

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

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

**NEW ISSUE—BOOK-ENTRY ONLY**  
CUSIP No. 414987

**RATINGS: Underlying “A” (stable outlook) S&P  
Insured “AA” (stable outlook) S&P**

See “MUNICIPAL BOND RATING” and “BOND INSURANCE” herein

**\$6,260,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 188**  
(A political subdivision of the State of Texas, located in Harris County, Texas)  
**UNLIMITED TAX BONDS**  
**SERIES 2022**

**Dated: February 1, 2022**

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

Interest on the \$6,260,000 Unlimited Tax Bonds, Series 2022 (the “Bonds”) will accrue from February 1, 2022, and will be payable on October 1 and April 1 of each year, commencing October 1, 2022. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.”

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



**MATURITIES, AMOUNTS, INTEREST RATES AND PRICES**

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield(a)</u>
\$50,000	2023	4.00%	0.75%	\$100,000	2027	2.00%	1.30%
\$50,000	2024	4.00%	0.85%	\$150,000	2028(b)	2.00%	1.45%
\$50,000	2025	4.00%	1.00%	\$150,000	2029(b)	2.00%	1.60%
\$100,000	2026	2.00%	1.15%				

\$300,000 2.000% Term Bond Due April 1, 2031 to Yield 1.80% (a) (b) (c)  
 \$300,000 2.000% Term Bond Due April 1, 2033 to Yield 2.00% (a) (b) (c)  
 \$300,000 2.000% Term Bond Due April 1, 2035 to Yield 2.15% (a) (b) (c)  
 \$550,000 2.125% Term Bond Due April 1, 2037 to Yield 2.30% (a) (b) (c)  
 \$835,000 2.125% Term Bond Due April 1, 2039 to Yield 2.35% (a) (b) (c)  
 \$1,345,000 2.375% Term Bond Due April 1, 2042 to Yield 2.50% (a) (b) (c)  
 \$1,980,000 2.500% Term Bond Due April 1, 2046 to Yield 2.60% (a) (b) (c)

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2028, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on April 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 – Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Mandatory Redemption.”

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 188 (the “District”) to: (1) finance the construction of certain water supply improvements serving the District; (2) finance certain land acquisition costs associated with (1) above; (3) fund engineering costs associated with (1) above; and (4) pay issuance and administrative expenses related to the Bonds. See “USE OF BOND PROCEEDS.”

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

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. The District will be advised on certain legal matters concerning disclosure by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about February 17, 2022.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

Any information and expressions of opinion herein contained are subject to change and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof.

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

This Official Statement contains, in part, estimates, assumptions, and matters of opinion 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.

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 final official statement for any purpose.

**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 "BOND INSURANCE" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."**

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

## SALE AND DISTRIBUTION OF THE BONDS

### Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.288504% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.496934%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

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

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

### Prices and Marketability

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

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

### **Securities Laws**

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

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

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

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included under the headings "DEBT SERVICE REQUIREMENTS," "DISTRICT DEBT" (except for Estimated Overlapping Debt), "TAX DATA," and "APPENDIX A (Audited Financial Statements)." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2022. The District will provide the updated information to the MSRB.

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

The District's current fiscal year end is July 31. Accordingly, it must provide updated information by January 31, in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

### **Event Notices**

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

## **Availability of Information**

The District has agreed to provide the foregoing updated information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

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

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

## **Compliance with Prior Undertakings**

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

On June 6, 2018, S&P Global Ratings upgraded the rating of the District to "A" from "A-." On January 17, 2022, the District filed an event notice. Due to an administrative oversight, such filing was not made within ten (10) business days of the rating change. The District has implemented procedures for future filings.

## **MUNICIPAL BOND RATING**

S&P Global Ratings ("S&P") assigned an underlying municipal bond rating of "A" (stable outlook) to this issue of Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating. The District can make no assurance that the S&P rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

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

## **BOND INSURANCE**

### **Bond Insurance Policy**

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

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

### **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](http://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](http://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](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

#### *Additional Information Available from BAM*

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

## OFFICIAL STATEMENT SUMMARY

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

### **THE BONDS**

- Description:** The \$6,260,000 Unlimited Tax Bonds, Series 2022 (the "Bonds"), are dated February 1, 2022. The Bonds represent the eleventh series of bonds to be issued by Harris County Municipal Utility District No. 188 (the "District"). The Bonds mature on April 1 in the years as shown in the table on the cover page of this Official Statement. The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District, an approving order of the Texas Commission on Environmental Quality (the "TCEQ"), and an election held within the District. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing direct annual ad valorem tax levied against all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision or agency. See "THE BONDS – Source of and Security for Payment."
- Redemption Provisions:** The Bonds maturing on or after April 1, 2028, are subject to early redemption, in whole or from time to time in part, on April 1, 2027, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on April 1 in the years 2031, 2033, 2035, 2037, 2039, 2042 and 2046 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on April 1 in the years 2030, 2032, 2034, 2036, 2038, 2040 and 2043, respectively. See "THE BONDS – Mandatory Redemption."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of 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."
- Use of Proceeds:** Proceeds from the sale of the Bonds will be used by the District to: (1) finance the construction of certain water supply improvements serving the District; (2) finance certain land acquisition costs associated with (1) above; (3) fund engineering costs associated with (1) above; and (4) pay issuance and administrative expenses related to the Bonds. See "USE OF BOND PROCEEDS."
- Legal Opinion:** Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."
- Payment Record:** The District has previously issued five (5) series of unlimited tax bonds and five (5) series of unlimited tax refunding bonds, of which \$10,045,000 principal amount was outstanding as of December 1, 2021 (the "Outstanding Bonds"). The District has never defaulted on the payment of principal of or interest on the Outstanding Bonds. See "DISTRICT DEBT."
- Qualified Tax Exempt Obligations:** The Bonds have been designated as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
- Municipal Bond Rating:** S&P assigned an underlying municipal bond rating of "A" (stable outlook) to this issue of Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating. See "MUNICIPAL BOND RATING."
- Bond Insurance:** S&P has assigned its municipal bond rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See "MUNICIPAL BOND RATING," "BOND INSURANCE" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

**Investment  
Considerations:**

The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds, particularly the sections captioned "INVESTMENT CONSIDERATIONS" and "LEGAL MATTERS."

**THE DISTRICT**

**Authority:**

The District is a political subdivision of the State of Texas, created on March 11, 1980, by an order of the Texas Water Commission, now known as the TCEQ. The District was created pursuant to the authority of Article XVI, Section 59, of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Under certain limited circumstances the District also is authorized to construct, develop, and maintain park and recreational facilities. See "THE DISTRICT – Authority."

**Description  
and Location:**

The District, as it was originally created, included approximately 320 acres. Since its creation, the District has annexed certain tracts of land, and the District presently includes approximately 485 acres. The District lies wholly within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City of Houston, Texas (the "City"). The District is located in the northwest sector of the metropolitan area of the City, approximately 26 miles northwest of the central business district of the City. The District is further located at the intersection of State Highway 6 and U.S. Highway 290. The District has frontage on both the east and west side of State Highway 6 and is situated approximately eight (8) miles north of Interstate Highway 10 and less than one (1) mile south of U.S. Highway 290. See "THE DISTRICT – Description and Location."

**Status of Development:**

The District is substantially built out and was developed for single-family residential, multi-family, commercial, and light-industrial purposes. The single-family residential development in the District includes the built-out subdivision of Copper Grove, Sections 1 – 10. As of December 1, 2021, the single-family residential development within the District included 558 completed homes and no vacant developed lots. See "THE DISTRICT – Single-Family Residential Development."

Commercial building development in the District includes, but is not limited to, the following: seven (7) multi-family apartment complexes with 2,348 units; a 152,000 square-foot FedEx distribution center; a 325,000 square-foot office/warehouse facility currently occupied by Mahindra North America; a 123,000 square-foot industrial manufacturing building with office space for Precision Flamecutting and Steel, Inc.; a 30,000 square-foot crane served building; a 40,000 square-foot crane served building; a 79,000 square-foot office/warehouse building occupied by Black Swan Steel; a 121-unit motel; a 39-unit motel, a 7,044 square-foot funeral home; a Shell service station; a CVS Pharmacy; a veterinary office; a 23,800 square-foot office building; a 14,350 square-foot medical office building; a 13,500 square-foot pediatric medical building; three (3) retail strip centers; a commercial bank branch office building; a Popeye's restaurant; a tire and automotive service station; and a car wash service station. See "THE DISTRICT – Commercial Development."

**Summary of Land Uses:**

As of December 1, 2021, the District included approximately 132 acres that have been developed and improved for single-family residential purposes, approximately 97 acres that have been developed and improved for multi-family residential purposes, approximately 134 acres that have been developed and improved for commercial purposes, approximately 78 remaining developable acres, and approximately 44 undevelopable acres, which includes roadways, detention facilities, drainage easements, District plant sites, parks and recreational areas, and open spaces. See "THE DISTRICT – Summary of Land Use."

**Development of  
the District:**

Since the creation of the District, there have been a number of different land developers and a number of different homebuilders that have been active from time to time. All of the single-family residential land is developed and built out and no residential developers are active. Additionally, all vacant land in the District is presently served by utilities. SIC-River Park, Ltd., has developed the Satsuma Station Industrial Park located in the District, and owns an additional approximately six (6) acres of vacant commercial land available for sale or build-to-suit. Additional vacant developed land throughout the District is owned by multiple owners and available for commercial development in the future. The remainder of commercial/retail facilities in the District is generally owner-occupied or leased to tenants. See "THE DISTRICT'S DEVELOPER."

**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 of Texas. Following the widespread release and distribution of various COVID-19 vaccines in 2020 and 2021, 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 associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions. See "INVESTMENT CONSIDERATIONS – Infectious Disease Outlook (COVID-19)."

**SELECTED FINANCIAL INFORMATION**  
**(Unaudited)**

2021 Certified Taxable Value	\$531,489,505 (a)
Direct Debt	
Outstanding Bonds	\$10,045,000
The Bonds	<u>\$6,260,000</u>
Total Direct Debt	\$16,305,000
See "DISTRICT DEBT"	
Estimated Overlapping Debt	<u>\$31,675,161</u> (b)
Direct and Estimated Overlapping Debt	\$47,980,161
Percentage of Direct Debt to:	
2021 Certified Taxable Value	3.07%
See "DISTRICT DEBT"	
Percentage of Direct and Estimated Overlapping Debt to:	
2021 Certified Taxable Value	9.03%
See "DISTRICT DEBT"	
2021 Tax Rate Per \$100 of Assessed Value:	
Debt Service Tax	\$0.22
Maintenance Tax	<u>\$0.13</u>
Total 2021 Tax Rate	\$0.35
Cash and Temporary Investment Balances as of December 15, 2021:	
General Fund	\$5,479,110 (c)
Debt Service Fund	\$320,921 (d)
Maximum Annual Debt Service Requirement (2025)	\$1,366,250 (e)
Tax rate required if no growth in 2021 Certified Taxable Value (at 95% collections)	\$0.28 (e)

- (a) Reflects the January 1, 2021 Certified Taxable Value according to data supplied to the District by the Harris County Appraisal District ("HCAD" or the "Appraisal District"); such value excludes \$3,840,589 of uncertified value that is still in the certification process. See "DISTRICT TAX DATA -- Analysis of Tax Base" and "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT -- Estimated Overlapping Debt."
- (c) Unaudited figure per the District's records. See "DESCRIPTION OF THE DISTRICT'S SYSTEM -- General Fund Operating History."
- (d) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA -- Adequacy of Tax Revenue."
- (e) See "DEBT SERVICE REQUIREMENTS" and "DISTRICT TAX DATA -- Adequacy of Tax Revenue."

**DEBT SERVICE REQUIREMENTS**

The following table sets forth the debt service requirements on the Outstanding Bonds and the debt service requirements for the Bonds.

<b>Year</b>	<b>Outstanding Debt Service</b>	<b>Plus: Debt Service Requirements on the Bonds</b>		<b>Total Debt Service</b>
	<b>Requirements</b>	<b>Principal</b>	<b>Interest</b>	<b>Requirements</b>
2022	\$1,146,775		\$96,583	\$1,243,358
2023	\$1,136,112	\$50,000	\$143,875	\$1,329,987
2024	\$1,154,262	\$50,000	\$141,875	\$1,346,137
2025	\$1,176,375	\$50,000	\$139,875	\$1,366,250
2026	\$875,062	\$100,000	\$137,875	\$1,112,937
2027	\$884,887	\$100,000	\$135,875	\$1,120,762
2028	\$608,362	\$150,000	\$133,375	\$891,737
2029	\$611,300	\$150,000	\$130,375	\$891,675
2030	\$613,231	\$150,000	\$127,375	\$890,606
2031	\$619,068	\$150,000	\$124,375	\$893,443
2032	\$618,750	\$150,000	\$121,375	\$890,125
2033	\$617,325	\$150,000	\$118,375	\$885,700
2034	\$610,525	\$150,000	\$115,375	\$875,900
2035	\$632,975	\$150,000	\$112,375	\$895,350
2036	<u>\$639,450</u>	\$150,000	\$109,281	\$898,731
2037		\$400,000	\$103,437	\$503,437
2038		\$410,000	\$94,831	\$504,831
2039		\$425,000	\$85,959	\$510,959
2040		\$435,000	\$76,278	\$511,278
2041		\$450,000	\$65,768	\$515,768
2042		\$460,000	\$54,962	\$514,962
2043		\$475,000	\$43,562	\$518,562
2044		\$490,000	\$31,500	\$521,500
2045		\$500,000	\$19,125	\$519,125
2046		<u>\$515,000</u>	<u>\$6,437</u>	<u>\$521,437</u>
<b>TOTALS</b>	<b>\$11,944,459</b>	<b>\$6,260,000</b>	<b>\$2,470,098</b>	<b>\$20,674,557</b>

Maximum Annual Debt Service Requirement (2025) ..... \$1,366,250

\$0.28 debt service tax rate on the 2021 Certified Taxable Value of \$531,489,505  
at 95% collections produces..... \$1,413,762

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

## OFFICIAL STATEMENT

relating to

**\$6,260,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 188**  
**(A political subdivision of the State of Texas located within Harris County, Texas)**

### **UNLIMITED TAX BONDS SERIES 2022**

#### **INTRODUCTION**

This Official Statement provides certain information in connection with the issuance of the \$6,260,000 Harris County Municipal Utility District No. 188 Unlimited Tax Bonds, Series 2022 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of Harris County Municipal Utility District No. 188 (the "District"), an approving order of the Texas Commission on Environmental Quality (the "TCEQ"), and an election held within the District.

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

#### **INVESTMENT CONSIDERATIONS**

##### **General**

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

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

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 2020 and 2021, 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 associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19. The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

## **Marketability**

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

## **Tax Collections**

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

## **Registered Owners' Remedies**

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

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

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

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

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

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

## **Approval of the Bonds**

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

## **Economic Factors**

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

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

A material percentage of the taxable values of the District is derived from the current market value of commercial improvements and tracts developed for commercial purposes. The market value of such tracts is related to general economic conditions affecting the demand for commercial, retail, warehouse, and office space. Demand for tracts of this type and the construction of commercial projects thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability and the prosperity and demographic characteristics of the urban center toward which the marketing of such tracts is directed. Decreased levels of construction activity or reduced resale value of such tracts would tend to restrict the growth or maintenance of property values in the District or could adversely impact such values.

The commercial real estate industry in the Houston area is competitive, and the District can give no assurance that development programs will be implemented or completed. The sale of developed commercial tracts and the competitive position of prospective builders in the construction of commercial establishments are affected by most of the factors discussed herein.

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

## **Potential Effects of Oil Price Volatility on the Houston Area**

The recent volatility in oil prices in the U.S. and globally, which at times has led to the lowest such prices in three decades, may lead to adverse conditions in the oil and gas industry, including but not limited to reduced revenues, declines in capital and operating expenditures, business failures, and layoffs of workers. The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. As previously stated, the Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District's share of operations and maintenance expenses payable from ad valorem taxes.

## **Dependence on the 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.

## **Potential Impact on District Tax Rates**

The District's 2021 combined debt service and maintenance tax rate is \$0.35 per \$100 of assessed valuation. A significant increase in the District's tax rate substantially above such a level could have an adverse impact on future development in the District, the growth and maintenance of taxable values in the District, and on the District's ability to collect such tax.

The maintenance of the District's taxable value is related to both the housing industry in general, the demand for homes in the District in particular, as well as multi-family, commercial, retail and/or office development. The housing industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, demand for developed property, availability of mortgage and

development funds, labor conditions, and general economic conditions. In the 1980s the downturn in the Houston economy and concurrent increases in unemployment substantially reduced the demand for new housing. In many instances, homeowners turned homes back to mortgage companies because of a negative equity position and, consequently, many repossessed homes were resold at substantially reduced prices. Single-family development is complete in the District; however, home pricing for single-family homes in the District, which is located approximately 26 miles from the central business district of the City, also could be adversely affected by competition from nearby residential developments.

The remaining undeveloped land in the District will in all likelihood be developed for retail, commercial, multi-family, or industrial use. Therefore, increases in taxable value could be adversely affected by the lack of commercial real estate financing and the demand for additional commercial facilities.

Assuming no further construction of residential, multi-family and/or commercial projects within the District other than those that have heretofore been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. The 2021 Certified Taxable Value of property within the District according to HCAD is \$531,489,505. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds will be \$1,366,250 (2025). Assuming no increase or decrease from the 2021 Certified Taxable Value and no use of other District funds, a debt service tax rate of \$0.28 per \$100 of assessed valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. See "DISTRICT TAX DATA – Adequacy of Tax Revenue."

### **Future Debt**

At elections held within the District on April 4, 1981, April 2, 1983, November 7, 1989, and November 7, 2006, the District's voters authorized the issuance of a total of \$33,050,000 of unlimited tax bonds for construction of water, wastewater, and drainage facilities (the "System"). After the issuance of the Bonds, the District will have \$1,755,000 of unlimited tax bonds that remain authorized but unissued for construction of the System. At an election held within the District on November 7, 1989, the District's voters authorized the issuance of a total of \$20,000,000 unlimited tax refunding bonds, of which \$18,175,000 remains authorized but unissued. On November 7, 2006, the District conducted a park and recreational facilities bond election and the District's voters authorized the issuance of a total of \$7,115,000 of unlimited tax park bonds, of which \$7,115,000 remains authorized but unissued.

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

The District may issue refunding bonds in a stated principal amount that does not exceed the principal amount of the bonds to be refunded without voter approval.

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

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

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District, unless effective June 14, 2021, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent but not three percent of the value of the taxable property in the District. The District has prepared a park plan and has conducted a park and recreational facilities bond election that authorized \$7,115,000 of park bonds at an election held on November 7, 2006. The levy of taxes for such purposes may dilute the security for the Bonds. The District has no plans to issue any park and recreational facilities bonds at this time.

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

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

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

## **Subsidence and Conversion to Surface Water Supply**

The District is within the boundaries of the Harris Galveston Subsidence District (the “Subsidence District”) which regulates groundwater withdrawal. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District. In 2001, the Texas legislature created the West Harris County Regional Water Authority (“Authority”) to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County and a small portion of Fort Bend County. The District is not located within the boundaries of the Authority, but has entered into a contract to be included in the Authority’s GRP (defined below). The Authority has entered into a Water Supply Contract with the City to obtain treated surface water from the City. The Authority has developed a groundwater reduction plan (“GRP”) and obtained Subsidence District approval of its GRP. The Authority’s GRP sets forth the Authority’s plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District’s groundwater well(s) are included within the Authority’s GRP.

The District’s authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority’s GRP. The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, a fee per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2035 to finance the Authority’s project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

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, and continuing thereafter, 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 disincentive fee penalty per 1,000 gallons (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority’s GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. 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.

## **Environmental Regulations**

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

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

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

**Air Quality Issues.** Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the 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 June 9, 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. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of "waters of the United States." 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.

### **Changes in Tax Legislation**

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

### **Bond Insurance Investment Considerations**

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

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

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

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

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

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

### **Severe Weather**

The District is located approximately 80 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

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

### **Hurricane Harvey**

The Houston area, including the area in and around the District in Harris County, sustained widespread wind and rain damage and flooding as a result of Hurricane Harvey's landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. According to the District's Engineer and the District's Operator, the water, wastewater, and drainage facilities serving the land within the District did not sustain any significant damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. According to information available to the District, no single-family homes, multi-family improvements, or commercial improvements that were located within the District at the time of Hurricane Harvey experienced flooding as a result of the storm.

### **Specific Flood Type Risks**

The District may be subject to the following flood risks:

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

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

a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

### **Winter Storm Uri**

From February 12-19, 2021, the State of Texas experienced a severe winter storm (“Winter Storm Uri”) which included prolonged freezing temperatures, heavy snow and freezing rains statewide. Winter Storm Uri led to power outages and potable and non-potable water shortages in many areas of the State, including the District. The federal government issued a Major Disaster Declaration for the State of Texas and has included federal funding for emergency protective measures. The District did not sustain material damage to its infrastructure during Winter Storm Uri. However, the City, through the Authority, was unable to provide the District with potable water supply as a result of issues relating to the City’s water supply system. As a result, the District had to rely solely on its own water supply facilities during Winter Storm Uri, which were insufficient to meet demand from the District’s customers. As a result, the District customers experienced an interruption of water supply service as a result of Winter Storm Uri. The District experienced no interruptions of wastewater service as a result of Winter Storm Uri. The District cannot predict the impact of future winter weather events.

### **Temporary Tax Exemption for Property Damaged by Disaster**

The Property Tax Code (hereinafter defined) provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically 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.

### **Tax Payment Installments After Disaster**

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

Additionally, the Property Tax Code authorizes a taxing jurisdiction such as the District, solely at the jurisdiction’s discretion to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or emergency area and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

### **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.

## USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used by the District to: (1) finance the construction of certain water supply improvements serving the District; (2) finance certain land acquisition costs associated with (1) above; (3) fund engineering costs associated with (1) above; and (4) pay issuance and administrative expenses related to the Bonds.

Edminster, Hinshaw, Russ and Associates, Inc. (the "Engineer") has advised the District that the proceeds listed below should be sufficient for the construction of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

<u>CONSTRUCTION COSTS</u>	<u>Total Amount</u>
<b><i>District Items</i></b>	
Water Plant No. 2	\$4,035,000
Contingencies	\$403,500
Engineering	\$665,775
Land Acquisition:	
Water Plant Site	\$522,720
Contingencies	\$52,272
<b><i>Total District Items</i></b>	<b><u>\$5,679,267</u></b>
<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$5,679,267 (a)</b>
<b><u>NON-CONSTRUCTION COSTS</u></b>	
Legal Fees	\$156,500
Fiscal Agent Fees	\$125,200
Bond Discount	\$169,739
Bond Issuance Expenses	\$42,748
Bond Application Report Costs	\$46,575
TCEQ Bond Issuance Fee	\$15,650
Attorney General Fee	\$6,260
Contingency	\$18,061 (b)
<b>TOTAL NON-CONSTRUCTION COSTS</b>	<b><u>\$580,733</u></b>
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b><u>\$6,260,000</u></b>

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities; none of the facilities being financed with proceeds of the Bonds were subject to such rules.

(b) The District will designate any surplus Bond proceeds as a contingency line item in the Final Official Statement. Such funds will be used by the District to fund costs only after notice to or approval by the TCEQ.

## THE DISTRICT

### Authority

The District is a political subdivision of the State of Texas, created by Order of the Texas Water Commission, now known as the Texas Commission on Environmental Quality ("TCEQ"), dated March 11, 1980, and operates pursuant to Chapters 49 and 54 of the Texas Water Code. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water.

Under certain limited circumstances the District also is authorized to construct, develop, and maintain park and recreational facilities.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent of the City, within whose extraterritorial jurisdiction the District lies, the District has agreed to observe certain City requirements. These requirements limit the purposes for which the District may sell bonds for the acquisition and improvement of waterworks, wastewater, and drainage facilities, limit the net effective interest rate on such bonds and other terms of such bonds, and require approval by the City of the District's construction plans and specifications.

### Description and Location

The District, as it was originally created, included approximately 320 acres. Since its creation, the District has annexed certain tracts of land, and the District presently includes approximately 485 acres. The District lies wholly within Harris County, Texas, and entirely within the extraterritorial jurisdiction of the City. The District is located in the northwest sector of the metropolitan area of the

City, approximately 26 miles northwest of the central business district of the City. The District is further located at the intersection of State Highway 6 and U.S. Highway 290. The District has frontage on both the east and west side of State Highway 6 and is situated approximately eight (8) miles north of Interstate Highway 10 and less than one (1) mile south of U.S. Highway 290.

The District has elevations ranging from approximately 125 feet above mean sea level (“msl”) to 135 feet msl. None of the District’s developable acreage lies within the 100-year floodplain as shown by current Federal Insurance Rate Maps published by the Federal Emergency Management Agency.

**Strategic Partnership Agreement**

Utilizing a provision of Texas law, the City and the District entered into a Strategic Partnership Agreement (“SPA”) effective as of April 9, 2007. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City’s Sales and Use tax, voting in City elections, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

**Summary of Land Use**

A summary of the approximate land use in the District as of December 1, 2021, appears in the following table:

<b><u>Type of Land Use</u></b>	<b>Approximate Acres</b>	
Single-Family Residential Developed/Improved Acres	132	(a)
Multi-Family Residential Developed/Improved Acres	97	(b)
Commercial Developed/Improved Acres	134	(c)
Remaining Developable Acres	78	
Undevelopable Acres	<u>44</u>	(d)
<b>Total Approximate Acres</b>	<b>485</b>	

- (a) Represents acreage attributable to single-family residential development in Copper Grove, Sections 1 – 10.
- (b) Represents acreage attributable to multi-family residential development, which includes seven (7) multi-family apartment complexes totaling 2,348 units.
- (c) Represents acreage attributable to commercial, retail and light-industrial development.
- (d) Includes roadways, detention facilities, drainage easements, District plant sites, parks and recreational areas, and open spaces.

**Single-Family Residential Development**

The single-family residential development in the District includes the built-out subdivision of Copper Grove, Sections 1 – 10. As of December 1, 2021, the single-family residential development within the District included 558 completed homes and no vacant developed lots.

**Commercial Development**

Commercial building development in the District includes, but is not limited to, the following: seven (7) multi-family apartment complexes with 2,348 units; a 152,000 square-foot FedEx distribution center; a 325,000 square-foot office/warehouse facility currently occupied by Mahindra North America; a 123,000 square-foot industrial manufacturing building with office space for Precision Flamecutting and Steel, Inc.; a 30,000 square-foot crane served building; a 40,000 square-foot crane served building; a 79,000 square-foot office/warehouse building occupied by Black Swan Steel; a 121-unit motel; a 39-unit motel, a 7,044 square-foot funeral home; a Shell service station; a CVS Pharmacy; a veterinary office; a 23,800 square-foot office building; a 14,350 square-foot medical office building; a 13,500 square-foot pediatric medical building; three (3) retail strip centers; a commercial bank branch office building; a Popeye’s restaurant; a tire and automotive service station; and a car wash service station.

**THE DISTRICT’S DEVELOPER**

**Role of a Developer**

In general, activities of a developer in a municipal utility district such as the District include acquiring land for development; defining a marketing program; planning and scheduling development; securing adequate funds for development; arranging for design and construction of utilities, streets, amenities, and other improvements; participating in the procurement of necessary governmental permits and approvals, including creation of political subdivisions such as the District; and selling developed and undeveloped land to other developers, investors, and others. Ordinarily, the developer pays 100% of the costs of paving and amenity design and

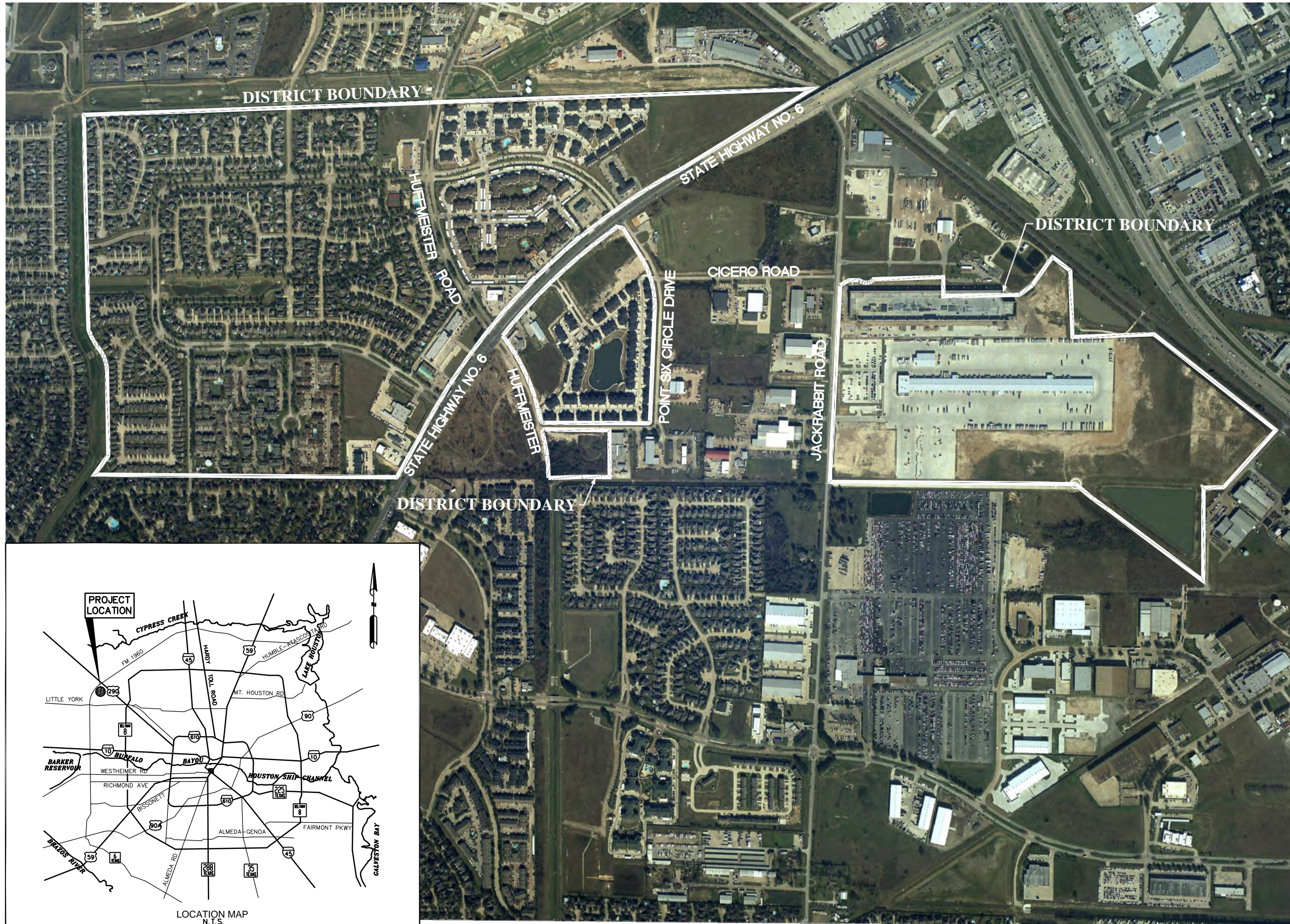
construction while the utility district finances certain costs of water supply and distribution, wastewater collection and treatment, and drainage facilities. The TCEQ generally requires the developer to pay up to 30% of the cost of certain water distribution, wastewater collection, and drainage facilities.

**Description**

Since the creation of the District, there have been a number of different land developers and a number of different homebuilders that have been active from time to time. All of the single-family residential land is developed and built out and no residential developers are active. Additionally, all vacant land in the District is presently served by utilities. SIC-River Park, Ltd., has developed the Satsuma Station Industrial Park located in the District, and owns an additional approximately six (6) acres of vacant commercial land available for sale or build-to-suit. Prior sales and development within the Satsuma Station Industrial Park include a 152,000 square-foot FedEx distribution center, a 325,000 square-foot office/warehouse facility currently occupied by Mahindra North America, a 123,000 square-foot industrial manufacturing building owned by Precision Flamecutting and Steel, Inc., a 30,000 square-foot crane served building, a 40,000 square-foot crane served building, and other commercial and light-industrial building development.

Additional vacant developed land throughout the District is owned by multiple owners and available for commercial development in the future. The District makes no representation that any taxable improvements will ever be constructed on such land. The remainder of commercial/retail facilities in the District is generally owner-occupied or leased to tenants.







## **DESCRIPTION OF THE DISTRICT'S SYSTEM**

### **Description of the System**

The following is a description of the District's water supply, wastewater treatment, and drainage facilities (the "System") and certain System-related contracts pursuant to which the District operates. The District was established to provide a potable water supply, to collect and treat wastewater, and to provide for drainage of the land within the District. The following information was obtained from the District's Engineer.

#### **- Water Supply -**

Proceeds from the sale of previous bond issues financed the construction of the District's water supply plant, which included one well with approximately 1,800 gallons per minute ("gpm") of water production capacity. Due to a failure in the well liner, a smaller liner had to be installed to block off the failure, and the production capacity of the well today is 575 gpm capable of serving approximately 958 equivalent single-family connections ("ESFC"). The facilities at the District's existing water plant include a 420,000 gallon ground storage tank, two (2) hydropneumatic pressure tanks with a combined capacity of 40,000 gallons, and four (4) booster pumps with a combined capacity of 4,000 gpm.

The District is a member of the Copperfield Water Consortium ("Consortium"), a group of five neighboring municipal utility districts. The Consortium was formed to obtain surface water from the West Harris County Regional Water Authority (the "Authority") under the Authority's contract with the City for such surface water. Normally the District uses surface water from the Authority for more than 99% of its supply requirements, utilizing the District's water well only periodically. In the event that surface water is temporarily unavailable, water will be supplied from the District's groundwater well and an emergency interconnect with Harris County Municipal Utility District No. 162. In the opinion of the Engineer, the District's water supply is capable of serving 3,000 equivalent single-family connections (ESFC), which is sufficient to serve the District and Harris County Fresh Water Supply District No. 61. The District has interconnect agreements with Harris County Municipal Utility District No. 162 and Harris County Fresh Water Supply District No. 61; such interconnections are normally closed.

As noted above, the District currently relies on the Authority for more than 99% of its water supply requirements and utilizes the District's existing water well only periodically. The District's existing water well does not have sufficient capacity to serve the District's existing ESFCs. The District is financing the construction of a second water plant with proceeds of the Bonds, which is to serve possible interruption of surface water supply from the Authority. The second water plant is currently in the design phase and construction is anticipated to commence during the first quarter of 2023. Upon completion, the second water plant will have adequate capacity to serve approximately 1,000 ESFCs, which, when combined with the District's water supply capacity provided by its existing facilities, will be sufficient to serve the single-family residential developments within the District in the event of interruption of surface water supply from the Authority.

#### **- Surface Water Conversion -**

The District is within the boundaries of the Harris Galveston 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 certain areas within the Subsidence District's jurisdiction, including the area within the District. In 2001, the Texas legislature created the Authority to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District) and a small portion of Fort Bend County. The Authority has entered into a Water Supply Contract with the City, to obtain treated surface water from the City. The Authority has developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). The District's groundwater well(s) are included within the Authority's GRP.

The District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District to the Authority, which permit includes all groundwater wells that are included in the Authority's GRP. The provisions of the Authority's rate order allow the District, subject to groundwater reduction requirements imposed by the Authority, the terms of the GRP, and any limitations imposed by the Subsidence District, the right to pump from its groundwater well the amount of groundwater reasonably determined by the District to be needed by the District, for itself or for its customers, and to provide water in accordance with at least the minimum regulatory requirements for pressure and supply, including during an emergency requiring immediate use of groundwater (such as for firefighting purposes) so long as the District is not committing waste or being wasteful.

The Authority, among other powers, has the power to: (i) issue debt supported by the revenues pledged for the payment of its obligations; (ii) establish fees (including fees to be paid by the District for groundwater pumped by the District or for surface water received by the District from the Authority), user fees, rates, charges, and special assessments as necessary to accomplish its purposes; and (iii) mandate water users, including the District, to convert from groundwater to surface water. The Authority currently charges the District, and other major groundwater users, substantial fees per 1,000 gallons based on the amount of groundwater pumped by the District and the amount of surface water, if any, received by the District from the Authority. The Authority has issued revenue bonds to fund, among other things, Authority surface water project costs. It is expected that the Authority will continue to issue a substantial amount of bonds by the year 2030 to finance the Authority's project costs, and it is expected that the fees charged by the Authority will increase substantially over such period.

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total water demand of the water users within the Authority's GRP, beginning in the year 2010; (ii) limit groundwater withdrawals to no more than 40% of the total water demand of the water users within the Authority's GRP, beginning in the year 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand of the water users within the Authority's GRP, beginning in the year 2035. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a substantial disincentive fee penalty of \$7.00 per 1,000 gallons ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges that may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. 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 -

The District owns 1,300,000 gallons per day of wastewater treatment plant capacity in the regional Copperfield Sewage Treatment Plant, which has a capacity of 4.6 million gallons per day. According to the Engineer, such capacity owned by the District in the Copperfield Sewage Treatment Plant is sufficient to serve the District's existing ESFCs and all remaining improved acreage currently within the District based upon projected development plans or anticipated land usage that is consistent with land use that has taken place heretofore in the District and/or in the general vicinity of the District.

- Storm Drainage -

There is a complete storm sewer system serving all the developed property in the District. The District is located within two watersheds, the Horsepen Creek watershed and the White Oak Bayou watershed. Surface drainage is accomplished by overland flow and natural drainage ditches or swales that outfall into two separate Harris County Flood Control District channels, Horsepen Creek and White Oak Bayou, both of which are maintained by Harris County Flood Control District.

The District has elevations ranging from approximately 125 feet above mean sea level ("msl") to 135 feet above msl as shown by current Flood Insurance Rate Maps published by the Federal Emergency Management Agency. None of the District's developable acreage currently lies within the 100-year floodplain.

**Regulation**

According to the Engineer, the water, wastewater, and drainage facilities constructed by the District have been designed in accordance with accepted engineering practices and the recommendations of the Texas Department of Health, the TCEQ, Harris County Flood Control District, Harris County, and the City. Construction and operation of the facilities are subject to the inspection of the TCEQ and the Environmental Protection Agency, as well as the aforementioned agencies. Groundwater withdrawal from the water plants is regulated by the Subsidence District.

## General Fund Operating History

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

	Fiscal Year Ended July 31 (a)				
	2021	2020	2019	2018	2017
<b>REVENUES</b>					
Property taxes	\$640,752	\$598,354	\$546,001	\$541,383	\$531,405
Sales tax rebates	\$55,784	\$91,229	\$68,248	\$53,869	\$42,328
Water service	\$596,714	\$623,676	\$607,292	\$593,534	\$621,758
Sewer service	\$471,470	\$448,473	\$437,049	\$453,218	\$419,430
Regional water fee	\$771,976	\$792,163	\$693,882	\$639,150	\$572,471
Bulk water sales	-	-	-	\$988	-
Penalty and interest	\$390	\$9,468	\$13,587	\$16,702	\$18,059
Tap connection and inspection fees	\$18,187	\$289,630	\$198,680	\$661	\$12,760
Investment income	\$15,141	\$81,204	\$97,865	\$47,408	\$22,195
Other income	\$317	\$40,332	\$208	\$153	\$140
<b>TOTAL REVENUES</b>	<b>\$2,570,731</b>	<b>\$2,974,529</b>	<b>\$2,662,812</b>	<b>\$2,347,066</b>	<b>\$2,240,546</b>
<b>EXPENDITURES</b>					
Service operations:					
Purchased services	\$1,181,049	\$1,146,663	\$1,015,704	\$942,227	\$875,947
Regional water fees	\$29,870	\$18,005	\$11,950	\$44,828	\$14,246
Professional fees	\$131,742	\$140,511	\$128,868	\$120,567	\$168,299
Contracted services	\$117,229	\$123,536	\$121,311	\$126,096	\$119,482
Utilities	\$65,184	\$46,783	\$52,134	\$56,450	\$44,008
Repairs and maintenance	\$607,110	\$653,401	\$597,957	\$581,263	\$578,552
Other expenditures	\$90,251	\$64,645	\$82,782	\$85,812	\$76,133
Tap connections	-	\$99,690	\$63,700	\$3,500	\$8,800
Capital outlay	\$121,622	\$774,361	\$650,946	\$49,160	\$89,016
Debt service, debt issuance costs	\$22,500	-	-	-	-
<b>TOTAL EXPENDITURES</b>	<b>\$2,366,557</b>	<b>\$3,067,595</b>	<b>\$2,725,352</b>	<b>\$2,009,903</b>	<b>\$1,974,483</b>
<b>EXCESS REVENUES (EXPENDITURES)</b>	<b>\$204,174</b>	<b>(\$93,066)</b>	<b>(\$62,540)</b>	<b>\$337,163</b>	<b>\$266,063</b>
<b>OTHER FINANCING SOURCES (USES)</b>					
Interfund transfers out	-	-	-	(\$6,742)	-
Capital contribution refund	\$49,188	\$49,188	\$49,188	\$49,188	\$49,188
Developer advances received	-	-	\$133,381	-	-
Repayment of developer advances	-	(\$133,381)	-	-	-
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<b>\$49,188</b>	<b>(\$84,193)</b>	<b>\$182,569</b>	<b>\$42,446</b>	<b>\$49,188</b>
<b>EXCESS SOURCES (USES)</b>	<b>\$253,362</b>	<b>(\$177,259)</b>	<b>\$120,029</b>	<b>\$379,609</b>	<b>\$315,251</b>
<b>FUND BALANCES BEGINNING OF YEAR</b>	<b>\$5,336,162</b>	<b>\$5,513,421</b>	<b>\$5,393,392</b>	<b>\$5,013,783</b>	<b>\$4,698,532</b>
<b>FUND BALANCES END OF YEAR (b)</b>	<b>\$5,589,524</b>	<b>\$5,336,162</b>	<b>\$5,513,421</b>	<b>\$5,393,392</b>	<b>\$5,013,783</b>

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

(b) As of December 15, 2021, the District's General Fund had an unaudited cash and investment balance of approximately \$5,479,110. For the fiscal year ending July 31, 2022, the District's General Fund is currently budgeting revenues of approximately \$2,575,188 and operating expenditures of approximately \$2,233,400. Additionally, the District has identified approximately \$1,122,855 of capital expenditures that may be funded by the General Fund. Any capital expenditures to be made from the General Fund will depend on the availability of cash and investment balances in such fund, the necessity of the project, and the need to maintain adequate reserve balances.

## MANAGEMENT OF THE DISTRICT

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

<u>Name</u>	<u>Title</u>	<u>Term Expires</u> <u>May</u>
Julie Tysor Taetz	President	2024
James Gary Henderson, Jr.	Vice President	2024
Walter Zelop	Secretary	2022
Deana Day	Assistant Vice President	2022
Jack L. Baber III	Assistant Secretary	2022

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

Tax Assessor/Collector – The District's Tax Assessor/Collector is Assessments of the Southwest, Inc., who is employed under an annual contract to perform the tax collection functions.

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

Auditor – The financial statements of the District as of July 31, 2021, 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 July 31, 2021, audited financial statements.

Utility System Operator – The District's utility system operator is H2O Consulting, Inc.

Engineer – The consulting engineer for the District is Edminister, Hinshaw, Russ and Associates, Inc. (the "Engineer").

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

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

Disclosure Counsel – Norton Rose Fulbright US LLP, Houston, Texas, has been engaged by the District to serve as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds, but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. Fees of the Disclosure Counsel will be paid from proceeds of the Bonds and are contingent upon the sale and delivery of such Bonds.

## DISTRICT INVESTMENT POLICY

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

**DISTRICT DEBT**  
**(Unaudited)**

2021 Certified Taxable Value	\$531,489,505 (a)
Direct Debt	
Outstanding Bonds	\$10,045,000
The Bonds	<u>\$6,260,000</u>
Total Direct Debt	\$16,305,000
Estimated Overlapping Debt	<u>\$31,675,161</u> (b)
Direct and Estimated Overlapping Debt	\$47,980,161
Percentage of Direct Debt to:	
2021 Certified Taxable Value	3.07%
Percentage of Direct and Estimated Overlapping Debt to:	
2021 Certified Taxable Value	9.03%
2021 Tax Rate Per \$100 of Assessed Value:	
Debt Service Tax	\$0.22
Maintenance Tax	<u>\$0.13</u>
Total 2021 Tax Rate	\$0.35
Cash and Temporary Investment Balances as of December 15, 2021:	
General Fund	\$5,479,110 (c)
Debt Service Fund	\$320,291 (d)
Maximum Annual Debt Service Requirement (2025)	\$1,366,250 (e)
Tax rate required if no growth in 2021 Certified Taxable Value (at 95% collections)	\$0.28 (e)

- (a) Reflects the January 1, 2021 Certified Taxable Value according to data supplied to the District by HCAD; such value excludes \$3,840,589 of uncertified value that is still in the certification process. See "DISTRICT TAX DATA -- Analysis of Tax Base" and "TAXING PROCEDURES."
- (b) See "-- Estimated Overlapping Debt" herein.
- (c) Unaudited figure per the District's records. See "DESCRIPTION OF THE DISTRICT'S SYSTEM -- General Fund Operating History."
- (d) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Resolution requires the District to maintain any particular balance in the Debt Service Fund. See "DISTRICT TAX DATA -- Adequacy of Tax Revenue."
- (e) See "DEBT SERVICE REQUIREMENTS" and "DISTRICT TAX DATA -- Adequacy of Tax Revenue."

## Estimated Overlapping Debt

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Percent</u>	<u>Amount</u>
Cypress-Fairbanks Independent School District	\$3,222,395,000	0.86%	\$27,852,735
Harris County (a)	\$1,236,942,125	0.10%	\$1,262,223
Harris County Department of Education	\$20,185,000	0.10%	\$20,592
Harris County Flood Control District	\$584,900,000	0.10%	\$607,144
Harris County Hospital District	\$81,540,000	0.10%	\$84,624
Port of Houston Authority	\$469,434,397	0.10%	\$487,316
Lone Star College System	\$610,225,000	0.22%	\$1,360,527
<b>Total Estimated Overlapping Debt</b>			<b>\$31,675,161</b>
<b>The District's Direct Debt (b)</b>			<b>\$16,305,000</b>
<b>Total Direct and Estimated Overlapping Debt</b>			<b>\$47,980,161</b>

(a) Excludes the currently outstanding Harris County Toll Road Authority bonds, which have been paid from revenues and are considered to be self-supporting.

(b) Includes the Bonds.

## DISTRICT TAX DATA

### Tax Rate and Collections

The following table sets forth the historical tax collection information of the District for the years 2016 through 2020, and includes certain information relative to the 2021 tax year. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Tax Year</u>	<u>Taxable Valuation</u>	<u>Tax Rate (a)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections (b)</u>	<u>Tax Year Ended September 30</u>
2021	\$531,489,505	\$0.35	\$1,860,213	(c)	(c)
2020	\$496,940,062	\$0.35	\$1,739,290	100%	2021
2019	\$456,001,307	\$0.36	\$1,641,605	99%	2020
2018	\$423,430,567	\$0.37	\$1,566,693	100%	2019
2017	\$412,445,149	\$0.38	\$1,567,292	100%	2018
2016	\$409,239,469	\$0.40	\$1,636,958	100%	2017

(a) See "– Tax Rate Distribution" herein.

(b) Represents cumulative tax collections as of November 30, 2021.

(c) The 2021 tax levy is in the process of collections; such taxes become delinquent if not paid before February 1, 2022. See "TAXING PROCEDURES."

### Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for operations and maintenance of the District's improvements. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. The District's voters authorized a maintenance tax of up to \$1.50 per \$100.00 of assessed valuation at an election held on November 7, 2006.

## Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2016 through 2021.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>
Debt Service	\$0.22	\$0.22	\$0.23	\$0.24	\$0.25	\$0.27
Maintenance/Operation	<u>\$0.13</u>	<u>\$0.13</u>	<u>\$0.13</u>	<u>\$0.13</u>	<u>\$0.13</u>	<u>\$0.13</u>
<b>Total</b>	<b>\$0.35</b>	<b>\$0.35</b>	<b>\$0.36</b>	<b>\$0.37</b>	<b>\$0.38</b>	<b>\$0.40</b>

## Additional Penalties

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

## Principal Taxpayers

The list of principal taxpayers for 2021 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
Village at Copperfield LLC	Apartments	\$75,503,000	14.21%
BVMF1 Villas LLC	Apartments	\$59,333,450	11.16%
FCL Acquisition LLC	Apartments	\$47,575,533	8.95%
SIR Huffmeister Villas LLC	Apartments	\$35,806,500	6.74%
Dryden Street Investments LLC	Acreage & Apartments	\$27,434,240	5.16%
KTR HOU II LP	Commercial	\$23,468,947	4.42%
ARC FEHOUTX 001 LLC	Commercial	\$16,572,000	3.12%
EastGroup Properties LP	Commercial	\$16,212,834	3.05%
Precision Flamecutting & Steel Inc	Commercial (Real and Personal)	\$12,183,209	2.29%
Mahindra USA Inc	Commercial (Real and Personal)	\$10,533,931	1.98%
	<b>TOTALS</b>	<b>\$324,623,644</b>	<b>61.08%</b>

## Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and exemptions for 2016 through 2021.

<u>Year</u>	<u>Type of Property</u>			<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>			
2021	\$105,280,137	\$419,789,697	\$81,049,124	\$606,118,958	\$74,629,453	\$531,489,505 (a)
2020	\$99,973,401	\$392,033,805	\$76,160,994	\$568,168,200	\$71,228,138	\$496,940,062
2019	\$91,225,733	\$360,472,778	\$67,279,264	\$518,977,775	\$62,976,468	\$456,001,307
2018	\$90,291,777	\$330,769,670	\$56,143,682	\$477,205,129	\$53,774,562	\$423,430,567
2017	\$80,235,333	\$327,914,993	\$57,049,906	\$465,200,232	\$52,755,083	\$412,445,149
2016	\$79,259,743	\$322,217,877	\$62,400,223	\$463,877,843	\$54,638,374	\$409,239,469

(a) Reflects the January 1, 2021 Certified Taxable Value according to data supplied to the District by HCAD; such value excludes \$3,840,589 of uncertified value that is still in the certification process. See "TAXING PROCEDURES."

## Homestead Exemptions

The Texas Constitution authorizes political subdivisions to exempt up to 20% of the market value of residential homesteads from ad valorem taxation. In 2021, the District granted a 20% general homestead exemption and an exemption of \$20,000 for residential homesteads of persons 65 or older or disabled. See "TAXING PROCEDURES."

**Overlapping Taxes**

The following table sets forth all 2021 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	<b>2021 Tax Rate Per \$100 <u>Assessed Valuation</u></b>
Cypress Fairbanks I.S.D.	\$1.339200
Lone Star College System	\$0.107800
Harris County (a)	\$0.586340
Harris County Emergency Service District No. 9	<u>\$0.057628</u>
<b>Overlapping Taxes</b>	<b>\$2.090968</b>
 The District	 <b><u>\$0.350000</u></b>
<b>Total Direct &amp; Overlapping Taxes</b>	<b><u>\$2.440968</u></b>

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

**Adequacy of Tax Revenue**

The calculations shown below are solely for purposes of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District’s Operating Fund or Construction Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the 2021 Certified Taxable Value. The calculations utilize a tax rate adequate to service the District’s total debt service requirements after issuance of the Bonds. Surplus balances in the Debt Service Fund are not reflected in these computations.

Maximum Annual Debt Service Requirement (2025) .....	\$1,366,250
Requires a \$0.28 debt service tax rate on the 2021 Certified Taxable Value at 95% collections .....	\$1,413,762

**TAXING PROCEDURES**

**Authority to Levy Taxes**

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

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

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

**Property Subject to Taxation by the District**

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



advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. In 2021, the Board approved an exemption of 20% of the appraised value of a home (not less than \$5,000) for residential homesteads and \$20,000 of the appraised value of residence homesteads of persons 65 years or older or disabled. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

**Residential Homestead Exemptions.** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has adopted an order granting a general residential homestead exemption each year since 2004. In 2021 the District adopted an order granting a 20% residential homestead exemption.

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

### **Tax Abatement**

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

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

Generally, property in the District must be appraised by 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. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business 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 the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land, and timberland.

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

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

### **District and Taxpayer Remedies**

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

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

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 1% for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of 12% regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) 65 years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments

without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest 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 is made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for purposes of setting the 2021 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

### **District's Rights in the Event of Tax Delinquencies**

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

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

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

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

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

To the extent the FIRREA provisions are valid and applicable to any property in the District and to the extent that they affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes.

## **ANNEXATION AND CONSOLIDATION**

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

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation.

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

### **Strategic Partnership Agreement**

The City and the District entered into a Strategic Partnership Agreement ("SPA") effective as of April 9, 2007. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use tax, voting in City elections, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50% of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

### **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.

## **THE BONDS**

### **General**

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

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

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

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

**Authorization of the Bonds**

The Bonds are issued pursuant to the authority of the Bond Resolution, Article XVI, Section 59, of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and an approving order of the TCEQ. At elections held within the District on April 4, 1981, April 2, 1983, November 7, 1989, and November 7, 2006, the District's voters authorized the issuance of a total of \$33,050,000 of unlimited tax bonds for construction of water, wastewater, and drainage facilities (the "System"). After the issuance of the Bonds, the District will have \$1,755,000 of unlimited tax bonds that remain authorized but unissued for construction of the System.

**Optional Redemption**

The Bonds maturing on and after April 1, 2028, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on April 1, 2027, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

**Mandatory Redemption**

The Bonds maturing April 1 in the years 2031, 2033, 2035, 2037, 2039, 2042 and 2046 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown in the tables below.

**\$300,000 Term Bonds, due April 1, 2031**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2030	\$150,000
April 1, 2031 (maturity)	\$150,000

**\$300,000 Term Bonds, due April 1, 2033**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2032	\$150,000
April 1, 2033 (maturity)	\$150,000

**\$300,000 Term Bonds, due April 1, 2035**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2034	\$150,000
April 1, 2035 (maturity)	\$150,000

**\$550,000 Term Bonds, due April 1, 2037**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2036	\$150,000
April 1, 2037 (maturity)	\$400,000

**\$835,000 Term Bonds, due April 1, 2039**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2038	\$410,000
April 1, 2039 (maturity)	\$425,000

**\$1,345,000 Term Bonds, due April 1, 2042**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2040	\$435,000
April 1, 2041	\$450,000
April 1, 2042 (maturity)	\$460,000

**\$1,980,000 Term Bonds, due April 1, 2046**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2043	\$475,000
April 1, 2044	\$490,000
April 1, 2045	\$500,000
April 1, 2046 (maturity)	\$515,000

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

**Notice of Redemption; Partial Redemption:**

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

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

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

**Source of and Security for Payment**

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

**Defeasance**

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

obligations of a state or an agency or a county, municipality, or other political subdivision or a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent and that mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

### **Funds**

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

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose of paying certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Debt Service Fund.

### **No Arbitrage**

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

### **Paying Agent/Registrar**

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

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

### **Registration and Transfer**

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

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

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

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

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

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

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

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

### **Issuance of Additional Debt**

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and rehabilitate improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – Authority." The District's voters have authorized the issuance of a total of \$33,050,000 of unlimited tax bonds, \$1,755,000 of which will remain authorized but unissued after the issuance of the Bonds, and could authorize additional amounts. The District's voters have additionally authorized the issuance of \$20,000,000 of unlimited tax refunding bonds, of which \$18,175,000 remains authorized but unissued. The District may issue refunding bonds in a principal amount which does not exceed the principal amount of the bonds to be refunded without voter approval. The District's voters have also authorized the issuance of \$7,115,000 unlimited tax park bonds to be issued to acquire and construct parks and recreational facilities within the District, of which \$7,115,000 remains authorized but unissued.

Depending upon the District's future issuance of tax-supported debt and the development of the District's tax base, increases in the District's annual ad valorem tax rate may be required to provide for the payment of principal of, and interest on, the District's current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Resolution imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ).

Further, the principal amount of park bonds sold by the District is limited to one percent of the District's certified taxable assessed valuation, unless, effective June 14, 2021, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent but not three percent of the value of the taxable property in the District.

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

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

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



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

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

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

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

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

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

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

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

All payments on the Securities will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC’s practice is to credit Direct Participants’ accounts upon DTC’s receipt of funds and corresponding detail information from the District or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC’s records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with Securities held for the accounts of customers in bearer form or registered in “street name,” and will be the responsibility

of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) are the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

## **LEGAL MATTERS**

### **Legal Proceedings**

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

### **Legal Review**

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

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

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

### **No-Litigation Certificate**

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

### **No Material Adverse Change**

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

## **TAX MATTERS**

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

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

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

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

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

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

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

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

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

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

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

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

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

### **Qualified Tax-Exempt Obligations**

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

The District has designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2022 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2022.

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

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

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

## **OFFICIAL STATEMENT**

### **Sources of Information**

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

### **Financial Advisor**

The GMS Group, L.L.C. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, The GMS Group, L.L.C. has compiled and edited this Official Statement. The

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

### **Consultants**

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

*Engineer* – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "DESCRIPTION OF THE DISTRICT'S SYSTEM," "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description and Location," "– Summary of Land Use," and "– Single-Family Residential Development" has been provided by Edminster, Hinshaw, Russ and Associates, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

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

*Auditor* – The financial statements of the District as of July 31, 2021, 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."

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

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

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

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

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

### **Updating of Official Statement**

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

### **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 188 as of the date shown on the cover page.

**APPENDIX A**

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

**FOR THE FISCAL YEAR ENDED JULY 31, 2021**

# **Harris County Municipal Utility District No. 188**

Harris County, Texas

Independent Auditor's Report and Financial Statements

July 31, 2021



**Harris County Municipal Utility District No. 188**  
**July 31, 2021**

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## Independent Auditor's Report

Board of Directors  
Harris County Municipal Utility District No. 188  
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. 188 (the District), as of and for the year ended July 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### *Management's Responsibility for the Financial Statements*

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

### *Auditor's Responsibility*

Our responsibility is to express opinions on these 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 July 31, 2021, 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  
December 8, 2021

# Harris County Municipal Utility District No. 188

## Management's Discussion and Analysis

### July 31, 2021

#### **Overview of the Financial Statements**

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

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

#### **Government-wide Financial Statements**

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

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

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

**Harris County Municipal Utility District No. 188**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2021**

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. 188**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2021**

**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**

	<b>2021</b>	<b>2020</b>
Current and other assets	\$ 6,852,779	\$ 6,794,372
Capital assets	11,146,635	11,521,245
Total assets	17,999,414	18,315,617
Deferred outflows of resources	410,281	433,937
Total assets and deferred outflows of resources	\$ 18,409,695	\$ 18,749,554
Long-term liabilities	\$ 10,053,743	\$ 10,911,391
Other liabilities	520,539	600,132
Total liabilities	10,574,282	11,511,523
Net position:		
Net investment in capital assets	1,503,173	1,043,791
Restricted	425,821	506,721
Unrestricted	5,906,419	5,687,519
Total net position	\$ 7,835,413	\$ 7,238,031

The total net position of the District increased by \$597,382, or about 8 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. 188**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2021**

**Summary of Changes in Net Position**

	<b>2021</b>	<b>2020</b>
Revenues:		
Property taxes	\$ 1,723,437	\$ 1,635,611
City of Houston rebates	55,740	91,695
Charges for services	1,840,160	1,864,312
Other revenues	61,165	460,100
Total revenues	3,680,502	4,051,718
Expenses:		
Services	2,268,630	2,329,483
Depreciation	496,232	497,048
Debt service	318,258	330,884
Total expenses	3,083,120	3,157,415
Change in net position	597,382	894,303
Net position, beginning of year	7,238,031	6,343,728
Net position, end of year	\$ 7,835,413	\$ 7,238,031

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

The District's combined fund balances as of the end of the fiscal year ended July 31, 2021, were \$6,096,934, an increase of \$166,928 from the prior year.

The general fund's fund balance increased by \$253,362. This increase was primarily due to property taxes, sales tax rebates and service revenues, as well as capital contribution refund exceeding service operations and capital outlay expenditures.

The debt service fund's fund balance decreased by \$86,434, primarily due to bond principal and interest requirements being greater than property tax revenues generated.

**General Fund Budgetary Highlights**

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to sewer service and regional water fee revenues and purchased services and repairs and maintenance expenditures being greater than anticipated as well as professional fees and capital outlay expenditures being less than anticipated. The fund balance as of July 31, 2021, was expected to be \$4,644,950 and the actual end-of-year fund balance was \$5,589,524.

**Harris County Municipal Utility District No. 188**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2021**

**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)**

	<b>2021</b>	<b>2020</b>
Land and improvements	\$ 3,603,283	\$ 3,603,283
Construction in progress	117,417	-
Water facilities	2,387,015	2,537,136
Wastewater facilities	3,833,434	4,046,803
Parks and recreational facilities	1,205,486	1,334,023
Total capital assets	\$ 11,146,635	\$ 11,521,245

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

Construction in progress related to the fence at the water plant, bar screen project and sanitary sewer rehabilitation	\$ 117,417
Lift station No. 3 access road	4,205
Total additions to capital assets	\$ 121,622

**Debt**

The changes in the debt position of the District during the fiscal year ended July 31, 2021, are summarized as follows:

Long-term debt payable, beginning of year	\$ 10,911,391
Decreases in long-term debt	(857,648)
Long-term debt payable, end of year	\$ 10,053,743

At July 31, 2021, the District had \$8,015,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems and \$7,115,000 for financing and constructing recreational facilities within the District.

**Harris County Municipal Utility District No. 188**  
**Management's Discussion and Analysis (Continued)**  
**July 31, 2021**

The District's bonds carry an underlying rating of "A-" from Standard & Poor's. The Series 2013 refunding and Series 2016 refunding bonds carry a "AA" rating from Standard & Poor's 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 for full purposes without the District's consent, except as set forth below.

Strategic Partnership Agreement

Effective April 9, 2007, the District entered into a Strategic Partnership Agreement (the SPA) with the City, which annexed certain portions of the District into the City for "limited purposes," as described therein. Under the terms of the SPA, the City has agreed it will not annex the District as a whole for full purposes for 30 years from the effective date of the SPA.

Water Trunkline Financing Agreement

The District, along with several other districts, entered into a Water Trunkline Financing Agreement (the Agreement) with the West Harris County Regional Water Authority (the Authority). The Agreement calls for the District and Harris County Municipal Utility District Nos. 130, 162, 163, 179, 186, 208 and Spencer Road Public Utility District (the Participants) to pay a pro rata share of costs associated with the construction of surface water transmission facilities to serve the Participants. The Agreement also required the District to make a maximum capital contribution to the Authority of \$731,281 and the District is receiving repayment through credits for District pumpage fees and water payments as they become due each year. In addition, any amounts owed to the District that remain after the credits will be paid to the District. These repayments accrue interest at 4.547 percent per year and are being repaid with interest only beginning in 2003 and with principal and interest from 2017 through 2029.



**Harris County Municipal Utility District No. 188**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**July 31, 2021**

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>					
Cash	\$ 1,050,053	\$ 81,391	\$ 1,131,444	\$ -	\$ 1,131,444
Certificates of deposit	1,707,579	206,651	1,914,230	-	1,914,230
Short-term investments	3,036,344	230,114	3,266,458	-	3,266,458
Receivables:					
Property taxes	4,274	7,328	11,602	-	11,602
Service accounts	181,860	-	181,860	-	181,860
Accrued interest	3,127	168	3,295	-	3,295
Interfund receivable	10,205	-	10,205	(10,205)	-
Due from City of Houston	10,200	-	10,200	4,110	14,310
Due from regional water authority	1,942	-	1,942	308,511	310,453
Prepaid expenditures	19,127	-	19,127	-	19,127
Capital assets (net of accumulated depreciation):					
Land and improvements	-	-	-	3,603,283	3,603,283
Construction in progress	-	-	-	117,417	117,417
Infrastructure	-	-	-	6,220,449	6,220,449
Parks and recreation	-	-	-	1,205,486	1,205,486
<b>Total assets</b>	<b>6,024,711</b>	<b>525,652</b>	<b>6,550,363</b>	<b>11,449,051</b>	<b>17,999,414</b>
<b>Deferred Outflows of Resources</b>					
Deferred amount on debt refundings	0	0	0	410,281	410,281
<b>Total assets and deferred outflows of resources</b>	<b>\$ 6,024,711</b>	<b>\$ 525,652</b>	<b>\$ 6,550,363</b>	<b>\$ 11,859,332</b>	<b>\$ 18,409,695</b>

**Harris County Municipal Utility District No. 188**  
**Statement of Net Position and Governmental Funds Balance Sheet (Continued)**  
**July 31, 2021**

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Net Position
<b>Liabilities</b>					
Accounts payable	\$ 189,693	\$ 709	\$ 190,402	\$ -	\$ 190,402
Accrued interest payable	-	-	-	88,917	88,917
Customer deposits	238,267	-	238,267	-	238,267
Due to others	2,953	-	2,953	-	2,953
Interfund payable	-	10,205	10,205	(10,205)	-
Long-term liabilities:					
Due within one year	-	-	-	890,000	890,000
Due after one year	-	-	-	9,163,743	9,163,743
	<u>430,913</u>	<u>10,914</u>	<u>441,827</u>	<u>10,132,455</u>	<u>10,574,282</u>
<b>Deferred Inflows of Resources</b>					
Deferred property tax revenues	<u>4,274</u>	<u>7,328</u>	<u>11,602</u>	<u>(11,602)</u>	<u>0</u>
<b>Fund Balances/Net Position</b>					
Fund balances:					
Nonspendable, prepaid expenditures	19,127	-	19,127	(19,127)	-
Restricted, unlimited tax bonds	-	507,410	507,410	(507,410)	-
Assigned, capital improvements	1,122,855	-	1,122,855	(1,122,855)	-
Unassigned	<u>4,447,542</u>	<u>-</u>	<u>4,447,542</u>	<u>(4,447,542)</u>	<u>-</u>
	<u>5,589,524</u>	<u>507,410</u>	<u>6,096,934</u>	<u>(6,096,934)</u>	<u>0</u>
Total liabilities, deferred inflows of resources and fund balances	<u>\$ 6,024,711</u>	<u>\$ 525,652</u>	<u>\$ 6,550,363</u>		
Net position:					
Net investment in capital assets				1,503,173	1,503,173
Restricted for debt service				425,821	425,821
Unrestricted				<u>5,906,419</u>	<u>5,906,419</u>
Total net position				<u>\$ 7,835,413</u>	<u>\$ 7,835,413</u>

**Harris County Municipal Utility District No. 188**  
**Statement of Activities and Governmental Funds Revenues,**  
**Expenditures and Changes in Fund Balances**  
**Year Ended July 31, 2021**

	General Fund	Debt Service Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>					
Property taxes	\$ 640,752	\$ 1,083,260	\$ 1,724,012	\$ (575)	\$ 1,723,437
Sales tax rebates	55,784	-	55,784	(44)	55,740
Water service	596,714	-	596,714	-	596,714
Sewer service	471,470	-	471,470	-	471,470
Regional water fee	771,976	-	771,976	-	771,976
Penalty and interest	390	10,418	10,808	-	10,808
Tap connection and inspection fees	18,187	-	18,187	-	18,187
Investment income	15,141	1,833	16,974	14,879	31,853
Other income	317	-	317	-	317
Total revenues	<u>2,570,731</u>	<u>1,095,511</u>	<u>3,666,242</u>	<u>14,260</u>	<u>3,680,502</u>
<b>Expenditures/Expenses</b>					
Service operations:					
Purchased services	1,181,049	-	1,181,049	-	1,181,049
Regional water fee	29,870	-	29,870	-	29,870
Professional fees	131,742	1,805	133,547	-	133,547
Contracted services	117,229	24,193	141,422	-	141,422
Utilities	65,184	-	65,184	-	65,184
Repairs and maintenance	607,110	-	607,110	-	607,110
Other expenditures	90,251	20,197	110,448	-	110,448
Capital outlay	121,622	-	121,622	(121,622)	-
Depreciation	-	-	-	496,232	496,232
Debt service:					
Principal retirement	-	850,000	850,000	(850,000)	-
Interest and fees	-	285,750	285,750	10,008	295,758
Debt issuance costs	22,500	-	22,500	-	22,500
Total expenditures/expenses	<u>2,366,557</u>	<u>1,181,945</u>	<u>3,548,502</u>	<u>(465,382)</u>	<u>3,083,120</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>					
	204,174	(86,434)	117,740	479,642	
<b>Other Financing Sources</b>					
Capital contribution refund	49,188	-	49,188	(49,188)	
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>					
	253,362	(86,434)	166,928	(166,928)	
<b>Change in Net Position</b>					
				597,382	597,382
<b>Fund Balances/Net Position</b>					
Beginning of year	5,336,162	593,844	5,930,006	-	7,238,031
End of year	<u>\$ 5,589,524</u>	<u>\$ 507,410</u>	<u>\$ 6,096,934</u>	<u>\$ 0</u>	<u>\$ 7,835,413</u>

# Harris County Municipal Utility District No. 188

## Notes to Financial Statements

### July 31, 2021

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

Harris County Municipal Utility District No. 188 (the District) was created by an order of the Texas Water Rights Commission, now known as the Texas Commission on Environmental Quality (the Commission), on March 11, 1980. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate waterworks, wastewater and drainage facilities and to provide such facilities and services to the customers of the District.

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

#### ***Reporting Entity***

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

#### ***Government-wide and Fund Financial Statements***

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

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

# Harris County Municipal Utility District No. 188

## Notes to Financial Statements

### July 31, 2021

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

The District presents the following major governmental funds:

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

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

#### **Fund Balances – Governmental Funds**

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

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

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

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

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

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

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

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

***Measurement Focus and Basis of Accounting***

**Government-wide Financial Statements**

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

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

**Fund Financial Statements**

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

***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.

# Harris County Municipal Utility District No. 188

## Notes to Financial Statements

July 31, 2021

### ***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 outflows of resources and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses/expenditures during the reporting period. Actual results could differ from those estimates.

### ***Investments and Investment Income***

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

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

### ***Property Taxes***

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

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended July 31, 2021, include collections during the current period or within 60 days of year-end related to the 2020 and prior years' tax levies.

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 July 31, 2021, the 2020 tax levy is considered earned during the current fiscal year. 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:

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

**Deferred Amount on Debt Refundings**

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

**Debt Issuance Costs**

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



**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

***Long-term Obligations***

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

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

***Net Position/Fund Balances***

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

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

***Reconciliation of Government-wide and Fund Financial Statements***

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

Capital assets used in governmental activities are not financial resources and are not reported in the funds.	\$ 11,146,635
Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements.	11,602
Deferred amount on debt refundings for governmental activities are not financial resources and are not reported in the funds.	410,281
Amounts due from the West Harris County Regional Water Authority (the Authority) and the City of Houston (the City) are not receivable in the current period and are not reported in the funds.	312,621

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds.	\$ (88,917)
Long-term debt obligations are not due and payable in the current period and are not reported in the funds.	<u>(10,053,743)</u>
Adjustment to fund balances to arrive at net position.	<u>\$ 1,738,479</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.	\$ 166,928
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 exceeded capital outlay expenditures in the current period.	(374,610)
Governmental funds report principal payments on debt as expenditures. For the statement of activities, these transactions do not have an effect on net position.	850,000
Revenues collected in the current year, which have previously been reported in the statement of activities, are reported as revenues in the governmental funds.	(619)
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.	(10,008)
Capital contribution refund is another financing source in the governmental funds, but is a reduction of funds due from the Authority and an increase to investment income in the government-wide financial statements.	<u>(34,309)</u>
Change in net position of governmental activities.	<u>\$ 597,382</u>

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

**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 July 31, 2021, none of the District's bank balances were exposed to custodial credit risk.

***Investments***

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

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

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

The District also invests in TexSTAR, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Directors, made up of participants and representatives of the administrator and investment manager, has oversight of TexSTAR.

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

At July 31, 2021, 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	\$ 2,231,941	\$ 2,231,941	\$ -	\$ -	\$ -
TexSTAR	<u>1,034,517</u>	<u>1,034,517</u>	<u>-</u>	<u>-</u>	<u>-</u>
Totals	<u>\$ 3,266,458</u>	<u>\$ 3,266,458</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 July 31, 2021, 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 previously are included in the balance sheet at July 31, 2021, as follows:

Carrying value:	
Deposits	\$ 3,045,674
Investments	<u>3,266,458</u>
Total	<u>\$ 6,312,132</u>

Included in the following statement of net position captions:

Cash	\$ 1,131,444
Certificates of deposit	1,914,230
Short-term investments	<u>3,266,458</u>
Total	<u>\$ 6,312,132</u>

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

**Investment Income**

Investment income of \$31,853 for the year ended July 31, 2021, consisted of \$16,974 of interest income on deposits and investments and \$14,879 of interest income on capital contribution to the Authority.

**Note 3: Capital Assets**

A summary of changes in capital assets for the year ended July 31, 2021, is presented as follows:

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Additions</b>	<b>Balances, End of Year</b>
Capital assets, non-depreciable:			
Land and improvements	\$ 3,603,283	\$ -	\$ 3,603,283
Construction in progress	-	117,417	117,417
Total capital assets, non-depreciable	<u>3,603,283</u>	<u>117,417</u>	<u>3,720,700</u>
Capital assets, depreciable:			
Water production and distribution facilities	5,313,120	-	5,313,120
Wastewater collection and treatment facilities	9,129,311	4,205	9,133,516
Parks and recreational facilities	1,549,048	-	1,549,048
Total capital assets, depreciable	<u>15,991,479</u>	<u>4,205</u>	<u>15,995,684</u>
Less accumulated depreciation:			
Water production and distribution facilities	(2,775,984)	(150,121)	(2,926,105)
Wastewater collection and treatment facilities	(5,082,508)	(217,574)	(5,300,082)
Parks and recreational facilities	(215,025)	(128,537)	(343,562)
Total accumulated depreciation	<u>(8,073,517)</u>	<u>(496,232)</u>	<u>(8,569,749)</u>
Total governmental activities, net	<u>\$ 11,521,245</u>	<u>\$ (374,610)</u>	<u>\$ 11,146,635</u>

**Note 4: Long-term Liabilities**

Changes in long-term liabilities for the year ended July 31, 2021, were as follows.

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

<b>Governmental Activities</b>	<b>Balances, Beginning of Year</b>	<b>Decreases</b>	<b>Balances, End of Year</b>	<b>Amounts Due in One Year</b>
Bonds payable:				
General obligation bonds	\$ 10,895,000	\$ 850,000	\$ 10,045,000	\$ 890,000
Add premiums on bonds	84,298	10,990	73,308	-
Less discounts on bonds	67,907	3,342	64,565	-
Total governmental activities long-term liabilities	<u>\$ 10,911,391</u>	<u>\$ 857,648</u>	<u>\$ 10,053,743</u>	<u>\$ 890,000</u>

**General Obligation Bonds**

	<b>Refunding Series 2013</b>	<b>Refunding Series 2016</b>
Amounts outstanding, July 31, 2021	\$1,470,000	\$8,575,000
Interest rates	2.00% to 3.50%	2.00% to 3.00%
Maturity dates, serially beginning/ending	April 1, 2022/2027	April 1, 2022/2036
Interest payment dates	October 1/ April 1	October 1/ April 1
Callable dates*	April 1, 2022	April 1, 2022

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

**Annual Debt Service Requirements**

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at July 31, 2021.

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

Year	Principal	Interest	Total
2022	\$ 890,000	\$ 266,750	\$ 1,156,750
2023	900,000	246,800	1,146,800
2024	940,000	225,425	1,165,425
2025	985,000	203,100	1,188,100
2026	705,000	179,650	884,650
2027-2031	2,730,000	643,663	3,373,663
2032-2036	<u>2,895,000</u>	<u>267,450</u>	<u>3,162,450</u>
Total	<u>\$ 10,045,000</u>	<u>\$ 2,032,838</u>	<u>\$ 12,077,838</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:

Water, sewer and drainage facilities	\$ 33,050,000*
Recreational facilities	7,115,000
Bonds sold – water, sewer and drainage facilities	25,035,000
Refunding bonds voted	20,000,000
Refunding bond authorization issued	1,825,000

\*Includes bonds authorized in elections held in 1981, 1983, 1989 and 2006.

**Note 5: Significant Bond Resolution and Commission Requirements**

The Bond Resolutions 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 July 31, 2021, the District levied an ad valorem debt service tax at the rate of \$0.22 per \$100 of assessed valuation, which resulted in a tax levy of \$1,116,708 on the taxable valuation of \$507,594,355 for the 2020 tax year. The interest and principal requirements to be paid from the tax revenues are \$1,125,750, of which \$992,375 has been paid and \$133,375 is due October 1, 2021. The District will utilize available debt service fund resources to satisfy the requirements.

# Harris County Municipal Utility District No. 188

## Notes to Financial Statements

July 31, 2021

### Note 6: Maintenance Taxes

At an election held November 7, 2006, voters authorized a maintenance tax not to exceed \$1.50 per \$100 valuation on all property within the District subject to taxation in lieu of the \$0.25 per \$100 valuation authorized by voters in an election in 1980. During the year ended July 31, 2021, the District levied an ad valorem maintenance tax at the rate of \$0.1300 per \$100 of assessed valuation, which resulted in a tax levy of \$659,872 on the taxable valuation of \$507,594,355 for the 2020 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

### Note 7: Risk Management

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. The District has not significantly reduced insurance coverage or had settlements which exceeded coverage amounts in the past three fiscal years.

### Note 8: Surface Water Conversion

#### *Copperfield Water Consortium*

The District is a participant in the Copperfield Water Consortium (the Consortium), which is a group of utility districts who are included within the boundaries of the West Harris County Regional Water Authority (the Authority) and are, therefore, a part of the Authority's groundwater reduction plan. Participants in the Consortium include the District, Spencer Road Public Utility District and Harris County Municipal Utility District Nos. 162, 163, 179, 186 and 208 (the Participants).

In 2002, the Participants entered into a Water Trunkline Financing Agreement (the Agreement) with the Authority. Under the terms of the Agreement, the Participants are required to pay a pro rata share of the costs associated with constructing surface water transmission facilities to serve the Participants. The Agreement required the District to make a capital contribution to the Authority of \$731,281 and the District is receiving repayment through credits for District pumpage fees and water payments as they become due each year. In addition, any amounts owed to the District that remain after the credits will be paid to the District. These repayments accrue interest at 4.547 percent per year and are being repaid with interest only beginning in 2003 and with principal and interest from 2017 through 2029. At July 31, 2021, the repayments outstanding are as follows.



**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

Year	Amount
2022	\$ 49,188
2023	49,188
2024	49,188
2025	49,188
2026	49,188
Thereafter	117,929
	363,869
Less interest	55,358
Remaining principal	\$ 308,511

***Regional Water Authority***

The District is within the Authority, which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of July 31, 2021, the Authority was billing the District \$3.45 per 1,000 gallons of water pumped from its wells and \$3.85 per 1,000 gallons for surface water received. These amounts are subject to future increases.

**Note 9: Contracts With Other Districts**

***Regional Wastewater Treatment Contract***

On November 1, 1979, and amended on July 1, 1985, November 1, 1989, and December 15, 1999, the District entered into an agreement with District Nos. 162, 163, 179, 186 and 208 for the construction and operation of a regional wastewater treatment facility for a period of 40 years. On November 1, 2019 an extension of the term of the agreement was approved for an additional 20 years, until November 1, 2039.

Under the terms of the agreement, each district owns an individual interest in the Copperfield Sewage Treatment Plant (the Plant), and an Advisory Committee (the Committee) is empowered to operate the Plant for the benefit of its Participants. The Committee is composed of members of the Board of Directors of the participating districts.

**Harris County Municipal Utility District No. 188**  
**Notes to Financial Statements**  
**July 31, 2021**

**Capacity Ownership**

At July 31, 2021, the capacity of the Plant was 4,600,000 gallons per day. The District owned 1,300,000 gallons per day of such capacity.

The following represents each Participant's capacity and percentage of ownership after the completion of Phase 4:

Participants	Gallons-per-day Capacity	Percentage
District No. 162	460,000	10.00 %
District No. 163	663,000	14.42
District No. 179	750,000	16.30
District No. 186	1,005,000	21.85
District No. 188	1,300,000	28.26
District No. 208	422,000	9.17
Totals	4,600,000	100.00 %

**Operations**

All operating costs are shared by the Participants based on equivalent connections. During the current year, the District incurred costs of \$369,301 under the terms of the agreement.

The condensed audited financial information extracted from financial statements audited by another public accounting firm for the general fund of the Plant as of and for the year ended February 28, 2021, is as follows:

Total assets	\$ 755,548
Total liabilities	\$ 170,207
Total fund balance	585,341
Total liabilities and fund balance	\$ 755,548
Total revenues	\$ 1,930,864
Total expenditures	(1,889,657)
Excess revenues	\$ 41,207

# Harris County Municipal Utility District No. 188

## Notes to Financial Statements

July 31, 2021

The District's proportionate share of such financial information has not been determined. The District's share of total fund equity is not considered material to the financial position of the District, since it would not be considered an available asset if determinable.

### **Note 10: Strategic Partnership Agreement**

Effective April 9, 2007, the District and the City entered into a Strategic Partnership Agreement (the SPA), 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 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 received \$55,740 from the City under the terms of the Agreement.

### **Note 11: Uncertainties**

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

## **Required Supplementary Information**

**Harris County Municipal Utility District No. 188**  
**Budgetary Comparison Schedule – General Fund**  
**Year Ended July 31, 2021**

	<b>Original Budget</b>	<b>Actual</b>	<b>Variance Favorable (Unfavorable)</b>
<b>Revenues</b>			
Property taxes	\$ 611,000	\$ 640,752	\$ 29,752
Sales tax rebates	40,000	55,784	15,784
Water service	600,000	596,714	(3,286)
Sewer service	420,000	471,470	51,470
Regional water fee	695,000	771,976	76,976
Penalty and interest	15,000	390	(14,610)
Tap connection and inspection fees	20,000	18,187	(1,813)
Investment income	20,000	15,141	(4,859)
Other income	-	317	317
	<u>2,421,000</u>	<u>2,570,731</u>	<u>149,731</u>
<b>Expenditures</b>			
Service operations:			
Purchased services	1,073,000	1,181,049	(108,049)
Regional water fee	30,000	29,870	130
Professional fees	169,000	131,742	37,258
Contracted services	118,200	117,229	971
Utilities	45,000	65,184	(20,184)
Repairs and maintenance	533,200	607,110	(73,910)
Other expenditures	84,000	90,251	(6,251)
Capital outlay	1,109,000	121,622	987,378
Debt service, debt issuance costs	-	22,500	(22,500)
	<u>3,161,400</u>	<u>2,366,557</u>	<u>794,843</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(740,400)	204,174	944,574
<b>Other Financing Sources</b>			
Capital contribution refund	49,188	49,188	-
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	(691,212)	253,362	944,574
<b>Fund Balance, Beginning of Year</b>	<u>5,336,162</u>	<u>5,336,162</u>	<u>-</u>
<b>Fund Balance, End of Year</b>	<u>\$ 4,644,950</u>	<u>\$ 5,589,524</u>	<u>\$ 944,574</u>

**Harris County Municipal Utility District No. 188**  
**Notes to Required Supplementary Information**  
**July 31, 2021**

***Budgets and Budgetary Accounting***

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2021.

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. 188**  
**Other Schedules Included Within This Report**  
**July 31, 2021**

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

- [X] Notes Required by the Water District Accounting Manual  
See "Notes to Financial Statements," Pages 12-27
- [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. 188

## Schedule of Services and Rates

### Year Ended July 31, 2021

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

2. Retail service providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate Per 1,000 Gallons Over Minimum</u>	<u>Usage Levels</u>
Water:	\$ 12.00	5,000	N	\$ 1.50	5,001 to 10,000
				\$ 2.00	10,001 to 20,000
				\$ 2.25	20,001 to 30,000
				\$ 3.00	30,001 to 50,000
				\$ 4.00	50,001 to No Limit
Wastewater:	\$ 12.00	0	Y		
Regional water fee:	\$ 3.85	1	N	\$ 3.85	1,000 to No Limit

Does the District employ winter averaging for wastewater usage? Yes  No

Total charges per 10,000 gallons usage (including fees): Water \$ 58.00 Wastewater \$ 12.00

b. Water and wastewater retail connections:

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFC*</u>
Unmetered	-	-	x1.0	-
≤ 3/4"	566	560	x1.0	560
1"	13	13	x2.5	33
1 1/2"	25	25	x5.0	125
2"	25	25	x8.0	200
3"	10	10	x15.0	150
4"	1	1	x25.0	25
6"	-	-	x50.0	-
8"	4	4	x80.0	320
10"	-	-	x115.0	-
Total water	644	638		1,413
Total wastewater	602	602	x1.0	602

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

Gallons pumped into the system:	203,410
Gallons billed to customers:	189,733
Water accountability ratio (gallons billed/gallons pumped):	93.28%

\*"ESFC" means equivalent single-family connections

**Harris County Municipal Utility District No. 188**  
**Schedule of General Fund Expenditures**  
**Year Ended July 31, 2021**

<b>Personnel (including benefits)</b>		\$ -
<b>Professional Fees</b>		
Auditing	\$ 19,300	
Legal	82,848	
Engineering	28,794	
Financial advisor	800	131,742
<b>Purchased Services for Resale</b>		
Bulk water and wastewater service purchases		1,181,049
<b>Regional Water Fee</b>		29,870
<b>Contracted Services</b>		
Bookkeeping	17,475	
General manager	-	
Appraisal district	-	
Tax collector	-	
Security	-	
Other contracted services	99,754	117,229
<b>Utilities</b>		65,184
<b>Repairs and Maintenance</b>		607,110
<b>Administrative Expenditures</b>		
Directors' fees	13,800	
Office supplies	17,965	
Insurance	22,760	
Other administrative expenditures	35,726	90,251
<b>Capital Outlay</b>		
Capitalized assets	121,622	
Expenditures not capitalized	-	121,622
<b>Tap Connection Expenditures</b>		-
<b>Solid Waste Disposal</b>		-
<b>Fire Fighting</b>		-
<b>Debt Service</b>		
Debt issuance costs		22,500
<b>Parks and Recreation</b>		-
<b>Other Expenditures</b>		-
Total expenditures		\$ 2,366,557

**Harris County Municipal Utility District No. 188**  
**Schedule of Temporary Investments**  
**July 31, 2021**

	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Face Amount</b>	<b>Accrued Interest Receivable</b>
<b>General Fund</b>				
Certificates of Deposit				
No. 95900011932105	0.70%	09/11/21	\$ 246,687	\$ 1,528
No. 4188670	0.30%	08/19/21	248,670	333
No. 11920	0.20%	08/21/21	240,420	212
No. 6000013455	0.35%	09/10/21	247,475	335
No. 585	0.48%	10/07/21	242,521	364
No. 5000019918	0.40%	10/14/21	240,000	281
No. 1852001823	0.25%	12/24/21	241,806	74
TexPool	0.02%	Demand	2,001,827	-
TexSTAR	0.01%	Demand	1,034,517	-
			<u>4,743,923</u>	<u>3,127</u>
<b>Debt Service Fund</b>				
Certificate of Deposit				
No. 6000005600	0.35%	11/05/21	206,651	168
TexPool	0.02%	Demand	230,114	-
			<u>436,765</u>	<u>168</u>
Totals			<u>\$ 5,180,688</u>	<u>\$ 3,295</u>

**Harris County Municipal Utility District No. 188**  
**Analysis of Taxes Levied and Receivable**  
**Year Ended July 31, 2021**

	<b>Maintenance Taxes</b>	<b>Debt Service Taxes</b>
<b>Receivable, Beginning of Year</b>	\$ 4,383	\$ 7,794
Additions and corrections to prior years' taxes	(19,229)	(33,914)
Adjusted receivable, beginning of year	(14,846)	(26,120)
 <b>2020 Original Tax Levy</b>	 625,851	 1,059,133
Additions and corrections	34,021	57,575
Adjusted tax levy	659,872	1,116,708
Total to be accounted for	645,026	1,090,588
Tax collections: Current year	(657,386)	(1,112,500)
Prior years	16,634	29,240
Receivable, end of year	\$ 4,274	\$ 7,328
 <b>Receivable, by Years</b>		
2020	\$ 2,486	\$ 4,208
2019	386	683
2018	162	298
2017	144	276
2016	149	309
2015	388	924
2014	189	252
2013	125	112
2012	37	14
2011	126	105
2010	82	147
Receivable, end of year	\$ 4,274	\$ 7,328

**Harris County Municipal Utility District No. 188**  
**Analysis of Taxes Levied and Receivable (Continued)**  
**Year Ended July 31, 2021**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
<b>Property Valuations</b>				
Land	\$ 99,973,401	\$ 90,585,141	\$ 90,291,777	\$ 80,234,811
Improvements	402,570,093	371,998,345	336,670,636	337,928,828
Personal property	76,160,994	67,074,933	56,199,673	56,169,766
Exemptions	<u>(71,110,133)</u>	<u>(62,383,595)</u>	<u>(52,726,537)</u>	<u>(51,079,293)</u>
Total property valuations	<u>\$ 507,594,355</u>	<u>\$ 467,274,824</u>	<u>\$ 430,435,549</u>	<u>\$ 423,254,112</u>
<b>Tax Rates per \$100 Valuation</b>				
Debt service tax rates	\$ 0.2200	\$ 0.2300	\$ 0.2400	\$ 0.2500
Maintenance tax rates*	<u>0.1300</u>	<u>0.1300</u>	<u>0.1300</u>	<u>0.1300</u>
Total tax rates per \$100 valuation	<u>\$ 0.3500</u>	<u>\$ 0.3600</u>	<u>\$ 0.3700</u>	<u>\$ 0.3800</u>
<b>Tax Levy</b>	<u>\$ 1,776,580</u>	<u>\$ 1,682,189</u>	<u>\$ 1,592,611</u>	<u>\$ 1,608,366</u>
<b>Percent of Taxes Collected to Taxes Levied**</b>				
	<u>99%</u>	<u>99%</u>	<u>99%</u>	<u>99%</u>

\*Maximum tax rate approved by voters: \$1.50 on November 7, 2006

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

**Harris County Municipal Utility District No. 188**  
**Schedule of Long-term Debt Service Requirements by Years**  
**July 31, 2021**

<b>Due During Fiscal Years Ending July 31</b>	<b>Refunding Series 2013</b>		
	<b>Principal Due April 1</b>	<b>Interest Due October 1, April 1</b>	<b>Total</b>
2022	\$ 215,000	\$ 50,375	\$ 265,375
2023	225,000	43,925	268,925
2024	235,000	36,050	271,050
2025	250,000	27,825	277,825
2026	265,000	19,075	284,075
2027	280,000	9,800	289,800
Totals	\$ 1,470,000	\$ 187,050	\$ 1,657,050

**Harris County Municipal Utility District No. 188**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**July 31, 2021**

Due During Fiscal Years Ending July 31	Refunding Series 2016		
	Principal Due April 1	Interest Due October 1, April 1	Total
2022	\$ 675,000	\$ 216,375	\$ 891,375
2023	675,000	202,875	877,875
2024	705,000	189,375	894,375
2025	735,000	175,275	910,275
2026	440,000	160,575	600,575
2027	455,000	150,675	605,675
2028	475,000	139,300	614,300
2029	490,000	127,425	617,425
2030	505,000	115,175	620,175
2031	525,000	101,288	626,288
2032	540,000	86,850	626,850
2033	555,000	70,650	625,650
2034	565,000	54,000	619,000
2035	605,000	37,050	642,050
2036	630,000	18,900	648,900
Totals	\$ 8,575,000	\$ 1,845,788	\$ 10,420,788

**Harris County Municipal Utility District No. 188**  
**Schedule of Long-term Debt Service Requirements by Years (Continued)**  
**July 31, 2021**

<b>Due During Fiscal Years Ending July 31</b>	<b>Annual Requirements For All Series</b>		
	<b>Total Principal Due</b>	<b>Total Interest Due</b>	<b>Total Principal and Interest Due</b>
2022	\$ 890,000	\$ 266,750	\$ 1,156,750
2023	900,000	246,800	1,146,800
2024	940,000	225,425	1,165,425
2025	985,000	203,100	1,188,100
2026	705,000	179,650	884,650
2027	735,000	160,475	895,475
2028	475,000	139,300	614,300
2029	490,000	127,425	617,425
2030	505,000	115,175	620,175
2031	525,000	101,288	626,288
2032	540,000	86,850	626,850
2033	555,000	70,650	625,650
2034	565,000	54,000	619,000
2035	605,000	37,050	642,050
2036	630,000	18,900	648,900
Totals	<u>\$ 10,045,000</u>	<u>\$ 2,032,838</u>	<u>\$ 12,077,838</u>



**Harris County Municipal Utility District No. 188**  
**Changes in Long-term Bonded Debt**  
**Year Ended July 31, 2021**

	<b>Bond Issues</b>		
	<b>Refunding Series 2013</b>	<b>Refunding Series 2016</b>	<b>Totals</b>
Interest rates	2.00% to 3.50%	2.00% to 3.00%	
Dates interest payable	October 1/ April 1	October 1/ April 1	
Maturity dates	April 1, 2022/2027	April 1, 2022/2036	
Bonds outstanding, beginning of current year	\$ 1,670,000	\$ 9,225,000	\$ 10,895,000
Retirements, principal	200,000	650,000	850,000
Bonds outstanding, end of current year	\$ 1,470,000	\$ 8,575,000	\$ 10,045,000
Interest paid during current year	\$ 55,375	\$ 229,375	\$ 284,750
Paying agent's name and address:			
<b>Series 2013</b>	- Amegy Bank National Association, Houston, Texas		
<b>Series 2016</b>	- Amegy Bank National Association, Houston, Texas		
Bond authority:			
	<b>Tax Bonds</b>	<b>Park Bonds</b>	<b>Refunding Bonds</b>
Amount authorized by voters	\$ 33,050,000	\$ 7,115,000	\$ 20,000,000
Amount issued	\$ 25,035,000	\$ -	\$ 1,825,000
Remaining authorization to be issued	\$ 8,015,000	\$ 7,115,000	\$ 18,175,000
Debt service fund cash and temporary investment balances as of July 31, 2021:			\$ 518,156
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 805,189

# Harris County Municipal Utility District No. 188

## Comparative Schedule of Revenues and Expenditures – General Fund

### Five Years Ended July 31,

	Amounts				
	2021	2020	2019	2018	2017
<b>General Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 640,752	\$ 598,354	\$ 546,001	\$ 541,383	\$ 531,405
Sales tax rebates	55,784	91,229	68,248	53,869	42,328
Water service	596,714	623,676	607,292	593,534	621,758
Sewer service	471,470	448,473	437,049	453,218	419,430
Regional water fee	771,976	792,163	693,882	639,150	572,471
Bulk water sales	-	-	-	988	-
Penalty and interest	390	9,468	13,587	16,702	18,059
Tap connection and inspection fees	18,187	289,630	198,680	661	12,760
Investment income	15,141	81,204	97,865	47,408	22,195
Other income	317	40,332	208	153	140
Total revenues	<u>2,570,731</u>	<u>2,974,529</u>	<u>2,662,812</u>	<u>2,347,066</u>	<u>2,240,546</u>
<b>Expenditures</b>					
Service operations:					
Purchased services	1,181,049	1,146,663	1,015,704	942,227	875,947
Regional water fees	29,870	18,005	11,950	44,828	14,246
Professional fees	131,742	140,511	128,868	120,567	168,299
Contracted services	117,229	123,536	121,311	126,096	119,482
Utilities	65,184	46,783	52,134	56,450	44,008
Repairs and maintenance	607,110	653,401	597,957	581,263	578,552
Other expenditures	90,251	64,645	82,782	85,812	76,133
Tap connections	-	99,690	63,700	3,500	8,800
Capital outlay	121,622	774,361	650,946	49,160	89,016
Debt service, debt issuance costs	22,500	-	-	-	-
Total expenditures	<u>2,366,557</u>	<u>3,067,595</u>	<u>2,725,352</u>	<u>2,009,903</u>	<u>1,974,483</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	<u>204,174</u>	<u>(93,066)</u>	<u>(62,540)</u>	<u>337,163</u>	<u>266,063</u>
<b>Other Financing Sources (Uses)</b>					
Interfund transfers out	-	-	-	(6,742)	-
Capital contribution refund	49,188	49,188	49,188	49,188	49,188
Developer advances received	-	-	133,381	-	-
Repayment of developer advances	-	(133,381)	-	-	-
Total other financing sources (uses)	<u>49,188</u>	<u>(84,193)</u>	<u>182,569</u>	<u>42,446</u>	<u>49,188</u>
<b>Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses</b>	<u>253,362</u>	<u>(177,259)</u>	<u>120,029</u>	<u>379,609</u>	<u>315,251</u>
<b>Fund Balance, Beginning of Year</b>	<u>5,336,162</u>	<u>5,513,421</u>	<u>5,393,392</u>	<u>5,013,783</u>	<u>4,698,532</u>
<b>Fund Balance, End of Year</b>	<u>\$ 5,589,524</u>	<u>\$ 5,336,162</u>	<u>\$ 5,513,421</u>	<u>\$ 5,393,392</u>	<u>\$ 5,013,783</u>
<b>Total Active Retail Water Connections</b>	<u>638</u>	<u>635</u>	<u>629</u>	<u>619</u>	<u>622</u>
<b>Total Active Retail Wastewater Connections</b>	<u>602</u>	<u>600</u>	<u>595</u>	<u>581</u>	<u>584</u>

**Percent of Fund Total Revenues**

<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
24.9 %	20.1 %	20.5 %	23.1 %	23.7 %
2.2	3.1	2.6	2.3	1.9
23.2	21.0	22.8	25.3	27.8
18.4	15.1	16.4	19.3	18.7
30.0	26.6	26.1	27.2	25.5
-	-	-	0.1	-
0.0	0.3	0.5	0.7	0.8
0.7	9.7	7.5	0.0	0.6
0.6	2.7	3.6	2.0	1.0
0.0	1.4	0.0	0.0	0.0
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
45.9	38.5	38.1	40.1	39.1
1.2	0.6	0.5	1.9	0.6
5.1	4.7	4.8	5.1	7.5
4.6	4.2	4.6	5.4	5.3
2.6	1.6	2.0	2.4	2.0
23.6	22.0	22.5	24.8	25.8
3.5	2.2	3.1	3.7	3.4
-	3.3	2.4	0.1	0.4
4.7	26.0	24.4	2.1	4.0
0.9	-	-	-	-
<u>92.1</u>	<u>103.1</u>	<u>102.4</u>	<u>85.6</u>	<u>88.1</u>
<u>7.9 %</u>	<u>(3.1) %</u>	<u>(2.4) %</u>	<u>14.4 %</u>	<u>11.9 %</u>

**Harris County Municipal Utility District No. 188**  
**Comparative Schedule of Revenues and Expenditures – Debt Service Fund**  
**Five Years Ended July 31,**

	Amounts				
	2021	2020	2019	2018	2017
<b>Debt Service Fund</b>					
<b>Revenues</b>					
Property taxes	\$ 1,083,260	\$ 1,056,708	\$ 1,007,533	\$ 1,041,235	\$ 1,100,806
Penalty and interest	10,418	17,109	7,509	19,947	6,791
Investment income	1,833	5,956	12,111	5,518	3,760
Total revenues	<u>1,095,511</u>	<u>1,079,773</u>	<u>1,027,153</u>	<u>1,066,700</u>	<u>1,111,357</u>
<b>Expenditures</b>					
Current:					
Professional fees	1,805	6,846	3,752	2,496	1,428
Contracted services	24,193	25,833	19,988	25,275	22,130
Other expenditures	20,197	3,570	14,287	2,593	2,601
Debt service:					
Principal retirement	850,000	810,000	770,000	735,000	740,000
Interest and fees	285,750	313,075	341,338	368,588	334,019
Debt issuance costs	-	-	-	-	2,500
Total expenditures	<u>1,181,945</u>	<u>1,159,324</u>	<u>1,149,365</u>	<u>1,133,952</u>	<u>1,102,678</u>
<b>Excess (Deficiency) of Revenues Over Expenditures</b>	(86,434)	(79,551)	(122,212)	(67,252)	8,679
<b>Fund Balance, Beginning of Year</b>	<u>593,844</u>	<u>673,395</u>	<u>795,607</u>	<u>862,859</u>	<u>854,180</u>
<b>Fund Balance, End of Year</b>	<u>\$ 507,410</u>	<u>\$ 593,844</u>	<u>\$ 673,395</u>	<u>\$ 795,607</u>	<u>\$ 862,859</u>

**Percent of Fund Total Revenues**

<b>2021</b>	<b>2020</b>	<b>2019</b>	<b>2018</b>	<b>2017</b>
98.9 %	97.8 %	98.1 %	97.6 %	99.0 %
0.9	1.6	0.7	1.9	0.6
<u>0.2</u>	<u>0.6</u>	<u>1.2</u>	<u>0.5</u>	<u>0.4</u>
<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
0.2	0.6	0.4	0.2	0.1
2.2	2.4	1.9	2.4	2.0
1.8	0.3	1.4	0.2	0.2
77.6	75.0	75.0	68.9	66.6
26.1	29.0	33.2	34.6	30.1
<u>-</u>	<u>-</u>	<u>-</u>	<u>-</u>	<u>0.2</u>
<u>107.9</u>	<u>107.3</u>	<u>111.9</u>	<u>106.3</u>	<u>99.2</u>
<u>(7.9) %</u>	<u>(7.3) %</u>	<u>(11.9) %</u>	<u>(6.3) %</u>	<u>0.8 %</u>

**Harris County Municipal Utility District No. 188**  
**Board Members, Key Personnel and Consultants**  
**Year Ended July 31, 2021**

Complete District mailing address:	Harris County Municipal Utility District No. 188 c/o Allen Boone Humphries Robinson LLP 3200 Southwest Freeway, Suite 2600 Houston, Texas 77027
District business telephone number:	713.860.6400
Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054):	May 20, 2020
Limit on fees of office that a director may receive during a fiscal year:	\$ 7,200

Board Members	Term of Office Elected & Expires	Fees*	Expense Reimbursements	Title at Year-end
Julie S. Tysor	Elected 05/20- 05/24	\$ 3,300	\$ 0	President
James Gary Henderson, Jr.	Elected 05/20- 05/24	4,800	1,127	Vice President
Walter J. Zelop	Elected 05/18- 05/22	1,650	0	Secretary
Deana Day	Elected 05/18- 05/22	1,950	0	Assistant Vice President
Jack L. Baber	Elected 05/18- 05/22	2,100	0	Assistant Secretary

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

**Harris County Municipal Utility District No. 188**  
**Board Members, Key Personnel and Consultants (Continued)**  
**Year Ended July 31, 2021**

<b>Consultants</b>	<b>Date Hired</b>	<b>Fees and Expense Reimbursements</b>	<b>Title</b>
Allen Boone Humphries Robinson LLP	07/26/03	\$ 88,927	Attorney
Assessments of the Southwest, Inc.	05/26/81	16,050	Tax Assessor/ Collector
BKD, LLP	06/18/86	19,300	Auditor
EHRA Engineering, Inc.	05/26/81	90,549	Engineer
The GMS Group, L.L.C.	12/20/95	800	Financial Advisor
H2O Consulting, Inc.	08/01/09	534,009	Operator
Harris County Appraisal District	Legislative Action	12,985	Appraiser
Myrtle Cruz, Inc.	05/13/82	19,293	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	03/20/96	1,805	Delinquent Tax Attorney
<b>Investment Officer</b>			
Mary Jarmon	11/20/13	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

SPECIMEN

**Notices (Unless Otherwise Specified by BAM)**

Email:

[claims@buildamerica.com](mailto:claims@buildamerica.com)

Address:

200 Liberty Street, 27th floor

New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN