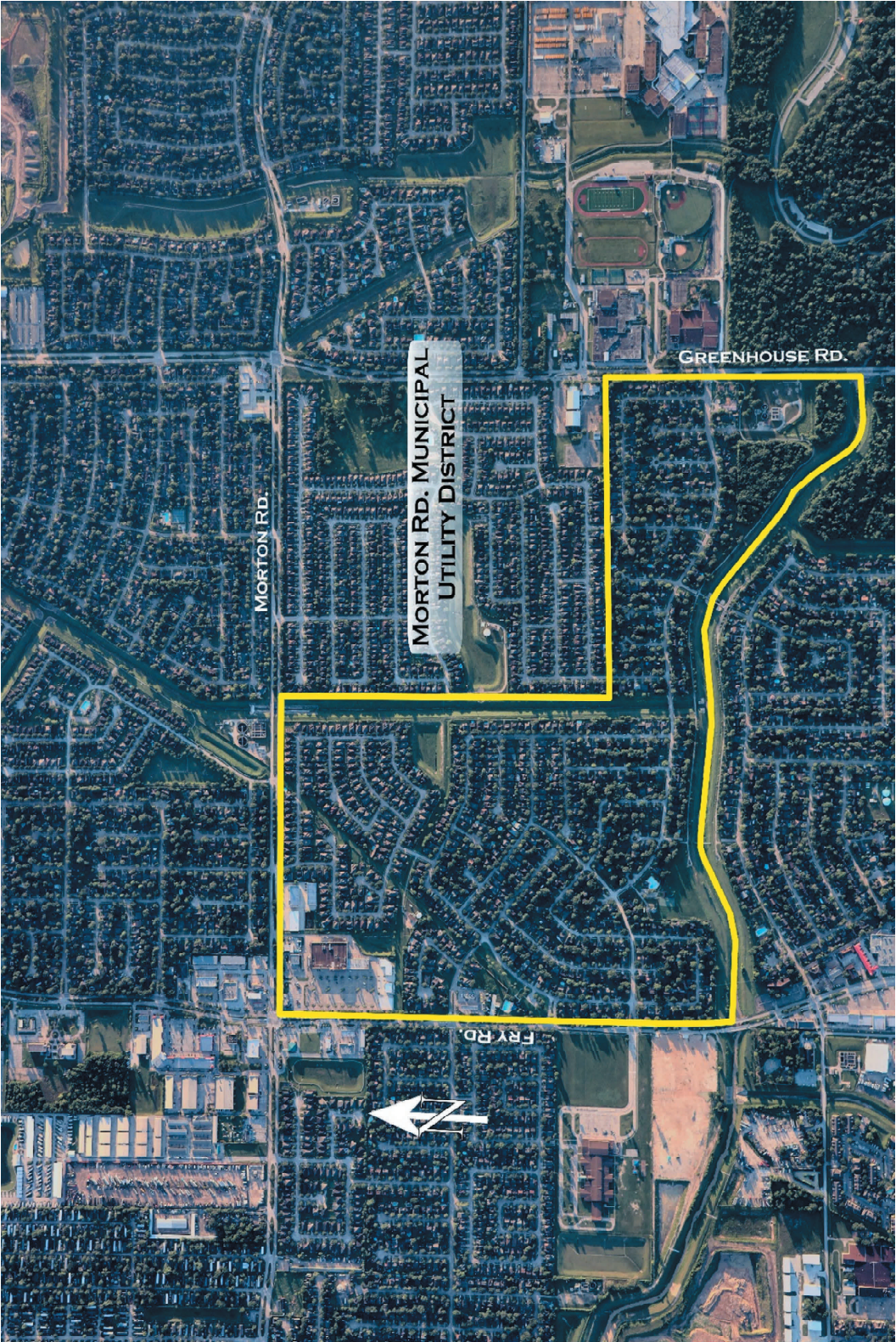
The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations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

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, user fees, rates, charges and special assessments as necessary to accomplish its purposes. The Authority currently charges the District, and other major groundwater users, a fee of \$3.45 per 1,000 gallons of groundwater pumped. It is anticipated that said fee will increase in the future. The Authority has to date issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will issue substantially more bonds by the year 2030 to finance the Authority's project costs.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) have limited groundwater withdrawals to no more than 70% of the total water demand within the Authority's GRP beginning January 2010; (ii) limit groundwater withdrawals to no more than 30% of the total water demand within the Authority's GRP beginning January 2020; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand within the Authority's GRP beginning January 2030. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a \$9.58 per 1,000 gallons disincentive fee penalty ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand within the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. The Authority is in the process of letting the contract to construct the surface water line to Water Plant No 2. That water line is scheduled to be completed by the end of 2022. In response to the anticipated delivery of surface water, the District has authorized the design of the disinfection modifications at both Water Plant No. 2 and Water Plant No.1 which are necessary to treat the surface water. This design is complete and construction is scheduled to be completed by the end of 2022.

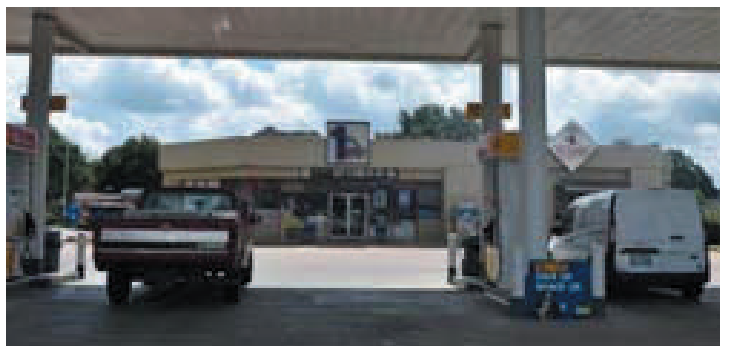
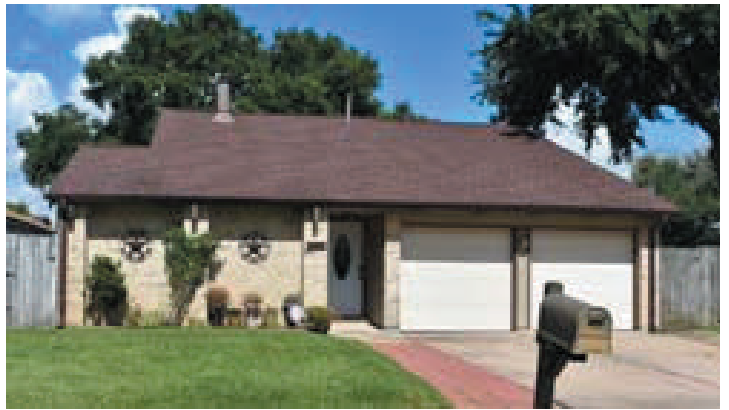
AERIAL PHOTOGRAPH OF THE DISTRICT
(taken July 2021)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken July 2021)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken July 2021)



DISTRICT DEBT

General

The following tables and calculations relate to the Bonds. As the entirety of the Outstanding Bonds is being refunded by the Bonds, after issuance of the Bonds, the aggregate principal amount of the District's total direct bonded indebtedness as of the date of delivery of the Bonds, consisting solely of the Bonds, will be \$3,075,000. The District is empowered to incur debt to be paid from revenues raised by taxation against all taxable property located within the District, and various other political subdivisions of government that overlap all or a portion of the District are empowered to incur debt to be paid from revenues raised or to be raised by taxation against all or a portion of the property within the District.

| | | |
|---|----|------------------|
| 2020 Assessed Valuation | \$ | 191,850,298 (a) |
| (As of January 1, 2020) | | |
| See "TAX DATA" and "TAXING PROCEDURES" | | |
| 2021 Preliminary Valuation..... | \$ | 210,067,437 (b) |
| (As of January 1, 2021) | | |
| See "TAX DATA" and "TAXING PROCEDURES" | | |
| Direct Debt as of the Date of Delivery of the Bonds: The Bonds | \$ | 3,075,000 (c) |
| Estimated Overlapping Debt | \$ | <u>8,706,608</u> |
| Total Direct and Estimated Overlapping Debt | \$ | 11,781,608 |
| Direct Debt Ratio | | |
| : as a percentage of 2020 Assessed Valuation..... | | 1.60 % |
| : as a percentage of 2021 Preliminary Valuation..... | | 1.46 % |
| Direct and Overlapping Debt Ratio | | |
| : as a percentage of 2020 Assessed Valuation..... | | 6.14 % |
| : as a percentage of 2021 Preliminary Valuation..... | | 5.61 % |
| Bond Fund Balance Estimated as of the Date of Delivery of the Bonds | \$ | 256,624 (d) |
| General Fund Balance as of June 23, 2021 | \$ | 3,520,556 |
| 2020 Tax Rate per \$100 of Assessed Valuation | | |
| Debt Service Tax..... | \$ | 0.32 |
| Maintenance Tax | | <u>0.28</u> |
| Total | \$ | 0.60 (e) |

(a) As of January 1, 2020, and comprises the District's 2020 tax roll. All property located in the District is valued on the tax rolls by the Harris County Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments" and "TAXING PROCEDURES."

(b) This amount is the sum of the preliminary values of all taxable property located within the District as of January 1, 2021, as reflected on the District's preliminary 2021 tax roll supplied to the District by the Appraisal District, and includes the preliminary 2021 values resulting from the construction of taxable improvements from January 1, 2020, through December 31, 2020. When the Appraisal District supplies a taxing entity with a preliminary tax roll, such preliminary tax roll does not include personal property values. Therefore, this amount includes the 2020 taxable value of personal property located within the District. The taxable value of personal property on the District's 2020 tax roll was \$5,998,472. The District's ultimate 2021 Assessed Valuation may vary significantly from such preliminary tax roll once the Appraisal Review Board certifies the value thereof for 2021. See "TAXING PROCEDURES."

- (c) Excludes the Refunded Bonds. The District's only direct debt following the issuance of the Bonds and the refunding of the Refunded Bonds will be the Bonds. In addition to the components of the System that the District has financed with the proceeds of the Prior Bonds, the District may finance additional components of the System or improvements thereto with the proceeds of bonds, if any, to be issued by the District in the future. See "THE BONDS - Issuance of Additional Debt," "FUTURE DEVELOPMENT," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS - Future Debt."
- (d) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Bond Fund. Such fund balance reflects the timely payment by the District of the entirety of its debt service requirements on the Outstanding Bonds that were due for 2021, and the contribution by the District of \$36,000 to the refunding of the Refunded Bonds. The District's initial payment on the Bonds is due on September 1, 2022, and consists of a principal payment and twelve months of interest thereon.
- (e) The District levied a debt service tax in the amount of \$0.32 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.28 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2020 tax levies of all units of government which levy taxes against the property located within the District, plus the 2020 tax of the District is \$2.676993 per \$100 of Assessed Valuation. Such aggregate levy is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area and the area of the District, which are in stages of development comparable with the District. See "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

Estimated Direct and Overlapping Debt Statement

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

| <u>Taxing Jurisdiction</u> | <u>Debt as of June 1, 2021</u> | <u>Estimated Overlapping Percent</u> | <u>Amount</u> |
|---|------------------------------------|--|----------------------|
| Harris County (a) | \$1,672,657,125 | 0.03796% | \$634,922 |
| Harris County Department of Education | 20,185,000 | 0.03796% | 7,662 |
| Harris County Flood Control District | 334,270,000 | 0.03796% | 126,885 |
| Harris County Hospital District | 81,540,000 | 0.03796% | 30,952 |
| Port of Houston Authority | 492,439,397 | 0.03796% | 186,925 |
| Katy Independent School District | 1,806,185,631 | 0.42738% | <u>7,719,262</u> |
| TOTAL ESTIMATED OVERLAPPING DEBT | | | \$8,706,608 |
| TOTAL DIRECT DEBT (the Bonds) | | | <u>3,075,000</u> |
| TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT | | | \$11,781,608 |

(a) Harris County Toll Road Bonds are considered to be self-supporting, and are not included in this schedule.

Debt Ratios

| | <u>% of 2020 Assessed Valuation</u> | <u>% of 2021 Preliminary Valuation</u> |
|---|---|--|
| Direct Debt | 1.60% | 1.46% |
| Direct and Estimated Overlapping Debt | 6.14% | 5.61% |

Under Texas law, ad valorem taxes levied by each taxing authority other than the District create a lien that is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above are also authorized by Texas law to assess, levy, and collect ad valorem taxes for operation, maintenance, administration, and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy, and collect ad valorem taxes for operations and maintenance purposes, and such taxes have been authorized by the duly qualified voters of the District. The District has levied a maintenance tax of \$0.28 per \$100 of Assessed Valuation in 2020. See "TAX DATA - Maintenance Tax."

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements for the Outstanding Bonds, less the debt service requirements for the Refunded Bonds, plus the principal and interest requirements of the Bonds.

| <u>Year Ending December 31</u> | <u>Current Total Debt Service</u> | <u>Less: Debt Service on Refunded Bonds</u> | <u>Plus - The Bonds</u> | | <u>Current Total New Debt Service Requirements</u> |
|--|---|---|--------------------------------|------------------|--|
| | | | <u>Principal (Due 9-1)</u> | <u>Interest</u> | |
| 2021 | \$590,100 | | | | \$590,100 |
| 2022 | 591,600 | \$591,600 | \$430,000 | \$86,550 | 516,550 |
| 2023 | 598,000 | 598,000 | 490,000 | 73,650 | 563,650 |
| 2024 | 598,400 | 598,400 | 505,000 | 58,950 | 563,950 |
| 2025 | 608,000 | 608,000 | 530,000 | 43,800 | 573,800 |
| 2026 | 611,400 | 611,400 | 550,000 | 27,900 | 577,900 |
| 2027 | 618,800 | 618,800 | 570,000 | 11,400 | 581,400 |
| | <u>\$4,216,300</u> | <u>\$3,626,200</u> | <u>\$3,075,000</u> | <u>\$302,250</u> | <u>\$3,967,350</u> |
| Average Annual Requirements: (2021-2027) | | | | | \$566,764 |
| Maximum Annual Requirement: (2027) | | | | | \$581,400 |

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds (see "TAXING PROCEDURES"). The Board of Directors of the District has in its Bond Order covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds (see "THE BONDS" and "INVESTMENT CONSIDERATIONS"). The District has levied a debt service tax for 2020 at a rate of \$0.32 per \$100 of Assessed Valuation. See - "Tax Rate Distribution" below.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. On May 9, 2009, the District voters authorized the levy of such a maintenance tax in an amount not to exceed \$0.50 per each \$100 of Assessed Valuation. Such tax is levied in addition to taxes which the District has authorized to levy for paying principal of and interest on the Bonds, and any parity bonds which may be issued in the future. The District levied a maintenance tax of \$0.28 for 2020.

Tax Rate Limitation

| | |
|---------------|--|
| Debt Service: | Unlimited (no legal limit as to rate or amount). |
| Maintenance: | 0.50 per \$100 of Assessed Valuation. |

Historical Values and Tax Collection History

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

| <u>Tax Year</u> | <u>Assessed Valuation</u> | <u>Tax Rate(a)</u> | <u>Adjusted Levy</u> | <u>% Collections</u> | |
|-----------------|---------------------------|--------------------|----------------------|-------------------------------------|------------------------|
| | | | | <u>Current & Prior Years(b)</u> | <u>Year Ended 9/30</u> |
| 2010 | \$114,163,570 | \$0.820 | \$936,141 | 99.99 | 2011 |
| 2011 | 110,297,529 | 0.840 | 923,883 | 99.99 | 2012 |
| 2012 | 111,029,530 | 0.840 | 931,096 | 99.99 | 2013 |
| 2013 | 116,529,902 | 0.820 | 955,545 | 99.96 | 2014 |
| 2014 | 129,857,567 | 0.750 | 973,624 | 99.85 | 2015 |
| 2015 | 144,986,424 | 0.690 | 999,975 | 99.84 | 2016 |
| 2016 | 157,990,752 | 0.660 | 1,042,386 | 99.82 | 2017 |
| 2017 | 169,047,549 | 0.640 | 1,081,539 | 99.76 | 2018 |
| 2018 | 172,397,645 | 0.630 | 1,085,973 | 99.74 | 2019 |
| 2019 | 187,558,608 | 0.620 | 1,162,859 | 99.58 | 2020 |
| 2020 | 191,850,298 | 0.600 | 1,151,098 | 97.84(c) | 2021 |

(a) Per \$100 of Assessed Valuation.

(b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through May 31, 2021. The amount of tax collected for each levy on a current basis (by September 30 of the year following each respective annual levy) is not reflected in this statement.

(c) As of May 31, 2021. In process of collection.

Tax Rate Distribution

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> |
|--------------|-------------|-------------|-------------|-------------|-------------|
| Debt Service | \$0.32 | \$0.34 | \$0.35 | \$0.36 | \$0.38 |
| Maintenance | <u>0.28</u> | <u>0.28</u> | <u>0.28</u> | <u>0.28</u> | <u>0.28</u> |
| Total | \$0.60 | \$0.62 | \$0.63 | \$0.64 | \$0.66 |

Analysis of Tax Base

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

| <u>Type of Property</u> | 2020 | | 2019 | | 2018 | |
|-------------------------|---------------------------|---------------|---------------------------|---------------|---------------------------|---------------|
| | <u>Assessed Valuation</u> | <u>%</u> | <u>Assessed Valuation</u> | <u>%</u> | <u>Assessed Valuation</u> | <u>%</u> |
| Land | \$36,530,520 | 19.04% | \$36,681,445 | 19.56% | \$29,814,710 | 17.29% |
| Improvements | 154,161,432 | 80.36% | 148,963,223 | 79.42% | 141,264,895 | 81.94% |
| Personal Property | 5,998,472 | 3.13% | 6,825,139 | 3.64% | 6,098,021 | 3.54% |
| Exemptions | <u>(4,840,126)</u> | <u>-2.52%</u> | <u>(4,911,199)</u> | <u>-2.62%</u> | <u>(4,779,981)</u> | <u>-2.77%</u> |
| TOTAL | \$191,850,298 | 100.00% | \$187,558,608 | 100.00% | \$172,397,645 | 100.00% |

| <u>Type of Property</u> | 2017 | | 2016 | |
|-------------------------|---------------------------|---------------|---------------------------|---------------|
| | <u>Assessed Valuation</u> | <u>%</u> | <u>Assessed Valuation</u> | <u>%</u> |
| Land | \$29,926,171 | 17.70% | \$28,853,496 | 18.26% |
| Improvements | 138,287,307 | 81.80% | 128,287,837 | 81.20% |
| Personal Property | 5,720,240 | 3.38% | 5,333,920 | 3.38% |
| Exemptions | <u>(4,886,169)</u> | <u>-2.89%</u> | <u>(4,484,501)</u> | <u>-2.84%</u> |
| TOTAL | \$169,047,549 | 100.00% | \$157,990,752 | 100.00% |

Principal 2020 Taxpayers

Based upon information supplied by the District's Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the Assessed Valuation of such property as of January 1, 2020. The information reflects the composition of the Appraisal District's record of property ownership as of January 1, 2020.

| <u>Taxpayer</u> | <u>Type of Property</u> | <u>Assessed Valuation</u> <u>2020 Tax Roll</u> | <u>% of 2020</u> <u>Tax Roll</u> |
|-------------------------|-------------------------|---|-------------------------------------|
| Randalls Properties | Land and Improvements | \$5,720,014 | 2.98% |
| KM Morton & Fry I LLC | Land and Improvements | 3,690,092 | 1.92% |
| CBS Morton Village LLC | Land and Improvements | 2,389,949 | 1.25% |
| Irno LLC | Land and Improvements | 1,571,647 | 0.82% |
| Mexico Food LLC | Personal Property | 1,368,115 | 0.71% |
| KM Morton & Fry II LLC | Land and Improvements | 1,303,840 | 0.68% |
| FKH SFR Propco B HLD LP | Land and Improvements | 1,127,807 | 0.59% |
| Stasskol Inc | Personal Property | 1,035,094 | 0.54% |
| Rick F Hall Trust | Land and Improvements | 1,008,445 | 0.53% |
| K T Fortune LLC | Land and Improvements | <u>998,652</u> | <u>0.52%</u> |
| | | \$20,213,655 | 10.54% |

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District's tax base occurs beyond the 2020 Assessed Valuation or the 2021 Preliminary Valuation. The calculations assume collection of 95% of taxes levied, no use of funds on hand, and the sale of no bonds by the District other than the Prior Bonds and the Bonds.

| | |
|---|-----------|
| Average Annual Debt Service Requirements (2021-2027) | \$566,764 |
| Tax Rate of \$0.32 on the 2020 Assessed Valuation (\$191,850,298) produces | \$583,225 |
| Tax Rate of \$0.29 on the 2021 Preliminary Valuation (\$210,067,437) produces | \$578,736 |
| Maximum Annual Debt Service Requirement (2027) | \$581,400 |
| Tax Rate of \$0.32 on the 2020 Assessed Valuation (\$191,850,298) produces | \$583,225 |
| Tax Rate of \$0.30 on the 2021 Preliminary Valuation (\$210,067,437) produces | \$598,692 |

The District levied a debt service tax of \$0.32 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.28 per \$100 of Assessed Valuation. As the above table indicates, a debt service tax rate of \$0.32 per \$100 of Assessed Valuation is sufficient to pay the average annual debt service requirements and the maximum annual debt service requirement on the Bonds given taxable values in the District at the level of the 2020 Assessed Valuation or the 2021 Preliminary Valuation, assuming a tax collection rate of 95%, no use of other available funds, including earnings from the investment of funds held in the District's Bond Fund, and the issuance of no additional bonds by the District. In addition, as is stated above, the District had collected an average of 99.85% of its tax levies for the period 2010 through 2019 as of May 31, 2021, and its 2020 levy was 97.84% collected as of such date. Moreover, the District's Bond Fund balance is estimated to be \$256,624 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Bond Fund at any time, the District expects to apply earnings from the investment of monies held in the Bond Fund to meet the debt service requirements of the Bonds. See "APPENDIX B - INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS." Therefore, the District anticipates being able to pay the maximum and average annual debt service requirements of the Bonds without increasing its debt service levy above the level of the 2020 debt service levy of \$0.32 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX PROCEDURES" and "INVESTMENT CONSIDERATIONS - Factors Affecting Taxable Values and Tax Payments."

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2020 taxes levied upon property located within the District and the District's 2020 tax rate. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded indebtedness of the District and of such other jurisdictions (see "DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement"), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

| <u>Taxing Jurisdiction</u> | <u>2020 Tax Rate Per \$100 of A.V.</u> |
|---|---|
| The District* | \$0.600000 |
| Harris County | 0.391160 |
| Harris County Department of Education | 0.004993 |
| Harris County Flood Control District | 0.031420 |
| Harris County Hospital District | 0.166710 |
| Port of Houston Authority | 0.009910 |
| Katy Independent School District | 1.388800 |
| Harris County Emergency Service District No. 47 | 0.084000 |
| Total Tax Rate | \$2.676993 |

* The District has levied a total tax of \$0.60 per \$100 of Assessed Valuation for 2020, consisting of a debt service tax of \$0.32 per \$100 of Assessed Valuation and a maintenance tax of \$0.28 per \$100 of Assessed Valuation.

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris County Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris County Appraisal Review Board (the “Appraisal Review Board”). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include: 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; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2021 tax year, the District has granted an exemption of \$10,000 of assessed valuation for persons 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$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 an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating (i) if the residence homestead was donated by a charitable organization at no cost to the disabled veteran or (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of (i) the armed forces or (ii) a first responder as defined under Texas law, 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.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. For the 2021 tax year, the District has not granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The 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 tax 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, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See “Rollback of Operation and Maintenance Tax Rate.” 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.

Agricultural, Open Space, Timberland and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District 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 and not as to others. If a claimant receives the 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 for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2021, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

Tax Abatement

The City of Houston and Harris County may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty

of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies municipal utility districts differently based on their current operation and maintenance tax rate or on the percentage of projected 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 herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, 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. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate.

Low Tax Rate Districts

Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the District, 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 Low Tax Rate District is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions.

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 in the District, subject to certain homestead exemptions, 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 the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In

addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Developing Districts

Districts that do not meet the classification of a Low Tax Rate District 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the District, 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 the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the District's Board of Directors on an annual basis. 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. For the 2020 tax rate year, a determination has been made by the District's Board of Directors that the District is a Developed District.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1, of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units (see "DISTRICT DEBT – Estimated Direct and Overlapping Debt Statement"). 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. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

Except with respect to (i) owners of residential homestead property who are sixty-five (65) years of age or older or under a disability as described above and who have filed an affidavit as required by law, and (ii) owners of residential homesteads who have entered into an installment agreement with the District for payment of delinquent taxes as described above and who are not in default under said agreement, at any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, or by taxpayer redemption rights (a taxpayer may redeem property that is a residence homestead or was designated for agricultural use within two (2) years after the deed issued at foreclosure is filed of record and may redeem all other property within six (6) months after the deed issued at foreclosure is filed of record) or by bankruptcy proceedings which restrict the collection of taxpayer debt. The District's ability to foreclose its tax lien or collect penalties and interest may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act 12 U.S.C. 1825, as amended. Generally, the District's tax lien and a federal tax lien are on par with the ultimate priority being determined by applicable federal law. See "INVESTMENT CONSIDERATIONS - Tax Collection Limitations" and "- The Effect of the Financial Institutions Act of 1989 on Tax Collections of the District."

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations solely of the District and not of the State of Texas, Harris County, Texas, the City of Houston, Texas, or any political subdivision or agency other than the District, are secured by the proceeds of an annual ad valorem tax, levied without legal limit as to rate or amount, upon all taxable property within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the District's ability to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representation that over the life of the Bonds the taxable property within the District will maintain a value sufficient to justify continued payment of taxes by property owners or that there will be a market for any property if the District forecloses on property to enforce its tax lien. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. Further, the collection of delinquent taxes owed the District, and the enforcement by a Registered Owner of the District's obligation to collect sufficient taxes may be costly and lengthy processes. See "Tax Collection Limitations" and "Registered Owners' Remedies and Bankruptcy" below and "THE BONDS - Source and Security for Payment" and - "Remedies in Event of Default."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial proportion of the assessed valuation of the property located within the District is attributable to the current market value of (i) single-family residences that have been constructed within the District, and (ii) commercial buildings that have been constructed within the District. The market value of such residences is related to general economic conditions affecting the demand for residences. Demand for residences of this type and the construction of commercial buildings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy costs and availability and the prosperity and demographic characteristics of the urban center toward which the marketing of homes and commercial enterprises is directed. Further fluctuation in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing (see "Potential Effects of Oil Price Fluctuation on the Houston Area" below). Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although development of the District has occurred as is described in this Official Statement under the caption "DEVELOPMENT OF THE DISTRICT," the District cannot predict the pace or magnitude of any future commercial development or construction of future commercial buildings in the District, nor can it predict the level of occupancy of any commercial improvements that are located within the District.

National Economy: 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, employment levels and general economic conditions. Although development of the District has occurred as described in this Official Statement under the caption "DEVELOPMENT OF THE DISTRICT," the District cannot predict the pace or magnitude of any future development or construction in the District other than that which has occurred to date. The District cannot predict what impact, if any, a downturn in the local housing markets or in the national housing and financial markets may have on the Houston market generally and the District specifically.

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on development and the construction of commercial buildings, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which the construction of commercial buildings might be undertaken. Interest rate levels may affect the ability of a developer with undeveloped property to undertake and complete development activities within the District or the construction of future commercial buildings. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for construction of future commercial buildings within

the District. In addition, since the District is located approximately 23 miles west of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and a further decline in real estate and financial markets in the United States could adversely affect development and commercial building plans in the District and restrain the growth of the District's property tax base.

Maximum Impact on District Tax Rates

The value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds will be \$581,400 (2027) and the Average Annual Debt Service Requirements will be \$566,764 (2021 through 2027, inclusive). The District's 2020 Assessed Valuation is \$191,850,298. Assuming no increase to nor decrease from the 2020 Assessed Valuation, no use of funds on hand, and the issuance of no additional bonds by the District, a tax rate of \$0.32 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements. The District's 2021 Preliminary Valuation is \$210,067,437. Assuming no increase to nor decrease from the 2021 Preliminary Valuation, no use of funds on hand, and the issuance of no additional bonds by the District, tax rates of \$0.30 and \$0.29 per \$100 of Assessed Valuation at a 95% tax collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively.

The District levied a debt service tax of \$0.32 per \$100 of Assessed Valuation for 2020, plus a maintenance tax of \$0.28 per \$100 of Assessed Valuation. As indicated above, a debt service tax rate of \$0.32 per \$100 of Assessed Valuation is sufficient to pay the average annual debt service requirements and the maximum annual debt service requirement on the Bonds given taxable values in the District at the level of the 2020 Assessed Valuation or the 2021 Preliminary Valuation, assuming a tax collection rate of 95%, no use of other available funds, including earnings from the investment of funds held in the District's Bond Fund, and the issuance of no additional bonds by the District. In addition, as is stated above, the District had collected an average of 99.85% of its tax levies for the period 2010 through 2019 as of May 31, 2021, and its 2020 levy was 97.84% collected as of such date. Moreover, the District's Bond Fund balance is estimated to be \$256,624 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Bond Fund at any time, the District expects to apply earnings from the investment of monies held in the Bond Fund to meet the debt service requirements of the Bonds. See "APPENDIX B - INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS." Therefore, the District anticipates being able to pay the maximum and average annual debt service requirements of the Bonds without increasing its debt service levy above the level of the 2020 debt service levy of \$0.32 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See "TAX PROCEDURES."

As is enumerated in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2020 tax levies of all units of government which levy taxes against the property located within the District, plus the 2020 tax of the District is \$2.676993 per \$100 of Assessed Valuation. Such aggregate levy is within the range of the aggregate tax levies of municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by 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 "TAX PROCEDURES."

Registered Owners' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not 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. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgement for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

The enforceability of the rights and remedies of the Registered Owners may be further 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. In this regard, should the District file a petition for protection from creditors under

federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "THE BONDS - Remedies in Event of Default."

The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold, or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

The District reserved in the Bond Order the right to issue the remaining \$21,700,000 unlimited tax bonds authorized but unissued for waterworks, wastewater and drainage facilities, the \$30,588,309.70 for refunding purposes, and such additional bonds as may hereafter be approved by the voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining \$21,700,000 bonds described above for waterworks, wastewater and drainage facilities which have heretofore been authorized by the voters of the District may be issued by the District from time to time as needed. The issuance of such \$21,700,000 bonds for waterworks, wastewater and drainage facilities is also subject to TCEQ authorization.

The District has financed components of the System and certain other facilities that are described in this Official Statement under the captions “DEVELOPMENT OF THE DISTRICT” and “THE SYSTEM” with the proceeds of the sale of the Prior Bonds. The District may finance additional components of the System or improvements thereto, and other facilities, with the proceeds of the sale of bonds, if any, to be issued by the District in the future. See “THE BONDS - Issuance of Additional Debt” and “THE SYSTEM.”

According to the District’s Engineer, the \$21,700,000 bonds which remain authorized but unissued will be adequate to finance the construction of all water, wastewater, and drainage facilities to provide service to all of the currently undeveloped portions of the District. In the event that additional authorization is necessary, the District will seek approval of the voters of the District of the authorization to issue additional bonds. If additional bonds are issued in the future and property values have not increased proportionately, such issuance might increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS - Authority for Issuance” and - “Issuance of Additional Debt,” “DISTRICT DEBT - Debt Service Requirement Schedule,” and “THE SYSTEM.”

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

Competitive Nature of Commercial Building Market

The commercial building industry in the Houston area is very competitive, and the District can give no assurance that the commercial building programs which are planned by the owners of the currently undeveloped property located within the District or any future owner(s) will be continued or completed. The respective competitive positions of the commercial building company(ies) which might attempt future development or commercial building construction projects in the District are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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 non-stormwater 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 is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required 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. Costs associated with these compliance activities could be substantial in the future.

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.

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e. “500 year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the District’s Operator and Engineer, the District’s System did not sustain any material damage and there was no interruption of water and sewer service from Hurricane Harvey. Although there was no official accounting of the number of homes within the District that experienced structural flooding as a result of Hurricane Harvey, it is believed that approximately 135 homes, or approximately 14.6% of the homes located within the District, were affected. Substantially all of such home have since been repaired and are occupied.

If a future weather event significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase in the District’s tax rate. As is enumerated in this Official Statement under the caption “TAX DATA – Historical Values and Tax Collection History,” the District’s January 1, 2017, Assessed Valuation, which was the District’s tax base prior to Hurricane Harvey, was \$169,047,549. The District’s January 1, 2018, Assessed Valuation, which was the District’s tax base immediately subsequent to Hurricane Harvey, was \$172,397,645, and the District’s Assessed Value has increased every year thereafter. The District’s January 1, 2020 Assessed Valuation was \$191,850,298, and its January 1, 2021 Preliminary Valuation is \$210,067,437. See “THE SYSTEM – 100-Year Flood Plain.”

There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

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.

Infectious Disease Outbreak (COVID-19)

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State

and pursuant to the Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

Over the ensuing year, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including Texas) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment except in counties with an “area with high hospitalizations” where a county judge may impose COVID-19 related mitigation strategies. Harris County is not currently an “area with high hospitalizations.” The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

With the decrease in the number of active COVID-19 cases and the easing or removal of associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

Potential Effects of Oil Price Fluctuation on the Houston Area

The recent fluctuation 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 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.

Changes in Tax Legislation

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

LEGAL MATTERS

Legal Opinions

The District will furnish to the Underwriters a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of 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 Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations

of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. The District will also furnish the legal opinion of McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, to the effect that interest on the Bonds is excludable from gross income of the owners thereof for federal income tax purposes under existing law and not subject to the alternative minimum tax on individuals.

In addition to serving as Bond Counsel, Schwartz, Page & Harding, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel and Special Tax Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., Houston, Texas.

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this Official Statement under the captioned sections “THE BONDS,” “PLAN OF FINANCING – Escrow Agreement” and “Defeasance of the Refunded Bonds” (but only insofar as such section relates to the legal opinion of Bond Counsel), “THE DISTRICT - General,” - “Management of the District - Bond Counsel and General Counsel,” and - “Strategic Partnership Agreement,” “TAX PROCEDURES,” and “LEGAL MATTERS - Legal Opinions” (insofar as such section relates to the legal opinion of Bond Counsel) solely to determine whether such information fairly summarizes the law and documents referred to therein. In its capacity as Special Tax Counsel, McCall, Parkhurst & Horton L.L.P., has reviewed the information appearing in this Official Statement under the captions “THE DISTRICT - Management of the District - Special Tax Counsel,” “LEGAL MATTERS - Legal Opinions” (insofar as such section relates to the legal opinion of Special Tax Counsel) and “TAX MATTERS,” solely to determine whether such information fairly summarizes the law referred to therein. Such firms have not independently verified factual information contained in this Official Statement, nor have such firms conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firms' limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Dallas, Texas, Special Tax Counsel to the District, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”) (i) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (ii) the Bonds will not be treated as “specified private activity bonds” the interest of which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Special Tax Counsel to the District will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

In rendering its opinion, Special Tax Counsel will rely upon (a) the opinion of Schwartz, Page & Harding L.L.P., Bond Counsel, that the Bonds are valid and binding obligations of the District payable from the proceeds of a generally-applicable ad valorem tax, (b) the District’s federal tax certificate and the verification report prepared by Robert Thomas CPA, LLC, Certified Public Accountants, and (c) covenants of the District with respect to arbitrage

compliance, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure by the District to observe the aforementioned representations or covenants, could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Special Tax Counsel to the District is conditioned on compliance by the District with such requirements, and Special Tax Counsel to the District has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds. Special Tax Counsel's opinion represents its legal judgement based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Special Tax Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds or the Refunded Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Special Tax Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Premium Bonds

The initial public offering price to be paid for certain maturities of the Bonds is greater than the amount payable on such Bonds at maturity (the "Premium Bonds"). An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity. PURCHASERS OF THE PREMIUM BONDS SHOULD CONSULT WITH THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION OF AMORTIZABLE BOND PREMIUM WITH RESPECT TO THE PREMIUM BONDS FOR FEDERAL INCOME TAX PURPOSES AND WITH RESPECT TO THE STATE AND LOCAL TAX CONSEQUENCES OF OWNING PREMIUM BONDS.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on existing statutes, regulations, published rulings and court decisions, all of which are subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a “market discount” and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to “market discount bonds” to the extent such gain does not exceed the accrued market discount of such bonds; although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a “financial institution,” on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer’s taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a “financial institution” allocable to tax-exempt obligations, other than “private activity bonds,” that are designated by a “qualified small issuer” as “qualified tax-exempt obligations.” A “qualified small issuer” is any governmental issuer (together with any “on-behalf of” and “subordinate” issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term “financial institution” as any “bank” described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person’s trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to “qualified tax-exempt obligations” provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a “bank,” as defined in Section 585(1)(2) of the Code, for interest on indebtedness incurred or continued to purchase “qualified tax-exempt obligations” shall be reduced by twenty-percent (20%) as a “financial institution preference item.”

The District has designated the Bonds as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as “qualified tax-exempt obligations.” Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be “qualified tax-exempt obligations.”

NO-LITIGATION CERTIFICATE

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

NO MATERIAL ADVERSE CHANGE

The obligations of the Underwriter to take up and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been finalized, supplemented or amended through the date of sale.

VERIFICATION OF ACCURACY OF MATHEMATICAL COMPUTATIONS

The arithmetical accuracy of certain computations included in the schedules provided on behalf of the District relating to (a) computation of the adequacy of the amounts to be held by the Escrow Agent to pay, when due, the principal or redemption price of and interest on the Refunded Bonds, (b) the computation of the yield on the Bonds, and (c) the mathematical computations related to certain requirements of City of Houston Ordinance No. 97-416 was verified by Robert Thomas CPA, LLC. The computations were independently verified by Robert Thomas CPA, LLC based solely upon assumptions and information supplied on behalf of the District, and by the District. Robert Thomas CPA, LLC has restricted its procedures to verifying the arithmetical accuracy of certain computations and has not made any study or evaluation of the assumptions and information upon which the computations are based and, accordingly, has not expressed an opinion on the data used, the reasonableness of the assumptions, or the achievability of future events.

Robert Thomas CPA, LLC relied on the accuracy, completeness and reliability of all information provide to it by, and on all decisions and approvals of, the District. In addition, Robert Thomas CPA, LLC has relied on any information provided to it by the District's retained advisors, consultants or legal counsel. Robert Thomas CPA, LLC was not engaged to perform audit or attest services under AICPA auditing or attestation standards or to provide any form of attest report or opinion under such standards in conjunction with this engagement.

OFFICIAL STATEMENT

General

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 believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein that was obtained from sources other than the District. The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

The financial statements of the District as of October 31, 2020, and for the year then ended, included in this offering document, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See "APPENDIX B."

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled “THE DISTRICT,” “DEVELOPMENT OF THE DISTRICT,” “FUTURE DEVELOPMENT,” and “THE SYSTEM” has been provided by Sander Engineering Corporation, and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

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

Certification as to Official Statement

The District, acting by and through its Board of Directors in its official capacity and in reliance upon the experts listed above, 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 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 or verification of such matters and makes no representation as to the accuracy or completeness thereof.

Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriters are no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the “SEC”), the District learns, or is notified by the Underwriters, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriters elect to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriters an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriters; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the “end of the underwriting period” as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB (hereinafter defined), but in no case less than 25 days after the “end of the underwriting period.”

CONTINUING DISCLOSURE OF INFORMATION

The offering of the Bonds qualifies for the Rule 15c2-12(d)(2) exemption from Rule 15c2-12(b)(5) of the United States Securities and Exchange Commission (the “SEC”) regarding the District's continuing disclosure obligations because the District does not have more than \$10,000,000 in aggregate amount of outstanding bonds and no person is committed by contract or other arrangement with respect to payment of the Bonds. As required by the exemption, in the Bond Order, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the “MSRB”) or any successor to its functions as a repository through its Electronic Municipal Market Access (“EMMA”) system.

Annual Reports

The District will provide certain updated financial information and operating data, which is customarily prepared by the District and publicly available, annually to the MSRB. The financial information and operating data which will be provided with respect to the District is found in “APPENDIX B” (Independent Auditor’s Report and Financial Statements). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2021. Any information so provided shall be prepared in accordance with generally accepted accounting principals or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report becomes available.

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 District's fiscal year end is currently October 31. Accordingly, it must provide updated information by April 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain 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 determination of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other events affecting the tax status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District; (13) consummation of a merger, consolidation, or acquisition involving the District or the sale of all or substantially all of the assets of the District 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, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District, 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, any of which reflect financial difficulties. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under SEC Rule 15c2-12 (the "Rule"). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

The District has agreed to provide the foregoing information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects 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 or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

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

Compliance With Prior Undertakings

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule except that its audited financial statements which were due April 30, 2020, were not filed timely, as they were filed on June 16, 2020.

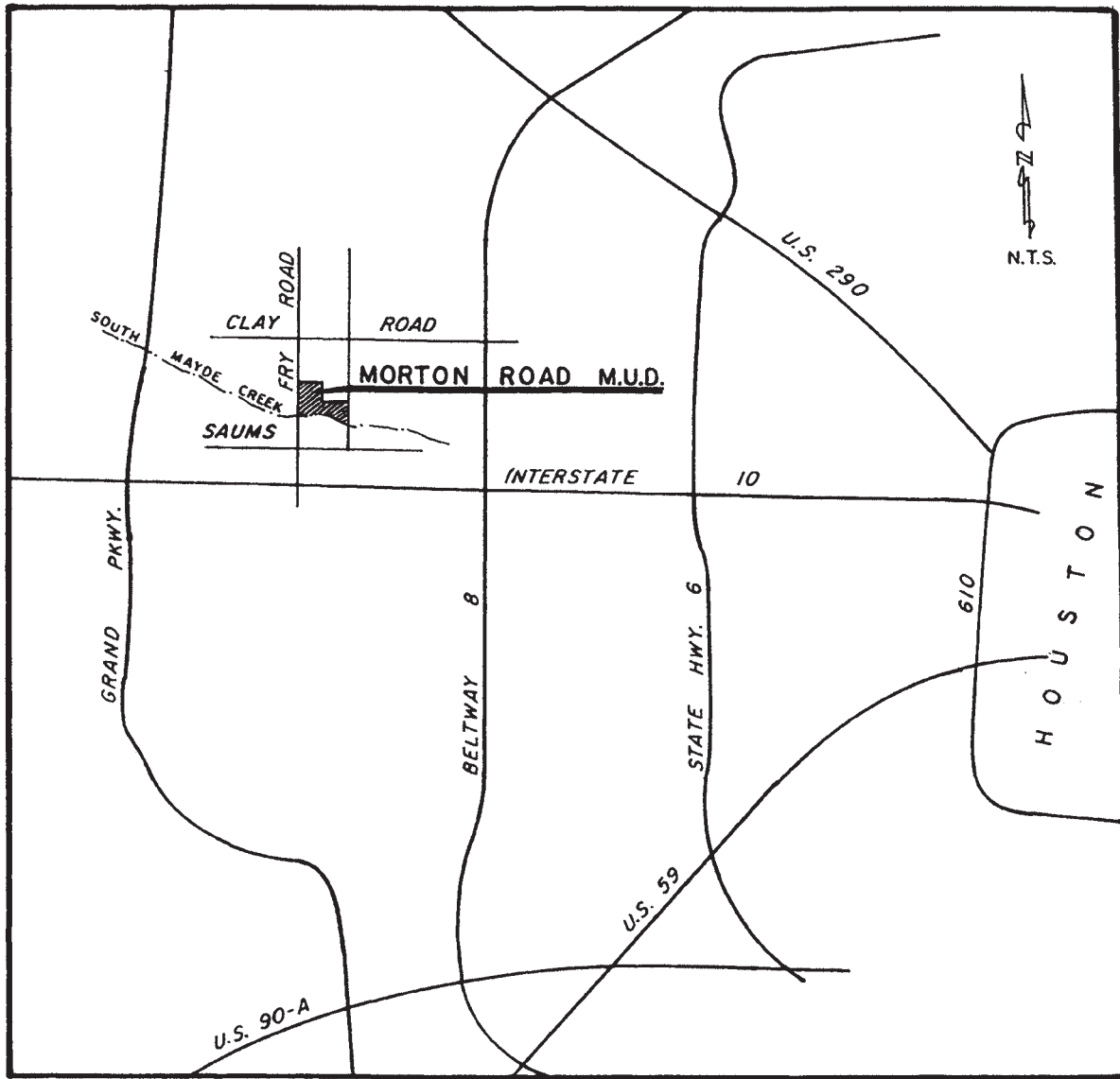
This Official Statement was approved by the Board of Directors of Morton Road Municipal Utility District as of the date shown on the first page hereof.

/s/ Alan D. Seitz
President, Board of Directors
Morton Road Municipal Utility District

ATTEST:

/s/ Cindy Perry
Secretary, Board of Directors
Morton Road Municipal Utility District

APPENDIX A
LOCATION MAP



VICINITY MAP

KEY MAP NO. 446 Q-U-T

APPENDIX B

MORTON ROAD MUNICIPAL UTILITY DISTRICT

HARRIS COUNTY, TEXAS

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS

OCTOBER 31, 2020

Morton Road Municipal Utility District

Harris County, Texas

Independent Auditor's Report and Financial Statements

October 31, 2020



Morton Road Municipal Utility District

October 31, 2020

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Independent Auditor's Report

Board of Directors
Morton Road Municipal Utility District
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Morton Road Municipal Utility District (the District), as of and for the year ended October 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements 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 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 financial statements are free from 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 policies 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 and appropriate to provide a basis for our audit opinions.

Opinions

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 the District as of October 31, 2020, and the respective changes in financial position thereof for the year then ended in accordance 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 schedule listed in the table of contents be presented to supplement the basic financial statements. Such information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. 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 other information as listed in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

BKD, LLP

Houston, Texas
March 10, 2021

Morton Road Municipal Utility District

Management's Discussion and Analysis

October 31, 2020

Overview of the Financial Statements

This discussion and analysis is intended to serve as an introduction to the District's basic financial statements. The District's basic financial statements are comprised of three components: 1) government-wide financial statements, 2) fund financial statements and 3) notes to financial statements. This report also contains supplementary information required by the Governmental Accounting Standards Board and other information required by the District's state oversight agency, the Texas Commission on Environmental Quality (the Commission).

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, sanitary sewer and drainage services. Other activities, such as the provision of recreation facilities and solid waste collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-wide Financial Statements

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

The difference between the District's assets, liabilities, and deferred inflows and outflows of resources is labeled as net position and this difference is similar to the total stockholders' equity presented by a commercial enterprise.

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

Morton Road Municipal Utility District

Management's Discussion and Analysis (Continued)

October 31, 2020

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

Fund Financial Statements

Unlike government-wide financial statements, the focus of fund financial statements is directed to specific activities of the District rather than the District as a whole. Except for the general fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties or governmental statutes or regulations.

Governmental Funds

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

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

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

Notes to Financial Statements

The notes to financial statements provide additional information that is essential to a full understanding of the data found in the government-wide and fund financial statements.

Morton Road Municipal Utility District
Management's Discussion and Analysis (Continued)
October 31, 2020

Financial Analysis of the District as a Whole

The District's overall financial position and activities for the past two years are summarized as follows, based on the information included in the government-wide financial statements.

Summary of Net Position

| | 2020 | 2019 |
|---|----------------------------|----------------------------|
| Current and other assets | \$ 4,896,396 | \$ 4,657,690 |
| Capital assets | <u>3,694,053</u> | <u>3,898,623</u> |
| Total assets | <u>8,590,449</u> | <u>8,556,313</u> |
| Deferred outflows of resources | <u>12,199</u> | <u>18,668</u> |
| Total assets and deferred outflows of resources | <u><u>\$ 8,602,648</u></u> | <u><u>\$ 8,574,981</u></u> |
| Long-term liabilities | \$ 3,743,218 | \$ 4,291,071 |
| Other liabilities | <u>198,338</u> | <u>193,737</u> |
| Total liabilities | <u>3,941,556</u> | <u>4,484,808</u> |
| Deferred inflows of resources | <u>1,010,803</u> | <u>1,000,857</u> |
| Net position: | | |
| Net investment in capital assets | (36,966) | (373,780) |
| Restricted | 343,712 | 393,388 |
| Unrestricted | <u>3,343,543</u> | <u>3,069,708</u> |
| Total net position | <u><u>\$ 3,650,289</u></u> | <u><u>\$ 3,089,316</u></u> |

The total net position of the District increased by \$560,973, or about 18 percent. The majority of the increase in net position is related to tax revenues intended to pay principal on the District's bonded indebtedness, which is shown as long-term liabilities in the government-wide financial statements. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Morton Road Municipal Utility District
Management's Discussion and Analysis (Continued)
October 31, 2020

Summary of Changes in Net Position

| | 2020 | 2019 |
|---------------------------------|----------------------------|----------------------------|
| Revenues: | | |
| Property taxes | \$ 1,160,550 | \$ 1,086,607 |
| City of Houston rebates | 35,699 | 33,709 |
| Charges for services | 697,898 | 631,104 |
| Other revenues | <u>90,651</u> | <u>126,613</u> |
| Total revenues | <u>1,984,798</u> | <u>1,878,033</u> |
| Expenses: | | |
| Services | 1,075,845 | 1,002,177 |
| Depreciation | 226,681 | 226,319 |
| Debt service | <u>121,299</u> | <u>142,697</u> |
| Total expenses | <u>1,423,825</u> | <u>1,371,193</u> |
| Change in net position | 560,973 | 506,840 |
| Net position, beginning of year | <u>3,089,316</u> | <u>2,582,476</u> |
| Net position, end of year | <u><u>\$ 3,650,289</u></u> | <u><u>\$ 3,089,316</u></u> |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended October 31, 2020, were \$3,680,676, an increase of \$223,782 from the prior year.

The general fund's fund balance increased by \$274,881. This increase was primarily related to property tax, sales tax rebates and services revenues in excess of service operations expenditures.

The debt service fund's fund balance decreased by \$51,099 because bond principal and interest requirements were greater than property tax revenues generated.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to property tax revenues and regional water fee expenditures being greater than anticipated and professional fees, capital outlay and other expenditures being less than anticipated. The fund balance as of October 31, 2020, was expected to be \$3,092,089 and the actual end-of-year fund balance was \$3,332,141.

Morton Road Municipal Utility District
Management's Discussion and Analysis (Continued)
October 31, 2020

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

| | <u>2020</u> | <u>2019</u> |
|-----------------------|----------------------------|----------------------------|
| Land and improvements | \$ 403,109 | \$ 403,109 |
| Water facilities | 1,339,632 | 1,420,841 |
| Wastewater facilities | <u>1,951,312</u> | <u>2,074,673</u> |
| Total capital assets | <u><u>\$ 3,694,053</u></u> | <u><u>\$ 3,898,623</u></u> |

During the current year, additions to capital assets were as follows:

| | |
|---|-------------------------|
| Booster pump No. 2 at water plant No. 1 | \$ 15,111 |
| Installation of chlorine gas detector system at water plant | <u>7,000</u> |
| Total additions to capital assets | <u><u>\$ 22,111</u></u> |

Debt

The changes in the debt position of the District during the fiscal year ended October 31, 2020, are summarized as follows:

| | |
|---|----------------------------|
| Long-term debt payable, beginning of year | \$ 4,291,071 |
| Decreases in long-term debt | <u>(547,853)</u> |
| Long-term debt payable, end of year | <u><u>\$ 3,743,218</u></u> |

As of October 31, 2020, the District had \$21,700,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District.

The District's Series 2014 refunding bonds carry an "A-" underlying rating from Standard & Poor's and carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company.

Morton Road Municipal Utility District
Management's Discussion and Analysis (Continued)
October 31, 2020

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City for full purposes without the District's consent, except as set forth below.

Effective February 28, 2007, the District entered into a Strategic Partnership Agreement with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the Strategic Partnership Agreement, the City has agreed it will not annex the District as a whole for full purposes for 30 years, at which time the City has the option to annex the District if it chooses to do so.

Morton Road Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet
October 31, 2020

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|-----------------|-------------------------|--------------|--------------|---------------------------------|
| Assets | | | | | |
| Cash | \$ 71,786 | \$ 77,211 | \$ 148,997 | \$ - | \$ 148,997 |
| Certificates of deposit | 2,330,000 | 230,000 | 2,560,000 | - | 2,560,000 |
| Short-term investments | 937,793 | 70,997 | 1,008,790 | - | 1,008,790 |
| Receivables: | | | | | |
| Property taxes | 480,197 | 550,005 | 1,030,202 | - | 1,030,202 |
| Service accounts | 78,223 | - | 78,223 | - | 78,223 |
| Due from City of Houston | 6,147 | - | 6,147 | 2,913 | 9,060 |
| Accrued penalty and interest | - | - | - | 7,617 | 7,617 |
| Accrued interest | 10,322 | 319 | 10,641 | - | 10,641 |
| Interfund receivable | 12,000 | - | 12,000 | (12,000) | - |
| Operating deposit | 42,866 | - | 42,866 | - | 42,866 |
| Capital assets (net of accumulated depreciation): | | | | | |
| Land and improvements | - | - | - | 403,109 | 403,109 |
| Infrastructure | - | - | - | 3,290,944 | 3,290,944 |
| Total assets | 3,969,334 | 928,532 | 4,897,866 | 3,692,583 | 8,590,449 |
| Deferred Outflows of Resources | | | | | |
| Deferred amount on debt refundings | 0 | 0 | 0 | 12,199 | 12,199 |
| Total assets and deferred outflows of resources | \$ 3,969,334 | \$ 928,532 | \$ 4,897,866 | \$ 3,704,782 | \$ 8,602,648 |

Morton Road Municipal Utility District
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
October 31, 2020

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Net Position |
|---|-----------------|-------------------------|--------------|--------------|---------------------------------|
| Liabilities | | | | | |
| Accounts payable | \$ 102,721 | \$ 17,992 | \$ 120,713 | \$ - | \$ 120,713 |
| Accrued interest payable | - | - | - | 23,350 | 23,350 |
| Customer deposits | 54,275 | - | 54,275 | - | 54,275 |
| Interfund payable | - | 12,000 | 12,000 | (12,000) | - |
| Long-term liabilities: | | | | | |
| Due within one year | - | - | - | 450,000 | 450,000 |
| Due after one year | - | - | - | 3,293,218 | 3,293,218 |
| Total liabilities | 156,996 | 29,992 | 186,988 | 3,754,568 | 3,941,556 |
| Deferred Inflows of Resources | | | | | |
| Deferred property tax revenues | 480,197 | 550,005 | 1,030,202 | (19,399) | 1,010,803 |
| Fund Balances/Net Position | | | | | |
| Fund balances: | | | | | |
| Restricted, unlimited tax bonds | - | 348,535 | 348,535 | (348,535) | - |
| Assigned, operating reserve | 42,866 | - | 42,866 | (42,866) | - |
| Unassigned | 3,289,275 | - | 3,289,275 | (3,289,275) | - |
| Total fund balances | 3,332,141 | 348,535 | 3,680,676 | (3,680,676) | 0 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 3,969,334 | \$ 928,532 | \$ 4,897,866 | | |
| Net position: | | | | | |
| Net investment in capital assets | | | | (36,966) | (36,966) |
| Restricted for debt service | | | | 343,712 | 343,712 |
| Unrestricted | | | | 3,343,543 | 3,343,543 |
| Total net position | | | | \$ 3,650,289 | \$ 3,650,289 |

Morton Road Municipal Utility District
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended October 31, 2020

| | General Fund | Debt Service Fund | Total | Adjustments | Statement of Activities |
|--|-----------------|-------------------------|--------------|-------------|-------------------------------|
| Revenues | | | | | |
| Property taxes | \$ 525,330 | \$ 638,090 | \$ 1,163,420 | \$ (2,870) | \$ 1,160,550 |
| City of Houston rebates | 35,677 | - | 35,677 | 22 | 35,699 |
| Water service | 180,612 | - | 180,612 | - | 180,612 |
| Sewer service | 217,355 | - | 217,355 | - | 217,355 |
| Regional water fee | 299,931 | - | 299,931 | - | 299,931 |
| Penalty and interest | 13,221 | 16,941 | 30,162 | (142) | 30,020 |
| Tap connection and inspection fees | 245 | - | 245 | - | 245 |
| Investment income | 51,977 | 7,852 | 59,829 | - | 59,829 |
| Other income | 557 | - | 557 | - | 557 |
| Total revenues | 1,324,905 | 662,883 | 1,987,788 | (2,990) | 1,984,798 |
| Expenditures/Expenses | | | | | |
| Service operations: | | | | | |
| Purchased services | 161,674 | - | 161,674 | - | 161,674 |
| Regional water fee | 338,200 | - | 338,200 | - | 338,200 |
| Professional fees | 121,027 | 6,101 | 127,128 | 36,978 | 164,106 |
| Contracted services | 73,961 | 29,431 | 103,392 | - | 103,392 |
| Utilities | 37,819 | - | 37,819 | - | 37,819 |
| Repairs and maintenance | 216,743 | - | 216,743 | - | 216,743 |
| Other expenditures | 41,511 | 12,400 | 53,911 | - | 53,911 |
| Capital outlay | 59,089 | - | 59,089 | (59,089) | - |
| Depreciation | - | - | - | 226,681 | 226,681 |
| Debt service: | | | | | |
| Principal retirement | - | 505,000 | 505,000 | (505,000) | - |
| Interest and fees | - | 161,050 | 161,050 | (39,751) | 121,299 |
| Total expenditures/expenses | 1,050,024 | 713,982 | 1,764,006 | (340,181) | 1,423,825 |
| Excess (Deficiency) of Revenues Over Expenditures | 274,881 | (51,099) | 223,782 | (223,782) | |
| Change in Net Position | | | | 560,973 | 560,973 |
| Fund Balances/Net Position | | | | | |
| Beginning of year | 3,057,260 | 399,634 | 3,456,894 | - | 3,089,316 |
| End of year | \$ 3,332,141 | \$ 348,535 | \$ 3,680,676 | \$ 0 | \$ 3,650,289 |

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Note 1: Nature of Operations and Summary of Significant Accounting Policies

Morton Road Municipal Utility District (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), effective June 11, 1974, in accordance with the Texas Water Code, Chapter 54. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

The District is governed by a Board of Directors (the Board) consisting of five individuals who are residents or owners of property within the District and are elected by voters within the District. The Board sets the policies of the District. The accounting and reporting policies of the District conform to accounting principles generally accepted in the United States of America for state and local governments, as defined by the Governmental Accounting Standards Board. The following is a summary of the significant accounting and reporting policies of the District:

Reporting Entity

The accompanying government-wide financial statements present the financial statements of the District. There are no component units that are legally separate entities for which the District is considered to be financially accountable. Accountability is defined as the District's substantive appointment of the voting majority of the component unit's governing board. Furthermore, to be financially accountable, the District must be able to impose its will upon the component unit or there must be a possibility that the component unit may provide specific financial benefits to, or impose specific financial burdens on, the District.

Government-wide and Fund Financial Statements

In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program, such as the provision of water, wastewater, drainage and other related services. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented with a column for adjustments to convert to the government-wide financial statements.

The government-wide financial statements report information on all of the activities of the District. As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Governmental activities generally are financed through taxes, charges for services and intergovernmental revenues. The statement of activities reflects the revenues and expenses of the District.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

The fund financial statements provide information about the District's governmental funds. Separate statements for each governmental fund are presented. The emphasis of fund financial statements is directed to specific activities of the District.

The District presents the following major governmental funds:

General Fund – The general fund is the primary operating fund of the District which accounts for all financial resources not accounted for in another fund. Revenues are derived primarily from property taxes, charges for services and interest income.

Debt Service Fund – The debt service fund is used to account for financial resources that are restricted, committed or assigned to expenditures for principal and interest related costs, as well as the financial resources being accumulated for future debt service.

Fund Balances – Governmental Funds

The fund balances for the District's governmental funds can be displayed in up to five components:

Nonspendable – Amounts that are not in a spendable form or are required to be maintained intact.

Restricted – Amounts that can be spent only for the specific purposes stipulated by external resource providers, constitutionally or through enabling legislation. Restrictions may be changed or lifted only with the consent of resource providers.

Committed – Amounts that can be used only for the specific purposes determined by resolution of the Board. Commitments may be changed or lifted only by issuance of a resolution by the District's Board.

Assigned – Amounts intended to be used by the District for specific purposes as determined by management. In governmental funds other than the general fund, assigned fund balance represents the amount that is not restricted or committed. This indicates that resources in other governmental funds are, at a minimum, intended to be used for the purpose of that fund.

Unassigned – The residual classification for the general fund and includes all amounts not contained in the other classifications.

The District considers restricted amounts to have been spent when an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available. The District applies committed amounts first, followed by assigned amounts, and then unassigned amounts when an expenditure is incurred for purposes for which amounts in any of those unrestricted fund balance classifications could be used.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and accrual basis of accounting. Revenues are recorded when earned and expenses are recorded at the time liabilities are incurred, regardless of the timing of related cash flows.

Nonexchange transactions, in which the District receives (or gives) value without directly giving (or receiving) equal value in exchange, include property taxes and donations. Recognition standards are based on the characteristics and classes of nonexchange transactions. Revenues from property taxes are recognized in the period for which the taxes are levied. Intergovernmental revenues are recognized as revenues, net of estimated refunds and uncollectible amounts, in the accounting period when an enforceable legal claim to the assets arises and the use of resources is required or is first permitted. Donations are recognized as revenues, net of estimated uncollectible amounts, as soon as all eligibility requirements imposed by the provider have been met. Amounts received before all eligibility requirements have been met are reported as liabilities.

Fund Financial Statements

Governmental funds are reported using the current financial resources measurement focus and the modified accrual basis of accounting. With this measurement focus, only current assets and liabilities are generally included on the balance sheet. The statement of governmental funds revenues, expenditures and changes in fund balances presents increases (revenues and other financing sources) and decreases (expenditures and other financing uses) in spendable resources. General capital asset acquisitions are reported as expenditures and proceeds of long-term debt are reported as other financing sources. Under the modified accrual basis of accounting, revenues are recognized when both measurable and available. The District considers revenues reported in the governmental funds to be available if they are collectible within 60 days after year-end. Principal revenue sources considered susceptible to accrual include taxes, charges for services and investment income. Other revenues are considered to be measurable and available only when cash is received by the District. Expenditures are recorded when the related fund liability is incurred, except for principal and interest on general long-term debt, which are recognized as expenditures when payment is due.

Interfund Transactions

Transfers from one fund to another fund are reported as interfund receivables and payables if there is intent to repay the amount and if there is the ability to repay the advance on a timely basis. Operating transfers represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Deferred Outflows and Inflows of Resources

A deferred outflow of resources is a consumption of net position that is applicable to a future reporting period and a deferred inflow of resources is an acquisition of net position that is applicable to a future reporting period.

Pension Costs

The District does not participate in a pension plan and, therefore, has no pension costs.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, and deferred inflows and outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

Investments and Investment Income

Investments in certificates of deposit, mutual funds, U.S. Government and agency securities, and certain pooled funds, which have a remaining maturity of one year or less at the date of purchase, are recorded at amortized cost. All other investments are carried at fair value. Fair value is determined using quoted market values.

Investment income includes dividends and interest income and the net change for the year in the fair value of investments carried at fair value. Investment income is credited to the fund in which the investment is recorded.

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Any collections on the current year tax levy are deferred and recognized in the subsequent fiscal year. Current year revenues recognized are those taxes collected during the fiscal year for prior years' tax levies, plus any collections received during fiscal 2019 on the 2019 levy.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended October 31, 2020, the tax levied in October 2020 is recorded as receivable and deferred inflows of resources and will be considered earned during the fiscal year ending October 31, 2021. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

Capital assets, which include property, plant, equipment and infrastructure, are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an individual cost of \$5,000 or more and an estimated useful life of two years or more. Purchased or constructed capital assets are reported at cost or estimated historical cost. Donated capital assets are recorded at their estimated acquisition value at the date of donation.

The cost of normal maintenance and repairs that do not add to the value of the asset or materially extend the asset lives are not capitalized.

Capital assets are depreciated using the straight-line method over their estimated useful lives as follows:

| | <u>Years</u> |
|--|---------------------|
| Water production and distribution facilities | 10-45 |
| Wastewater collection and treatment facilities | 10-45 |

Deferred Amount on Debt Refundings

In the government-wide financial statements, the difference between the reacquisition price and the net carrying amount of the old debt in a debt refunding is deferred and amortized to interest expense using the effective interest rate method over the remaining life of the old debt or the life of the new debt, whichever is shorter. Such amounts are classified as deferred outflows or inflows of resources.

Debt Issuance Costs

Debt issuance costs, other than prepaid insurance, do not meet the definition of an asset or deferred outflows of resources since the costs are not applicable to a future period and, therefore, are recognized as an expense/expenditure in the period incurred.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities. Premiums and discounts on bonds are recognized as a component of long-term liabilities and amortized over the life of the related debt using the effective interest rate method. Bonds payable are reported net of the applicable bond premium or discount.

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

Net Position/Fund Balances

Fund balances and net position are reported as restricted when constraints placed on them are either externally imposed by creditors, grantors, contributors, or laws or regulations of other governments, or are imposed by law through constitutional provisions or enabling legislation.

When both restricted and unrestricted resources are available for use, generally, it is the District's policy to use restricted resources first.

Reconciliation of Government-wide and Fund Financial Statements

Amounts reported for net position of governmental activities in the statement of net position and fund balances in the governmental funds balance sheet are different because:

| | |
|--|--------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 3,694,053 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 19,399 |
| Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds. | 7,617 |
| Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds. | 12,199 |
| Amount due from the City of Houston that is not receivable in the current period and is not reported in the funds. | 2,913 |

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

| | |
|---|---------------------------|
| Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. | \$ (23,350) |
| Long-term debt obligations are not due and payable in the current period and are not reported in the funds. | <u>(3,743,218)</u> |
| Adjustment to fund balances to arrive at net position. | <u><u>\$ (30,387)</u></u> |

Amounts reported for change in net position of governmental activities in the statement of activities are different from change in fund balances in the governmental funds statement of revenues, expenditures and changes in fund balances because:

| | |
|---|--------------------------|
| Change in fund balances. | \$ 223,782 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current year. | (204,570) |
| Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position. | 505,000 |
| Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds. | (2,990) |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | <u>39,751</u> |
| Change in net position of governmental activities. | <u><u>\$ 560,973</u></u> |

Note 2: Deposits, Investments and Investment Income

Deposits

Custodial credit risk is the risk that, in the event of a bank failure, a government's deposits may not be returned to it. The District's deposit policy for custodial credit risk requires compliance with the provisions of state law.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

State law requires collateralization of all deposits with federal depository insurance; a surety bond; bonds and other obligations of the U.S. Treasury, U.S. agencies or instrumentalities of the State of Texas; or certain collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States.

At October 31, 2020, none of the District's bank balances were exposed to custodial credit risk.

Investments

The District may legally invest in obligations of the United States or its agencies and instrumentalities, direct obligations of Texas or its agencies or instrumentalities, collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States, other obligations guaranteed as to principal and interest by the State of Texas or the United States or their agencies and 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, obligations of states, agencies and counties and other political subdivisions with an investment rating not less than "A," insured or collateralized certificates of deposit, and certain bankers' acceptances, repurchase agreements, mutual funds, commercial paper, guaranteed investment contracts and investment pools.

The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in TexPool, an external investment pool that is not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool.

At October 31, 2020, the District had the following investments and maturities:

| Type | Maturities in Years | | | | |
|---------|---------------------|--------------|------|------|--------------|
| | Amortized Cost | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| TexPool | \$ 1,008,790 | \$ 1,008,790 | \$ 0 | \$ 0 | \$ 0 |

Interest Rate Risk. As a means of limiting its exposure to amortized cost losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At October 31, 2020, the District's investments in TexPool were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet at October 31, 2020, as follows:

| | |
|-----------------|----------------------------|
| Carrying value: | |
| Deposits | \$ 2,708,997 |
| Investments | <u>1,008,790</u> |
| Total | <u><u>\$ 3,717,787</u></u> |

Included in the following statement of net position captions:

| | |
|-------------------------|----------------------------|
| Cash | \$ 148,997 |
| Certificates of deposit | 2,560,000 |
| Short-term investments | <u>1,008,790</u> |
| Total | <u><u>\$ 3,717,787</u></u> |

Investment Income

Investment income of \$59,829 for the year ended October 31, 2020, consisted of interest income.

Note 3: Capital Assets

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

| Governmental Activities | Balances, Beginning of Year | Additions | Balances, End of Year |
|----------------------------------|-----------------------------------|-------------|-----------------------------|
| Capital assets, non-depreciable: | | | |
| Land and improvements | <u>\$ 403,109</u> | <u>\$ 0</u> | <u>\$ 403,109</u> |

Morton Road Municipal Utility District
Notes to Financial Statements
October 31, 2020

| Governmental Activities (Continued) | Balances, Beginning of Year | Additions | Balances, End of Year |
|--|--|---------------------|--------------------------------------|
| Capital assets, depreciable: | | | |
| Water production and distribution facilities | \$ 3,639,797 | \$ 22,111 | \$ 3,661,908 |
| Wastewater collection and treatment facilities | <u>3,600,809</u> | <u>-</u> | <u>3,600,809</u> |
| Total capital assets, depreciable | <u>7,240,606</u> | <u>22,111</u> | <u>7,262,717</u> |
| Less accumulated depreciation: | | | |
| Water production and distribution facilities | (2,218,956) | (103,320) | (2,322,276) |
| Wastewater collection and treatment facilities | <u>(1,526,136)</u> | <u>(123,361)</u> | <u>(1,649,497)</u> |
| Total accumulated depreciation | <u>(3,745,092)</u> | <u>(226,681)</u> | <u>(3,971,773)</u> |
| Total governmental activities, net | <u>\$ 3,898,623</u> | <u>\$ (204,570)</u> | <u>\$ 3,694,053</u> |

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended October 31, 2020, were as follows:

| Governmental Activities | Balances, Beginning of Year | Decreases | Balances, End of Year | Amounts Due in One Year |
|---|--|-------------------|--------------------------------------|--|
| Bonds payable: | | | | |
| General obligation bonds | \$ 4,120,000 | \$ 505,000 | \$ 3,615,000 | \$ 450,000 |
| Add premiums on bonds | <u>171,071</u> | <u>42,853</u> | <u>128,218</u> | <u>-</u> |
| Total governmental activities long-term liabilities | <u>\$ 4,291,071</u> | <u>\$ 547,853</u> | <u>\$ 3,743,218</u> | <u>\$ 450,000</u> |

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

General Obligation Bonds

| | Refunding Series 2014 |
|--|----------------------------------|
| Amount outstanding, October 31, 2020 | \$3,615,000 |
| Interest rates | 3.00% to 4.00% |
| Maturity dates, serially beginning/ending | September 1, 2021/2027 |
| Interest payment dates | March 1/ September 1 |
| Callable date* | September 1, 2021 |

*Or any date thereafter; callable at par plus accrued interest to the date of redemption.

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at October 31, 2020:

| Year | Principal | Interest | Total |
|-----------|----------------------------|--------------------------|----------------------------|
| 2021 | \$ 450,000 | \$ 140,100 | \$ 590,100 |
| 2022 | 465,000 | 126,600 | 591,600 |
| 2023 | 490,000 | 108,000 | 598,000 |
| 2024 | 510,000 | 88,400 | 598,400 |
| 2025 | 540,000 | 68,000 | 608,000 |
| 2026-2027 | <u>1,160,000</u> | <u>70,200</u> | <u>1,230,200</u> |
| Total | <u><u>\$ 3,615,000</u></u> | <u><u>\$ 601,300</u></u> | <u><u>\$ 4,216,300</u></u> |

The bonds are payable from the proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount, and are further payable from and secured by a lien on and a pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

| | |
|-----------------------------------|---------------|
| Bonds voted | \$ 33,705,000 |
| Bonds sold | 12,005,000 |
| Refunding bonds voted | 33,705,000 |
| Refunding bond authorization used | 3,116,690 |

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Note 5: Significant Bond Order and Commission Requirements

The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended October 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.3200 per \$100 of assessed valuation, which resulted in a tax levy of \$539,095 on the taxable valuation of \$168,467,637 for the 2020 tax year. The interest and principal requirements to be paid from the tax revenues are \$590,100.

Note 6: Maintenance Taxes

At an election held May 9, 2009, voters authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property within the District subject to taxation. During the year ended October 31, 2020, the District levied an ad valorem maintenance tax at the rate of \$0.2800 per \$100 of assessed valuation, which resulted in a tax levy of \$471,708 on the taxable valuation of \$168,467,637 for the 2020 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 7: Contracts With Other Districts

On February 28, 1985, the District contracted with Westlake Municipal Utility District No. 1 (Westlake) to participate in the expansion of Westlake's 600,000 gallons-per-day (gpd) wastewater treatment plant facilities (the Plant) to 1,200,000 gpd. The agreement was for a term of 40 years.

The cost of the initial 600,000-gpd expansion was incurred by the District. Costs of any future expansions will be borne by the participants on a pro rata basis based on additional capacity acquired. On June 23, 1986, Westlake entered into an agreement to purchase 5,000 gallons of capacity from the District.

The parties entered into an amended and restated waste disposal agreement dated effective August 27, 2007, which has a 40-year term. During a prior year, Westlake completed construction of a 900,000-gpd wastewater treatment facility, costs of which were borne by Westlake and the District in the percentages shown below. The capacity of the participants at October 31, 2020, is shown as follows:

| Participants | GPD Capacity | Percent |
|--------------|-----------------|----------|
| Westlake | 513,000 | 57.00 % |
| The District | 387,000 | 43.00 |
| Total | 900,000 | 100.00 % |

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Westlake is solely responsible for the operation of the Plant and maintains separate records on the cost of the operations. The Plant is managed by the Westlake Board. Operating costs are shared by the participants based on a combination of usage and capacity owned in the Plant.

Each participant is required to advance a pro rata amount into the general fund to pay monthly operating costs. In accordance with this provision, the District advanced \$42,866, which represents its share of the total Plant reserve requirement. During the current year, the District expended \$161,674 for its share of operating costs.

The condensed audited financial information of the Plant as of and for the year ended October 31, 2020, is shown below:

| | Plant General Fund |
|------------------------------------|-----------------------------------|
| Total assets | \$ 131,221 |
| Total liabilities | \$ 9,350 |
| Total fund balance | 121,871 |
| Total liabilities and fund balance | \$ 131,221 |
| Total revenues | \$ 371,797 |
| Total expenditures | 371,797 |
| Excess revenues | \$ 0 |

Note 8: Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of October 31, 2020, the Authority was billing the District \$3.20 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Morton Road Municipal Utility District

Notes to Financial Statements

October 31, 2020

Note 9: Strategic Partnership Agreement

Effective February 28, 2007, the District and the City of Houston (the City) entered into a Strategic Partnership Agreement (the Agreement) under which the City annexed a tract of land (the tract) within the boundaries of the District for limited purposes. The District continues to exercise all powers and functions of a municipal utility district as provided by law. As consideration for the District providing services as detailed in the Agreement, the City agrees to remit one-half of all City sales and use tax revenues generated within the boundaries of the tract. As consideration for the sales tax payments by the City, the District agrees to continue to provide and develop water, sewer and drainage services within the District in lieu of full-purpose annexation. The City agrees it will not annex the District for full purposes or commence any action to annex the District during the term of the Agreement, which is 30 years. During the current year, the District recorded \$35,699 in revenues related to the Agreement.

Note 10: 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 natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

Note 11: Uncertainties

As a result of the spread of the SARS-CoV-2 virus and the incidence of COVID-19, economic uncertainties have arisen which may negatively affect the financial position and results of operations of the District. The duration of these uncertainties and the ultimate financial effects cannot be reasonably estimated at this time.

Required Supplementary Information

Morton Road Municipal Utility District
Budgetary Comparison Schedule – General Fund
Year Ended October 31, 2020

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------------|----------------------------|---|
| Revenues | | | |
| Property taxes | \$ 506,400 | \$ 525,330 | \$ 18,930 |
| City of Houston rebates | 37,000 | 35,677 | (1,323) |
| Water service | 168,500 | 180,612 | 12,112 |
| Sewer service | 206,400 | 217,355 | 10,955 |
| Regional water fee | 288,200 | 299,931 | 11,731 |
| Penalty and interest | 12,000 | 13,221 | 1,221 |
| Tap connection and inspection fees | - | 245 | 245 |
| Investment income | 52,650 | 51,977 | (673) |
| Other income | - | 557 | 557 |
| | <u>1,271,150</u> | <u>1,324,905</u> | <u>53,755</u> |
| Total revenues | | | |
| | <u>1,271,150</u> | <u>1,324,905</u> | <u>53,755</u> |
| Expenditures | | | |
| Service operations: | | | |
| Purchased services | 162,347 | 161,674 | 673 |
| Regional water fee | 288,200 | 338,200 | (50,000) |
| Professional fees | 150,200 | 121,027 | 29,173 |
| Contracted services | 75,020 | 73,961 | 1,059 |
| Utilities | 34,020 | 37,819 | (3,799) |
| Repairs and maintenance | 215,680 | 216,743 | (1,063) |
| Other expenditures | 65,854 | 41,511 | 24,343 |
| Capital outlay | 245,000 | 59,089 | 185,911 |
| | <u>1,236,321</u> | <u>1,050,024</u> | <u>186,297</u> |
| Total expenditures | | | |
| | <u>1,236,321</u> | <u>1,050,024</u> | <u>186,297</u> |
| Excess of Revenues Over Expenditures | 34,829 | 274,881 | 240,052 |
| Fund Balance, Beginning of Year | <u>3,057,260</u> | <u>3,057,260</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ 3,092,089</u></u> | <u><u>\$ 3,332,141</u></u> | <u><u>\$ 240,052</u></u> |

Morton Road Municipal Utility District
Notes to Required Supplementary Information
October 31, 2020

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2020.

The District prepares its annual operating budget on a basis consistent with accounting principles generally accepted in the United States of America. The Budgetary Comparison Schedule – General Fund presents the original and revised budget amounts, if revised, compared to the actual amounts of revenues and expenditures for the current year.

Other Information

Morton Road Municipal Utility District
Other Schedules Included Within This Report
October 31, 2020

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 12-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund –
Five Years
- [X] Board Members, Key Personnel and Consultants

Morton Road Municipal Utility District

Schedule of Services and Rates

Year Ended October 31, 2020

1. Services provided by the District:

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

2. Retail service providers

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate Per 1,000 Gallons Over Minimum | Usage Levels | |
|---|----------------|---------------|---------------|-------------------------------------|---------------------|--|
| Water: | \$ 11.25 | 5,000 | N | \$ 0.75 | 5,001 to | 12,000 |
| | | | | \$ 1.25 | 12,001 to | 20,000 |
| | | | | \$ 1.75 | 20,001 to | No Limit |
| Wastewater: | \$ 17.50 | 0 | Y | | | |
| Regional water fee: | \$ 3.52 | 1,000 | N | \$ 3.52 | 1,001 to | No Limit |
| Does the District employ winter averaging for wastewater usage? | | | | | Yes | No <input checked="" type="checkbox"/> |
| Total charges per 10,000 gallons usage (including fees): | | | | Water \$ 50.20 | Wastewater \$ 17.50 | |

b. Water and wastewater retail connections:

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFC* |
|------------------|-------------------|--------------------|-------------|--------------|
| Unmetered | - | - | x1.0 | - |
| ≤ 3/4" | 929 | 927 | x1.0 | 927 |
| 1" | 7 | 6 | x2.5 | 15 |
| 1 1/2" | 4 | 4 | x5.0 | 20 |
| 2" | 9 | 9 | x8.0 | 72 |
| 3" | - | - | x15.0 | - |
| 4" | - | - | x25.0 | - |
| 6" | - | - | x50.0 | - |
| 8" | 1 | 1 | x80.0 | 80 |
| 10" | - | - | x115.0 | - |
| Total water | 950 | 947 | | 1,114 |
| Total wastewater | 942 | 940 | x1.0 | 940 |

3. Total water consumption (in thousands) during the fiscal year:

| | |
|---|---------|
| Gallons pumped into the system: | 108,425 |
| Gallons billed to customers: | 88,441 |
| Water accountability ratio (gallons billed/gallons pumped): | 81.57% |

*"ESFC" means equivalent single-family connections

Morton Road Municipal Utility District
Schedule of General Fund Expenditures
Year Ended October 31, 2020

| | | | |
|---|----|--------|-------------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ | 19,600 | |
| Legal | | 66,296 | |
| Engineering | | 35,131 | |
| Financial advisor | | - | 121,027 |
| | | | |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | 161,674 |
| | | | |
| Regional Water Fee | | | 338,200 |
| | | | |
| Contracted Services | | | |
| Bookkeeping | | 25,333 | |
| General manager | | - | |
| Appraisal district | | - | |
| Tax collector | | - | |
| Security | | - | |
| Other contracted services | | 48,628 | 73,961 |
| | | | |
| Utilities | | | 37,819 |
| | | | |
| Repairs and Maintenance | | | 216,743 |
| | | | |
| Administrative Expenditures | | | |
| Directors' fees | | 9,600 | |
| Office supplies | | 2,644 | |
| Insurance | | 15,483 | |
| Other administrative expenditures | | 13,784 | 41,511 |
| | | | |
| Capital Outlay | | | |
| Capitalized assets | | 22,111 | |
| Expenditures not capitalized | | 36,978 | 59,089 |
| | | | |
| Tap Connection Expenditures | | | - |
| | | | |
| Solid Waste Disposal | | | - |
| | | | |
| Fire Fighting | | | - |
| | | | |
| Parks and Recreation | | | - |
| | | | |
| Other Expenditures | | | - |
| | | | |
| Total expenditures | | \$ | <u><u>1,050,024</u></u> |

Morton Road Municipal Utility District
Schedule of Temporary Investments
October 31, 2020

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|--------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| Certificates of Deposit | | | | |
| No. 91300011916480 | 1.50% | 03/19/21 | \$ 240,000 | \$ 2,229 |
| No. 12458 | 0.50% | 06/01/21 | 240,000 | 187 |
| No. 102318 | 2.00% | 12/18/20 | 120,000 | 2,084 |
| No. 80003645 | 0.55% | 01/06/21 | 245,000 | 432 |
| No. 4191294 | 0.30% | 07/11/21 | 240,000 | 34 |
| No. 20000000202 | 0.50% | 06/28/21 | 100,000 | 47 |
| No. 36000497 | 0.65% | 06/02/21 | 200,000 | 538 |
| No. 30026991 | 0.45% | 10/05/21 | 100,000 | 35 |
| No. 319954 | 0.50% | 12/01/20 | 240,000 | 490 |
| No. 6000028875 | 1.80% | 01/16/21 | 240,000 | 3,409 |
| No. 9009004322 | 0.75% | 04/30/21 | 100,000 | 378 |
| No. 6002400791 | 0.65% | 07/27/21 | 140,000 | 239 |
| No. 6550101204 | 0.45% | 04/05/21 | 125,000 | 220 |
| TexPool | 0.13% | Demand | 937,793 | - |
| | | | <u>3,267,793</u> | <u>10,322</u> |
| Debt Service Fund | | | | |
| Certificates of Deposit | | | | |
| No. 6000037652 | 0.70% | 02/09/21 | 130,000 | 197 |
| No. 6002400869 | 0.60% | 02/16/21 | 100,000 | 122 |
| TexPool | 0.13% | Demand | 70,997 | - |
| | | | <u>300,997</u> | <u>319</u> |
| Totals | | | <u>\$ 3,568,790</u> | <u>\$ 10,641</u> |

Morton Road Municipal Utility District
Analysis of Taxes Levied and Receivable
Year Ended October 31, 2020

| | Maintenance Taxes | Debt Service Taxes |
|---|------------------------------|-----------------------------------|
| Receivable, Beginning of Year | \$ 451,675 | \$ 549,570 |
| Additions and corrections to prior years' taxes | <u>70,400</u> | <u>85,114</u> |
| Adjusted receivable, beginning of year | 522,075 | 634,684 |
| 2020 Original Tax Levy | <u>471,708</u> | <u>539,095</u> |
| Total to be accounted for | 993,783 | 1,173,779 |
| Prior years tax collections | <u>(513,586)</u> | <u>(623,774)</u> |
| Receivable, end of year | <u><u>\$ 480,197</u></u> | <u><u>\$ 550,005</u></u> |
| Receivable, by Years | | |
| 2020 | \$ 471,708 | \$ 539,095 |
| 2019 | 3,187 | 3,869 |
| 2018 | 2,009 | 2,511 |
| 2017 | 1,294 | 1,664 |
| 2016 | 800 | 1,085 |
| 2015 | 630 | 923 |
| 2014 | 557 | 836 |
| 2012 | 6 | 11 |
| 2011 | <u>6</u> | <u>11</u> |
| Receivable, end of year | <u><u>\$ 480,197</u></u> | <u><u>\$ 550,005</u></u> |

Morton Road Municipal Utility District
Analysis of Taxes Levied and Receivable (Continued)
Year Ended October 31, 2020

| | 2020 | 2019 | 2018 | 2017 |
|---|-----------------------|-----------------------|-----------------------|-----------------------|
| Property Valuations | | | | |
| Land | \$ 32,465,993 | \$ 36,681,445 | \$ 29,814,710 | \$ 29,926,171 |
| Improvements | 134,829,685 | 148,962,132 | 141,264,895 | 138,287,307 |
| Personal property | 5,523,291 | 6,955,106 | 6,060,635 | 5,720,240 |
| Exemptions | <u>(4,351,332)</u> | <u>(4,850,865)</u> | <u>(4,722,595)</u> | <u>(4,886,169)</u> |
| Total property valuations | <u>\$ 168,467,637</u> | <u>\$ 187,747,818</u> | <u>\$ 172,417,645</u> | <u>\$ 169,047,549</u> |
| Tax Rates per \$100 Valuation | | | | |
| Debt service tax rates | \$ 0.3200 | \$ 0.3400 | \$ 0.3500 | \$ 0.3600 |
| Maintenance tax rates* | <u>0.2800</u> | <u>0.2800</u> | <u>0.2800</u> | <u>0.2800</u> |
| Total tax rates per \$100 valuation | <u>\$ 0.6000</u> | <u>\$ 0.6200</u> | <u>\$ 0.6300</u> | <u>\$ 0.6400</u> |
| Tax Levy | <u>\$ 1,010,803</u> | <u>\$ 1,164,033</u> | <u>\$ 1,086,227</u> | <u>\$ 1,081,900</u> |
| Percent of Taxes Collected to Taxes Levied** | <u>0%</u> | <u>99%</u> | <u>99%</u> | <u>99%</u> |

*Maximum tax rate approved by voters: \$0.50 on May 9, 2009

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

Morton Road Municipal Utility District
Schedule of Long-term Debt Service Requirements by Years
October 31, 2020

| Due During Fiscal Years Ending October 31 | Refunding Series 2014 | | |
|---|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2021 | \$ 450,000 | \$ 140,100 | \$ 590,100 |
| 2022 | 465,000 | 126,600 | 591,600 |
| 2023 | 490,000 | 108,000 | 598,000 |
| 2024 | 510,000 | 88,400 | 598,400 |
| 2025 | 540,000 | 68,000 | 608,000 |
| 2026 | 565,000 | 46,400 | 611,400 |
| 2027 | 595,000 | 23,800 | 618,800 |
| Totals | <u>\$ 3,615,000</u> | <u>\$ 601,300</u> | <u>\$ 4,216,300</u> |

Morton Road Municipal Utility District
Changes in Long-term Bonded Debt
Year Ended October 31, 2020

| | Bond Issues | | |
|--|----------------------------------|----------------------------------|----------------------------|
| | Refunding Series 2011 | Refunding Series 2014 | Totals |
| Interest rates | 4.00% | 3.00% to 4.00% | |
| Dates interest payable | March 1/ September 1 | March 1/ September 1 | |
| Maturity dates | | September 1, 2021/2027 | |
| Bonds outstanding, beginning of current year | \$ 505,000 | \$ 3,615,000 | \$ 4,120,000 |
| Retirements, principal | <u>505,000</u> | <u>-</u> | <u>505,000</u> |
| Bonds outstanding, end of current year | <u>\$ 0</u> | <u>\$ 3,615,000</u> | <u>\$ 3,615,000</u> |
| Interest paid during current year | <u>\$ 20,200</u> | <u>\$ 140,100</u> | <u>\$ 160,300</u> |
| Paying agent's name and address: | | | |
| Series 2011 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas | | | |
| Series 2014 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas | | | |
| Bond authority: | | | |
| | Tax Bonds | Other Bonds | Refunding Bonds |
| Amount authorized by voters | <u>\$ 33,705,000</u> | <u>0</u> | <u>\$ 33,705,000</u> |
| Amount authorization used | <u>\$ 12,005,000</u> | <u>0</u> | <u>\$ 3,116,690</u> |
| Remaining to be issued | <u>\$ 21,700,000</u> | <u>0</u> | <u>\$ 30,588,310</u> |
| Debt service fund cash and temporary investment balances as of October 31, 2020: | | | <u>\$ 378,208</u> |
| Average annual debt service payment (principal and interest) for remaining term of all debt: | | | <u>\$ 602,329</u> |

Morton Road Municipal Utility District

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended October 31,

| | Amounts | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| General Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 525,330 | \$ 481,142 | \$ 471,559 | \$ 442,677 | \$ 405,717 |
| City of Houston rebates | 35,677 | 34,294 | 41,687 | 44,815 | 49,564 |
| Water service | 180,612 | 166,882 | 173,938 | 171,366 | 170,209 |
| Sewer service | 217,355 | 206,561 | 206,955 | 204,057 | 203,668 |
| Regional water fee | 299,931 | 257,661 | 239,752 | 232,334 | 221,422 |
| Penalty and interest | 13,221 | 20,198 | 21,273 | 20,124 | 23,464 |
| Tap connection and inspection fees | 245 | - | 535 | 250 | 8,630 |
| Investment income | 51,977 | 69,620 | 37,575 | 18,786 | 13,859 |
| Other income | 557 | 132 | 77 | 39 | - |
| Total revenues | <u>1,324,905</u> | <u>1,236,490</u> | <u>1,193,351</u> | <u>1,134,448</u> | <u>1,096,533</u> |
| Expenditures | | | | | |
| Service operations: | | | | | |
| Purchased services | 161,674 | 148,900 | 140,017 | 165,137 | 161,195 |
| Regional water fee | 338,200 | 260,524 | 256,335 | 227,304 | 184,625 |
| Professional fees | 121,027 | 134,829 | 115,848 | 138,315 | 121,389 |
| Contracted services | 73,961 | 71,753 | 70,479 | 68,393 | 65,880 |
| Utilities | 37,819 | 33,952 | 37,263 | 39,392 | 40,343 |
| Repairs and maintenance | 216,743 | 228,472 | 190,307 | 192,218 | 288,419 |
| Other expenditures | 41,511 | 46,193 | 44,427 | 72,116 | 41,611 |
| Tap connections | - | - | - | - | 2,570 |
| Capital outlay | 59,089 | 48,725 | 28,486 | 245,191 | 119,414 |
| Total expenditures | <u>1,050,024</u> | <u>973,348</u> | <u>883,162</u> | <u>1,148,066</u> | <u>1,025,446</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>274,881</u> | <u>263,142</u> | <u>310,189</u> | <u>(13,618)</u> | <u>71,087</u> |
| Other Financing Sources | | | | | |
| Recovery from governmental agency | - | 11,920 | - | - | - |
| Insurance proceeds | - | - | 14,783 | - | - |
| Total other financing sources | <u>0</u> | <u>11,920</u> | <u>14,783</u> | <u>0</u> | <u>0</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>274,881</u> | <u>275,062</u> | <u>324,972</u> | <u>(13,618)</u> | <u>71,087</u> |
| Fund Balance, Beginning of Year | <u>3,057,260</u> | <u>2,782,198</u> | <u>2,457,226</u> | <u>2,470,844</u> | <u>2,399,757</u> |
| Fund Balance, End of Year | <u>\$ 3,332,141</u> | <u>\$ 3,057,260</u> | <u>\$ 2,782,198</u> | <u>\$ 2,457,226</u> | <u>\$ 2,470,844</u> |
| Total Active Retail Water Connections | <u>947</u> | <u>946</u> | <u>944</u> | <u>943</u> | <u>942</u> |
| Total Active Retail Wastewater Connections | <u>940</u> | <u>939</u> | <u>937</u> | <u>935</u> | <u>936</u> |

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|----------------------|----------------------|----------------------|-----------------------|---------------------|
| 39.7 % | 38.9 % | 39.5 % | 39.0 % | 37.0 % |
| 2.7 | 2.8 | 3.5 | 3.9 | 4.5 |
| 13.6 | 13.5 | 14.6 | 15.1 | 15.5 |
| 16.4 | 16.7 | 17.3 | 18.0 | 18.6 |
| 22.6 | 20.8 | 20.1 | 20.5 | 20.2 |
| 1.0 | 1.6 | 1.8 | 1.8 | 2.1 |
| 0.0 | - | 0.0 | 0.0 | 0.8 |
| 3.9 | 5.6 | 3.2 | 1.7 | 1.3 |
| 0.1 | 0.1 | 0.0 | 0.0 | - |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 12.2 | 12.0 | 11.7 | 14.6 | 14.7 |
| 25.5 | 21.1 | 21.5 | 20.0 | 16.8 |
| 9.1 | 10.9 | 9.7 | 12.2 | 11.1 |
| 5.6 | 5.8 | 5.9 | 6.0 | 6.0 |
| 2.9 | 2.8 | 3.1 | 3.5 | 3.7 |
| 16.4 | 18.5 | 16.0 | 16.9 | 26.3 |
| 3.1 | 3.7 | 3.7 | 6.4 | 3.8 |
| - | - | - | - | 0.2 |
| <u>4.5</u> | <u>3.9</u> | <u>2.4</u> | <u>21.6</u> | <u>10.9</u> |
| <u>79.3</u> | <u>78.7</u> | <u>74.0</u> | <u>101.2</u> | <u>93.5</u> |
| <u><u>20.7 %</u></u> | <u><u>21.3 %</u></u> | <u><u>26.0 %</u></u> | <u><u>(1.2) %</u></u> | <u><u>6.5 %</u></u> |

Morton Road Municipal Utility District

Comparative Schedule of Revenues and Expenditures – Debt Service Fund

Five Years Ended October 31,

| | Amounts | | | | |
|---|-------------------|-------------------|-------------------|-------------------|-------------------|
| | 2020 | 2019 | 2018 | 2017 | 2016 |
| Debt Service Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 638,090 | \$ 601,409 | \$ 606,392 | \$ 600,978 | \$ 595,797 |
| Penalty and interest | 16,941 | 8,982 | 10,334 | 14,911 | 23,630 |
| Investment income | 7,852 | 15,483 | 11,051 | 5,988 | 4,207 |
| Other income | - | 197 | 111 | 31 | - |
| Total revenues | <u>662,883</u> | <u>626,071</u> | <u>627,888</u> | <u>621,908</u> | <u>623,634</u> |
| Expenditures | | | | | |
| Current: | | | | | |
| Professional fees | 6,101 | 5,108 | 3,642 | 5,312 | 8,037 |
| Contracted services | 29,431 | 26,012 | 25,932 | 20,328 | 20,065 |
| Other expenditures | 12,400 | 8,186 | 6,839 | 22,117 | 13,297 |
| Debt service: | | | | | |
| Principal retirement | 505,000 | 480,000 | 460,000 | 435,000 | 415,000 |
| Interest and fees | <u>161,050</u> | <u>181,000</u> | <u>199,400</u> | <u>216,800</u> | <u>233,391</u> |
| Total expenditures | <u>713,982</u> | <u>700,306</u> | <u>695,813</u> | <u>699,557</u> | <u>689,790</u> |
| Deficiency of Revenues Over Expenditures | (51,099) | (74,235) | (67,925) | (77,649) | (66,156) |
| Fund Balance, Beginning of Year | <u>399,634</u> | <u>473,869</u> | <u>541,794</u> | <u>619,443</u> | <u>685,599</u> |
| Fund Balance, End of Year | <u>\$ 348,535</u> | <u>\$ 399,634</u> | <u>\$ 473,869</u> | <u>\$ 541,794</u> | <u>\$ 619,443</u> |

Percent of Fund Total Revenues

| 2020 | 2019 | 2018 | 2017 | 2016 |
|-------------|-------------|-------------|-------------|-------------|
| 96.3 % | 96.1 % | 96.6 % | 96.6 % | 95.5 % |
| 2.5 | 1.4 | 1.6 | 2.4 | 3.8 |
| 1.2 | 2.5 | 1.8 | 1.0 | 0.7 |
| - | 0.0 | 0.0 | 0.0 | - |
| 100.0 | 100.0 | 100.0 | 100.0 | 100.0 |
| 0.9 | 0.8 | 0.6 | 0.8 | 1.3 |
| 4.4 | 4.2 | 4.1 | 3.3 | 3.2 |
| 1.9 | 1.3 | 1.1 | 3.6 | 2.1 |
| 76.2 | 76.7 | 73.2 | 69.9 | 66.6 |
| 24.3 | 28.9 | 31.8 | 34.9 | 37.4 |
| 107.7 | 111.9 | 110.8 | 112.5 | 110.6 |
| (7.7) % | (11.9) % | (10.8) % | (12.5) % | (10.6) % |

Morton Road Municipal Utility District
Board Members, Key Personnel and Consultants
Year Ended October 31, 2020

| | |
|--|---|
| Complete District mailing address: | Morton Road Municipal Utility District c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 1400 Houston, Texas 77056 |
| District business telephone number: | 713.623.4531 |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | May 27, 2020 |
| Limit on fees of office that a director may receive during a fiscal year: | \$ 7,200 |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|----------------------|---|--------------|-----------------------------------|---------------------------------|
| Lorna M. Winoske | Elected 05/20- 05/24 | \$ 1,950 | \$ 0 | President |
| Alan D. Seitz | Elected 05/18- 05/22 | 2,400 | 563 | Vice President/ Treasurer |
| Lisa Manriquez | Elected 05/20- 05/24 | 1,950 | 0 | Secretary |
| Cindy Perry | Elected 05/18- 05/22 | 1,800 | 0 | Assistant Secretary |
| David Tannahill | Appointed 05/20- 05/24 | 1,200 | 0 | Assistant Secretary |
| Ed Miller | Elected 05/16- 02/20 | 300 | 0 | Deceased |

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

Morton Road Municipal Utility District
Board Members, Key Personnel and Consultants (Continued)
Year Ended October 31, 2020

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|---------------------------------------|-----------------------|--|----------------------------|
| BKD, LLP | 11/25/91 | \$ 19,600 | Auditor |
| Harris County Appraisal District | Legislative Action | 8,589 | Appraiser |
| Inframark, LLC | 11/21/79 | 270,816 | Operator |
| Municipal Accounts & Consulting, L.P. | 04/23/03 | 27,926 | Bookkeeper |
| Rathmann & Associates, L.P. | 04/23/04 | 0 | Financial Advisor |
| Sander Engineering Corporation | 10/22/97 | 68,539 | Engineer |
| Schwartz, Page & Harding, L.L.P. | 01/20/74 | 69,748 | General Counsel |
| Ted A. Cox, P.C. | 1995 | 6,101 | Delinquent Tax Attorney |
| Wheeler & Associates, Inc. | 05/31/79 | 30,170 | Tax Assessor/ Collector |
| Investment Officer | | | |
| Alan D. Seitz | 12/23/98 | N/A | Director |

APPENDIX C

SPECIMEN OF MUNICIPAL BOND INSURANCE POLICY



**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor

200 Liberty Street

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN

