

OFFICIAL STATEMENT DATED MAY 23, 2022

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 (DEFINED HEREIN).

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

Insured Ratings (AGM): S&P "AA"
Moody's "A1"
Underlying Rating: Moody's "Baa3"
See "MUNICIPAL BOND RATING" and
"MUNICIPAL BOND INSURANCE."

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 538

(A Political Subdivision of the State of Texas, located within Harris County)

\$3,100,000
Unlimited Tax Road Bonds
Series 2022

Dated Date: June 1, 2022

Interest Accrues: Date of Delivery

Due: September 1, as shown on inside cover

The \$3,100,000 Harris County Municipal Utility District No. 538 Unlimited Tax Road Bonds, Series 2022 (the "Bonds"), are obligations of Harris County Municipal Utility District No. 538 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or the interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest accrues from the Date of Delivery (defined herein), and is payable March 1, 2023, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to registered owners ("Registered Owners") as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are fully registered bonds in principal denominations of \$5,000 or any integral multiple thereof.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent/Registrar directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS—Book-Entry-Only System."



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP.

See "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover page hereof.

The Bonds are the first series of bonds to be issued by the District out of an aggregate \$74,484,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the "Road System") and for the refunding of bonds issued by the District for the Road System. Following the issuance of the Bonds, \$71,384,000 principal amount of unlimited tax bonds for the Road System and for the refunding of such bonds, \$161,973,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing water, sewer and drainage facilities to serve the District (the "Utility System") and for the refunding of bonds issued by the District for the Utility System, and \$31,604,300 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities (the "Parks") to serve the District and for the refunding of such bonds will remain authorized but unissued. See "THE BONDS—Authority for Issuance."

The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. See "THE BONDS—Source of Payment." The Bonds are subject to special investment risks described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered, when, as and if issued by the District and accepted by the Initial Purchaser, subject to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Bond Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about June 28, 2022 (the "Date of Delivery").

PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, AND INITIAL REOFFERING YIELDS

\$3,100,000

Unlimited Tax Road Bonds, Series 2022

<u>Maturity (September 1)</u>	<u>Principal Amount</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (a)</u>	<u>CUSIP Number (b)</u>
2023	\$ 50,000	6.50 %	2.60 %	41427E CB2
2024	75,000	6.50	2.80	41427E CC0
2025	80,000	6.50	3.00	41427E CD8
2026	85,000	6.50	3.15	41427E CE6
\$270,000 Term Bond due September 1, 2029		(c), 41427E CH9	(b), 6.000% Interest Rate, 3.20% Yield	(a)
\$300,000 Term Bond due September 1, 2032		(c), 41427E CL0	(b), 4.000% Interest Rate, 3.60% Yield	(a)
\$345,000 Term Bond due September 1, 2035		(c), 41427E CP1	(b), 4.000% Interest Rate, 4.00% Yield	(a)
\$255,000 Term Bond due September 1, 2037		(c), 41427E CR7	(b), 4.000% Interest Rate, 4.10% Yield	(a)
\$420,000 Term Bond due September 1, 2040		(c), 41427E CU0	(b), 4.000% Interest Rate, 4.20% Yield	(a)
\$480,000 Term Bond due September 1, 2043		(c), 41427E CX4	(b), 4.125% Interest Rate, 4.30% Yield	(a)
\$740,000 Term Bond due September 1, 2047		(c), 41427E DB1	(b), 4.250% Interest Rate, 4.35% Yield	(a)

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser (herein defined). Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers will be assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2029, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2027, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption of the Bonds."

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 or the Initial Purchaser.

All of the summaries of the statutes, resolutions, orders, contracts, audits, 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 Bond Counsel, for further information.

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 qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

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. 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 such information actually comes to its attention, the other matters described in this Official Statement, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT—Updating of Official Statement."

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

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 98.0630% of the par value thereof, which resulted in a net effective interest rate of 4.357178%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

Other than described in the Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Subject to certain restrictions described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser 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 THIS OFFERING, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities acts of any other jurisdictions. The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

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

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the

date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On March 18, 2022, Moody's announced it had upgraded AGM's insurance financial strength rating to "A1" (stable outlook) from "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

On October 20, 2021, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On July 8, 2021, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

Capitalization of AGM

At March 31, 2022:

- The policyholders' surplus of AGM was approximately \$2,909 million.
- The contingency reserve of AGM was approximately \$893 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,116 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiaries Assured Guaranty UK Limited ("AGUK") and Assured Guaranty (Europe) SA ("AGE").

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

Incorporation of Certain Documents by Reference

Portions of the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (filed by AGL with the SEC on February 25, 2022); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (filed by AGL with the SEC on May 6, 2022).

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Bonds shall be deemed incorporated by reference into this Official Statement and to be a part hereof from the respective dates of filing such documents. Copies of materials incorporated by reference are available over the internet at the SEC's website at <http://www.sec.gov>, at AGL's website at <http://www.assuredguaranty.com>, or will be provided upon request to Assured Guaranty Municipal Corp.: 1633 Broadway, New York, New York 10019, Attention: Communications Department (telephone (212) 974-0100). Except for the information referred to above, no information available on or through AGL's website shall be deemed to be part of or incorporated in this Official Statement.

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

Miscellaneous Matters

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

MUNICIPAL BOND RATING

The Bonds have received an insured rating of "AA" from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds have received an insured rating of "A1" from Moody's solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. Moody's has also assigned an underlying credit rating of "Baa3" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. The District will pay the rating fee associated with the District's underlying rating that will be charged by Moody's.

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The District.....Harris County Municipal Utility District No. 538 (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”

The Bonds.....The District’s \$3,100,000 Unlimited Tax Road Bonds, Series 2022 (the “Bonds”), are dated June 1, 2022, and mature serially on September 1 in each of the years 2023 through 2026, both inclusive, and as term bonds on September 1 in each of the years 2029, 2032, 2035, 2037, 2040, 2043 and 2047 (the “Term Bonds”) and in the principal amounts and pay interest at the rates set forth on the inside cover page hereof.

Interest on the Bonds accrues from the Date of Delivery (on or about June 28, 2022), at the rates set forth on the inside cover page hereof and is payable March 1, 2023, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. See “THE BONDS.”

Redemption of the Bonds.....The Bonds that mature on or after September 1, 2029, are subject to redemption, in whole or from time to time in part, on September 1, 2027, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption of the Bonds.”

Book-Entry-Only System.....The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (herein defined) thereof. Principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (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 “THE BONDS—Book-Entry-Only System.”

Authority for IssuanceThe Bonds are the first series of bonds to be issued by the District out of an aggregate \$74,484,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the “Road System”) and for the refunding of bonds issued by the District for the Road System. Following the issuance of the Bonds, \$71,384,000 principal amount of unlimited tax bonds for the Road System and for the refunding of such bonds, \$161,973,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing water, sewer and drainage facilities to serve the District (the “Utility System”) and for the refunding of bonds issued by the District for the Utility System, and \$31,604,300 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities (the “Parks”) to serve the District and for the refunding of such bonds will remain authorized but unissued.

The Bonds are issued by the District pursuant to the terms and conditions of a resolution authorizing the issuance of the Bonds (the “Bond Resolution”), Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, and an election held in the District on May 6, 2017.

Source of Payment.....The Bonds are payable from an annual ad valorem tax, unlimited as to rate or amount, levied against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. See "THE BONDS—Source of Payment." The District is authorized to levy separate taxes to pay debt service on bonds issued for the Road System and to pay debt service on bonds issued for the Utility System and Parks; both such taxes are unlimited as to rate or amount.

Payment RecordThe District has previously issued two series of unlimited tax bonds in the principal amount of \$12,240,000 for the Utility System, all of which remains outstanding (the "Outstanding Bonds") as of the date hereof. The District has never defaulted on its debt obligations. See "THE BONDS - Outstanding Bonds."

Use of Proceeds of the Bonds.....Proceeds of the Bonds will be used to reimburse the Developer (herein defined) for the costs set out herein under "THE BONDS—Use and Distribution of Proceeds of the Bonds." Additionally, proceeds of the Bonds will be used to pay eighteen (18) months of capitalized interest, developer interest and other costs associated with the issuance of the Bonds.

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

Municipal Bond Insurance and Ratings.....S&P Global Ratings (AGM Insured): "AA." Moody's Investors Service, Inc. (AGM Insured): "A1." Moody's Investors Service, Inc. (Underlying): "Baa3." See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING."

Bond CounselAllen Boone Humphries Robinson LLP, Houston, Texas.

Disclosure Counsel.....McCall, Parkhurst & Horton L.L.P., Houston, Texas.

Financial AdvisorRobert W. Baird & Co. Incorporated, Houston, Texas.

Paying Agent.....Zions Bancorporation, National Association, Houston, Texas.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

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 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.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State of Texas. 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.

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.

THE DISTRICT

Description.....The District is a political subdivision of the State of Texas, located entirely within the extraterritorial jurisdiction (“ETJ”) of the City of Houston, Texas. The District is located north of Interstate I-10 and west of Grand Parkway, just north of the City of Katy. Primary access to the District is provided by the Grand Parkway to F.M. 529. The District is a municipal utility district created by an Act of the 84th Legislature of the State of Texas, Regular Session, pursuant to Senate Bill 2013, codified as Chapter 7903 of the Texas Special District Local Laws Code, which was filed on June 18, 2015. The District was created as a municipal utility district under Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and operates under Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 395.96 acres. The District has submitted a petition to the City of Houston for the annexation of an approximately 154.32 acre tract of land (the “Annexation Tract”). Annexation of the Annexation Tract into the boundaries of the District is contingent upon approval by the City of Houston. See “THE DISTRICT.”

Development within the District.....The District is being developed as the residential community known as Katy Lakes. To date, approximately 164.56 acres within the District have been developed as 499 single-family lots in Katy Lakes Sections 1, 2, 3, and 5. As of May 10, 2022, development within the District consisted of approximately 340 completed homes (approximately 333 occupied, 1 unoccupied, and 6 model homes), approximately 70 homes under construction, and approximately 89 vacant, developed lots. The remainder of the District’s total acres consists of approximately 140.26 undevelopable acres and approximately 91.14 acres of future developable area. See “THE DEVELOPER,” “DEVELOPMENT OF THE DISTRICT,” and “THE DISTRICT.”

Developer.....Land within the District is being developed by Mini-B Inc. (the “Developer”). See “THE DEVELOPER,” and “DEVELOPMENT OF THE DISTRICT.”

Homebuilders Within the District.....Homebuilders who are active in the District include Castlerock Communities LP, Gehan Homes LTD, HistoryMaker Homes, Ashton Woods Homes, and Colina Homes. Prices of new homes being constructed in the District range from approximately \$224,000 to approximately \$475,000. See “DEVELOPMENT OF THE DISTRICT—Homebuilders within the District.”

INVESTMENT CONSIDERATIONS

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

**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2021 Certified Taxable Assessed Valuation	\$ 91,118,099	(a)
Estimated Taxable Valuation as of February 1, 2022	\$ 127,834,794	(b)
Direct Debt:		
The Outstanding Bonds.....	\$ 12,240,000	
The Bonds	<u>3,100,000</u>	
Total	\$ 15,340,000	
Estimated Overlapping Debt.....	<u>\$ 4,050,920</u>	(c)
Total Direct and Estimated Overlapping Debt	\$ 19,390,920	(c)
Direct Debt Ratios:		
As a percentage of 2021 Certified Taxable Assessed Valuation	16.84%	
As a percentage of Estimated Taxable Valuation as of February 1, 2022	12.00%	
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2021 Certified Taxable Assessed Valuation	21.28%	
As a percentage of Estimated Taxable Valuation as of February 1, 2022	15.17%	
Debt Service Funds Available (as of April 25, 2022):		
Utility System Debt Service Fund Balance.....	\$ 378,371	(d)
Road System Debt Service Fund Balance (upon delivery of the Bonds).....	\$ 197,625	(d,e)
Construction Fund Balance (as of April 25, 2022)	\$ 286,496	(f)
Operating Fund Balance (as of April 25, 2022)	\$ 1,266,619	
2021 Tax Rate per \$100 of Assessed Taxable Valuation		
Debt Service	\$ 0.33	
Maintenance and Operations.....	<u>1.12</u>	
Total	\$ 1.45	
Average Annual Debt Service Requirement (2022-2047)	\$ 878,135	(g)
Maximum Annual Debt Service Requirement (2046).....	\$ 926,406	(g)
Debt Service Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Average Annual Debt Service Requirement (2022-2047) at 95% Tax Collections:		
Based on the 2021 Certified Taxable Assessed Valuation.....	\$ 1.02	
Based on the Estimated Taxable Valuation as of February 1, 2022	\$ 0.73	
Debt Service Tax Rate per \$100 of Assessed Taxable Valuation Required to Pay Maximum Annual Debt Service Requirement (2046) at 95% Tax Collections:		
Based on the 2021 Certified Taxable Assessed Valuation.....	\$ 1.08	
Based on the Estimated Taxable Valuation as of February 1, 2022	\$ 0.77	
Completed Single-Family Homes as of May 10, 2022	340	(h)

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX DATA—Assessed Taxable Valuation Summary" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2021 to February 1, 2022. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT—Estimated Direct and Overlapping Debt Statement."
- (d) Funds in the Utility System Debt Service Fund are available to pay debt service on the District's bonds issued for the Utility System and are not available to pay debt service on the District's bonds issued for the Road System (including the Bonds, and funds in the Road System Debt Service Fund are not available to pay debt service on the District's bonds issued for the Utility System). Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Funds.
- (e) Upon closing and delivery of the Bonds, eighteen (18) months of capitalized interest in the amount of \$197,625 will be deposited into the Road System Debt Service Fund. See "THE BONDS—Use and Distribution of Proceeds of the Bonds."
- (f) Of such balance above, \$280,000 will be contributed to the District's Series 2022 Bonds that closed on April 26, 2022.
- (g) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT—Debt Service Requirement Schedule."
- (h) Of the 410 homes completed and under construction as of May 10, 2022, approximately 333 homes were occupied.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 538

(A Political Subdivision of the State of Texas, located within Harris County, Texas)

\$3,100,000 Unlimited Tax Road Bonds Series 2022

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 538 (the "District") of its \$3,100,000 Unlimited Tax Road Bonds, Series 2022 (the "Bonds").

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board") and an election held within the District on May 6, 2017.

Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Resolution, except as otherwise indicated herein.

There follow in this Official Statement descriptions of the Bonds, Mini-B Inc. (the "Developer"), the Bond Resolution and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, upon payment of the costs of duplication therefor.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution.

The Bonds are dated June 1, 2022, with interest accruing from the initial date of delivery on or about June 28, 2022 (the "Date of Delivery") and payable March 1, 2023, and each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully-registered bonds maturing on September 1 in each of the years shown under "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on the inside cover page of this Official Statement. The Bonds will be issued in fully registered form only, without coupons, in principal denominations of \$5,000 or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. Principal of the Bonds will be payable to the registered owners (the "Registered Owners") at maturity or redemption upon presentation at the principal payment office of the paying agent/registrars, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") 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.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee's 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 believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, 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 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC.

DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Securities unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to Issue 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).

Redemption proceeds, principal and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the District or 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, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

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

Redemption of the Bonds

Optional Redemption: Bonds maturing on September 1, 2029, and thereafter shall be subject to redemption at the option of the District, in whole or from time to time in part, on September 1, 2027, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given at least thirty (30) days prior to the redemption date in the manner specified in the Bond Resolution. If fewer than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If fewer than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such method of random selection as the Paying Agent/Registrar deems fair and appropriate (or by the DTC in accordance with its procedures while the Bonds are in book-entry-only form) in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption: The Bonds maturing on September 1 in each of the years 2029, 2032, 2035, 2037, 2040, 2043, and 2047 are term bonds (the "Term Bonds"). The Term Bonds shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (each a "Mandatory Redemption Date"), and in the principal amount set forth in the following schedules:

\$270,000 Term Bonds		\$300,000 Term Bonds		\$345,000 Term Bonds	
Due September 1, 2029		Due September 1, 2032		Due September 1, 2035	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2027	\$ 85,000	2030	\$ 95,000	2033	\$ 110,000
2028	90,000	2031	100,000	2034	115,000
2029 (maturity)	95,000	2032 (maturity)	105,000	2035 (maturity)	120,000

\$255,000 Term Bonds		\$420,000 Term Bonds		\$480,000 Term Bonds	
Due September 1, 2037		Due September 1, 2040		Due September 1, 2043	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2036	\$ 125,000	2038	\$ 135,000	2041	\$ 155,000
2037 (maturity)	130,000	2039	140,000	2042	160,000
		2040 (maturity)	145,000	2043 (maturity)	165,000

\$740,000 Term Bonds

Due September 1, 2047

Mandatory Redemption Date	Principal Amount
2044	\$ 175,000
2045	180,000
2046	190,000
2047 (maturity)	195,000

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 any redemption will be given by the Registrar at least thirty (30) days prior to the redemption date in the manner specified in the Bond Resolution.

Successor Paying Agent/Registrar

Provision is made in the Bond Resolution for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new registered owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the registered owner or assignee of the registered owner in not more than three business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the registered owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "Book-Entry-Only System" herein defined for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, 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 to the Paying Agent/Registrar, or receipt of satisfactory evidence of such destruction, loss or theft, and receipt by the District and Paying Agent/Registrar of security or indemnity as may be required by either of them to hold them harmless. The District may require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Authority for Issuance

The Bonds are the first series of unlimited tax bonds to be issued by the District out of an aggregate \$74,484,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing a road system to serve the District (the "Road System") and for the refunding of bonds issued by the District for the Road System.

The Bonds are issued by the District pursuant to the terms and conditions of the Bond Resolution, Article III, Section 52 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and the general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas, and an election held in the District on May 6, 2017.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$74,484,000 principal amount of unlimited tax bonds for the Road System and for the refunding of such bonds, \$174,213,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sewer and drainage facilities to serve the District (the "Utility System") and for the refunding of such bonds, \$31,604,300 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities to serve the District (the "Parks") and for the refunding of such bonds, and could authorize additional amounts.

After issuance of the Bonds, the following unlimited tax bonds will remain authorized but unissued: \$71,384,000 principal amount for the Road System and for the refunding of such bonds; \$161,973,000 principal amount for the Utility System and the refunding of such bonds; and \$31,604,300 principal amount for the Parks and for the refunding of such bonds.

The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District (if authorized by the District's voters and, in the case of bonds issued for the Utility System or for the Parks, approved by the TCEQ).

The District is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire protection plan; (b) approval of the fire plan by the TCEQ; (c) approval of the fire plan by the voters of the District; and (d) approval of bonds, if any, by the Attorney General of Texas. The Board of Directors has not considered adoption of a fire plan or calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt-property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. The District prepared a parks master plan, and on May 6, 2017, the District's voters authorized \$31,604,300 in unlimited tax bonds for the purpose of acquiring and constructing the Parks. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bond application for the issuance of bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. The District has not considered the preparation of a parks bond application at this time. The principal amount of park bonds sold by the District is limited to one percent (1%) 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 (1%) but not three percent (3%) of the value of the taxable property in the District.

Outstanding Bonds

The District previously issued two series of unlimited tax bonds in the principal amount of \$12,240,000 for the Utility System, all of which remains outstanding (the "Outstanding Bonds") as of the date hereof.

Source of Payment

The Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. 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, fees of the Paying Agent/Registrar and fees of appraisal districts. Tax proceeds, after deduction for collection costs, will be placed in the respective debt service fund for the purpose of which the bonds are issued for and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas; Harris County, Texas; the City of Houston (the "City"); or any entity other than the District.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction ("ETJ") 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. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement ("SPA") between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. The District does not currently have an SPA with the City of Houston.

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

Consolidation

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) and liabilities (such as the Bonds), with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

No Arbitrage

The District will certify, on the Date of Delivery of the Bonds, that based upon all facts and estimates now 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 that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be required so that the Bonds shall not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

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 Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) 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 of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and which 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 which would permit investments other than those described above to be made with amounts deposited to defease the Bonds.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Registered Owners’ Remedies

Pursuant to Texas law, the Bond Resolution provides that, in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Resolution into the debt service fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolution, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee 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. Although the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District’s property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners.

Use and Distribution of Proceeds of the Bonds

The construction costs below were compiled by LJA Engineering, Inc., (the “Engineer”). Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Robert W. Baird & Co. Incorporated (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the nonconstruction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used.

I. CONSTRUCTION COSTS

Katy Lakes Left Turn Lane.....	\$ 404,005
Katy Lakes, Section One Paving.....	1,409,973
Engineering, Surveying, Materials Testing, and SWPPP.....	<u>415,222</u>
Total Construction Costs.....	\$ 2,229,200

II. NON-CONSTRUCTION COSTS

Legal Fees.....	\$ 92,500
Fiscal Agent Fees.....	62,000
Interest:	
a). Capitalized Interest (18 months).....	197,625
b). Developer Interest.....	384,865
Bond Discount (a).....	60,048
Bond Issuance Expenses.....	41,210
Bond Application Report Costs.....	27,500
Attorney General Fee.....	3,100
Contingency (a).....	<u>1,952</u>
Total Non-Construction Costs.....	\$ 870,800

TOTAL BOND ISSUE REQUIREMENT..... \$ 3,100,000

(a) Contingency represents the difference in the estimated and actual amount Bond discount.

THE DISTRICT

Authority

The District was created by an Act of the 84th Legislature of the State of Texas, Regular Session pursuant to Senate Bill 2013 codified as Chapter 7903 of the Texas Special District Local Laws Code, which was filed on June 18, 2015. The District was created as a municipal utility district under Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and operates under Chapters 49 and 54 of the Texas Water Code, as amended.

The District is empowered, among other things, to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water and the construction of roads and related facilities.

The District also is authorized to construct, develop and maintain park and recreational facilities using operating revenues or by issuing bonds payable from taxes, and to construct roads. In addition, the District is authorized, upon TCEQ and voter approval, to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and provide such facilities and services to the customers of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. Construction and operation of the District's Utility System is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM - Regulation."

Description

The District encompasses approximately 395.96 acres. The District is a political subdivision of the State of Texas, located entirely within the ETJ of the City. The District is located north of Interstate I-10 and west of Grand Parkway, just north of the City of Katy. Primary access to the District is provided by the Grand Parkway to F.M. 529. The District has submitted a petition to the City of Houston for the annexation of an approximately 154.32 acre tract of land (the "Annexation Tract"). Annexation of the Annexation Tract into the boundaries of the District is contingent upon approval by the City of Houston.

Management of the District

The District is governed by its Board of Directors (the "Board") consisting of five directors, who have control over and management supervision of all affairs of the District. All of the directors own property in the District. The directors serve staggered, four-year terms. Elections are held in even-numbered years in May. The current members and officers of the Board are listed below:

Name	Title	Term Expires May
William Jordan	President	2024
Andrew Clark	Vice President	2024
Cameron Franz	Secretary	2024
Alexander Branca	Assistant Secretary	2026
Katherine Carmichael	Assistant Vice President	2026

Investment Policy

The District has adopted an Investment Policy (the "Policy") as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the "Act"). The District's goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation ("FDIC") and secured by collateral authorized by the Act, and in TexPool and TexStar, which are 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 portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the District is Assessments of the Southwest, Inc.

Bookkeeper: The District's bookkeeper is Myrtle Cruz, Inc.

Utility System Operator: The District's water and sewer system is operated by Municipal District Services, LLC.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which is filed annually with the TCEQ. McGrath & Co., PLLC audited the financial statements of the District for the year ending February 28, 2021. A copy of the District's February 28, 2021, audited financial statements is included as "APPENDIX A." The District has engaged McGrath & Co., PLLC to audit its financial statements for the fiscal year ending February 28, 2022.

Engineer: The District's engineer is LJA Engineering, Inc. (the "Engineer").

Attorney: The District has engaged Allen Boone Humphries Robinson LLP, Houston, Texas, as general counsel to the District and as bond counsel ("Bond Counsel") in connection with the issuance of the Bonds. The fees to be paid Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

Disclosure Counsel: The District has engaged McCall, Parkhurst & Horton L.L.P., Houston, Texas, as disclosure counsel ("Disclosure Counsel") to the District in connection with the issuance of the Bonds. The fees to be paid Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated serves as financial advisor ("Financial Advisor") to the District in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

DEVELOPMENT OF THE DISTRICT

The District is being developed as the residential community known as Katy Lakes. To date, approximately 164.56 acres within the District have been developed as 499 single-family lots in Katy Lakes Sections 1, 2, 3, and 5. As of May 10, 2022, development within the District consisted of approximately 340 completed homes (approximately 333 occupied, 1 unoccupied, and 6 model homes), approximately 70 homes under construction, and approximately 89 vacant, developed lots. The remainder of the District's total acres consists of approximately 140.26 undevelopable acres and approximately 91.14 acres of future developable area. In addition, the District has submitted a petition to the City of Houston for the annexation of an approximately 154.32 acre tract of land. Annexation of the Annexation Tract into the boundaries of the District is contingent upon approval by the City of Houston.

Status of Development within the District

The following is a status of construction of single-family housing within the District as of May 10, 2022:

Section	Type of Development	Acreage	No. of Lots	Homes		Vacant Lots
				Complete	Under Construction	
Katy Lakes - Section 1	Single Family	64.62	177	176	0	1
Katy Lakes - Section 2	Single Family	15.35	71	71	0	0
Katy Lakes - Section 3	Single Family	28.20	93	93	0	0
Katy Lakes - Section 5	Single Family	<u>56.39</u>	<u>158</u>	<u>0</u>	<u>70</u>	<u>88</u>
Total		164.56	499	340	70	89
Under Development	-					
Institutional Acreage	-					
Undevelopable	140.26					
Remaining Developable	<u>91.14</u>					
Total District Acreage	395.96					

Homebuilders within the District

Homebuilders who are active in the District include Castlerock Communities LP, Gehan Homes LTD, HistoryMaker Homes, Ashton Woods Homes, and Colina Homes. Prices of new homes being constructed in the District range from approximately \$224,000 to approximately \$475,000.

THE DEVELOPER

Role of the Developer

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater and drainage facilities in a utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Prospective purchasers of the Bonds should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate.

Neither the Developer, nor any affiliate entity, are obligated to pay principal of or interest on the Bonds. Furthermore, neither of the Developer nor any of their affiliate entities has a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developers or its affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

Developer

Mini-B Inc., a Texas corporation (the "Developer"), is developing the land in the District as Katy Lakes. The Developer has completed the development of 499 lots on approximately 164.56 acres. The Developer continues to own approximately 91.14 acres of developable acreage. The Developer is a single purpose entity formed for the purpose of developing the land it owns within the District. The District makes no representation as to the likelihood of the planned development to occur or the pace at which the planned development might occur. The Developer is a thinly capitalized corporation whose assets consist primarily of the land in the District and the receivables due from the District for development costs. The Developer has minimal net revenues.

The Developer has a \$25,566,781.60 loan from International Bank of Commerce. Such loan bears interest at 4.25 percent (4.25%) and matures on May 10, 2023. The loan is secured by land owned by the Developer within the District. The outstanding balance on the loan is \$3,652,294.24 as of May 11, 2022. According to the Developer, it is in compliance with all material conditions of the loan.

THE SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District (the "Utility System") have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, and Harris County. According to the District's Engineer, the design of all such completed facilities has been approved by all required governmental agencies.

Operation of the District's waterworks and sewer treatment facilities is subject to regulation by, among others, the Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Water, Sanitary Sewer and Drainage System

Water Supply: The District's source of water is groundwater from two water wells with a combined capacity of 2,500 gallons-per-minute ("gpm"). The wells are owned and operated by Harris County Municipal Utility District No. 495 ("MUD 495"). Pursuant to the Water Plant Cost Sharing Agreement between the District and MUD 495, the District's share of the Water Plant System Phase 3 capacity is 25.39%. The District has an interconnect with Harris County Municipal Utility District No. 171, which is normally closed. The District's existing water supply is capable of serving 1,058 equivalent single-family connections ("ESFCs").

Wastewater Treatment: Wastewater treatment capacity for the District is provided by a wastewater treatment plant ("WWTP") owned and operated by MUD 495. Pursuant to the Wastewater Capacity Cost Sharing Agreement between the District and MUD 495, the District's current share of the WWTP's capacity is 30.00%. MUD 495's wastewater treatment plant, under Texas Pollutant Discharge Elimination System Permit No. WQ0015222001, is authorized to discharge a flow of 0.90 million gallons per day ("MGD"). According to the Engineer, the District's existing wastewater capacity is capable of serving 1,050 ESFCs.

Drainage: Storm water drainage within the District drains through underground lines, channels, and detention ponds that eventually outfall into South Mayde Creek, which is a major tributary of Buffalo Bayou which outfalls into Galveston Bay and the Gulf of Mexico.

100 Year Flood Plain

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

According to the FEMA Map Panel No. 585 of 1150 dated November 15, 2019, approximately 39 acres within the District are located in the 100-year flood plain and are not considered to be developable. A portion of the remaining acreage in the floodplain will be filled in connection with future development, and a Letter of Map Revision will be filed to remove it from the flood plain.

General Fund Operating Statement

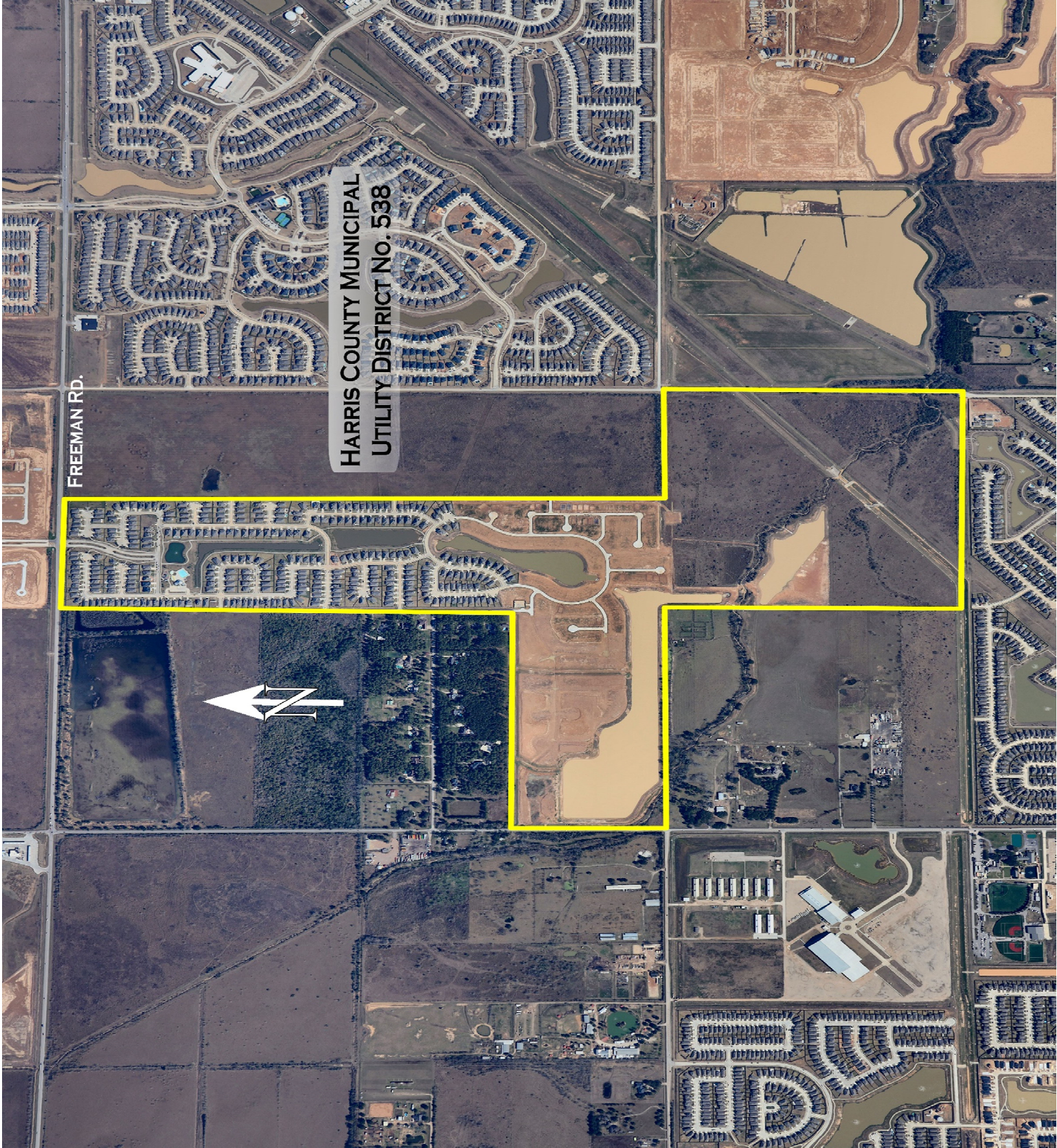
The following statement sets forth in condensed form the historical results of operation of the District's System. Such summary for the period of inception to February 28, 2018 and for the fiscal years ending February 2019 through 2021 has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements. Unaudited financial information for the fiscal year ending February 28, 2022 has been provided by the District's bookkeeper. Reference is made to such statements for further and more complete information. See "APPENDIX A—Financial Statements of the District."

	Fiscal Year Ending				
	2/28/2022 (a)	2/28/2021	2/29/2020	2/28/2019	2/28/2018
Revenues					
Water Service	\$160,071	\$ 57,948	\$ 26,676	\$ 2,354	\$ -
Sewer Service	140,494	57,099	25,069	1,538	-
Property Taxes	929,453	448,516	195,142	195,487	562
Penalties and Interest	4,911	5,162	2,688	59	-
Tap Connection and Inspection	153,861	233,595	132,480	30,825	-
Regional Water Authority Fees	160,607	97,907	31,670	1,702	-
Miscellaneous	1,450	4,020	2,805	35,681	-
Investment Earnings	23	113	28	14	-
Total	\$ 1,550,870	\$ 904,360	\$ 416,558	\$ 267,660	\$ 562
Expenditures					
Purchased Services	\$286,725	\$ 267,433	\$ 198,951	\$ 226,865	\$ 232,811
Professional Fees	123,413	181,841	125,540	100,166	164,028
Contracted Services	190,200	175,922	103,049	21,032	5,670
Repairs and Maintenance	109,038	123,187	26,765	1,391	3,150
Utilities	4,294	3,129	850	-	-
Administrative	27,543	28,253	17,966	10,687	12,426
Other	9,622	5,464	4,697	3,150	1,205
Total	\$ 750,835	\$ 785,229	\$ 477,818	\$ 363,291	\$ 419,290
NET REVENUES (Deficit)	\$ 800,035	\$ 119,131	\$ (61,260)	\$ (95,631)	\$ (418,728)
Other Financing Sources (Uses):					
Developer Advances	\$ -	\$ -	\$ 218,156	\$ 310,000	\$ 394,655
Beginning fund balance	\$466,323	\$ 347,192	\$ 190,296	\$ (24,073)	\$ -
Ending fund balance	\$ 1,266,358	\$ 466,323	\$ 347,192	\$ 190,296	\$ (24,073)

(a) Unaudited, provided by the District's bookkeeper.

AERIAL PHOTOGRAPH OF THE DISTRICT

(February 2022)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(February 2022)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(February 2022)



DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth annual debt service requirements on the Outstanding Bonds, plus the debt service requirements on the Bonds.

Year Ending 12/31	Outstanding Debt Service	Plus: The Bonds		Total Debt Service
		Principal	Interest	
2022	\$ 224,155	\$ -	\$ -	\$ 224,155
2023	711,956	50,000	163,443	925,399
2024	706,719	75,000	135,850	917,569
2025	706,019	80,000	130,975	916,994
2026	705,581	85,000	125,775	916,356
2027	704,506	85,000	120,250	909,756
2028	706,950	90,000	115,150	912,100
2029	704,100	95,000	109,750	908,850
2030	705,938	95,000	104,050	904,988
2031	704,650	100,000	100,250	904,900
2032	708,100	105,000	96,250	909,350
2033	710,831	110,000	92,050	912,881
2034	708,181	115,000	87,650	910,831
2035	709,625	120,000	83,050	912,675
2036	710,619	125,000	78,250	913,869
2037	711,219	130,000	73,250	914,469
2038	716,019	135,000	68,050	919,069
2039	715,244	140,000	62,650	917,894
2040	714,069	145,000	57,050	916,119
2041	717,431	155,000	51,250	923,681
2042	715,219	160,000	44,856	920,075
2043	717,606	165,000	38,256	920,863
2044	719,006	175,000	31,450	925,456
2045	719,819	180,000	24,013	923,831
2046	720,044	190,000	16,363	926,406
2047	419,681	195,000	8,288	622,969
	<u>\$17,713,287</u>	<u>\$3,100,000</u>	<u>\$2,018,218</u>	<u>\$22,831,504</u>

Average Annual Debt Service Requirement (2022–2047)	\$ 878,135
Maximum Annual Debt Service Requirement (2046).....	\$ 926,406

Bonded Indebtedness

2021 Certified Taxable Assessed Valuation	\$ 91,118,099	(a)
Estimated Taxable Valuation as of February 1, 2022	\$ 127,834,794	(b)
Direct Debt:		
The Outstanding Bonds.....	\$ 12,240,000	
The Bonds	<u>3,100,000</u>	
Total	\$ 15,340,000	
Estimated Overlapping Debt	\$ <u>4,050,920</u>	(c)
Total Direct and Estimated Overlapping Debt.....	\$ 19,390,920	(c)
Direct Debt Ratios:		
As a percentage of 2021 Certified Taxable Assessed Valuation	16.84%	
As a percentage of Estimated Taxable Valuation as of February 1, 2022	12.00%	
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of 2021 Certified Taxable Assessed Valuation	21.28%	
As a percentage of Estimated Taxable Valuation as of February 1, 2022	15.17%	
Debt Service Funds Available (as of April 25, 2022):		
Utility System Debt Service Fund Balance.....	\$ 378,371	(d)
Road System Debt Service Fund Balance (upon delivery of the Bonds).....	\$ 197,625	(d,e)
Construction Fund Balance (as of April 25, 2022)	\$ 286,496	(f)
Operating Fund Balance (as of April 25, 2022)	\$ 1,266,619	

- (a) As certified by the Harris County Appraisal District (the "Appraisal District"). See "TAX DATA—Assessed Taxable Valuation Summary" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for information purposes only. Represents new construction within the District from January 1, 2021 to February 1, 2022. This estimate is based upon the same unit value used in the assessed value. No taxes will be levied on this estimate. See "TAXING PROCEDURES."
- (c) See "Estimated Direct and Overlapping Debt Statement" herein.
- (d) Funds in the Utility System Debt Service Fund are available to pay debt service on the District's bonds issued for the Utility System and are not available to pay debt service on the District's bonds issued for the Road System (including the Bonds, and funds in the Road System Debt Service Fund are not available to pay debt service on the District's bonds issued for the Utility System). Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Funds.
- (e) Upon closing and delivery of the Bonds, eighteen (18) months of capitalized interest in the amount of \$197,625 will be deposited into the Road System Debt Service Fund. See "THE BONDS—Use and Distribution of Proceeds of the Bonds."
- (f) Of such balance above, \$280,000 will be contributed to the District's Series 2022 Bonds that closed on April 26, 2022.

Estimated Direct and Overlapping Debt Statement

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 *Texas Municipal Reports* published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance 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>Tax Year</u>	<u>AV</u>	Debt as of		Overlapping	
			<u>3/31/2022</u>	<u>Percent</u>	<u>Amount</u>	
Harris County	2021	\$ 520,844,496,735	\$ 1,682,992,125	0.02%	\$ 294,428	
Katy Independent School District	2021	48,084,791,240	1,874,321,367	0.19%	3,551,738	
Harris County Flood Control District	2021	512,016,859,404	584,900,000	0.02%	104,088	
Port of Houston Authority	2021	511,987,515,441	469,434,397	0.02%	83,545	
Harris County Hospital District	2021	512,120,554,610	76,385,000	0.02%	13,591	
Harris County Department of Education	2021	520,979,955,913	20,185,000	0.02%	3,530	
Total Estimated Overlapping Debt						\$ 4,050,920
The District Direct Debt (a)						<u>\$ 15,340,000</u>
Total Direct Debt and Estimated Overlapping Debt						\$ 19,390,920

(a) Includes the Bonds.

Debt Ratios

	Percentage of 2021 Certified Taxable Assessed Valuation	Percentage of Estimate of Value February 1, 2022
Direct Debt (a)	16.84%	12.00%
Total Direct and Estimated Overlapping Debt	21.28%	15.17%

(a) Includes the Bonds.

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 sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds, and any additional unlimited tax bonds payable from taxes which the District may hereafter issue (see "INVESTMENT CONSIDERATIONS—Future Debt"), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under "THE BONDS—Source of Payment." Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District and the Utility System and for the payment of certain contractual obligations. See "TAX DATA—Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing

the values established by the Appraisal District. The Harris County Appraisal District (the "Appraisal District") has the responsibility of appraising property for all taxing units within Harris County, including the District. Such appraisal values will be subject to review and change by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

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; certain 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 certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair 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 the surviving spouse or children of a deceased veteran who died while on active duty in the armed forces, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Effective January 1, 2018, this exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the service member's death and said property was the service member's residence homestead at the time of death. Such exemption may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

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

Freeport Goods and Goods-in-Transit Exemption: A "Freeport Exemption" applies to goods, wares, ores, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which are covered by the Freeport Exemption, if, for tax year 2013 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 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, Harris County or the City and 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 has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. At this time, Harris County has not designated any of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value 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 fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. 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 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 one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use, open space land, and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all property in the Appraisal District at least once every three years. It is not known what frequency of reappraisals 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, including the District, may appeal orders of the Appraisal Review Board by filing a timely petition for review in district court. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to 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 which 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 six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

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.

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 Property Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus 1.035 times the previous year's operation and maintenance tax rate plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Special Taxing Unit and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Special Taxing Units.

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

The District: A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis. For the 2021 tax year, the Board classified the District as a Developing District. 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 in which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property. The lien exists in favor of the State and each taxing unit, including the District, having the power to tax the property. The District's tax lien is on a parity with the tax liens of other such taxing units. A tax lien on real property takes priority over the claims 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 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. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights or by bankruptcy proceedings which restrict the collection of taxpayer debts. A taxpayer may redeem property within two years for residential and agricultural property and six months for commercial property and all other types of property after the purchaser's deed at the foreclosure sale is filed in the county records.

The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended.

TAX DATA

General

All taxable property within the District is subject to the assessment, levy and collection by the District of a continuing, direct annual ad valorem tax without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds. See "TAXING PROCEDURES." The Board has in its Bond Resolution covenanted to assess and levy for each year that all or any part of the Bonds remain outstanding and unpaid a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds See "THE BONDS" and "INVESTMENT CONSIDERATIONS." The District levied its initial debt service tax in 2021 of \$0.33 per \$100 of assessed valuation. The District also levied a maintenance tax of \$1.12 per \$100 of assessed valuation for the 2021 tax year. See "Tax Rate Distribution" herein.

Tax Rate Limitation

Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance and Operations (General):	\$1.50 per \$100 assessed taxable valuation.
Maintenance and Operations (Road):	\$0.25 per \$100 assessed taxable valuation.

Tax Rate Distribution

The following sets out the components of the District's tax rate for each of tax years 2017–2021.

	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Debt Service	\$ 0.33	\$ -	\$ -	\$ -	\$ -
M&O	<u>1.12</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>	<u>1.50</u>
Total	\$ 1.45	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements if such maintenance tax is authorized by vote of the District's electors. The Board is authorized by the District's voters to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which may be issued in the future. See "Tax Rate Distribution" below.

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 June 1 of that year, and that remain delinquent on April 1 (for personal property) and July 1 (for real property) of the year in which they become delinquent or (2) become delinquent on or after June 1, pursuant to the Texas Tax Code.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of assessed taxable valuation which would be required to meet certain debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District's tax base occurs beyond the 2021 Certified Taxable Assessed Valuation (\$91,118,099), or the Estimated Taxable Valuation as of February 1, 2022 (\$127,834,794). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District.

Average Annual Debt Service Requirement (2022–2047)	\$ 878,135
Debt Service Tax Rate of \$1.02 on the 2021 Certified Taxable Assessed Valuation	\$ 882,934
Debt Service Tax Rate of \$0.73 on the Estimated Taxable Valuation as of February 1, 2022.....	\$ 886,534
Maximum Annual Debt Service Requirement (2046).....	\$ 926,406
Debt Service Tax Rate of \$1.08 on the 2021 Certified Taxable Assessed Valuation	\$ 934,872
Debt Service Tax Rate of \$0.77 on the Estimated Taxable Valuation as of February 1, 2022.....	\$ 935,112

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see “DISTRICT DEBT—Estimated Direct and Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. The following chart includes the 2021 taxes per \$100 of assessed valuation levied by all such taxing jurisdictions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2021 Tax Rate</u>
The District	\$ 1.450000
Harris County	0.376930
Katy Independent School District	1.351700
Harris County Flood Control District	0.033490
Port of Houston Authority	0.008720
Harris County Hospital District	0.162210
Harris County Department of Education	0.004990
Waller-Harris ESD 200	0.098796
Estimated Total Tax Rate	<u>\$ 3.486836</u>

Historical Tax Collections

<u>Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate per \$100</u>	<u>Tax Levy</u>	<u>% of Current Collections</u>	<u>Tax Year Ending 9/30</u>	<u>Collections as 3/31/2022</u>
2017	\$ 55,638	\$ 1.500000	\$ 835	100.00%	2018	100.00%
2018	8,204,705	1.500000	123,071	100.00%	2019	100.00%
2019	12,179,064	1.500000	182,686	100.00%	2020	100.00%
2020	30,501,664	1.500000	457,525	98.92%	2021	98.92%
2021	91,118,099	1.450000	1,320,804	94.79%	2022	94.79%

Assessed Taxable Valuation Summary

The following represents the types of property comprising the District assessed taxable value for each of the 2021–2017 tax years.

<u>Type of Property</u>	<u>2021 Certified Taxable Assessed Valuation</u>	<u>2020 Certified Taxable Assessed Valuation</u>	<u>2019 Certified Taxable Assessed Valuation</u>	<u>2018 Certified Taxable Assessed Valuation</u>	<u>2017 Certified Taxable Assessed Valuation</u>
Land	\$ 28,576,176	\$ 18,463,409	\$ 14,017,758	\$ 13,221,341	\$ 10,111,040
Improvements	64,438,870	18,734,281	2,281,194	990,000	1,737
Personal Property	414,460	210,471	22,879	5,479	-
Exemptions	<u>(2,311,407)</u>	<u>(6,906,497)</u>	<u>(4,142,767)</u>	<u>(6,012,115)</u>	<u>(10,057,139)</u>
Total	<u>\$ 91,118,099</u>	<u>\$ 30,501,664</u>	<u>\$ 12,179,064</u>	<u>\$ 8,204,705</u>	<u>\$ 55,638</u>

Principal Taxpayers

The following table represents the ten principal taxpayers, the taxable appraised value of such property as a percentage of the 2021 Certified Taxable Assessed Valuation of \$91,118,099.

Taxpayer	Property Type	2021 Tax Year	% of Tax Roll
Mini-B Inc. (a)	Land & Improvements	\$ 11,743,541	12.89%
Lexington 26 LP	Land & Improvements	1,538,606	1.69%
HMH Lifestyles LP (b)	Land & Improvements	1,492,971	1.64%
Gehan Homes Ltd. (b)	Land & Improvements	1,020,965	1.12%
Castlerock Communities LP (b)	Land & Improvements	505,192	0.55%
BNMJR Inc.	Land & Improvements	458,558	0.50%
Individual	Land & Improvements	437,766	0.48%
Individual	Land & Improvements	434,063	0.48%
Individual	Land & Improvements	429,559	0.47%
Individual	Land & Improvements	427,336	0.47%
Total		\$ 18,488,557	20.29%

(a) See "DEVELOPMENT OF THE DISTRICT" and "THE DEVELOPER."

(b) See "DEVELOPMENT OF THE DISTRICT—Homebuilders within the District."

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Harris County, Texas, the City, or any political subdivision other than the District, will be secured by an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District to collect from the property owners within the District taxes levied against all taxable property located within the District, or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below. See "DEVELOPMENT OF THE DISTRICT," "TAX DATA," and "TAXING PROCEDURES."

Potential Impact of Natural Disaster

The District could be impacted by a natural disaster such as wide-spread fires, earthquakes, or weather events such as hurricanes, tornadoes, tropical storms, or other severe weather events that could produce high winds, heavy rains, hail, and flooding. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District's tax rates. See "TAXING PROCEDURES—Valuation of Property for Taxation."

There can be no assurance that a casualty will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District would be adversely affected. There can be no assurance the District will not sustain damage from such natural disasters.

Extreme Weather Events

The Houston area, including the District, experienced historic levels of rainfall and widespread flooding following landfall of Hurricane Harvey on August 25, 2017 and during Tropical Storm Imelda on September 19, 2019. While no facilities or homes had been built prior to Hurricane Harvey, according to the District's engineer, Imelda did not cause damage to the District's water, sanitary sewer and drainage facilities, and there was no interruption of water and sewer service in the District. Further, to the best knowledge of the Developer and the engineer, no homes in the District experienced structural flooding or other material damage as a result of Tropical Storm Imelda. The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by a hurricane, tornado, tropical storm, or other adverse weather event.

The District cannot predict the effect that additional extreme weather events may have upon the District and the Houston area. Additional extreme weather events have the potential to cause damage within the District and the Houston area generally could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region. See "TAXING PROCEDURES—Valuation of Property for Taxation."

Special Flood Type Risks

The District may be subject to the following flood risks:

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

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

National Weather Service Atlas Rainfall Study

In 2018, the National Weather Service 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 interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. 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.

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.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State of Texas. 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.

The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

Potential Effects of Oil Price Fluctuations on the Houston Area

The economy of the Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values within the District. The District cannot predict the impact that negative conditions in the oil industry will have on property values in the District.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

The Developer: There is no commitment by or legal requirement of the Developer or any other landowner to the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any land owner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "DEVELOPMENT OF THE DISTRICT," "THE DEVELOPER" and "TAX DATA—Principal Taxpayers."

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. As illustrated in this Official Statement under the caption "TAX DATA—Principal Taxpayers," the District's top ten principal taxpayers in 2021 owned property located within the District the aggregate assessed valuation of which comprised approximately 20.29% of the District's total 2021 Certified Taxable Assessed Valuation. The Developer's property in the District represents \$11,743,541 or 12.89% of the 2021 Certified Taxable Assessed Valuation. In the event that the Developer, any other taxpayer, or any combination of taxpayers, should default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See "TAX DATA—Principal Taxpayers" and "TAXING PROCEDURES—Levy and Collection of Taxes."

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The 2021 Certified Taxable Assessed Valuation of property located within the District is \$91,118,099, and the Estimated Taxable Valuation as of February 1, 2022, is \$127,834,794. After issuance of the Bonds, the maximum annual debt service requirement on the Bonds and the Outstanding Bonds will be \$926,406 (2046) and the average annual debt service requirement on the Bonds and the Outstanding Bonds will be \$878,135 (2022-2047). Assuming no increase to nor decrease from the 2021 Certified Taxable Assessed Valuation, tax rates of \$1.08 and \$1.02 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no increase to nor decrease from the Estimated Taxable Valuation as of February 1, 2022, tax rates of \$0.77 and \$0.73 per \$100 of assessed valuation at 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively.

The District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the proposed District tax rate or to justify continued payment of taxes by property owners.

Competitive Nature of Residential Housing Market

The housing industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by the Developer will be continued or completed. The respective competitive position of the Developer and the homebuilders listed herein and any other developer or homebuilder(s) which might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within six months for commercial property and two years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. 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. Attorney's fees and other costs of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the District from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Registered Owners' Remedies and Bankruptcy Limitations

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. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Sections 901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debt; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that 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.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the District's plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner 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 such Registered Owner's claim against the District.

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

Marketability

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

Future Debt

The Bonds are the District’s first issuance of unlimited tax bonds for the purpose of acquiring or constructing the Road System and for the refunding of bonds issued by the District for the Road System. The District reserves in the Bond Resolution the right to issue the remaining \$71,384,000 principal amount of unlimited tax bonds authorized but unissued for the purpose of the Road System or refunding of such bonds, \$161,973,000 principal amount of unlimited tax bonds authorized but unissued for the Utility System and for the refunding of such bonds for the Utility System, and \$31,604,300 principal amount of unlimited tax bonds authorized but unissued for the purpose of acquiring or constructing parks and recreational facilities to serve the District (the “Parks”) and for the refunding of such bonds, and such additional bonds as may hereafter be approved by voters in the District. See “THE BONDS—Issuance of Additional Debt.” The District has also reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Resolution authorized by the voters of the District, which may be issued by the District from time to time as needed. Issuance of the \$161,973,000 remaining unlimited tax bonds for the Utility System, as well as the \$31,604,300 remaining unlimited tax bonds for the Parks, is subject to approval by the TCEQ.

If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. The issuance of additional bonds for acquiring and/or constructing the Utility System and for acquiring and/or constructing parks and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. Further, the principal amount of bonds issued for acquiring and or/constructing parks and recreational facilities may not exceed 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. See “THE BONDS—Issuance of Additional Debt.”

After the issuance of the Bonds, the District will owe the Developer approximately \$2,620,000 for the existing facilities. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt/property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See “THE BONDS—Issuance of Additional Debt.”

Continuing Compliance with Certain Covenants

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

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

Bond Insurance Risk Factors

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

Under most circumstances, 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 "MUNICIPAL BOND RATING" and "MUNICIPAL BOND INSURANCE."

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 Initial Purchaser 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 District 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 "MUNICIPAL BOND RATING" and "MUNICIPAL 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.

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the 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, without legal 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 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.

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS (except for information under the subheadings "- Book-Entry-Only System" and "Use and Distribution of Proceeds of the Bonds"), "THE DISTRICT— Authority," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law and the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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 the 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

The District will furnish the Initial Purchaser a certificate, dated of the Date of Delivery of the Bonds, executed by both the President or Vice President and Secretary or Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attaching the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution or delivery of the Bonds; or affecting the validity of the Bonds.

No Material Adverse Change

The obligations of the Purchasers 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 subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

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 issuer 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 which affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, and in addition, will rely on representations by the District and the Initial Purchaser with respect to matters solely within the knowledge of the District and the Initial Purchaser, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolution or if the foregoing representations should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the Date of Delivery of the Bonds, regardless of the date on which the event causing such taxability occurs.

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not

binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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 issuer 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.

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement under the headings "DISTRICT DEBT" (except under the subheading "Estimated Direct and Overlapping Debt Statement"), "TAX DATA" to the extent available, and "APPENDIX A" (Audited Financial Statements of the District). 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.

Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements if and when the audit report becomes available.

The District's current fiscal year end is February 28. Accordingly, it must provide updated information by August 31 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final 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 SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of certain 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 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 Initial Purchaser 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 previous continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

OFFICIAL STATEMENT

General

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

Experts

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

The information contained in the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned “TAX DATA” and “DISTRICT DEBT” was provided by Assessments of the Southwest, Inc. and the Appraisal District. Such information has been included herein in reliance upon Assessments of the Southwest, Inc.’s authority as an expert in the field of tax collection and the Appraisal District’s authority as an expert in the field of tax assessing.

Certification as to Official Statement

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

Updating of Official Statement

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District’s records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents and resolutions contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 538 as of the date shown on the cover page hereof.

/s/ William Jordan
President, Board of Directors
Harris County Municipal Utility District No. 538

ATTEST:

/s/ Cameron Franz
Secretary, Board of Directors
Harris County Municipal Utility District No. 538

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

EXHIBIT A

**HARRIS COUNTY MUNICIPAL
UTILITY DISTRICT NO. 538**

HARRIS COUNTY, TEXAS

FINANCIAL REPORT

February 28, 2021

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 538
Harris County, Texas

We have audited the accompanying financial statements of the governmental activities and General Fund of Harris County Municipal Utility District No. 538, as of and for the year ended February 28, 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 basic financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the basic financial statements are free of material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient to provide a basis for our audit opinions.

***Board of Directors
Harris County Municipal Utility District No. 538
Harris County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and General Fund of Harris County Municipal Utility District No. 538, as of February 28, 2021, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary Information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied to the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

W.C. Galt & Co, P.C.

Houston, Texas
June 28, 2021

Management's Discussion and Analysis

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***Harris County Municipal Utility District No. 538
Management's Discussion and Analysis
February 28, 2021***

Using this Annual Report

Within this section of the financial report of Harris County Municipal Utility District No. 538 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended February 28, 2021. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

***Harris County Municipal Utility District No. 538
Management's Discussion and Analysis
February 28, 2021***

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at February 28, 2021, was negative \$3,445,889. This amount is negative because the District relies on advances from its developer to fund operating costs and incurs debt to construct public roads which it conveys to Harris County. A comparative summary of the District's overall financial position, as of February 28, 2021 and February 29, 2020 as follows:

	2021	2020
Current and other assets	\$ 684,583	\$ 418,067
Capital assets	10,540,537	8,996,158
Total assets	<u>11,225,120</u>	<u>9,414,225</u>
Current liabilities	200,581	64,987
Long-term liabilities	14,470,428	12,638,065
Total liabilities	<u>14,671,009</u>	<u>12,703,052</u>
Net position		
Net investment in capital assets	(737,391)	(449,407)
Unrestricted	<u>(2,708,498)</u>	<u>(2,839,420)</u>
Total net position	<u>\$ (3,445,889)</u>	<u>\$ (3,288,827)</u>

Harris County Municipal Utility District No. 538
Management's Discussion and Analysis
February 28, 2021

The total net position of the District decreased during the current fiscal year by \$157,062. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2021	2020
Revenues		
Water and sewer service	\$ 115,047	\$ 51,745
Property taxes, penalties and interest	465,469	203,139
Other	335,635	166,983
Total revenues	<u>916,151</u>	<u>421,867</u>
Expenses		
Current service operations	785,229	477,818
Depreciation and amortization	287,984	247,265
Total expenses	<u>1,073,213</u>	<u>725,083</u>
Change in net position before other item	(157,062)	(303,216)
Other item		
Purchased services true-up credit		<u>218,156</u>
Change in net position	(157,062)	(85,060)
Net position, beginning of year	<u>(3,288,827)</u>	<u>(3,203,767)</u>
Net position, end of year	<u>\$ (3,445,889)</u>	<u>\$ (3,288,827)</u>

Financial Analysis of the District's General Fund

A comparative summary of the General Fund's financial position as of February 28, 2021 and February 29, 2020 is as follows:

	2021	2020
Total assets	<u>\$ 684,583</u>	<u>\$ 418,067</u>
Total liabilities	\$ 200,581	\$ 64,987
Total deferred inflows	17,679	5,888
Total fund balance	<u>466,323</u>	<u>347,192</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 684,583</u>	<u>\$ 418,067</u>

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

	2021	2020
Total revenues	\$ 904,360	\$ 416,558
Total expenditures	(785,229)	(477,818)
Revenues over/(under) expenditures	119,131	(61,260)
Other changes in fund balance		218,156
Net change in fund balance	\$ 119,131	\$ 156,896

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

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

In the prior year, Harris County Municipal Utility District No. 495 ("HC MUD 495") reimbursed the District \$218,156 for purchased services billed in previous fiscal years.

General Fund Budgetary Highlights

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

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$102,631 greater than budgeted. The *Budgetary Comparison Schedule* on page 28 of this report provides variance information per financial statement line item.

Capital Assets

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

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Management's Discussion and Analysis
February 28, 2021***

Capital assets held by the District at February 28, 2021 and February 29, 2020 are summarized as follows:

	<u>2021</u>	<u>2020</u>
Capital assets not being depreciated		
Land and improvements	<u>\$ 633,435</u>	<u>\$ 633,435</u>
Capital assets being depreciated/amortized		
Infrastructure	6,370,627	4,538,264
Interest in joint facilities	2,833,486	2,833,486
Landscaping improvements	1,440,380	1,440,380
	<u>10,644,493</u>	<u>8,812,130</u>
Less accumulated depreciation/amortization		
Infrastructure	(325,559)	(183,989)
Interest in joint facilities	(251,688)	(177,293)
Landscaping improvements	(160,144)	(88,125)
	<u>(737,391)</u>	<u>(449,407)</u>
Depreciable capital assets, net	<u>9,907,102</u>	<u>8,362,723</u>
Capital assets, net	<u><u>\$ 10,540,537</u></u>	<u><u>\$ 8,996,158</u></u>

Capital asset additions during the current year include the following:

- Katy Lakes, Section 2 - utilities
- Katy Lakes, Section 3 - utilities
- Phase 2 detention facilities to serve Katy Lakes, Section 2 and 3

Long-Term Debt and Related Liabilities

As of February 28, 2021, the District owes approximately \$14,470,428 for completed projects and operating advances. As discussed in Note 5, the District has an additional commitment in the amount of \$2,562,022 for projects under construction. As noted, the District will owe its developer for these projects upon completion of construction, at which time the cost of the capital asset and related liability will be estimated and recorded on the District's financial statements. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds.

At February 28, 2021, the District had \$174,213,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$31,604,300 for parks and recreational facilities and the refunding of such bonds; and \$74,484,000 for road improvements and the refunding of such bonds.

***Harris County Municipal Utility District No. 538
Management's Discussion and Analysis
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Next Year's Budget

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

	<u>2021 Actual</u>	<u>2022 Budget</u>
Total revenues	\$ 904,360	\$ 1,000,000
Total expenditures	<u>(785,229)</u>	<u>(909,000)</u>
Revenues over expenditures	119,131	91,000
Beginning fund balance	347,192	466,323
Ending fund balance	<u>\$ 466,323</u>	<u>\$ 557,323</u>

Infectious Disease Outlook (COVID-19)

As further discussed in Note 12, the World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory virus currently affecting many parts of the world, including the United States and Texas. The pandemic has negatively affected the economic growth and financial markets worldwide and within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak could have an adverse effect on the District's operations and financial condition by negatively affecting property taxes and ad valorem tax revenues within the District.

Basic Financial Statements

*Harris County Municipal Utility District No. 538
Statement of Net Position and Governmental Fund Balance Sheet
February 28, 2021*

	General Fund	Adjustments	Statement of Net Position
Assets			
Cash	\$ 567,199	\$ -	\$ 567,199
Taxes receivable	75,195		75,195
Customer service receivables	36,565		36,565
Prepaid items	5,624		5,624
Capital assets not being depreciated		633,435	633,435
Capital assets, net		9,907,102	9,907,102
Total Assets	<u>\$ 684,583</u>	<u>10,540,537</u>	<u>11,225,120</u>
Liabilities			
Accounts payable	\$ 77,744		77,744
Other payables	12,727		12,727
Customer deposits	99,360		99,360
Unearned revenue	10,750		10,750
Due to developer		14,470,428	14,470,428
Total Liabilities	<u>200,581</u>	<u>14,470,428</u>	<u>14,671,009</u>
Deferred Inflows of Resources			
Deferred property taxes	<u>17,679</u>	<u>(17,679)</u>	
Fund Balance/Net Position			
Fund Balance			
Nonspendable	5,624	(5,624)	
Unassigned	460,699	(460,699)	
Total Fund Balance	<u>466,323</u>	<u>(466,323)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 684,583</u>		
Net Position			
Net investment in capital assets		(737,391)	(737,391)
Unrestricted		(2,708,498)	(2,708,498)
Total Net Position		<u>\$ (3,445,889)</u>	<u>\$ (3,445,889)</u>

See notes to basic financial statements.

Harris County Municipal Utility District No. 538
Statement of Activities and Governmental Fund Revenues, Expenditures and Changes
in Fund Balance
For the Year Ended February 28, 2021

	General Fund	Adjustments	Statement of Activities
Revenues			
Water service	\$ 57,948	\$ -	\$ 57,948
Sewer service	57,099		57,099
Property taxes	448,516	9,637	458,153
Penalties and interest	5,162	2,154	7,316
Regional water authority fees	97,907		97,907
Tap connection and inspection	233,595		233,595
Miscellaneous	4,020		4,020
Investment earnings	113		113
Total Revenues	<u>904,360</u>	<u>11,791</u>	<u>916,151</u>
Expenditures/Expenses			
Current service operations			
Purchased services	267,433		267,433
Professional fees	181,841		181,841
Contracted services	175,922		175,922
Repairs and maintenance	123,187		123,187
Utilities	3,129		3,129
Administrative	28,253		28,253
Other	5,464		5,464
Depreciation/amortization		287,984	287,984
Total Expenditures/Expenses	<u>785,229</u>	<u>287,984</u>	<u>1,073,213</u>
Revenues Over Expenditures	119,131	(119,131)	
Change in Net Position		(157,062)	(157,062)
Fund Balance/Net Position			
Beginning of the year	347,192	(3,636,019)	(3,288,827)
End of the year	<u>\$ 466,323</u>	<u>\$ (3,912,212)</u>	<u>\$ (3,445,889)</u>

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Harris County Municipal Utility District No. 538 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to Senate Bill No. 2013, 84th Session of the Texas Legislature, Regular Session, dated July 15, 2015, later codified as Chapter 7903, Special District Local Laws Code, and operates in accordance with Article III, Section 52 and Article XVI, Section 59 of the Texas Constitution, and Chapters 49 and 54 of the Texas Water Code. The Board of Directors held its first meeting on February 8, 2017.

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

Reporting Entity

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

Government-Wide and Fund Financial Statements

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

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. The District uses only a General Fund to account for its operations. The District’s principal financial resources are from property taxes and utility revenues. Expenditures include costs associated with the daily operations of the District.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

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

Measurement Focus and Basis of Accounting

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

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

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

Use of Restricted Resources

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

Prepaid Items

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

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At February 28, 2021, allowances for uncollectible was not considered necessary.

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets

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

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities and joint facilities operated by Harris County Municipal Utility District No. 495 (See Note 8 and 9), are depreciated/amortized using the straight-line method as follows:

Assets	Useful Life
Infrastructure	45 years
Interest in joint facilities	Remaining life of contract
Landscaping improvements	20 years

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

Deferred Inflows and Outflows of Financial Resources

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Governmental Activities

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

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

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

Unrestricted – resources not included in the other components.

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

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

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District does not have any restricted fund balances.

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

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

Unassigned - all other spendable amounts in the General Fund.

When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the District considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds.

Harris County Municipal Utility District No. 538
Notes to Basic Financial Statements
February 28, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and revenues and expenses/expenditures during the period reported. These estimates include, among others, the collectability of receivables; the useful lives and impairment of capital assets; the value of amounts due to developer; and the value of capital assets for which the developer has not been fully reimbursed. Estimates and assumptions are reviewed periodically, and the effects of revisions are reflected in the financial statements in the period they are determined to be necessary. Actual results could differ from the estimates.

Note 2 – Adjustment from Governmental to Government-wide Basis

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

Total fund balance, governmental fund	\$	466,323
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$	11,277,928
Less accumulated depreciation/amortization		<u>(737,391)</u>
Change due to capital assets		10,540,537
Amounts due to the District's developer for construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		(14,470,428)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		17,679
Total net position - governmental activities	<u>\$</u>	<u>(3,445,889)</u>

Harris County Municipal Utility District No. 538
Notes to Basic Financial Statements
February 28, 2021

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

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

Net change in fund balance - total governmental fund	\$ 119,131
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and related penalties and interest.	11,791
In the <i>Statement of Activities</i> , the cost of capital assets is charged to depreciation/amortization expense over the estimated useful life of the asset.	(287,984)
Change in net position of governmental activities	<u>\$ (157,062)</u>

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

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

Note 3 – Deposits and Investments (continued)

Investments

The District is authorized by the *Public Funds Investment Act* (Chapter 2256, Texas Government Code) to invest in the following: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including Federal Home Loan Banks, (2) direct obligations of the State of Texas or its agencies and instrumentalities, (3) certain collateralized mortgage obligations, (4) other obligations, which are unconditionally guaranteed or insured by the State of Texas or the United States or its agencies or instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States, (5) certain A rated or higher obligations of states and political subdivisions of any state, (6) bonds issued, assumed or guaranteed by the State of Israel, (7) certain insured or collateralized certificates of deposit and share certificates, (8) certain fully collateralized repurchase agreements, (9) bankers' acceptances with limitations, (10) commercial paper rated A-1 or P-1 or higher and a maturity of 270 days or less, (11) no-load money market mutual funds and no-load mutual funds, with limitations, (12) certain guaranteed investment contracts, (13) certain qualified governmental investment pools and (14) a qualified securities lending program.

The District has adopted a written investment policy to establish the principles by which the District's investment program should be managed. This policy further restricts the types of investments in which the District may invest.

Harris County Municipal Utility District No. 538
Notes to Basic Financial Statements
February 28, 2021

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended February 28, 2021, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 633,435	\$ -	\$ 633,435
Capital assets being depreciated/amortized			
Infrastructure	4,538,264	1,832,363	6,370,627
Interest in joint facilities	2,833,486		2,833,486
Landscaping improvements	1,440,380		1,440,380
	<u>8,812,130</u>	<u>1,832,363</u>	<u>10,644,493</u>
Less accumulated depreciation/amortization			
Infrastructure	(183,989)	(141,570)	(325,559)
Interest in joint facilities	(177,293)	(74,395)	(251,688)
Landscaping improvements	(88,125)	(72,019)	(160,144)
	<u>(449,407)</u>	<u>(287,984)</u>	<u>(737,391)</u>
Subtotal depreciable capital assets, net	<u>8,362,723</u>	<u>1,544,379</u>	<u>9,907,102</u>
Capital assets, net	<u>\$ 8,996,158</u>	<u>\$ 1,544,379</u>	<u>\$ 10,540,537</u>

Depreciation/amortization expense for the current year was \$287,984.

Note 5 – Due to Developer

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

The District's developer has also advanced funds to the District for operating expenses.

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

Due to developer, beginning of year	\$ 12,638,065
Developer funded construction	<u>1,832,363</u>
Due to developer, end of year	<u>\$ 14,470,428</u>

Harris County Municipal Utility District No. 538
Notes to Basic Financial Statements
February 28, 2021

Note 5 – Due to Developer (continued)

In addition, the District will owe the developer approximately \$2,562,022 which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Katy Lake, Phase 3 - detention facilities	\$ 1,259,873	\$ 181,884	\$ 1,077,989
Katy Lakes, Section 5 - utilities	1,302,149		1,302,149
	<u>\$ 2,562,022</u>	<u>\$ 181,884</u>	<u>\$ 2,380,138</u>

Note 6 – Long-Term Debt

As of February 28, 2021, the District had authorized but unissued bonds in the amount of \$174,213,000 for water, sewer and drainage facilities and the refunding of such bonds; \$31,604,300 for park and recreational facilities and the refunding of such bonds; and \$74,484,000 for road facilities and the refunding of such bonds.

Note 7 – Property Taxes

On May 6, 2017, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and \$0.25 per \$100 of assessed value for use in financing the operation and maintenance of road facilities.

All property values and exempt status, if any, are determined by the Harris County Appraisal District. Assessed values are determined as of January 1 of each year, at which time a tax lien attaches to the related property. Taxes are levied around October/November, are due upon receipt and are delinquent the following February 1. Penalty and interest attach thereafter.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2021 fiscal year was financed through the 2020 tax levy, pursuant to which the District levied maintenance and operation taxes of \$1.50 per \$100 of assessed value. The resulting tax levy was \$458,091 on the adjusted taxable value of \$30,539,403.

Total property taxes receivable, at February 28, 2021, consisted of the following:

Current year taxes receivable	\$ 70,063
Prior years taxes receivable	185
	<u>70,248</u>
Penalty and interest receivable	4,947
Property taxes receivable	<u>\$ 75,195</u>

Note 8 – Cost Sharing Agreement for Joint Water Plant

The District entered into that Second Amended and Restated Water Plant Cost Sharing Agreement, dated February 13, 2019, (the “Water Plant Agreement”) by and between the District, Harris County Municipal Utility District No. 495 (“HC MUD 495”), Beazer Homes Texas, L.P. (“Beazer”), Pulte Homes of Texas, L.P. (“Pulte”), Telephone Investments, Inc. (“Telephone”), KB Home Lonestar, Inc. (“KB”), Lennar Homes of Texas Land and Construction Ltd., dba Friendswood Development Company (“Lennar”) and Mini B. Inc., relating to the financing, construction and operation of certain water supply facilities that serve or will serve, land within the District and HC MUD 495. Beazer, Pulte, Telephone, KB and Lennar are collectively referred to as the “HC 495 Developers.” Pursuant to the Water Plant Agreement, Mini B, Inc. (“Mini B”), the developer within the District, has advanced and will continue to advance funds on behalf of the District for the design and construction of the joint water plant facilities to serve development within the District. Pursuant to the Water Plant Agreement, certain of HC MUD 495 Developers have and will continue to advance funds to or on behalf of HC MUD 495 for the design and construction of the joint water plant facilities to serve development within HC MUD 495. Pursuant to the Water Plant Agreement, the developers advanced funds for their proportionate share of construction costs. The District is not obligated to reimburse the HC MUD 495 Developers for funds advanced by the HC 495 Developers. Pursuant to the Water Plant Agreement, two water plants are anticipated to be constructed in four phases to ultimately serve a projected 5,500 equivalent single family connections (ESFCs), with 1,500 ESFCs allocated to the District and 4,000 ESFCs allocated to HC MUD 495. As of February 28, 2021, Water Plant no. 1, Phase 3 and Water Plant No. 2, Phase 1 are currently under construction.

In 2016, HC MUD 495 completed construction of Water Plant Phase I, including an emergency waterline interconnect with Harris County Municipal Utility District No. 536, to provide capacity to serve a projected 1,000 ESFCs and established a Joint Water Plant Fund (the “JWP Fund”) to account for the operating and maintenance costs of the water plant facilities. Each district was responsible for providing funds to establish an initial deposit in the JWP Fund for the payment of operation and maintenance costs. The District’s share was paid by the Developer on behalf of the District. In the previous fiscal year, the construction of Water Plant Phase 2 completed. Operating and maintenance costs are allocated between the districts based on each district’s pro-rata share of the connections reserved in the Water Plant. The districts are billed monthly for operation and maintenance costs. During the current year, the District recognized \$155,641 in joint water plant expenses.

Note 9 – Cost Sharing Agreement for Joint Wastewater Plant

The District's Developer, Mini B, on behalf of itself and the District entered into that Amended and Restated Wastewater Capacity Cost Sharing Agreement, dated March 2, 2016, (the "WWTP Agreement") by and between HC MUD 495, Beazer, Pulte, Telephone and KB relating to the financing, construction and operation of wastewater treatment facilities that serve, or will serve, land within the District and HC MUD 495. Subsequently, the District assumed certain rights, duties and obligations under the WWTP Agreement pursuant to that Assignment and Assumption of Amended and Restated Wastewater Capacity Cost Sharing Agreement dated May 15, 2017. Pursuant to the WWTP Agreement, Mini B has and will continue to advance funds to or on behalf of the District for the design and construction of the Interim Plant as needed to serve development within the District, and the HC MUD 495 Developers have and will continue to advance funds on behalf of HC MUD 495 for the design and construction of the Interim Plant as needed to serve development within HC MUD 495. The District is not obligated to reimburse the HC MUD 495 Developers for funds advanced by the HC MUD 495 Developers. Pursuant to the WWTP Agreement, the Interim Plant will be constructed in four phases to ultimately provide 900,000 gallons per day of wastewater capacity, with 270,000 gallons per day of wastewater capacity allocated to the District and 630,000 gallons per day of wastewater capacity allocated to HC MUD 495. As of February 28, 2021, Phase 4 is currently under construction.

In 2016, HC MUD 495 established a Joint Wastewater Treatment Plant Facilities Fund (the "JWWTP Fund") to account for the operating and maintenance costs of the Interim Plant. Each district was responsible for providing funds to establish an initial deposit in the JWWTP Fund for the payment of operation and maintenance costs. The District's share was paid by the Developer on behalf of the District. Operating and maintenance costs are allocated between the districts based on each district's pro-rata share of the capacity in the Interim Plant. The districts are billed monthly for operation and maintenance costs. During the current year, the District recognized \$111,792 in joint wastewater treatment plant expenses.

Note 10 – Economic Dependency

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

Note 11 – Risk Management

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

Note 12 – Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas.

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

Note 13 – Subsequent Event

On May 27, 2021, the District issued its \$5,500,000 Series 2021 Unlimited Tax Bonds at a net effective rate of 2.521272%. Proceeds from the bonds were used to reimburse the District’s developer for operating advances and infrastructure improvements in the District; and to pay capitalized interest into the Debt Service Fund.

Required Supplementary Information

*Harris County Municipal Utility District No. 538
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund
 For the Year Ended February 28, 2021*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 37,500	\$ 57,948	\$ 20,448
Sewer service	37,500	57,099	19,599
Property taxes	300,000	448,516	148,516
Penalties and interest		5,162	5,162
Tap connection and inspection	300,000	233,595	(66,405)
Regional water authority fees		97,907	97,907
Miscellaneous		4,020	4,020
Investment earnings		113	113
Total Revenues	675,000	904,360	229,360
Expenditures			
Current service operations			
Purchased services	200,000	267,433	(67,433)
Professional fees	203,000	181,841	21,159
Contracted services	185,000	175,922	9,078
Repairs and maintenance	35,000	123,187	(88,187)
Utilities	5,000	3,129	1,871
Administrative	25,500	28,253	(2,753)
Other	5,000	5,464	(464)
Total Expenditures	658,500	785,229	(126,729)
Revenues Over Expenditures	16,500	119,131	102,631
Fund Balance			
Beginning of the year	347,192	347,192	
End of the year	\$ 363,692	\$ 466,323	\$ 102,631

Harris County Municipal Utility District No. 538
Notes to Required Supplementary Information
February 28, 2021

Budgets and Budgetary Accounting

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

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Texas Supplementary Information

Harris County Municipal Utility District No. 538

TSI-1. Services and Rates

February 28, 2021

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

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

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 20.00	N/A	N	\$ 1.75	6,001 to 15,000
				\$ 2.50	15,001 to 30,000
				\$ 3.50	30,001 to no limit
Wastewater:	\$ 35.00	N/A	Y		to _____
Regional water fee:	\$ 3.80	1,000	N	\$ 3.80	1,001 to no limit

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 65.00 Wastewater \$ 35.00

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFCS
Unmetered			x 1.0	
less than 3/4"	304	303	x 1.0	303
1"			x 2.5	
1.5"			x 5.0	
2"	5	5	x 8.0	40
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	309	308		343
Total Wastewater	304	303	x 1.0	303

See accompanying auditor's report.

Harris County Municipal Utility District No. 538
TSI-1. Services and Rates
February 28, 2021

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

Gallons purchased:	<u>27,725,000</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>27,725,000</u>	<u>100%</u>

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

Does the District have Debt Service standby fees? Yes No

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

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

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

5. Location of District:

Is the District located entirely within one county? Yes No

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

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

City(ies) in which the District is located: _____

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

Entirely Partly Not at all

ETJs in which the District is located: City of Houston

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

If Yes, by whom? _____

See accompanying auditors' report.

*Harris County Municipal Utility District No. 538
 TSI-2 General Fund Expenditures
 For the Year Ended February 28, 2021*

Purchased services		<u>\$ 267,433</u>
Professional fees		
Legal		95,747
Audit		8,000
Engineering		78,094
		<u>181,841</u>
Contracted services		
Bookkeeping		6,690
Operator		16,064
Garbage collection		17,176
Tap connection and inspection		129,032
Tax assessor-collector fees		3,600
Appraisal district fees		3,360
		<u>175,922</u>
Repairs and maintenance		<u>123,187</u>
Utilities		<u>3,129</u>
Administrative		
Directors fees		13,950
Printing and office supplies		6,129
Insurance		5,822
Other		2,352
		<u>28,253</u>
Other		<u>5,464</u>
Total expenditures		<u><u>\$ 785,229</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	8,464 kWh	\$ 3,129
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Harris County Municipal Utility District No. 538
TSI-4. Taxes Levied and Receivable
February 28, 2021

	Maintenance Taxes			
Taxes Receivable, Beginning of Year				\$ 39,687
Adjustments to Prior Year Tax Levy				61
Adjusted Receivable				<u>39,748</u>
2020 Original Tax Levy				296,332
Adjustments				161,759
Adjusted Tax Levy				<u>458,091</u>
Total to be accounted for				<u>497,839</u>
Tax collections:				
Current year				388,028
Prior years				39,563
Total Collections				<u>427,591</u>
Taxes Receivable, End of Year				<u>\$ 70,248</u>
Taxes Receivable, By Years				
2020				\$ 70,063
2019				123
2018				62
Taxes Receivable, End of Year				<u>\$ 70,248</u>
	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
Property Valuations:				
Land	\$ 18,463,409	\$ 17,793,210	\$ 13,221,341	\$ 10,111,040
Improvements	18,734,281	2,281,194	990,000	1,737
Personal Property	218,680	35,206	17,806	
Exemptions	(6,876,967)	(7,236,757)	(6,012,115)	(10,057,139)
Total Property Valuations	<u>\$ 30,539,403</u>	<u>\$ 12,872,853</u>	<u>\$ 8,217,032</u>	<u>\$ 55,638</u>
Tax Rates per \$100 Valuation:				
Maintenance tax rates	<u>\$ 1.50</u>	<u>\$ 1.50</u>	<u>\$ 1.50</u>	<u>\$ 1.50</u>
Adjusted Tax Levy:	<u>\$ 458,091</u>	<u>\$ 193,093</u>	<u>\$ 123,255</u>	<u>\$ 835</u>
Percentage of Taxes Collected to Taxes Levied ***	<u>84.71%</u>	<u>99.94%</u>	<u>99.95%</u>	<u>100.00%</u>

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

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

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

See accompanying auditors' report.

Harris County Municipal Utility District No. 538
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Four Fiscal Years

	Amounts			
	2021	2020	2019	2018
Revenues				
Water service	\$ 57,948	\$ 26,676	\$ 2,354	\$ -
Sewer service	57,099	25,069	1,538	
Property taxes	448,516	195,142	195,487	562
Penalties and interest	5,162	2,688	59	
Tap connection and inspection	233,595	132,480	30,825	
Regional water authority fees	97,907	31,670	1,702	
Miscellaneous	4,020	2,805	35,681	
Investment earnings	113	28	14	
Total Revenues	904,360	416,558	267,660	562
Expenditures				
Current service operations				
Purchased services	267,433	198,951	226,865	232,811
Professional fees	181,841	125,540	100,166	164,028
Contracted services	175,922	103,049	21,032	5,670
Repairs and maintenance	123,187	26,765	1,391	3,150
Utilities	3,129	850		
Administrative	28,253	17,966	10,687	12,426
Other	5,464	4,697	3,150	1,205
Total Expenditures	785,229	477,818	363,291	419,290
Revenues Over/(Under) Expenditures	\$ 119,131	\$ (61,260)	\$ (95,631)	\$ (418,728)
Total Active Retail Water Connections	308	115	23	N/A
Total Active Retail Wastewater Connections	303	111	23	N/A

*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2021	2020	2019	2018
5%	6%	1%	
6%	6%	1%	
51%	46%	72%	100%
1%	1%	*	
26%	32%	12%	
11%	8%	1%	
*	1%	13%	
*	*	*	
100%	100%	100%	100%

30%	48%	85%	41425%
20%	30%	37%	29186%
19%	25%	8%	1009%
14%	6%	1%	560%
*	*		
3%	4%	4%	2211%
1%	1%	1%	214%
87%	114%	136%	74605%
13%	(14%)	(36%)	(74505%)

***Harris County Municipal Utility District No. 538
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended February 28, 2021***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: 713-860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): August 27, 2020
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
William Jordan	05/20 - 05/24	\$ 3,000	\$ -	President
Andrew Clark	05/20 - 05/24	3,300		Vice President
Jacob Baker	05/18 - 05/22	3,600		Secretary
Cameron Franz	05/20 - 05/24	1,950		Assistant Vice President
William R. Murphy, Jr.	05/18 - 05/22	2,100		Assistant Secretary
Garner Strickland	05/17 - 05/20			Former Director
Consultants				
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	2017	<u>Amounts Paid</u> \$ 95,873		Attorney
Municipal District Services, LLC	2017	287,111		Operator
Myrtle Cruz, Inc.	2017	8,278		Bookkeeper
Assessments of the Southwest, Inc.	2017	3,600		Tax Collector
Harris County Appraisal District	Legislative	3,360		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2017	441		Delinquent Tax Attorney
LJA Engineering, Inc.	2019	77,584		Engineer
McGrath & Co., PLLC	2018	8,000		Auditor
R.W. Baird & Co., Inc.	2017			Financial Advisor

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

See accompanying auditors' report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

On the later of the day on which such principal and interest becomes Due for Payment or the Business Day next following the Business Day on which AGM shall have received Notice of Nonpayment, AGM will disburse to or for the benefit of each Owner of a Bond the face amount of principal of and interest on the Bond that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by AGM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of the principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in AGM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by AGM is incomplete, it shall be deemed not to have been received by AGM for purposes of the preceding sentence and AGM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, who may submit an amended Notice of Nonpayment. Upon disbursement in respect of a Bond, AGM shall become the owner of the Bond, any appurtenant coupon to the Bond or right to receipt of payment of principal of or interest on the Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under the Bond, to the extent of any payment by AGM hereunder. Payment by AGM to the Trustee or Paying Agent for the benefit of the Owners shall, to the extent thereof, discharge the obligation of AGM under this Policy.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity unless AGM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment of principal or interest that is Due for Payment made to an Owner by or on behalf of the Issuer which has been recovered from such Owner pursuant to the

United States Bankruptcy Code by a trustee in bankruptcy in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means telephonic or telecopied notice, subsequently confirmed in a signed writing, or written notice by registered or certified mail, from an Owner, the Trustee or the Paying Agent to AGM which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount and (d) the date such claimed amount became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer or any person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of AGM, and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, (a) any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity and (b) this Policy may not be canceled or revoked. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW.

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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