

OFFICIAL STATEMENT DATED JANUARY 6, 2022

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE EFFECT THAT, UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER, AND SUBJECT TO THE MATTERS DESCRIBED IN “LEGAL MATTERS—TAX EXEMPTION” HEREIN, INTEREST ON THE BONDS FOR FEDERAL INCOME TAX PURPOSES IS EXCLUDABLE FROM GROSS INCOME OF THE OWNERS THEREOF AND WILL NOT BE INCLUDED IN COMPUTING THE ALTERNATIVE MINIMUM TAXABLE INCOME OF THE OWNERS THEREOF.

The District has designated the Bonds as “qualified tax-exempt obligations” for purposes of the calculation of interest expense by financial institutions which may own the Bonds. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations for Financial Institutions.”

NEW ISSUE-Book-Entry Only

Insured Rating (BAM): S&P “AA”
Underlying Rating: Moody’s “A3”
See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

\$5,390,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 397 (A political subdivision of the State of Texas located within Harris County)

UNLIMITED TAX REFUNDING BONDS SERIES 2022

The bonds described above (the “Bonds”) are obligations solely of Harris County Municipal Utility District No. 397 (the “District”) and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS” herein.

Dated Date: February 1, 2022

Due: May 1, as shown below

Interest Accrual Date: Date of Delivery

Interest on the Bonds will accrue from the date of initial delivery (expected February 3, 2022) (the “Date of Delivery”), and will be payable on May 1 and November 1 of each year commencing May 1, 2022, and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), which will act as securities depository for the Bonds, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Paying Agent/Registrar.”



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

MATURITY SCHEDULE

Due (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (May 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2023	\$ 30,000	3.000 %	0.50 %	41420T LJ9	2029	\$ 520,000 (a)	1.250 %	1.60 %	41420T LQ3
2024	435,000	3.000	0.65	41420T LK6	2030	530,000 (a)	1.375	1.75	41420T LR1
2025	450,000	3.000	0.80	41420T LL4	2031	550,000 (a)	2.000	1.75	41420T LS9
2026	465,000	3.000	0.95	41420T LM2	2032	565,000 (a)	2.000	1.85	41420T LT7
2027	485,000	3.000	1.05	41420T LN0	2033	580,000 (a)	2.000	2.00	41420T LU4
2028	505,000 (a)	3.000	1.12	41420T LP5	2034	275,000 (a)	2.000	2.12	41420T LV2

- (a) Bonds maturing on or after May 1, 2028 are subject to redemption prior to maturity at the option of the District, in whole or in part, from time to time on May 1, 2027, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Service Bureau and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. See “THE BONDS—Source of Payment.” THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See “INVESTMENT CONSIDERATIONS” herein.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the Underwriter, subject, among other things, to the approval of the initial Bonds by the Attorney General of Texas and the approval of certain legal matters by Norton Rose Fulbright US LLP, Houston, Texas, Bond Counsel. Certain legal matters will be reviewed by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Underwriter’s Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about February 3, 2022.

SAMCO CAPITAL

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USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Norton Rose Fulbright US LLP, Bond Counsel, 1301 McKinney, Suite 5100, Houston, Texas, 77010, for further information.

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for purposes of, and as that term is defined in, SEC Rule 15c2-12, as amended.

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

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

SALE AND DISTRIBUTION OF THE BONDS

The Underwriter

The Bonds are being purchased by SAMCO Capital Markets, Inc. (the “Underwriter”) pursuant to a bond purchase agreement with the District (the “Bond Purchase Agreement”) at a price of \$5,515,867.70 (representing the par amount of the Bonds of \$5,390,000.00, plus a net premium on the Bonds of \$171,109.40, less an Underwriter’s discount of \$45,241.70). The Underwriter’s obligation is to purchase all of the Bonds, if any are purchased. See “PLAN OF FINANCING—Sources and Uses of Funds.”

The Underwriter has reviewed the information in this OFFICIAL STATEMENT pursuant to its responsibilities to investors under the federal securities laws, but the Underwriter does not guarantee the accuracy or completeness of such information.

Prices and Marketability

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

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

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

INFECTIOUS DISEASE OUTLOOK (COVID-19)

General...

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. 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 easing or removal of COVID-19 related 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. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

THE DISTRICT

Description...

The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (“TCEQ”) on May 29, 2003, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 583 acres of land. See “THE DISTRICT.”

Location...

The District is located approximately 30 miles northwest of the central downtown business district of the City of Houston in Harris County, Texas. Access to the District from the City of Houston is provided by U.S. Highway 290 to Mason Road or Fairfield Place Drive. The District lies wholly within the boundaries of Cypress-Fairbanks Independent School District and is within the extraterritorial jurisdiction of the City of Houston. See “THE DISTRICT.”

Fairfield...

Fairfield is a 3,200 acre mixed-use “master planned community,” of which approximately 583 acres comprise the District. Fairfield has been developed as a single-family residential development, complemented by commercial, institutional, and amenity improvements, including greenbelts and open space. Fairfield is comprised of five municipal utility districts: the District, Harris County Municipal Utility District No. 354 (“MUD 354”), Harris County Municipal Utility District No. 322 (“MUD 322”), Harris County Municipal Utility District No. 358 (“MUD 358”) and Harris County Municipal Utility District No. 396 (“MUD 396”) and one overlapping water control and improvement district, Harris County Water Control and Improvement District No. 155 (“WCID 155”), which provides major storm drainage and channel improvements to approximately 1,950 acres within Fairfield, currently including approximately 418 acres within the District.

Status of Development...

Utility construction and paving has been completed in the single-family neighborhoods of Fairfield Village South, Sections Two through Seventeen (1,220 single-family lots on approximately 341 acres) located within the District. Homes have been constructed on all lots within the District. According to the District’s 2021 tax rolls, the average homestead value is \$309,667.

In addition to residential development, the Avenues at Cypress, an apartment community consisting of 240 units, has been constructed on approximately 18 acres within the District. A Cypress-Fairbanks Independent School District middle school has been constructed on approximately 30 acres, a church owned by the Church of Latter-Day Saints has been constructed on approximately 11 acres and a church owned by Second Baptist Church has been constructed on approximately 50 acres. The land and/or improvements owned by the school district and the churches are not subject to ad valorem taxation by the District. Additionally, a CVS pharmacy has been constructed in the District on 3 acres, and 30 acres remain for future commercial, institutional, or non-profit development. Approximately 100 acres of undevelopable land in the District includes drainage and pipeline easements, street rights-of-way and utility sites. See “THE DISTRICT—Land Use” and “—Status of Development.”

*Water Supply and
Wastewater Treatment...*

Central water supply and wastewater treatment and stormwater detention for the development within the District’s boundaries is provided by facilities owned and operated by MUD 358, a neighboring utility district, in its capacity as the regional provider of such services (the “Regional District”). Internal water distribution, wastewater collection lines and storm drainage facilities are provided by the District. See “THE SYSTEM.”

Payment Record...

The District has previously issued \$26,040,000 in principal amount of unlimited tax bonds in seven series and \$21,650,000 in principal amount of unlimited tax refunding bonds in five series, \$16,635,000 of which remains outstanding (the “Outstanding Bonds”) as of the date hereof. The District has never defaulted in the payment of principal and interest on the Outstanding Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”

THE BONDS

Description...

Harris County Municipal Utility District No. 397 Unlimited Tax Refunding Bonds, Series 2022 (the “Bonds”), in the aggregate principal amount of \$5,390,000. Interest accrues from the Date of Delivery and is payable May 1, 2022 and each November 1 and May 1 thereafter, until the earlier of stated maturity or redemption. The Bonds mature serially on May 1 in each year 2023 through 2034, both inclusive. The Bonds will be issued pursuant to an order authorizing the issuance of the Bonds adopted by the Board of Directors of the District and a pricing certificate executed by an authorized officer of the District (collectively the “Bond Order”), in fully registered form only, in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. See “THE BONDS.”

Book-Entry-Only System...

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

<i>Redemption...</i>	Bonds maturing on or after May 1, 2028 are subject to redemption at the option of the District prior to their maturity dates on May 1, 2027, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Use of Proceeds...</i>	Proceeds from the sale of the Bonds, along with lawfully available debt service funds, will be used to pay certain costs incurred in connection with the issuance of the Bonds and to currently refund \$5,315,000 of the Outstanding Bonds in order to achieve net savings in the District’s annual debt service expense. The bonds to be refunded and discharged with Bond proceeds are referred to herein as the “Refunded Bonds.” After the issuance of the Bonds, \$11,320,000 principal amount of the Outstanding Bonds will remain outstanding (the “Remaining Outstanding Bonds”). See “PLAN OF FINANCING.”
<i>Authority for Issuance...</i>	The Bonds are the sixth series of bonds issued out of an aggregate of \$53,140,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of refunding outstanding debt of the District. The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable solely from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Rating and Municipal Bond Insurance...</i>	It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody’s Investors Service, Inc. (“Moody’s”) has also assigned an underlying rating of “A3” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE,” and “APPENDIX B.”
<i>Qualified Tax-Exempt Obligations...</i>	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, and will represent that the total amount of tax-exempt bonds (including the Bonds) issued by it during calendar year 2022 is not reasonably expected to exceed \$10,000,000. See “LEGAL MATTERS—Qualified Tax Exempt Obligations for Financial Institutions.”
<i>Bond Counsel...</i>	Norton Rose Fulbright US LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT” and “LEGAL MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Underwriter’s Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”
<i>Escrow Agent...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “PLAN OF FINANCING—Escrow Agreement and Defeasance of Refunded Bonds.”
<i>Verification Agent...</i>	Public Finance Partners LLC, Minneapolis Minnesota. See “VERIFICATION OF MATHEMATICAL CALCULATIONS.”

INVESTMENT CONSIDERATIONS

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

SELECTED FINANCIAL INFORMATION (UNAUDITED)

2021 Certified Taxable Assessed Valuation	\$415,826,173	(a)
Gross Direct Debt Outstanding (the Bonds and the Remaining Outstanding Bonds)	\$16,710,000	(b)
Estimated Overlapping Debt	<u>25,142,274</u>	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$41,852,274	
Ratio of Gross Direct Debt to:		
2021 Certified Taxable Assessed Valuation	4.02%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2021 Certified Taxable Assessed Valuation	10.06%	
Operating Funds Available as of December 21, 2021	\$4,014,997	
Debt Service Funds Available as of December 21, 2021	\$1,359,900	(d)
2021 Debt Service Tax Rate.....	\$0.355	
2021 Maintenance Tax Rate.....	<u>0.185</u>	
2021 Total Tax Rate.....	\$0.540	
Average Annual Debt Service Requirement (2022-2035).....	\$1,449,165	(e)
Maximum Annual Debt Service Requirement (2032).....	\$1,523,838	(e)
Tax Rate Required to Pay Average Annual Debt Service (2022-2035) at a 95% Collection Rate		
Based upon 2021 Certified Taxable Assessed Valuation	\$0.37	(f)
Tax Rate Required to Pay Maximum Annual Debt Service (2032) at a 95% Collection Rate		
Based upon 2021 Certified Taxable Assessed Valuation	\$0.39	(f)
Status of Development as of November 1, 2021 (g):		
Single Family Homes Completed (1,219 occupied).....	1,220	
Apartment Units	240	
Estimated Population	4,699	(h)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) After the issuance of the Bonds and excludes the Refunded Bonds. See "PLAN OF FINANCING—Outstanding Bonds."
- (c) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt" and "—Overlapping Taxes."
- (d) The District will contribute \$59,500 of available debt service funds towards the purpose for which the Bonds are being issued. See "PLAN OF FINANCING—Sources and Uses of Funds." Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.
- (e) See "PLAN OF FINANCING—Debt Service Requirements."
- (f) See "TAX DATA—Tax Adequacy for Debt Service."
- (g) See "THE DISTRICT—Land Use" and "—Status of Development."
- (h) Based upon 3.5 persons per occupied single-family residence and 2.0 persons per apartment unit (assumes 90% occupancy).

OFFICIAL STATEMENT

\$5,390,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 397

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

UNLIMITED TAX REFUNDING BONDS SERIES 2022

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 397 (the “District”) of its \$5,390,000 Unlimited Tax Refunding Bonds, Series 2022 (the “Bonds”).

The Bonds are issued by the District pursuant to the terms and conditions of an order authorizing the issuance of the Bonds (the “Order”) adopted by the Board of Directors of the District (the “Board”), the pricing certificate executed by an officer of the District (the “Pricing Certificate” and together with the Order, the “Bond Order”), Article XVI, Section 59 of the Texas Constitution, Chapter 1207 of the Texas Government Code, as amended, Chapters 49 and 54 of the Texas Water Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds, the Bond Order and certain other information about the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Norton Rose Fulbright US LLP, the District’s General Counsel and Bond Counsel, 1301 McKinney, Suite 5100, Houston, Texas 77010-3095.

PLAN OF FINANCING

Purpose

At an election held on September 13, 2003, voters of the District authorized the issuance of \$53,140,000 of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District and \$53,140,000 of unlimited tax bonds for the purpose of refunding outstanding bonds. The District has issued \$26,040,000 principal amount of unlimited tax bonds and \$21,650,000 principal amount of unlimited tax refunding bonds. The District currently has \$16,635,000 principal amount of its bonds outstanding (the “Outstanding Bonds”).

The proceeds of the Bonds, along with lawfully available debt service funds, are being used to currently refund portions of the District’s Unlimited Tax Refunding Bonds, Series 2015 (see “Outstanding Bonds” below) totaling \$5,315,000 in principal amount in order to achieve a net savings in the District’s debt service expense. The proceeds will also be used to pay the costs of issuance of the Bonds. See “Sources and Uses of Funds.” A total of \$11,320,000 in principal amount of the District’s Outstanding Bonds will remain outstanding after the issuance of the Bonds (the “Remaining Outstanding Bonds”).

Outstanding Bonds

The following table lists the original principal amount of Outstanding Bonds, and the current principal balance of the Outstanding Bonds, the Refunded Bonds and the Remaining Outstanding Bonds.

Series	Original Principal Amount	Principal Amount Currently Outstanding	Refunded Bonds	Remaining Outstanding Bonds
2005	\$ 4,325,000	\$ -	\$ -	\$ -
2007	4,420,000	-	-	-
2007A	4,800,000	-	-	-
2008	4,035,000	-	-	-
2010	2,700,000	-	-	-
2011	4,200,000	-	-	-
2012	(a) 3,805,000	-	-	-
2015	(a) 7,530,000	6,080,000	5,315,000	765,000
2015A	1,560,000	1,120,000	-	1,120,000
2016	(a) 5,330,000	4,730,000	-	4,730,000
2019	(a) 2,825,000	2,545,000	-	2,545,000
2021	(a) 2,160,000	2,160,000	-	2,160,000
Total	\$ 47,690,000	\$ 16,635,000	\$ 5,315,000	\$ 11,320,000
The Bonds				5,390,000
The Bonds and Remaining Outstanding Bonds				\$ 16,710,000

(a) Unlimited Tax Refunding Bonds.

Refunded Bonds

Proceeds of the Bonds, along with lawfully available debt service funds, will be applied to currently refund the Refunded Bonds in the principal amounts and with maturity dates set forth below and to pay certain costs of issuing the Bonds.

Maturity Date	Series
May 1	2015
2024	\$ 405,000
2025	425,000
2026	445,000
2027	470,000
2028	490,000
2029	510,000
2030	530,000
2031	555,000
2032	580,000
2033	600,000
2034	305,000
	\$ 5,315,000

Redemption Date: May 1, 2022

The Refunded Bonds will be redeemed on the date shown above, the earliest redemption date allowable under the order authorizing issuance of the Refunded Bonds.

Sources and Uses of Funds

The proceeds derived from the sale of the Bonds, along with lawfully available debt service funds, will be applied as follows:

Sources of Funds:

Principal Amount of the Bonds.....	\$5,390,000.00
Plus: Net Premium on the Bonds.....	171,109.40
Plus: Transfer from Debt Service Fund	59,500.00
Total Sources of Funds.....	\$5,620,609.40

Uses of Funds:

Deposit to Escrow Fund.....	\$5,405,978.33
Issuance Expenses and Underwriters' Discount (a).....	214,631.07
Total Uses of Funds	\$5,620,609.40

(a) Includes municipal bond insurance premium.

Escrow Agreement and Defeasance of Refunded Bonds

The Refunded Bonds, and the interest due thereon, are to be paid on each principal or Interest Payment Date and on the 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 provide for the discharge and defeasance of the Refunded Bonds. The Bond Order further provides that from the proceeds of the sale of the Bonds and lawfully available debt service funds of the District, the District will deposit with the Escrow Agent the amount necessary to accomplish the discharge and final payment of the Refunded Bonds. Such funds will be held by the Escrow Agent in a segregated escrow account (the "Escrow Fund") and used to purchase United States Treasury Obligations (the "Escrowed Securities"). At the time of delivery of the Bonds, Public Finance Partners LLC will verify to the District, the Escrow Agent and the Underwriter that the Escrowed Securities are sufficient in principal amount and are scheduled to mature at such times and to yield interest in such amounts, together with uninvested funds, if any, in the Escrow Fund, to pay, when due, the principal of and interest on the Refunded Bonds. See "VERIFICATION OF MATHEMATICAL CALCULATIONS." 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. By the deposit of the Escrowed Securities and cash, if any, with the Escrow Agent pursuant to the Escrow Agreement, and the making of irrevocable arrangements for the giving of notice of redemption of the Refunded Bonds, the terms of the prior order of the District securing payment of the Refunded Bonds shall have been satisfied and such Refunded Bonds will no longer be considered outstanding except for the payment out of amounts so deposited, and the amounts so deposited and invested in the Escrow Fund will constitute firm banking arrangements under Texas law for the discharge and final payment of the Refunded Bonds.

Debt Service Requirements

The following sets forth the debt service requirements for the Outstanding Bonds, less the debt service on the Refunded Bonds (\$5,315,000 principal amount), plus the debt service on the Bonds.

Year	Outstanding Bonds Debt Service Requirements	Less: Debt Service on the Refunded Bonds	Plus: Debt Service on the Bonds			Total Debt Service Requirements
			Principal	Interest	Total	
2022	\$ 1,548,706.26	\$ 182,987.50	\$ -	\$ 92,525.14	\$ 92,525.14	\$ 1,458,243.90
2023	1,542,381.26	182,987.50	30,000	123,837.50	153,837.50	1,513,231.26
2024	1,528,231.26	579,887.50	435,000	116,862.50	551,862.50	1,500,206.26
2025	1,525,956.26	583,287.50	450,000	103,587.50	553,587.50	1,496,256.26
2026	1,532,131.26	585,887.50	465,000	89,862.50	554,862.50	1,501,106.26
2027	1,522,256.26	592,587.50	485,000	75,612.50	560,612.50	1,490,281.26
2028	1,509,181.26	595,837.50	505,000	60,762.50	565,762.50	1,479,106.26
2029	1,502,312.51	600,518.75	520,000	49,937.50	569,937.50	1,471,731.26
2030	1,494,187.51	604,268.75	530,000	43,043.75	573,043.75	1,462,962.51
2031	1,489,934.38	612,315.63	550,000	33,900.00	583,900.00	1,461,518.76
2032	1,555,306.25	619,218.75	565,000	22,750.00	587,750.00	1,523,837.50
2033	1,520,596.88	620,043.75	580,000	11,300.00	591,300.00	1,491,853.13
2034	1,509,078.13	310,146.88	275,000	2,750.00	277,750.00	1,476,681.26
2035	961,293.75	-	-	-	-	961,293.75
Total	\$ 20,741,553.23	\$ 6,669,975.00	\$ 5,390,000	\$ 826,731.39	\$ 6,216,731.39	\$ 20,288,309.62

Maximum Annual Debt Service Requirement (2032).....\$1,523,838
Average Annual Debt Service Requirements (2022-2035)\$1,449,165

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel.

Description

The Bonds are dated February 1, 2022, and mature on May 1 in each of the years and in the amounts shown on the cover page hereof. Interest will be computed on the basis of a 360-day year of twelve 30-day months, and will be payable on May 1 and November 1 (each an "Interest Payment Date"), commencing May 1, 2022. Interest on the Bonds initially accrues from the Date of Delivery and thereafter, from the most recent Interest Payment Date. The definitive Bonds will be issued only in fully registered form in any integral multiple of \$5,000 for any one maturity and will be initially registered and delivered only to Cede & Co., the partnership nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. No physical delivery of the Bonds will be made to the owners thereof. Initially, principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., as registered owner. DTC 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."

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

The record date for payment of 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. If the date for payment of the principal or of interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Order, without additional interest and with the same force and effect as if made on the specified date for such payment.

Authority for Issuance

At an election held within the District on September 13, 2003, voters of the District authorized the issuance of \$53,140,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. The Bonds constitute the sixth issuance of refunding bonds pursuant to such authorization. See "Issuance of Additional Debt" herein.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Order, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 1207 of the Texas Government Code, as amended, City of Houston Ordinance No. 97-416, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

Paying Agent/Registrar

The Board has selected The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar") as the initial Paying Agent and Registrar for the Bonds. The initial designated payment office for the Bonds is located in Dallas, Texas. Provision is made in the Bond Order for removal of the Paying Agent/Registrar, provided that no such removal shall be effective until a successor paying agent/registrar shall have accepted the duties of the Paying Agent/Registrar under the provisions of the Bond Order. Any successor paying agent/registrar selected by the District shall be a corporation organized and doing business under the laws of the United States of America or of any state authorized under such laws to exercise trust powers, shall have a combined capital and surplus of at least \$10,000,000, shall be subject to supervision or examination by federal or state authority, shall be registered as a transfer agent with the Securities and Exchange Commission and shall have a corporate trust office in the State of Texas.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar will provide for the registration and transfer of Bonds in accordance with the Bond Order. While the Bonds are in the Book-Entry-Only system, Bonds will be registered in the name of Cede & Co. and will not be transferred. See "BOOK-ENTRY-ONLY SYSTEM."

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after May 1, 2028, prior to their scheduled maturities, in whole or, from time to time in part, in integral multiples of \$5,000 on May 1, 2027, or any date thereafter, at a price of par plus accrued interest on the principal amounts called for redemption to the date fixed for redemption. If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. If less than all of the Bonds are redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a particular maturity are to be redeemed, the Paying Agent/Registrar shall select the particular Bonds to be redeemed by such random method as it deems fair and appropriate (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar not less than thirty (30) nor more than sixty (60) days prior to the date fixed for redemption to DTC while the Bonds are in Book-Entry-Only form and thereafter by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Bond Register. Notice of redemption having been given, Bonds to be redeemed will become due and payable on the redemption date, and on and after such date (unless the District shall default in payment of the redemption price), such Bonds shall cease to pay interest unless the District cancels the redemption, in which case the notice shall be of no force and effect, and the Bonds shall not be redeemed.

Source of Payment

The Bonds are payable as to principal and interest from the proceeds of an annual ad valorem tax, without legal limit as to rate or amount, levied against all taxable property within the District.

Tax Pledge: The Board covenants in the Bond Order that, while any of the Bonds are outstanding and the District is in existence, it will levy an annual ad valorem tax, without legal limit as to rate or amount, and will undertake to collect such a tax against all taxable property within the District at a rate from year to year sufficient, with full allowance being made for anticipated delinquencies, together with revenues and receipts from other sources which are legally available for such purposes, to pay interest on the Bonds as it becomes due, to provide for the payment of principal when due or the redemption price at any earlier required redemption date, and to pay the expenses of assessing and collecting such a tax. The net proceeds from taxes levied to pay debt service on the Bonds are required to be placed in the Debt Service Fund for the Bonds and other tax-supported debt of the District. This account may be used solely to pay the principal of and interest on the Bonds and other tax-supported debt of the District.

Annexation: Under existing Texas law, since the District lies within the extraterritorial jurisdiction of the City of Houston, the District may be annexed by the City of Houston without the District's consent. The District may be annexed and dissolved by the City only if (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50% of the land in the area, a petition has been signed by more than 50% of the landowners consenting to the annexation. Upon annexation, the City would assume the District's assets and obligations, including the Bonds, and dissolve the District. The District has no control or knowledge of the annexation plans of the City; therefore, no prediction can be made regarding the likelihood or timing of any annexation or the ability of the City to make debt service payments should annexation occur. Under the terms of the SPA (as herein 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 date of the execution of the SPA (as herein defined). See "Strategic Partnership Agreement" below.

Strategic Partnership Agreement: Effective March, 2007, the District entered into a Strategic Partnership Agreement with the City as authorized by the Texas Local Government Code Chapter 43 (the "SPA"). The SPA provides for a "limited purpose annexation" of that portion of the District to be developed for retail and commercial purposes for purposes of application of certain City health, safety, planning and zoning ordinances within that portion of the District. The portion of the District consisting of residential development is not subject to the limited purpose annexation. The SPA also provides that the City will not annex the District for "full purposes" (a traditional municipal annexation) for at least thirty (30) years from the effective date of the SPA. Also, as a condition of full purpose annexation, any unpaid reimbursement obligations due to a developer by the District for water, wastewater, and storm drainage facilities must be assumed by the City to the maximum extent permitted by the TCEQ rules.

As a result of the SPA, the City is authorized to impose a one percent retail City sales tax within the portion of the District included in the limited purpose annexation. Pursuant to the SPA, the City pays to the District an amount equal to one-half of all retail sales tax revenues generated within such area of the District and received by the City from the Texas Comptroller of Public Accounts (herein defined as the "Contract Sales Tax Revenue"). Pursuant to State law, the District is authorized to use the Contract Sales Tax Revenue generated pursuant to the SPA for any lawful purpose. As of the date hereof, there is no retail development in the District and no Contract Sales Tax Revenue.

The District has not pledged Contract Sales Tax Revenues, if and to the extent received in the future, toward payment of principal of and interest on the Bonds.

Consolidation: A district (such as the District) has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets, such as cash and the utility system, with the water and wastewater systems of districts with which it is consolidating as well as its liabilities (which would include the Bonds). No representation is made concerning the likelihood of consolidation.

Defeasance: The Bond Order provides that any Bond shall be deemed paid and shall no longer be considered a Bond within the meaning of the Bond Order when payment of principal of and interest on such Bond to its stated maturity, or (if notice of redemption shall have been given, irrevocably provided for or duly waived) to the redemption date, shall have been made or shall have been provided for under the provisions of the Bond Order. Such payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment, (2) direct or indirect obligations of the United States of America, and (3) certain obligations issued by or on behalf of any state or political subdivision or municipality thereof and rated “AAA” or its equivalent by a nationally recognized investment rating firm.

Neither the obligations described in clause (2) above nor the obligations described in clause (3) above may be subject to redemption. Any such obligations must be certified by an independent public accounting firm of national reputation to be of such maturities and interest payment dates and bear such interest as will, without further investment or reinvestment of either the principal amount thereof or the interest earnings therefrom, be sufficient to make the payment to be provided for on the Bonds.

Funds and Accounts

The Bond Order confirms establishment and maintenance by the District of a Bond Fund (as further described in the Bond Order).

The Bond Fund is the District's interest and sinking fund. The Bond Order requires that the District credit to the Bond Fund (i) all net receipts of District ad valorem taxes (and penalty and interest thereon) levied to pay debt service requirements on (or fees and expenses of the Paying Agent with respect of) the Bonds, the Remaining Outstanding Bonds, and any other tax-supported obligations of the District, (ii) all earnings from investment of the Bond Fund and (iii) any other funds of the District deposited to the Bond Fund. The Bond Order requires that the Bond Fund be applied solely to pay the principal or redemption price of, interest on, and the Paying Agent fees with respect to the Bonds, the Remaining Outstanding Bonds, and any other tax-supported obligations of the District when due.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The voters of the District have authorized the District to issue up to \$53,140,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, leasing, operating, repairing, improving or extending a waterworks system, a sanitary sewer system and a storm sewer system and expenses incidental thereto, and \$53,140,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds. The District currently has \$27,100,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of purchasing, constructing, acquiring, leasing, operating, repairing, improving or extending a waterworks system, a sanitary sewer system and a storm sewer system and expenses incidental thereto, and, after the issuance of the Bonds, the District will have \$52,605,000 principal amount of unlimited tax bonds for the purpose of refunding outstanding bonds.

Additional unlimited tax or unlimited tax and revenue bonds may be authorized by the District's voters in the future, including bonds to construct or acquire parks and recreational facilities, fire-fighting facilities and after obtaining road powers from the TCEQ, roads. The Board is further empowered to issue revenue bonds, to borrow money for any lawful corporate purpose, and to issue bond anticipation or tax anticipation notes.

The Bond Order imposes no limitation on the amount of additional bonds that may be issued by the District. Any additional unlimited tax bonds issued by the District will be on a parity with the Bonds and may dilute the security for the Bonds. See "INVESTMENT CONSIDERATIONS—Future Debt."

Additional Covenants

In the Bond Order, the District has additionally covenanted that it will (1) maintain insurance on its facilities of a kind and in an amount which usually would be carried by private companies engaged in a similar type of business, but considering any governmental immunities to which the District may be entitled, (2) keep accurate records and accounts and engage an independent certified public accountant to audit its financial statements at the close of each fiscal year, such audit to be in accordance with applicable law, rules and regulations, and open to inspection in the office of the District during normal office hours, (3) maintain its facilities in good condition and repair, ordinary wear and tear and obsolescence excepted, and operate its facilities in an efficient manner and at a reasonable cost and (4) secure the Bond Fund in the manner and to the fullest extent required by law for the security of District funds.

Tax Covenants

In the Bond Order, the District has covenanted with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States of arbitrage profits from the investment of proceeds, and the reporting of certain information to the United States Treasury.

Amendments to the Bond Order

The District may, without the consent of or notice to any Registered Owner, amend the Bond Order in any manner not detrimental to the interests of the Registered Owners, including the curing of any ambiguity, inconsistency or formal defect or omission therein. In addition, the District may, with the written consent of the Registered Owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to or rescind any of the provisions of the Bond Order; provided that, without the consent of the Registered Owners of all of the Bonds affected, no such amendment, addition or rescission may (1) change the time or times of payment of the principal of and interest on the Bonds, reduce the principal amount thereof, the redemption price therefore or the rate of interest thereon, change the place or places at or the coin or currency in which any Bond is payable or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any such amendment, addition or rescission. In addition, a state, consistent with federal law, may in the exercise of its police power make such modifications in the terms and conditions of contractual covenants relating to the payment of indebtedness of a political subdivision as are reasonable and necessary for attainment of an important public purpose.

Remedies in Event of Default

The Bond Order provides that, in addition to all other rights and remedies of any Registered Owners provided by the laws of the State of Texas, in the event the District defaults in the observance or performance of any covenant in the Bond Order including payment when due of the principal of and interest on the Bonds, any Registered Owner may apply for a writ of mandamus from a court of competent jurisdiction requiring the Board of Directors or other officers of the District to observe or perform such covenants.

The Bond Order provides no additional remedies to a Registered Owner. Specifically, the Bond Order does not provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners or for the acceleration of maturity of the Bonds upon the occurrence of a default in the District's obligations. Consequently, the remedy of mandamus is a remedy which may have to be enforced from year-to-year by the Registered Owners and may prove time consuming, costly and difficult to enforce.

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 judgment for money damages. The Bonds are not secured by an interest in any improvements or any other property of the District. Under Texas law, no judgment obtained against the District may be enforced by execution of a levy against the District's public purpose property. The Registered Owners themselves cannot foreclose on property within the District or sell property within the District in order to pay principal of or interest on the Bonds. In addition, the enforceability of the rights and remedies of the Registered Owners may be delayed, reduced or otherwise affected or limited by federal bankruptcy laws or other similar laws affecting the rights of creditors of a political subdivision or by a state statute reasonably required to attain an important public purpose. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies and Bankruptcy Limitations."

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof. The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation of ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the registered owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants 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 Bond certificate will be issued for each maturity of the Bonds, in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest 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 rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

FAIRFIELD

Fairfield is a 3,200 acre mixed-use "master planned community," of which approximately 583 acres comprise the District. Fairfield is comprised of five municipal utility districts: the District, Harris County Municipal Utility District No. 354 ("MUD 354"), Harris County Municipal Utility District No. 322 ("MUD 322"), Harris County Municipal Utility District No. 358 ("MUD 358" or the "Regional District") and Harris County Municipal Utility District No. 396 ("MUD 396"). As of November 1, 2021, Fairfield contained approximately 5,582 homes completed as well as multi-family and commercial improvements and amenities.

The neighborhoods in Fairfield are served by six neighborhood parks, five of which have pools, including a spray park and dog park. In addition, there is a Central Recreational Center for the residents of Fairfield which includes a pool and tennis courts, a weight room, pool, social areas and soccer and baseball fields. A greenbelt system currently running throughout portions of Fairfield provides off-street transportation to pedestrians and bicyclists.

THE DISTRICT

General

The District is a municipal utility district created by an order of the TCEQ dated May 29, 2003. The rights, powers, privileges, authority and functions of the District are established by the general laws of the State of Texas pertaining to utility districts, particularly Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may provide solid waste disposal and collection and is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts and may issue bonds for fire-fighting facilities, after approval by the TCEQ and the voters of the District. The District is also authorized to provide security services and to construct and acquire park and recreational facilities and may issue bonds for park and recreational facilities after approval by the TCEQ and the voters of the District. The District may petition the TCEQ for the power to issue bonds to finance roads. If granted, the District may issue bonds to finance roads after approval by the voters of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. The District is required to observe certain requirements of the City of Houston that limit the purposes for which the District may sell bonds to the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, certain park and recreational facilities, firefighting facilities, roads 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 platted lots and reserves which have been approved by the Planning Commission of the City of Houston. See "THE SYSTEM—General."

Description and Location

The District is comprised of approximately 583 acres of land located approximately 30 miles northwest of the central downtown business district of the City of Houston within Harris County, Texas. Access to the District is currently provided by U.S. Highway 290 to Mason Road or Fairfield Place Drive. U. S. Highway 290 connects to other major highways and thoroughfares and provides access from the District to major employment centers in the Harris County area. The District is located entirely within the exclusive extraterritorial jurisdiction of the City of Houston and within the boundaries of the Cypress-Fairbanks Independent School District.

Land Use

The District includes approximately 341 developed acres of single-family residential development (1,220 completed lots with utilities and paving), approximately 18 acres developed for a 240-unit apartment community, approximately 30 acres for a middle school (which is not subject to ad valorem taxation by the District), approximately 61 acres developed for church sites (which are not subject to ad valorem taxation by the District), approximately 100 undevelopable acres (drainage and pipeline easements, street rights-of-way and utility sites) and approximately 33 acres of commercial or non-profit tracts. The table below represents a detailed breakdown of the current acreage and development in the District.

<u>Single-Family Residential</u>	Approximate	
	<u>Acres</u>	<u>Lots/Units</u>
Fairfield Village South (Section Two through Seventeen)	341	1,220
<i>Commercial Acreage</i>	33	--
<i>Church</i>	61	--
<i>Multi-Family</i>	18	240
<i>Middle School</i>	30	--
<i>Non-Developable (a)</i>	100	--
Subtotal.....	242	--
Totals.....	583	1,460

(a) Includes drainage and pipeline easements, street rights-of-way and utility sites.

Status of Development

Single-Family Residential: Utility construction and paving has been completed in the single-family neighborhoods of Fairfield Village South, Sections Two through Seventeen (1,220 single-family lots on approximately 341 acres). Homes have been constructed on all lots within the District.

Multi-Family Residential: The Avenues at Cypress, an apartment community consisting of 240 units, has been constructed on approximately 18 acres within the District.

Commercial/ Institutional: A Cypress-Fairbanks Independent School District middle school has been constructed on approximately 30 acres, a church owned by the Church of Latter-Day Saints has been constructed on approximately 11 acres and a church owned by Second Baptist Church has been constructed on approximately 50 acres. The land and/or improvements owned by the school district and the churches are not subject to ad valorem taxation by the District. Additionally, a CVS pharmacy has been constructed in the District on 3 acres, and 30 acres remain for future commercial, institutional, or non-profit development. See “TAXING PROCEDURES—Property Subject to Taxation by the District.” See “THE DISTRICT—Status of Development” and “— Land Use.”

The estimated population in the District is 4,699 based upon 3.5 persons per occupied single-family residence and 2 persons per multi-family residence (assumes 90% occupancy).

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. All of the Board members reside within the District. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Jay Hartley	President	May 2022
Larry Mueller	Vice President	May 2022
Troy J. Guidry	Secretary	May 2024
Eddie Rucker	Asst. Vice President/Asst. Secretary	May 2024
Clay Coleman	Asst. Vice President/Asst. Secretary	May 2022

District Consultants

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

Bond Counsel/Attorney: The District has engaged Norton Rose Fulbright US LLP as general counsel to the District and as Bond Counsel in connection with the issuance of District bonds. The fees of Norton Rose Fulbright US LLP, as Bond Counsel, are contingent upon the sale and delivery of the Bonds.

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

Auditor: 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 December 31, 2020, and for the year then ended, have been audited by BKD, LLP, independent auditors, as stated in their report appearing herein. See “Appendix A” for a copy of the District’s December 31, 2020, financial statements.

Engineer: The District’s consulting engineer for the design and construction of District facilities financed with bond proceeds is BGE, Inc. (the “Engineer”).

Tax Appraisal: The Harris County Appraisal District (the “Appraisal District”) has the responsibility of appraising taxable property within the District. See “TAXING PROCEDURES.”

Tax Assessor/Collector: The District has contracted with Bob Leared Interests (the “Tax Assessor/Collector”) to perform the tax collection function.

Bookkeeper: The District has contracted with Myrtle Cruz, Inc. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: The operator of the District’s internal water and wastewater system is Inframark, LLC.

THE SYSTEM

General

The District provides water supply and wastewater treatment to land within its boundaries by means of its own water distribution and wastewater collection lines and by contracting with MUD 358 (the “Regional District”) in its capacity as the regional provider of such services. The Regional District owns and operates the central water supply and distribution facilities and trunk wastewater conveyance and treatment facilities in Fairfield. The District has also financed storm sewer lines to serve land within the District, and the Regional District provides regional stormwater detention. Approximately 418 acres of land within the District is also within the boundaries of Harris County Water Control and Improvement District No. 155 (“WCID 155”), which provides a portion of the major drainage channels within Fairfield south to Highway 290.

The water, wastewater and drainage facilities financed by the District and the Regional District have been designed in accordance 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 Texas Department of Health, Harris County and the City of Houston. According to the Engineer, which is also the engineer for the Regional District, such facilities have been approved by all governmental agencies. During construction, such facilities are subject to inspection by the foregoing governmental agencies.

Operation of the water supply and wastewater treatment facilities of the District and the Regional District are subject to regulation by, among others, the United States Environmental Protection Agency, the TCEQ and the Texas Department of Health. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Regional Facilities

Water Supply: Water supply to serve the development within the District is provided by two water supply plants owned and operated by the Regional District. The Regional District’s existing water supply facilities will adequately serve 7,000 physical connections based on current TCEQ authorization. The Regional District has previously acquired an elevated storage tank exception from the TCEQ that assesses each water plant component differently than the TCEQ minimum standards, as defined in §290.38, Texas Administrative Code. As of November 1, 2021, there were approximately 6,029 active physical connections served by the Regional District (including 1,220 residential connections in the District). The Regional District engineer has confirmed that adequate water supply and pressure maintenance is available with the existing facilities to serve the existing development.

Subsidence and Conversion to Surface Water Supply: The land within Fairfield is within the jurisdiction of the Harris-Galveston Coastal Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. 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 1999, the Texas Legislature created the North Harris County Regional Water Authority (the “Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the northern portion of Harris County (including Fairfield). The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. In conjunction with its GRP, 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’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 Regional 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, rates, and charges as necessary to accomplish its purposes. The Authority currently charges the Regional District, and other major groundwater users, a fee of \$4.60 per 1,000 gallons of groundwater pumped and \$5.05 per 1,000 gallons of surface water received. The Authority has to date issued \$2,337,020,000 principal amount of revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will issue substantially more bonds to finance the Authority’s project costs.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand of the water users within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand of the water users within the Authority's GRP; and (iii) beginning in the year 2035, to limit groundwater withdrawals to no more than 20% of the total annual water demand of the water users within the Authority's GRP. 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 annual water demand within the Authority's GRP. Such disincentive fees, if any, are expected to be passed on to participants in the Authority's GRP, including the Regional District. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the Regional District. If the Regional District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the Regional 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 continue passing such fees through to its customers through higher water rates. In addition, conversion to surface water could necessitate improvements to the System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

Wastewater Treatment: Wastewater treatment for the development within the District is provided by a 2,000,000 gallon per day ("gpd") wastewater treatment plant owned and operated by the Regional District. The Regional District's existing wastewater treatment facilities will adequately serve 6,666 equivalent single-family connections ("ESFCs") based on 300 gpd per ESFC; however, usage per connection for the last twelve-month period is approximately 162 gpd per ESFC. As of November 1, 2021, there were approximately 7,935 ESFCs served by the Regional District based on usage per connection of 162 gpd per ESFC (including 1,220 residential connections within the District).

Major Trunk Lines: Major water distribution and wastewater collection lines have been constructed by MUD 358, in its capacity as the Regional District.

Detention Basin: The Regional District constructed two Detention/Amenity Lakes, which provide detention of water prior to its release to Little Cypress Creek. The lakes are sized to take into account water which drains from the northern portion of the land within the District and MUD 396. The Regional District has also constructed the Cypress Creek Detention Facility which serves 1,909 acres of the Fairfield development, and includes capacity for the southern portion of the District in addition to other districts in Fairfield.

Regional Contract

The District is served by a regional water supply, wastewater treatment, and storm water detention system. The District, MUD 322, MUD 354, MUD 358 and MUD 396 have each entered into a Contract for Financing, Operation and Maintenance of Regional Water, Sanitary Sewer and Drainage Facilities for the Fairfield Village Community dated as of March 1, 1992 (the "Regional Contract"). Pursuant to the Regional Contract, MUD 358 acts as the Regional District. The Regional District has built and owns the central water supply, wastewater treatment and storm water detention facilities for the Fairfield service area, as well as major trunk lines (the "Regional Facilities"). The District, MUD 322, MUD 358 (in its capacity as provider of internal facilities), MUD 396, and MUD 354 are required to pay connection charges to MUD 358 for capital costs associated with the construction of the Regional Facilities as land within their boundaries is platted.

The current connection charge adopted by the Regional District is \$7,775 per equivalent single-family connection. The Regional Contract provides that such connection charge can be increased, as estimates of the costs of Regional Facilities and the number of connections in the service area change, but cannot be decreased.

The Regional Contract requires the Regional District to use the connection charges it receives to build necessary Regional Facilities. A plan of proposed Regional Facilities has been adopted by the Regional District and approved by the District. In the event connection charges are not sufficient to pay for necessary facilities, the Regional District is required to serve those platted areas in the order in which their connection charges were received by the Regional District.

The service area, the services provided by the Regional District, and the participants in the Regional Contract may be changed pursuant to conditions stated in the Regional Contract. The District can make no representation concerning the likelihood of changes in the Regional Contract.

The Regional District is required to operate the Regional Facilities in conjunction with a Joint Operations Council made up of representatives from each participant in the Regional Contract. Each participant in the Regional Contract will pay monthly charges to the Regional District based on water usage for operation and maintenance expenses of the Regional Facilities.

Pursuant to the Regional Contract, the District, MUD 322, MUD 358 (in its capacity as provider of internal facilities), MUD 396, and MUD 354 will also be responsible for the cost of any financially significant repair, replacement, improvement, betterment or update to the Regional Facilities, including facility updates needed to meet regulatory requirements or to maintain the then existing quality and quantity of services.

Payment of Connection Charges to Regional District

The District has paid the Regional District all connection charges associated with development in the District, but has not paid the Regional District for connection charges for the 30 acres which remain undeveloped and whose ultimate use has not been determined.

District Facilities

Internal water distribution, wastewater collection, storm drainage facilities and paving have been constructed on behalf of the District to serve 1,220 single-family residential lots on approximately 341 acres, approximately 18 acres developed as 240 multi-family residential units, approximately 61 acres for two church sites, approximately 30 acres for a middle school, and approximately 33 acres of commercial or non-profit property within the District. Property owned by the school district and churches are exempt from ad valorem taxation by the District. See “THE DISTRICT—Status of Development.”

Major Channel Improvements

Approximately 418 acres of land within the District is also within the boundaries of Harris County Water Control and Improvement District No. 155 (“WCID 155”), which provides major drainage channels within Fairfield south to Highway 290. Outfall drainage for the developed land within WCID 155 is provided primarily by Channel “A.” Channel “A” is the major outfall channel, which terminates into the Regional District’s detention facility which outfalls into Cypress Creek. All existing channels have been constructed to their expected ultimate size. The remainder of the acreage within the District outfalls in the Regional District’s detention basins and from there to Little Cypress Creek.

100-Year Flood Plain

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

According to the District’s Engineer, none of the developed acreage within the District is located within the 100-year flood plain. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events.”

Atlas 14

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

Waterworks and Sewer System Operating Statement

General Fund: The Bonds and the Remaining Outstanding Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Nevertheless, net revenues from operations of the District's water and wastewater system, if any, are available for any legal purpose, including the payment of debt service on the Remaining Outstanding Bonds and the Bonds, upon Board action. However, it is not anticipated that net revenues will be used or would be sufficient to pay debt service on the Bonds or the Remaining Outstanding Bonds.

The following statement sets forth in condensed form the General Fund as derived from the District's audited financial statements for the years ended December 31, 2017 through 2020 and, for the ten-month period ended October 31, 2021, from the Bookkeeper. Reference is made to "APPENDIX A—Independent Auditor's Report and Financial Statements" for further and complete information.

		Fiscal Year Ended December 31			
	1/1/21 to				
	10/31/21 (a)	2020	2019	2018	2017
	(unaudited)				
Revenues					
Property Taxes	\$ 753,381	\$ 752,470	\$ 715,104	\$ 727,439	\$ 670,467
Water and Sewer Service	744,124	909,346	940,549	915,689	948,119
Regional Water Fee	667,325	827,988	788,639	656,731	584,101
Penalty and Interest	17,790	18,246	36,283	28,792	28,171
Tap Connection and Inspection Fees	670	5,638	8,599	9,859	75,820
Investment Revenues	3,505	25,099	76,202	46,950	19,324
Other Income	57,577	52,671	51,314	49,808	48,416
Total Revenues	\$ 2,244,373	\$ 2,591,458	\$ 2,616,690	\$ 2,435,268	\$ 2,374,418
Expenditures					
Purchased Services	\$ 360,350	\$ 430,489	\$ 439,320	\$ 429,286	\$ 404,551
Regional Water Fee	653,810	877,721	815,258	667,242	611,954
Professional Fees	75,758	88,314	78,134	69,482	74,083
Contracted Services	137,273	148,644	147,652	152,902	166,766
Solid Waste	288,674	337,148	325,463	304,263	344,315
Repairs and Maintenance	98,063	107,715	116,795	98,385	131,875
Other Expenditures	52,137	82,958	66,165	56,822	59,637
Tap Connections	1,125	-	-	-	33,965
Total Expenditures	\$ 1,747,507	\$ 2,072,989	\$ 1,988,787	\$ 1,778,382	\$ 1,827,146
Revenues Over (Under) Expenditures	\$ 496,866	\$ 518,469	\$ 627,903	\$ 656,886	\$ 547,272
Other Sources (Interfund Transfer)	\$ (250,000)	\$ 4,595	\$ (500,000)	\$ -	\$ -
Fund Balance (Beginning of Year)	\$ 4,024,543	\$ 3,501,479	\$ 3,373,576	\$ 2,716,690	\$ 2,169,418
Fund Balance (End of Year)	\$ 4,271,409	\$ 4,024,543	\$ 3,501,479	\$ 3,373,576	\$ 2,716,690

(a) Unaudited. Provided by the Bookkeeper.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2021 Certified Taxable Assessed Valuation	\$415,826,173	(a)
Gross Direct Debt Outstanding (the Bonds and the Remaining Outstanding Bonds)	\$16,710,000	(b)
Estimated Overlapping Debt	25,142,274	(c)
Gross Direct Debt and Estimated Overlapping Debt.....	\$41,852,274	
Ratio of Gross Direct Debt to:		
2021 Certified Taxable Assessed Valuation	4.02%	
Ratio of Gross Direct Debt and Estimated Overlapping Debt to:		
2021 Certified Taxable Assessed Valuation	10.06%	
Operating Funds Available as of December 21, 2021	\$4,014,997	
Debt Service Funds Available as of December 21, 2021	\$1,359,900	(d)

- (a) As certified by the Harris County Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) After the issuance of the Bonds and excludes the Refunded Bonds. See “PLAN OF FINANCING—Outstanding Bonds.”
- (c) See “—Estimated Overlapping Debt” and “—Overlapping Taxes” herein.
- (d) The District will contribute \$59,500 of available debt service funds towards the purpose for which the Bonds are being issued. See “PLAN OF FINANCING—Sources and Uses of Funds.” Neither Texas law nor the Bond Order requires the District to maintain any particular balance in the Debt Service Fund.

Investments of the District

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

Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County.....	\$ 1,584,697,125 (a)	10/31/2021	0.08%	\$ 1,267,758
Harris County Flood Control District.....	584,900,000	10/31/2021	0.08%	467,920
Harris County Department of Education.....	20,185,000	10/31/2021	0.08%	16,148
Harris County Hospital District.....	81,540,000	10/31/2021	0.08%	65,232
Port of Houston Authority.....	469,434,397	10/31/2021	0.08%	375,548
Cypress Fairbanks Independent School District....	3,222,395,000	10/31/2021	0.68%	21,912,286
WCID 155.....	-	10/31/2021	17.36%	-
Lone Star College District.....	610,225,000	10/31/2021	0.17%	1,037,383
Total Estimated Overlapping Debt.....				\$ 25,142,274
The District.....	16,710,000 (b)	Current	100.00%	16,710,000
Total Direct and Estimated Overlapping Debt.....				\$ 41,852,274

- (a) Excludes the Harris County Toll Road Unlimited Tax Bonds in the principal amount of \$171,575,000. Historically, Harris County has provided for payment of such debt service from toll road revenues and certain other funds and, no ad valorem tax revenue has been required to pay debt service on such bonds.
- (b) The Bonds and the Remaining Outstanding Bonds.

Overlapping Taxes

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

Set forth below are all of the taxes levied for the 2021 tax year by all taxing jurisdictions and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	2021 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, and the Port of Houston Authority).....	\$ 0.586340
Cypress Fairbanks Independent School District.....	1.339200
Harris County ESD No. 9.....	0.057628
Lone Star College System.....	0.107800
WCID 155.....	<u>0.115000</u>
Total Overlapping Tax Rate.....	\$ 2.205968
The District (a).....	<u>0.540000</u>
Total Tax Rate.....	\$ 2.745968

(a) See "TAX DATA—Historical Tax Rate Distribution."

TAX DATA

Debt Service Tax

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

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District's voters. A maintenance tax election was conducted November 4, 2003 and May 7, 2005, and voters of the District authorized the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See "Debt Service Tax" above.

Historical Tax Rate Distribution

	2021	2020	2019	2018	2017
Debt Service	\$0.3550	\$0.3850	\$0.3950	\$0.4200	\$0.4500
Maintenance and Operations	0.1850	0.1898	0.1950	0.1900	0.2000
Total	<u>\$0.5400</u>	<u>\$0.5748</u>	<u>\$0.5900</u>	<u>\$0.6100</u>	<u>\$0.6500</u>

Exemptions

For tax year 2021, the District granted a \$5,000 homestead exemption for individuals disabled and/or 65 years of age or older.

Additional Penalties

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

Historical Tax Collections

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

Tax Year	Certified Taxable Assessed Valuation (a)	Tax Rate	Total Tax Levy (b)	Total Collections as of November 30, 2021 (c)	
				Amount	Percent
2016	\$ 334,687,449	\$ 0.7200	\$ 2,409,750	\$ 2,409,750	100.00%
2017	362,473,605	0.6500	2,356,078	2,355,709	99.98%
2018	377,419,144	0.6100	2,302,257	2,301,301	99.96%
2019	386,194,940	0.5900	2,278,550	2,277,390	99.95%
2020	397,007,369	0.5748	2,281,998	2,279,152	99.88%
2021	415,826,173	0.5400	2,245,461	(d)	(d)

- (a) Net valuation represents final gross appraised value as certified by the Harris County Appraisal District (the "Appraisal District") less any exemptions granted. See "Tax Roll Information" below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited.
- (d) In process of collection. Taxes for 2021 are due by January 31, 2022.

Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate (see "TAXING PROCEDURES—Valuation of Property for Taxation"). The following represents the composition of property comprising the 2017 through 2021 Certified Taxable Assessed Valuation. No tax will be levied on such amount. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions	Certified Taxable Assessed Valuation
	Land	Improvements	Personal Property			
2017	\$ 86,805,721	\$ 357,239,348	\$ 4,682,386	\$ 448,727,455	\$ (86,253,850)	\$ 362,473,605
2018	87,659,794	374,614,402	4,244,747	466,518,943	(89,099,799)	377,419,144
2019	87,683,896	390,026,023	3,863,234	481,573,153	(95,378,213)	386,194,940
2020	90,745,155	394,674,341	5,098,662	490,518,158	(93,510,789)	397,007,369
2021	102,038,690	403,287,193	4,120,167	509,446,050	(93,619,877)	415,826,173

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property, and such property's taxable assessed value as a percentage of the District's 2021 Certified Taxable Assessed Valuation of \$415,826,173. This represents ownership as of January 1, 2021.

Taxpayer	% of	
	2021 Certified Taxable Assessed Valuation	2021 Certified Taxable Assessed Valuation
PAC Cypress LLC	\$ 35,711,689	8.59%
North Cypress Land	7,840,800	1.89%
DRZ CYP TX LLC	3,180,957	0.76%
Centerpoint Energy	1,628,080	0.39%
CVS Pharmacy	1,095,141	0.26%
Li Xiangfang	537,487	0.13%
FKH SFR Propco B HLD LP	524,276	0.13%
Individual	442,393	0.11%
Individual	438,123	0.11%
Individual	433,060	0.10%
Total	\$ 51,832,006	12.46%

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District's tax base occurred beyond the 2021 Certified Taxable Assessed Valuation of \$415,826,173. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Remaining Outstanding Bonds when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "PLAN OF FINANCING—Debt Service Requirements."

Average Annual Debt Service Requirement (2022-2035)	\$1,449,165
\$0.37 Tax Rate on the 2021 Certified Taxable Assessed Valuation	\$1,461,629
Maximum Annual Debt Service Requirement (2032).....	\$1,523,838
\$0.39 Tax Rate on the 2021 Certified Taxable Assessed Valuation	\$1,540,636

TAXING PROCEDURES

Authority to Levy Taxes

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

Property Tax Code and County-Wide Appraisal District

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

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

Property Subject to Taxation by the District

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

Veterans Exemptions: The District must grant certain 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 of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% and the surviving spouse of such a veteran is entitled to an exemption for the full amount of the veteran’s or surviving spouse’s residential homestead. A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residential homestead in an amount equal to the partially disabled veteran’s disability rating if the residential homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces or a first responder as defined under Texas law, who was killed in action is, subject to certain conditions, entitled to a total tax exemption on such surviving spouse’s residential homestead. If the surviving spouse changes homesteads, but does not remarry, then the amount of the exemption as of the last year of the first qualifying residential homestead is applicable to subsequent homesteads.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption by each Participant may be considered each year, but must be adopted by May 1.

Additional Homestead Exemptions: The District may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair its obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

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

Tax Abatement

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.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. In November 1997, Texas voters approved a constitutional amendment to limit increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use (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 upon 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.

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

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

Taxpayer Remedies

The Property Tax Code establishes an appraisal review board in each county with responsibility for resolving disputes between taxpayers and the appraisal district. It is also empowered to determine challenges initiated by taxing units, correct clerical errors in the appraisal records and the appraisal rolls, act on motions to correct appraisal rolls, and determine whether an exemption or a partial exemption is improperly granted. The appraisal review board is independent of the appraisal district. In counties with more than 120,000 in population, the local administrative district judge appoints the appraisal review board members.

A property owner is entitled to protest the value of a tract of property before the appraisal review board in the following circumstances: the value the appraisal district placed on the property is too high; the property was unequally appraised; the appraisal district denied a special appraisal, such as open-space land; the appraisal district failed to provide the property owner with required notices; or as otherwise permitted under the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year "minimum eligibility amount," as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50.6 million for the 2021 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

A property owner who files a protest must pay the amount of taxes due on the portion of the taxable value of the property subject to the protest that is not in dispute before the delinquency date or the property owner forfeits the right to proceed to a final determination of the protest.

Property owners who are dissatisfied with the decision of the appraisal review board may appeal the decision. Depending upon the circumstances, the property owner may be able to require the appraisal district to go to binding arbitration or to have the appeal heard by the State Office of Administrative Hearings.

If those remedies are not available or if the property owner prefers, it has the right to appeal the decision of the appraisal review board to the state district court in which the property is located. The district court review is by trial de novo, and the district court is required to try all issues of fact and law raised by the pleadings in the manner applicable to civil suits generally. Any party is entitled to trial by jury on demand. The district court will grant relief if it determines that the appraised value of the property exceeds the appraised value required by law or the property is appraised unequally.

A party may appeal the final judgment of the district court as provided by law for appeal of civil suits generally, except that an appeal bond is not required of the chief appraiser, the county, the comptroller, or the commissioners court.

Levy and Collection of Taxes

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

and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in equal monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

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

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

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

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District is designated as a "Developed District" for the 2021 tax year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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 subject to the restrictions on residential homesteads described in the preceding section under “Levy and Collection of Taxes”. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within six (6) months for commercial property and two (2) years for residential and all other types of property after the purchaser’s deed issued at the foreclosure sale is filed in the county records. The District’s ability to foreclose its tax lien or collect penalties or interest on delinquent taxes 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. See “INVESTMENT CONSIDERATIONS—General” and “—Tax Collection Limitations and Foreclosure Remedies.”

INVESTMENT CONSIDERATIONS

General

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

Infectious Disease Outlook (COVID-19)

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. 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 easing or removal of COVID-19 related 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.

Dependence on Energy Industry

The economy of the Houston metropolitan area, which has sometimes been referred to as the energy capital of the world, is, in part, dependent upon the oil and gas and petrochemical industries. During the height of the COVID-19 pandemic in 2020, worldwide consumption of energy decreased dramatically and led to the lowest oil prices in three decades. This led to layoffs of workers, business failures and reduced capital and operating expenditures by energy companies. While there has been some rebound, Houston area jobs in the energy industry have not fully recovered. In 2021, the United States rejoined the 2015 Paris Climate Accords, under which many countries have agreed to move away from fossil fuels to alleviate climate change. Although major energy companies expect that fossil fuels will be vital to the global economy for many years to come, they have recognized the need to direct more investment toward various clean energy projects. The pace and success of these efforts could significantly affect the Houston economy in the future.

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 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 25, 2017, and brought historic levels of rainfall during the successive four days.

According to the Operator, the District’s System did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District did not receive any reports of homes within the District that experienced flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Atlas 14

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

Tax Collections Limitations and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property).

Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. At an election held within the District, voters in the District authorized \$53,140,000 in principal amount of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and storm drainage system in the District and \$53,140,000 in principal amount of unlimited tax refunding bonds. After the issuance of the Bonds, the District will have \$27,100,000 in principal amount of unlimited tax bonds for the purposes of purchasing and constructing a water, wastewater and drainage system authorized but unissued and \$52,605,000 in principal amount of unlimited tax bonds for refunding outstanding debt of the District authorized but unissued. Further additional tax or tax and revenue bonds may be authorized by the District voters in the future, including bonds to construct and acquire parks and recreational facilities, fire-fighting facilities, or roads.

The District does not employ any formula with respect to assessed valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds is subject to approval by the TCEQ pursuant to issuance guidelines established by the TCEQ. See "THE BONDS—Issuance of Additional Debt." The District has paid the Developer in full for all outstanding obligations.

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not "waters of the United States," and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On July 30, 2021, the EPA and USACE announced plans to further revise the definition of "waters of the United States." On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of "waters of the United States" and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Marketability of the Bonds

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

Continuing Compliance with Certain Covenants

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

Risk Factors Related to the Purchase of Municipal Bond Insurance

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the insurer (the “Insurer”) and its claims 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.

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

Neither the District nor the Underwriter have made independent investigation into the claims paying ability of the Insurer and no assurance or representation regarding the financial strength or projected financial 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.

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.

MUNICIPAL BOND RATING

It is expected that S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) will assign a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. Moody’s Investors Service, Inc. (“Moody’s”) has also assigned an underlying rating of “A3” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody’s.

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

MUNICIPAL BOND INSURANCE

Municipal Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

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

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

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2021 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$504.3 million, \$181.5 million and \$322.8 million, respectively.

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

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

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

Additional Information Available from BAM

Credit Insights Videos: For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at 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.

LEGAL MATTERS

Legal Opinions

The District will furnish the Underwriter a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including (i) a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property in the District and (ii) based upon the examination of such transcript, the legal opinion of Bond Counsel to the effect that the Bonds are valid and binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity. Bond Counsel's opinion will also address the matters described below under "Tax Exemption." Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

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

In addition to serving as Bond Counsel, Norton Rose Fulbright US LLP also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of Bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds.

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the District made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the District with the provisions of the Bond Order subsequent to the issuance of the Bonds. The Bond Order contains covenants by the District with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the District described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the District as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") is less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") is greater than the amount payable on such Bonds at maturity. 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, although no federal income tax deduction is allowed as a result of such reduction in basis for 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 on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

Qualified Tax-Exempt Obligations for Financial Institutions

Section 265 of the Code provides, in general, that interest expense incurred to acquire or carry tax-exempt obligations is not deductible from the gross income of the owner of such obligations. In addition, section 265 of the Code completely disallows any deduction for interest expense which is incurred by “financial institutions” described in such section and is allocable, as computed in such section, to tax-exempt interest on obligations acquired after August 7, 1986. Section 265(b) of the Code provides an exception to this rule for interest expense allocable to tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds) which are designated by an issuer, such as the District, as “qualified tax-exempt obligations.” An issuer may designate obligations as “qualified tax-exempt obligations” only if the amount of the issue of which they are a part, when added to the amount of all other tax-exempt obligations (other than private activity bonds that are not qualified 501(c)(3) bonds and other than certain refunding bonds) issued or reasonably anticipated to be issued by the issuer during the same calendar year, does not exceed \$10,000,000.

The District has designated the Bonds as “qualified tax-exempt obligations” and certified its expectation that the above-described \$10,000,000 ceiling will not be exceeded. Accordingly, it is anticipated that financial institutions which purchase the Bonds will not be subject to the one-hundred percent (100%) disallowance of interest expense allocable to interest on the Bonds under Section 265(b) of the Code. However, twenty percent (20%) of the interest expense incurred by a financial institution which is allocable to the interest on the Bonds will not be deductible pursuant to Section 291 of the Code.

No Material Adverse Change

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

No-Litigation Certificate

With the delivery of the Bonds, the President and Secretary of the Board will, on behalf of the District, execute a certificate, dated as of the date of delivery of the Bonds, to the effect that no litigation of any nature is then pending against or, to the best knowledge of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority of proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District, or the titles of the then present officers of the Board.

VERIFICATION OF MATHEMATICAL CALCULATIONS

Public Finance Partners LLC will deliver to the District, on or before the settlement date of the Bonds, its verification report indicating that it has verified the mathematical accuracy of (a) the adequacy of funds and maturing principal and interest on the Escrowed Securities held by the Escrow Agent per the Escrow Agreement to provide for the payment of the Refunded Bonds; (b) the mathematical computations of yield; and (c) compliance with City of Houston Ordinance No. 97-416.

Public Finance Partners LLC relied on the accuracy, completeness and reliability of all information provided to it by, and on all decisions and approvals of, the District. In addition, Public Finance Partners LLC has relied on any information provided to it by the District’s retained advisors, consultants or legal counsel.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

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

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

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering descriptions of the internal water, wastewater and storm drainage facilities of the District and the water supply and wastewater treatment facilities of the Regional District, in particular that information included in the sections entitled "THE DISTRICT—General, Description and Location, and Land Use," and "THE SYSTEM" has been provided by BGE, Inc., Consulting Engineers and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of December 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 A" for a copy of the District's December 31, 2020, financial statements.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—Waterworks and Sewer System Operating Statement" has been provided by Myrtle Cruz, Inc. and is included herein in reliance upon the authority of such individual as an expert in tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this OFFICIAL STATEMENT included under the headings “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)” (except for “Estimated Overlapping Debt” and “Overlapping Taxes”), “THE SYSTEM,” “TAX DATA,” “INVESTMENT CONSIDERATIONS—Future Debt,” and in Appendix A. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to the MSRB or any successor to its functions as a repository through EMMA. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report of the District is not complete within such period, then the District shall provide unaudited financial statements for the applicable entity and fiscal year to the MSRB within such six month period, and audited financial statements when the audit report becomes available.

The District’s current fiscal year end is December 31. Accordingly, it must provide updated information by June 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.

Specified 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 (10) business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of Beneficial Owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the “Rule”); (12) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (13) appointment of a successor or additional trustee or the change of name of a trustee, if material; (14) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (15) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the obligated person, any of which reflect financial difficulties. 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 from the MSRB

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

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although 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 the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the Remaining Outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the 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 Underwriter from lawfully purchasing the Bonds in the initial offering. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

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

MISCELLANEOUS

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

/s/ Jay Hartley
President, Board of Directors

ATTEST:

/s/ Troy J. Guidry
Secretary, Board of Directors

APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the year ended December 31, 2020

Harris County Municipal Utility District No. 397

Harris County, Texas

Independent Auditor's Report and Financial Statements

December 31, 2020



Harris County Municipal Utility District No. 397
December 31, 2020

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 397
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 397 (the District), as of and for the year ended December 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 December 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
May 6, 2021

Harris County Municipal Utility District No. 397

Management's Discussion and Analysis

December 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 period.

Harris County Municipal Utility District No. 397

Management's Discussion and Analysis (Continued)

December 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.

Harris County Municipal Utility District No. 397
Management's Discussion and Analysis (Continued)
December 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	\$ 8,029,121	\$ 7,708,745
Capital assets	<u>3,944,804</u>	<u>4,064,216</u>
Total assets	<u>11,973,925</u>	<u>11,772,961</u>
Deferred outflows of resources	<u>921,356</u>	<u>972,752</u>
Total assets and deferred outflows of resources	<u><u>\$ 12,895,281</u></u>	<u><u>\$ 12,745,713</u></u>
Long-term liabilities	\$ 18,388,911	\$ 19,390,171
Other liabilities	<u>469,235</u>	<u>436,831</u>
Total liabilities	<u>18,858,146</u>	<u>19,827,002</u>
Deferred inflows of resources	<u>2,295,050</u>	<u>2,276,463</u>
Net position:		
Net investment in capital assets	(6,856,283)	(7,586,244)
Restricted	1,238,873	1,392,501
Unrestricted	<u>(2,640,505)</u>	<u>(3,164,009)</u>
Total net position	<u><u>\$ (8,257,915)</u></u>	<u><u>\$ (9,357,752)</u></u>

The total net position of the District increased by \$1,099,837, or about 12 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.

Harris County Municipal Utility District No. 397
Management's Discussion and Analysis (Continued)
December 31, 2020

Summary of Changes in Net Position

	2020	2019
Revenues:		
Property taxes	\$ 2,277,950	\$ 2,296,845
Charges for services	1,737,334	1,729,188
Other revenues	124,660	224,532
	<hr/>	<hr/>
Total revenues	4,139,944	4,250,565
	<hr/>	<hr/>
Expenses:		
Services	2,120,657	2,029,712
Purchase of capacity	139,950	-
Depreciation	119,412	119,411
Debt service	660,088	819,234
	<hr/>	<hr/>
Total expenses	3,040,107	2,968,357
	<hr/>	<hr/>
Change in net position	1,099,837	1,282,208
Net position, beginning of year	<hr/> (9,357,752)	<hr/> (10,639,960)
Net position, end of year	<hr/> \$ (8,257,915)	<hr/> \$ (9,357,752)

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended December 31, 2020, were \$5,363,895, an increase of \$263,738 from the prior year.

The general fund's fund balance increased by \$523,064 due to property taxes and service revenues exceeding service operations expenditures.

The debt service fund's fund balance decreased by \$115,331 due to bond principal and interest requirements and contracted services expenditures exceeding property taxes generated.

The capital projects fund's fund balance decreased by \$143,995, primarily due to capital outlay expenditures related to the purchase of capacity.

Harris County Municipal Utility District No. 397

Management's Discussion and Analysis (Continued)

December 31, 2020

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 water and sewer service revenues and investment income, as well as purchased services and other expenditures being less than anticipated. In addition, regional water fee expenditures were greater than anticipated. The fund balance as of December 31, 2020, was expected to be \$3,872,829 and the actual end-of-year fund balance was \$4,024,543.

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 below:

Capital Assets (Net of Accumulated Depreciation)

	<u>2020</u>	<u>2019</u>
Water facilities	\$ 1,447,162	\$ 1,490,898
Wastewater facilities	<u>2,497,642</u>	<u>2,573,318</u>
Total capital assets	<u>\$ 3,944,804</u>	<u>\$ 4,064,216</u>

During the current year, there were no additions to capital assets.

Debt

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

Long-term debt payable, beginning of year	\$ 19,390,171
Decreases in long-term debt	<u>(1,001,260)</u>
Long-term debt payable, end of year	<u>\$ 18,388,911</u>

At December 31, 2020, the District had \$27,100,000 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.

Harris County Municipal Utility District No. 397
Management's Discussion and Analysis (Continued)
December 31, 2020

The District's bonds carry underlying ratings of "A3" from Moody's Investors Service (Moody's) and "BBB+" from Standard & Poor's (S&P). The Series 2012 refunding bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2015 refunding, 2015A, 2016 refunding and 2019 refunding bonds carry a "AA" rating from S&P by virtue of bond insurance issued by Build America Mutual Assurance Company.

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 without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective February 20, 2007, the District entered into a Strategic Partnership Agreement (the 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 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.

Subsequent Event

On February 3, 2021, the District issued \$2,160,000 in unlimited tax refunding bonds to refund \$2,390,000 of outstanding Series 2012 refunding bonds. The District refunded the bonds to reduce total debt service payments over future years by \$281,443 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$227,028.

Harris County Municipal Utility District No. 397
Statement of Net Position and Governmental Funds Balance Sheet
December 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash	\$ 195,931	\$ 1,527,423	\$ -	\$ 1,723,354	\$ -	\$ 1,723,354
Certificates of deposit	408,769	348,684	-	757,453	-	757,453
Short-term investments	3,551,721	990,977	-	4,542,698	-	4,542,698
Receivables:						
Property taxes	241,201	489,506	-	730,707	-	730,707
Service accounts	114,164	-	-	114,164	-	114,164
Prepaid expenditures	1,450	-	-	1,450	-	1,450
Accrued interest	695	1,095	-	1,790	-	1,790
Due from others	157,505	-	-	157,505	-	157,505
Interfund receivables	474,139	-	-	474,139	(474,139)	-
Capital assets (net of accumulated depreciation):						
Infrastructure	-	-	-	-	3,944,804	3,944,804
Total assets	5,145,575	3,357,685	0	8,503,260	3,470,665	11,973,925
Deferred Outflows of Resources						
Deferred amount on debt refundings	0	0	0	0	921,356	921,356
Total assets and deferred outflows of resources	\$ 5,145,575	\$ 3,357,685	\$ 0	\$ 8,503,260	\$ 4,392,021	\$ 12,895,281

Harris County Municipal Utility District No. 397
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
Year Ended December 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Liabilities						
Accounts payable	\$ 59,671	\$ 3,853	\$ -	\$ 63,524	\$ -	\$ 63,524
Accrued interest payable	-	-	-	-	103,600	103,600
Customer deposits	132,157	-	-	132,157	-	132,157
Due to others	169,954	-	-	169,954	-	169,954
Interfund payables	-	474,139	-	474,139	(474,139)	-
Long-term liabilities:						
Due within one year	-	-	-	-	985,000	985,000
Due after one year	-	-	-	-	17,403,911	17,403,911
Total liabilities	361,782	477,992	0	839,774	18,018,372	18,858,146
Deferred Inflows of Resources						
Deferred property tax revenue	759,250	1,540,341	0	2,299,591	(4,541)	2,295,050
Fund Balances/Net Position						
Fund balances:						
Nonspendable, prepaid expenditures	1,450	-	-	1,450	(1,450)	-
Restricted:						
Unlimited tax bonds	-	1,339,352	-	1,339,352	(1,339,352)	-
Water, sewer and drainage	-	-	-	-	-	-
Assigned, operating reserve	157,505	-	-	157,505	(157,505)	-
Unassigned	3,865,588	-	-	3,865,588	(3,865,588)	-
Total fund balances	4,024,543	1,339,352	0	5,363,895	(5,363,895)	0
Total liabilities, deferred inflows of resources and fund balances	\$ 5,145,575	\$ 3,357,685	\$ 0	\$ 8,503,260		
Net position:						
Net investment in capital assets					(6,856,283)	(6,856,283)
Restricted for debt service					1,238,873	1,238,873
Unrestricted					(2,640,505)	(2,640,505)
Total net position					\$ (8,257,915)	\$ (8,257,915)

Harris County Municipal Utility District No. 397
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances
Year Ended December 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Property taxes	\$ 752,470	\$ 1,524,234	\$ -	\$ 2,276,704	\$ 1,246	\$ 2,277,950
Water and sewer service	909,346	-	-	909,346	-	909,346
Regional water fee	827,988	-	-	827,988	-	827,988
Penalty and interest	18,246	8,425	-	26,671	-	26,671
Tap connection and inspection fees	5,638	-	-	5,638	-	5,638
Investment income	25,099	13,965	616	39,680	-	39,680
Other income	52,671	-	-	52,671	-	52,671
Total revenues	2,591,458	1,546,624	616	4,138,698	1,246	4,139,944
Expenditures/Expenses						
Service operations:						
Purchased services	430,489	-	-	430,489	-	430,489
Regional water fee	877,721	-	-	877,721	-	877,721
Professional fees	88,314	1,516	-	89,830	-	89,830
Contracted services	148,644	37,208	-	185,852	-	185,852
Solid waste	337,148	-	-	337,148	-	337,148
Repairs and maintenance	107,715	-	-	107,715	-	107,715
Other expenditures	82,958	8,901	43	91,902	-	91,902
Capital outlay	-	-	139,950	139,950	(139,950)	-
Purchase of capacity	-	-	-	-	139,950	139,950
Depreciation	-	-	-	-	119,412	119,412
Debt service:						
Principal retirement	-	975,000	-	975,000	(975,000)	-
Interest and fees	-	639,353	-	639,353	20,735	660,088
Total expenditures/expenses	2,072,989	1,661,978	139,993	3,874,960	(834,853)	3,040,107
Excess (Deficiency) of Revenues Over Expenditures	518,469	(115,354)	(139,377)	263,738	836,099	

Harris County Municipal Utility District No. 397
Statement of Activities and Governmental Funds Revenues,
Expenditures and Changes in Fund Balances (Continued)
Year Ended December 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Other Financing Sources (Uses)						
Interfund transfers in (out)	\$ 4,595	\$ 23	\$ (4,618)	\$ 0	\$ 0	
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	523,064	(115,331)	(143,995)	263,738	(263,738)	
Change in Net Position					1,099,837	\$ 1,099,837
Fund Balances/Net Position						
Beginning of year	3,501,479	1,454,683	143,995	5,100,157	-	(9,357,752)
End of year	<u>\$ 4,024,543</u>	<u>\$ 1,339,352</u>	<u>\$ 0</u>	<u>\$ 5,363,895</u>	<u>\$ 0</u>	<u>\$ (8,257,915)</u>

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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

Harris County Municipal Utility District No. 397 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective June 9, 2003, in accordance with the provisions of Article XVI, Section 59, of the Texas Constitution. 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 does not own water production or wastewater treatment facilities. Pursuant to the agreement described in Note 7, the District has contracted with Harris County Municipal Utility District No. 358 (District No. 358) for the purchase of water and the treatment of wastewater.

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.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.

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.

Capital Projects Fund – The capital projects fund is used to account for financial resources that are restricted, committed or assigned to expenditures for capital outlays.

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.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.

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 long-term liabilities, which are recognized as expenditures when payment is due.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 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.

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.

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 deferred 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

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.

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 December 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 December 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.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.

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.

The components of unrestricted net position at December 31, 2020, are as follows:

General fund, unrestricted fund balance, including deferred delinquent taxes	\$ 4,025,963
Long-term debt on conveyed capital assets	<u>(6,666,468)</u>
Total	<u><u>\$ (2,640,505)</u></u>

The District has financed drainage facilities which have been assumed by Harris County for maintenance and other incidents of ownership, which has caused long-term debt to be in excess of capital assets. In addition, the District has contracted for the purchase of water and the treatment of wastewater and has paid connection fees, as discussed in Note 7, which has caused long-term debt to be in excess of capital assets.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.	\$ 3,944,804
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	4,541
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	921,356
Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	(103,600)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(18,388,911)</u>
Adjustment to fund balances to arrive at net position.	<u><u>\$ (13,621,810)</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.	\$ 263,738
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 and purchase of capacity exceeded capital outlay expenditures in the current year.	(119,412)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have any effect on net position.	975,000
Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities.	1,246

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

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.

\$ (20,735)

Change in net position of governmental activities.

\$ 1,099,837

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.

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 December 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 and TexSTAR, external investment pools that are not registered with the Securities and Exchange Commission. The State Comptroller of Public Accounts of the State of Texas has oversight of TexPool and a Board of Directors, made up of participants and representatives of the administrator and investment manager, has oversight of TexSTAR. The District's investments may be redeemed at any time.

Harris County Municipal Utility District No. 397
Notes to Financial Statements
December 31, 2020

At December 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	\$ 2,306,802	\$ 2,306,802	\$ -	\$ -	\$ -
TexSTAR	2,235,896	2,235,896	-	-	-
Totals	<u>\$ 4,542,698</u>	<u>\$ 4,542,698</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>

Interest Rate Risk. As a means of limiting its exposure to fair value 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 pools are presented as investments with a maturity of less than one year because they are redeemable in full immediately.

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

Summary of Carrying Values

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

Carrying value:	
Deposits	\$ 2,480,807
Investments	<u>4,542,698</u>
Total	<u>\$ 7,023,505</u>

Included in the following statement of net position captions:

Cash	\$ 1,723,354
Certificates of deposit	757,453
Short-term investments	<u>4,542,698</u>
Total	<u>\$ 7,023,505</u>

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

Investment Income

Investment income of \$39,680 for the year ended December 31, 2020, consisted of interest income.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended December 31, 2020, is presented below:

Governmental Activities	Balances, Beginning of Year	Additions	Balances, End of Year
Capital assets, depreciable:			
Water production and distribution facilities	\$ 1,963,076	\$ -	\$ 1,963,076
Wastewater collection and treatment facilities	3,397,726	-	3,397,726
Total capital assets, depreciable	5,360,802	0	5,360,802
Less accumulated depreciation:			
Water production and distribution facilities	(472,178)	(43,736)	(515,914)
Wastewater collection and treatment facilities	(824,408)	(75,676)	(900,084)
Total accumulated depreciation	(1,296,586)	(119,412)	(1,415,998)
Total governmental activities, net	\$ 4,064,216	\$ (119,412)	\$ 3,944,804

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended December 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	\$ 18,825,000	\$ 975,000	\$ 17,850,000	\$ 985,000
Less discounts on bonds	29,901	4,705	25,196	-
Add premiums on bonds	595,072	30,965	564,107	-
Total governmental activities long-term liabilities	\$ 19,390,171	\$ 1,001,260	\$ 18,388,911	\$ 985,000

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

General Obligation Bonds

	Series 2010	Refunding Series 2012
Amounts outstanding, December 31, 2020	\$85,000	\$2,580,000
Interest rates	4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	May 1, 2021	May 1, 2021/2031
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2018	May 1, 2022
	Refunding Series 2015	Series 2015A
Amounts outstanding, December 31, 2020	\$6,435,000	\$1,200,000
Interest rates	2.00% to 4.00%	2.00% to 3.50%
Maturity dates, serially beginning/ending	May 1, 2021/2034	May 1, 2021/2035
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2022	May 1, 2024
	Refunding Series 2016	Refunding Series 2019
Amounts outstanding, December 31, 2020	\$4,865,000	\$2,685,000
Interest rates	2.00% to 4.00%	2.00% to 4.00%
Maturity dates, serially beginning/ending	May 1, 2021/2035	May 1, 2021/2035
Interest payment dates	May 1/ November 1	May 1/ November 1
Callable dates*	May 1, 2024	May 1, 2025

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

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

Annual Debt Service Requirements

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

Year	Principal	Interest	Total
2021	\$ 985,000	\$ 606,337	\$ 1,591,337
2022	1,020,000	575,451	1,595,451
2023	1,045,000	543,698	1,588,698
2024	1,070,000	508,775	1,578,775
2025	1,105,000	469,682	1,574,682
2026-2030	6,095,000	1,705,369	7,800,369
2031-2035	6,530,000	554,507	7,084,507
Total	<u>\$ 17,850,000</u>	<u>\$ 4,963,819</u>	<u>\$ 22,813,819</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.

Bonds voted	\$ 53,140,000
Bonds sold	26,040,000
Refunding bonds voted	53,140,000
Refunding bonds authorization used	460,000

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 December 31, 2020, the District levied an ad valorem debt service tax at the rate of \$0.3850 per \$100 of assessed valuation, which resulted in a tax levy of \$1,537,220 on the taxable valuation of \$399,278,114 for the 2020 tax year. The interest and principal requirements to be paid from the tax revenues and available resources are \$1,591,337.

Note 6: Maintenance Taxes

At an election held September 13, 2003, voters authorized a maintenance tax not to exceed \$1.00 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended December 31, 2020, the District levied an ad valorem maintenance tax at the rate of \$0.1898

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

per \$100 of assessed valuation, which resulted in a tax levy of \$757,830 on the taxable valuation of \$399,278,114 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

Financing and Operation of Regional Facilities

On June 17, 2003, the District entered into a regional contract with District No. 358, which will act as a master district and provide or cause to be provided the regional water supply and delivery facilities and the regional waste collection, treatment and disposal facilities necessary to serve the District and other adjacent districts. Under the terms of the regional contract, which is in effect through February 29, 2032, operating charges per single-family equivalent connection plus charges per 1,000 gallons of usage were established and are billed to the participants on a monthly basis. The District incurred \$430,489 of operating costs attributable to facilities for the year ended December 31, 2020.

District No. 358 charges a connection fee to pay for the costs of constructing regional facilities. Through December 31, 2020, the District has been credited with 1,501 water and sewer connections with a value of \$11,670,275. The number of connections needed will be determined by the ultimate use of the property in the District. The current connection charge is \$7,775. In addition, District No. 358 is authorized, under certain circumstances, to issue contract revenue bonds sufficient to complete acquisition and construction of the facilities as needed to serve all districts in the service area. Once bonds are issued, each participating district would contribute to the debt service requirements on the bonds.

Note 8: Strategic Partnership Agreement

Effective February 20, 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 did not receive any revenue related to the Agreement.

Harris County Municipal Utility District No. 397

Notes to Financial Statements

December 31, 2020

Note 9: Regional Water Authority

The District is within the boundaries of the North Harris County Regional Water Authority (the Authority), which was created by the Texas Legislature 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 December 31, 2020, the Authority was billing District No. 358 \$4.25 per 1,000 gallons of water pumped from its wells and District No. 358 is billing the District for its pro rata portion. This amount is subject to future increases.

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 participates along with other entities in the Texas Municipal League's Intergovernmental Risk Pool (the Pool). The Pool purchases commercial insurance at group rates for participants in the Pool. The District has no additional risk or responsibility to the Pool, outside of payment of insurance premiums. 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.

Note 12: Subsequent Event

On February 3, 2021, the District issued \$2,160,000 in unlimited tax refunding bonds to refund \$2,390,000 of outstanding Series 2012 refunding bonds. The District refunded the bonds to reduce total debt service payments over future years by \$281,443 and to obtain an economic gain (difference between the present values of the debt service payments on the old and new bonds) of \$227,028.

Required Supplementary Information

Harris County Municipal Utility District No. 397
Budgetary Comparison Schedule – General Fund
Year Ended December 31, 2020

	Original Budget	Actual	Variance Favorable (Unfavorable)
Revenues			
Property taxes	\$ 738,028	\$ 752,470	\$ 14,442
Water and sewer service	1,000,000	909,346	(90,654)
Regional water fee	814,016	827,988	13,972
Penalty and interest	28,500	18,246	(10,254)
Tap connection and inspection fees	8,800	5,638	(3,162)
Investment income	60,000	25,099	(34,901)
Other income	52,167	52,671	504
	<u>2,701,511</u>	<u>2,591,458</u>	<u>(110,053)</u>
Total revenues			
Expenditures			
Service operations:			
Purchased services	617,035	430,489	186,546
Regional water fee	854,717	877,721	(23,004)
Professional fees	98,000	88,314	9,686
Contracted services	156,787	148,644	8,143
Solid waste	333,700	337,148	(3,448)
Repairs and maintenance	133,500	107,715	25,785
Other expenditures	136,422	82,958	53,464
	<u>2,330,161</u>	<u>2,072,989</u>	<u>257,172</u>
Total expenditures			
Excess of Revenues Over Expenditures	371,350	518,469	147,119
Other Financing Sources			
Interfund transfers in	-	4,595	4,595
Excess of Revenues and Transfers In Over Expenditures and Transfers Out	371,350	523,064	151,714
Fund Balance, Beginning of Year	3,501,479	3,501,479	-
Fund Balance, End of Year	<u>\$ 3,872,829</u>	<u>\$ 4,024,543</u>	<u>\$ 151,714</u>

Harris County Municipal Utility District No. 397
Notes to Required Supplementary Information
December 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 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

Harris County Municipal Utility District No. 397
Other Schedules Included Within This Report
December 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 13-26
- [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

Harris County Municipal Utility District No. 397

Schedule of Services and Rates

Year Ended December 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 checked="" type="checkbox"/> Security
<input checked="" 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 and Wastewater*:	\$ 43.32	2,000	N	\$ 0.73 \$ 1.45 \$ 2.10	2,001 to 10,000 10,001 to 30,000 30,001 to No Limit
Regional water fee:	\$ 4.25	1	N	\$ 4.25	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 and wastewater	\$ 91.66

b. Water and wastewater retail connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC**
Unmetered	-	-	x1.0	-
≤ 3/4"	1,039	1,033	x1.0	1,033
1"	230	230	x2.5	575
1 1/2"	5	5	x5.0	25
2"	18	18	x8.0	144
3"	2	2	x15.0	30
4"	-	-	x25.0	-
6"	1	1	x50.0	50
8"	2	2	x80.0	160
10"	-	-	x115.0	-
Total water	1,297	1,291		2,017
Total wastewater	1,227	1,221	x1.0	1,221

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

Gallons pumped into the system:	215,126
Gallons billed to customers:	215,126
Water accountability ratio (gallons billed/gallons pumped):	100.00%

*Including garbage, recycling and security

**"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 397

Schedule of General Fund Expenditures

Year Ended December 31, 2020

Personnel (including benefits)		\$	-
Professional Fees			
Auditing	\$	18,700	
Legal		56,997	
Engineering		12,617	
Financial advisor		-	88,314
Purchased Services for Resale			
Bulk water and wastewater service purchases			430,489
Regional Water Fee			877,721
Contracted Services			
Bookkeeping		15,945	
General manager		-	
Appraisal district		-	
Tax collector		-	
Security		82,432	
Other contracted services		50,267	148,644
Utilities			-
Repairs and Maintenance			107,715
Administrative Expenditures			
Directors' fees		13,050	
Office supplies		26,507	
Insurance		3,101	
Other administrative expenditures		40,300	82,958
Capital Outlay			
Capitalized assets		-	
Expenditures not capitalized		-	-
Tap Connection Expenditures			-
Solid Waste Disposal			337,148
Fire Fighting			-
Parks and Recreation			-
Other Expenditures			-
Total expenditures		\$	<u>2,072,989</u>

Harris County Municipal Utility District No. 397

Schedule of Temporary Investments

December 31, 2020

	Interest Rate	Maturity Date	Face Amount	Accrued Interest Receivable
General Fund				
Certificates of Deposit				
No. 95900011929918	0.70%	08/12/21	\$ 246,687	\$ 667
No. 1852005755	0.35%	06/13/21	162,082	28
TexPool	0.08%	Demand	1,781,415	-
TexSTAR	0.07%	Demand	<u>1,770,306</u>	<u>-</u>
			<u>3,960,490</u>	<u>695</u>
Debt Service Fund				
Certificates of Deposit				
No. 6002400764	0.65%	07/10/21	246,621	764
No. 95900011927869	0.70%	07/15/21	102,063	331
TexPool	0.08%	Demand	525,387	-
TexSTAR	0.07%	Demand	<u>465,590</u>	<u>-</u>
			<u>1,339,661</u>	<u>1,095</u>
Totals			<u>\$ 5,300,151</u>	<u>\$ 1,790</u>

Harris County Municipal Utility District No. 397

Analysis of Taxes Levied and Receivable

Year Ended December 31, 2020

	Maintenance Taxes	Debt Service Taxes
Receivable, Beginning of Year	\$ 204,724	\$ 415,029
Additions and corrections to prior years' taxes	<u>520</u>	<u>966</u>
Adjusted receivable, beginning of year	<u>205,244</u>	<u>415,995</u>
 2020 Original Tax Levy	 711,389	 1,443,018
Additions and corrections	<u>46,441</u>	<u>94,202</u>
Adjusted tax levy	<u>757,830</u>	<u>1,537,220</u>
Total to be accounted for	963,074	1,953,215
 Tax collections: Current year	(518,049)	(1,050,835)
Prior years	<u>(203,824)</u>	<u>(412,874)</u>
Receivable, end of year	<u><u>\$ 241,201</u></u>	<u><u>\$ 489,506</u></u>
 Receivable, by Years		
2020	\$ 239,781	\$ 486,385
2019	904	1,832
2018	298	658
2017	114	256
2014	36	96
2013	35	128
2012	<u>33</u>	<u>151</u>
Receivable, end of year	<u><u>\$ 241,201</u></u>	<u><u>\$ 489,506</u></u>

Harris County Municipal Utility District No. 397
Analysis of Taxes Levied and Receivable (Continued)
Year Ended December 31, 2020

	2020	2019	2018	2017
Property Valuations				
Land	\$ 90,653,285	\$ 87,605,942	\$ 87,498,555	\$ 84,732,095
Improvements	396,608,891	389,727,914	374,659,384	355,037,125
Personal property	3,789,794	3,005,787	3,303,427	3,121,987
Exemptions	<u>(91,773,856)</u>	<u>(94,498,555)</u>	<u>(86,937,751)</u>	<u>(79,982,956)</u>
Total property valuations	<u>\$ 399,278,114</u>	<u>\$ 385,841,088</u>	<u>\$ 378,523,615</u>	<u>\$ 362,908,251</u>
Tax Rates per \$100 Valuation				
Debt service tax rates	\$ 0.3850	\$ 0.3950	\$ 0.4200	\$ 0.4500
Maintenance tax rates*	<u>0.1898</u>	<u>0.1950</u>	<u>0.1900</u>	<u>0.2000</u>
Total tax rates per \$100 valuation	<u>\$ 0.5748</u>	<u>\$ 0.5900</u>	<u>\$ 0.6100</u>	<u>\$ 0.6500</u>
Tax Levy	<u>\$ 2,295,050</u>	<u>\$ 2,276,463</u>	<u>\$ 2,308,995</u>	<u>\$ 2,358,903</u>
Percent of Taxes Collected to Taxes Levied**	<u>68%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

*Maximum tax rate approved by voters: \$1.00 on September 13, 2003

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

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years
December 31, 2020

Due During Fiscal Years Ending December 31	Series 2010		Total
	Principal Due May 1	Interest Due May 1, November 1	
2021	<u>\$ 85,000</u>	<u>\$ 1,700</u>	<u>\$ 86,700</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Refunding Series 2012		
	Principal Due May 1	Interest Due May 1, November 1	Total
2021	\$ 190,000	\$ 92,806	\$ 282,806
2022	200,000	87,194	287,194
2023	205,000	80,991	285,991
2024	215,000	74,294	289,294
2025	220,000	66,400	286,400
2026	235,000	57,300	292,300
2027	240,000	47,800	287,800
2028	250,000	38,000	288,000
2029	265,000	27,700	292,700
2030	275,000	16,900	291,900
2031	285,000	5,700	290,700
Totals	<u>\$ 2,580,000</u>	<u>\$ 595,085</u>	<u>\$ 3,175,085</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Refunding Series 2015		
	Principal Due May 1	Interest Due May 1, November 1	Total
2021	\$ 355,000	\$ 211,262	\$ 566,262
2022	375,000	200,313	575,313
2023	390,000	188,838	578,838
2024	405,000	174,887	579,887
2025	425,000	158,288	583,288
2026	445,000	140,887	585,887
2027	470,000	122,588	592,588
2028	490,000	105,837	595,837
2029	510,000	90,519	600,519
2030	530,000	74,268	604,268
2031	555,000	57,316	612,316
2032	580,000	39,218	619,218
2033	600,000	20,045	620,045
2034	305,000	5,146	310,146
Totals	<u>\$ 6,435,000</u>	<u>\$ 1,589,412</u>	<u>\$ 8,024,412</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Series 2015A		
	Principal Due May 1	Interest Due May 1, November 1	Total
2021	\$ 80,000	\$ 34,400	\$ 114,400
2022	80,000	32,800	112,800
2023	80,000	31,200	111,200
2024	80,000	29,200	109,200
2025	80,000	26,800	106,800
2026	80,000	24,400	104,400
2027	80,000	22,000	102,000
2028	80,000	19,600	99,600
2029	80,000	17,200	97,200
2030	80,000	14,800	94,800
2031	80,000	12,300	92,300
2032	80,000	9,700	89,700
2033	80,000	7,000	87,000
2034	80,000	4,200	84,200
2035	80,000	1,400	81,400
Totals	<u>\$ 1,200,000</u>	<u>\$ 287,000</u>	<u>\$ 1,487,000</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Refunding Series 2016		
	Principal Due May 1	Interest Due May 1, November 1	Total
2021	\$ 135,000	\$ 186,775	\$ 321,775
2022	220,000	181,450	401,450
2023	225,000	174,775	399,775
2024	230,000	166,800	396,800
2025	240,000	157,400	397,400
2026	255,000	147,500	402,500
2027	260,000	137,200	397,200
2028	265,000	126,700	391,700
2029	270,000	116,000	386,000
2030	280,000	105,000	385,000
2031	285,000	93,700	378,700
2032	565,000	76,700	641,700
2033	565,000	54,100	619,100
2034	755,000	27,700	782,700
2035	315,000	6,300	321,300
Totals	<u>\$ 4,865,000</u>	<u>\$ 1,758,100</u>	<u>\$ 6,623,100</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Refunding Series 2019		
	Principal Due May 1	Interest Due May 1, November 1	Total
2021	\$ 140,000	\$ 79,394	\$ 219,394
2022	145,000	73,694	218,694
2023	145,000	67,894	212,894
2024	140,000	63,594	203,594
2025	140,000	60,794	200,794
2026	135,000	58,044	193,044
2027	135,000	54,669	189,669
2028	130,000	50,694	180,694
2029	130,000	46,794	176,794
2030	125,000	42,969	167,969
2031	125,000	39,219	164,219
2032	170,000	34,687	204,687
2033	165,000	29,452	194,452
2034	310,000	22,030	332,030
2035	550,000	8,594	558,594
Totals	<u>\$ 2,685,000</u>	<u>\$ 732,522</u>	<u>\$ 3,417,522</u>

Harris County Municipal Utility District No. 397
Schedule of Long-term Debt Service Requirements by Years (Continued)
December 31, 2020

Due During Fiscal Years Ending December 31	Annual Requirements For All Series		
	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2021	\$ 985,000	\$ 606,337	\$ 1,591,337
2022	1,020,000	575,451	1,595,451
2023	1,045,000	543,698	1,588,698
2024	1,070,000	508,775	1,578,775
2025	1,105,000	469,682	1,574,682
2026	1,150,000	428,131	1,578,131
2027	1,185,000	384,257	1,569,257
2028	1,215,000	340,831	1,555,831
2029	1,255,000	298,213	1,553,213
2030	1,290,000	253,937	1,543,937
2031	1,330,000	208,235	1,538,235
2032	1,395,000	160,305	1,555,305
2033	1,410,000	110,597	1,520,597
2034	1,450,000	59,076	1,509,076
2035	945,000	16,294	961,294
Totals	<u>\$ 17,850,000</u>	<u>\$ 4,963,819</u>	<u>\$ 22,813,819</u>

Harris County Municipal Utility District No. 397

Changes in Long-term Bonded Debt

Year Ended December 31, 2020

	Bond		
	Series 2010	Refunding Series 2012	Refunding Series 2015
Interest rates	4.00%	2.00% to 4.00%	2.00% to 4.00%
Dates interest payable	May 1/ November 1	May 1/ November 1	May 1/ November 1
Maturity dates	May 1, 2021	May 1, 2021/2031	May 1, 2021/2034
Bonds outstanding, beginning of current year	\$ 165,000	\$ 2,765,000	\$ 6,780,000
Retirements, principal	80,000	185,000	345,000
Bonds outstanding, end of current year	<u>\$ 85,000</u>	<u>\$ 2,580,000</u>	<u>\$ 6,435,000</u>
Interest paid during current year	<u>\$ 5,000</u>	<u>\$ 97,847</u>	<u>\$ 220,038</u>

Paying agent's name and address:

Series 2010 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2012 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2015 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2015A - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2016 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Series 2019 - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

Bond authority:

	Tax Bonds	Other Bonds	Refunding Bonds
Amount authorized by voters	\$ 53,140,000	0	\$ 53,140,000
Amount issued	\$ 26,040,000	0	\$ 460,000
Remaining to be issued	<u>\$ 27,100,000</u>	<u>0</u>	<u>\$ 52,680,000</u>

Debt service fund cash and temporary investment balances as of December 31, 2020: \$ 2,867,084

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,520,921

Issues

Series 2015A	Refunding Series 2016	Refunding Series 2019	Totals
2.00% to 3.50%	2.00% to 4.00%	2.00% to 4.00%	
May 1/ November 1	May 1/ November 1	May 1/ November 1	
May 1, 2021/2035	May 1, 2021/2035	May 1, 2021/2035	
\$ 1,290,000	\$ 5,000,000	\$ 2,825,000	\$ 18,825,000
90,000	135,000	140,000	975,000
<u>\$ 1,200,000</u>	<u>\$ 4,865,000</u>	<u>\$ 2,685,000</u>	<u>\$ 17,850,000</u>
<u>\$ 36,100</u>	<u>\$ 190,825</u>	<u>\$ 84,994</u>	<u>\$ 634,804</u>

Harris County Municipal Utility District No. 397

Comparative Schedule of Revenues and Expenditures – General Fund

Five Years Ended December 31,

	Amounts				
	2020	2019	2018	2017	2016
General Fund					
Revenues					
Property taxes	\$ 752,470	\$ 715,104	\$ 727,439	\$ 670,467	\$ 558,460
Water and sewer service	909,346	940,549	915,689	948,119	905,133
Regional water fee	827,988	788,639	656,731	584,101	426,288
Penalty and interest	18,246	36,283	28,792	28,171	34,346
Tap connection and inspection fees	5,638	8,599	9,859	75,820	136,060
Investment income	25,099	76,202	46,950	19,324	8,823
Other income	52,671	51,314	49,808	48,416	47,050
Total revenues	<u>2,591,458</u>	<u>2,616,690</u>	<u>2,435,268</u>	<u>2,374,418</u>	<u>2,116,160</u>
Expenditures					
Service operations:					
Purchased services	430,489	439,320	429,286	404,551	324,198
Regional water fee	877,721	815,258	667,242	611,954	447,338
Professional fees	88,314	78,134	69,482	74,083	102,500
Contracted services	148,644	147,652	152,902	166,766	163,292
Solid waste	337,148	325,463	304,263	344,315	330,301
Repairs and maintenance	107,715	116,795	98,385	131,875	128,587
Other expenditures	82,958	66,165	56,822	59,637	60,312
Tap connections	-	-	-	33,965	89,750
Capital outlay	-	-	-	-	933,000
Total expenditures	<u>2,072,989</u>	<u>1,988,787</u>	<u>1,778,382</u>	<u>1,827,146</u>	<u>2,579,278</u>
Excess (Deficiency) of Revenues Over Expenditures	518,469	627,903	656,886	547,272	(463,118)
Other Financing Sources (Uses)					
Interfund transfers in (out)	<u>4,595</u>	<u>(500,000)</u>	<u>-</u>	<u>-</u>	<u>-</u>
Excess (Deficiency) of Revenues and Transfers In Over Expenditures and Transfers Out	523,064	127,903	656,886	547,272	(463,118)
Fund Balance, Beginning of Year	<u>3,501,479</u>	<u>3,373,576</u>	<u>2,716,690</u>	<u>2,169,418</u>	<u>2,632,536</u>
Fund Balance, End of Year	<u>\$ 4,024,543</u>	<u>\$ 3,501,479</u>	<u>\$ 3,373,576</u>	<u>\$ 2,716,690</u>	<u>\$ 2,169,418</u>
Total Active Retail Water Connections	<u>1,291</u>	<u>1,292</u>	<u>1,294</u>	<u>1,287</u>	<u>1,213</u>
Total Active Retail Wastewater Connections	<u>1,221</u>	<u>1,222</u>	<u>1,223</u>	<u>1,219</u>	<u>1,148</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
29.0 %	27.3 %	29.9 %	28.3 %	26.4 %
35.1	36.0	37.6	40.4	42.8
32.0	30.1	27.0	24.7	20.1
0.7	1.4	1.2	1.3	1.6
0.2	0.3	0.4	2.5	6.5
1.0	2.9	1.9	0.8	0.4
2.0	2.0	2.0	2.0	2.2
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
16.6	16.8	17.6	17.0	15.3
33.9	31.2	27.4	25.7	21.1
3.4	3.0	2.9	3.1	4.9
5.7	5.6	6.3	7.0	7.7
13.0	12.4	12.5	14.5	15.6
4.2	4.5	4.0	5.6	6.1
3.2	2.5	2.3	2.7	2.9
-	-	-	1.4	4.2
-	-	-	-	44.1
<u>80.0</u>	<u>76.0</u>	<u>73.0</u>	<u>77.0</u>	<u>121.9</u>
<u><u>20.0 %</u></u>	<u><u>24.0 %</u></u>	<u><u>27.0 %</u></u>	<u><u>23.0 %</u></u>	<u><u>(21.9) %</u></u>

Harris County Municipal Utility District No. 397
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Five Years Ended December 31,

	Amounts				
	2020	2019	2018	2017	2016
Debt Service Fund					
Revenues					
Property taxes	\$ 1,524,234	\$ 1,580,659	\$ 1,637,226	\$ 1,744,142	\$ 1,675,868
Penalty and interest	8,425	8,540	8,869	10,881	10,092
Investment income	13,965	40,519	26,454	12,878	6,483
Total revenues	<u>1,546,624</u>	<u>1,629,718</u>	<u>1,672,549</u>	<u>1,767,901</u>	<u>1,692,443</u>
Expenditures					
Current:					
Professional fees	1,516	1,894	3,014	3,720	2,672
Contracted services	37,208	34,131	34,109	34,222	30,830
Other expenditures	8,901	4,900	4,451	5,055	8,838
Debt service:					
Principal retirement	975,000	965,000	940,000	915,000	785,000
Interest and fees	639,353	630,597	737,271	765,039	707,283
Bond issuance costs	-	129,183	-	-	209,617
Debt defeasance	-	528,000	-	-	108,000
Total expenditures	<u>1,661,978</u>	<u>2,293,705</u>	<u>1,718,845</u>	<u>1,723,036</u>	<u>1,852,240</u>
Excess (Deficiency) of Revenues Over Expenditures	<u>(115,354)</u>	<u>(663,987)</u>	<u>(46,296)</u>	<u>44,865</u>	<u>(159,797)</u>
Other Financing Sources (Uses)					
Interfund transfers in	23	500,000	-	-	-
General obligation bonds issued	-	2,825,000	-	-	5,330,000
Premium on debt issued	-	-	-	-	501,376
Discount on debt issued	-	(6,304)	-	-	-
Deposit with escrow agent	-	(2,687,869)	-	-	(5,621,375)
Total other financing sources	<u>23</u>	<u>630,827</u>	<u>0</u>	<u>0</u>	<u>210,001</u>
Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses	<u>(115,331)</u>	<u>(33,160)</u>	<u>(46,296)</u>	<u>44,865</u>	<u>50,204</u>
Fund Balance, Beginning of Year	<u>1,454,683</u>	<u>1,487,843</u>	<u>1,534,139</u>	<u>1,489,274</u>	<u>1,439,070</u>
Fund Balance, End of Year	<u>\$ 1,339,352</u>	<u>\$ 1,454,683</u>	<u>\$ 1,487,843</u>	<u>\$ 1,534,139</u>	<u>\$ 1,489,274</u>

Percent of Fund Total Revenues

2020	2019	2018	2017	2016
98.6 %	97.0 %	97.9 %	98.6 %	99.0 %
0.5	0.5	0.5	0.7	0.6
0.9	2.5	1.6	0.7	0.4
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.1	0.1	0.2	0.2	0.1
2.4	2.1	2.0	1.9	1.8
0.6	0.3	0.3	0.3	0.5
63.1	59.2	56.2	51.8	46.4
41.3	38.7	44.1	43.3	41.8
-	7.9	-	-	12.4
<u>-</u>	<u>32.4</u>	<u>-</u>	<u>-</u>	<u>6.4</u>
<u>107.5</u>	<u>140.7</u>	<u>102.8</u>	<u>97.5</u>	<u>109.4</u>
<u><u>(7.5) %</u></u>	<u><u>(40.7) %</u></u>	<u><u>(2.8) %</u></u>	<u><u>2.5 %</u></u>	<u><u>(9.4) %</u></u>

Harris County Municipal Utility District No. 397
Board Members, Key Personnel and Consultants
Year Ended December 31, 2020

Complete District mailing address:	Harris County Municipal Utility District No. 397 c/o Norton Rose Fulbright US LLP 1301 McKinney, Suite 5100 Houston, Texas 77010-3095
District business telephone number:	713.651.5151
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 31, 2016
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
Jay Hartley	Elected 05/18- 05/22	\$ 2,100	\$ 103	President
Larry Mueller	Elected 05/18- 05/22	1,500	39	Vice President
Troy Guidry	Elected 05/20- 05/24	2,850	158	Secretary
Clay Coleman	Appointed 11/20- 05/22	150	0	Assistant Vice President/ Assistant Secretary
Edmund Rucker	Elected 05/20- 05/24	2,850	793	Assistant Vice President/ Assistant Secretary
Ronald White	Elected 05/18- 10/20	3,600	748	Resigned

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

Harris County Municipal Utility District No. 397
Board Members, Key Personnel and Consultants (Continued)
Year Ended December 31, 2020

Consultants	Date Hired	Fees and Expense Reimbursements	Title
BGE, Inc.	04/15/14	\$ 12,617	Engineer
BKD, LLP	10/31/05	18,700	Auditor
Bob Leared Interests	07/29/03	24,715	Tax Assessor/ Collector
Harris County Appraisal District	Legislative Action	16,878	Appraiser
Inframark, LLC	06/17/03	161,245	Operator
Masterson Advisors LLC	07/17/18	0	Financial Advisor
Myrtle Cruz, Inc.	06/01/03	18,017	Bookkeeper
Norton Rose Fulbright US LLP	06/17/03	57,407	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	04/20/04	1,516	Delinquent Tax Attorney
Investment Officer			
Mary Jarmon	07/29/03	N/A	Bookkeeper

APPENDIX B

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

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

Effective Date: _____

Risk Premium: \$ _____

Member Surplus Contribution: \$ _____

Total Insurance Payment: \$ _____

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

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

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

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

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

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

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN