

OFFICIAL STATEMENT DATED JANUARY 17, 2023

IN THE OPINION OF BOND COUNSEL (HEREIN DEFINED), INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS. SEE "LEGAL MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The Bonds are not designated as "qualified tax-exempt obligations" for financial institutions. See "LEGAL MATTERS—Not Qualified Tax-Exempt Obligations."

NEW ISSUE – Book-Entry-Only

S&P Global Ratings (AGM Insured)..... "AA"

\$9,085,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 465

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

UNLIMITED TAX BONDS, SERIES 2023

Interest Accrues: Date of Delivery

Due: September 1, as shown on the inside cover

The \$9,085,000 Unlimited Tax Bonds, Series 2023 (the "Bonds") are obligations of Harris County Municipal Utility District No. 465 (the "District") and are not obligations of the State of Texas; Harris County, Texas (the "County"); the City of Houston, Texas (the "City"); 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; the County; the City; 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, Amegy Bank Division, Houston, Texas (the "Paying Agent/Registrar"). The Bonds are dated February 1, 2023 with interest accruing from the initial date of delivery (expected to be February 22, 2023) (the "Date of Delivery"), and is payable September 1, 2023, and on each March 1 and September 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar 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 each Interest Payment 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, in turn, will 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. ("AGM")**.

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

The Bonds are the second series of unlimited tax bonds issued by the District for the purpose of constructing or acquiring water, wastewater, and drainage facilities to serve the District (the "Utility System"). At an election held within the District on May 12, 2007, voters of the District authorized the District's issuance of \$80,250,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the water, wastewater, and drainage facilities to serve the Utility System and \$120,375,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; \$38,300,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a road system to serve the District (the "Road System") and \$57,450,000 principal amount of unlimited tax bonds for the refunding of such bonds. At a separate election on May 4, 2019, voters of the District also authorized the District's issuance of \$167,690,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and refunding of such bonds; \$107,980,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring park and recreational facilities to serve the District (the "Park System") and refunding of such bonds.

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

Investment in the Bonds is subject to special risk factors as described herein. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled "RISK FACTORS," before making an investment decision. See "RISK FACTORS."

The Bonds are offered subject to prior sale, when, as and if issued by the District and accepted by the initial purchaser of the Bonds (the "Initial Purchaser"), subject, among other things, to the approval of the Attorney General of Texas and of Coats Rose, P.C., Houston, Texas, Bond Counsel. Certain legal matters will be passed on for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about February 22, 2023.

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS

\$9,085,000 Unlimited Tax Bonds

Series 2023

| Maturity (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number (b) | Maturity (September 1) | Principal Amount | Interest Rate | Initial Reoffering Yield (a) | CUSIP Number (b) |
|---|---------------------|------------------|------------------------------------|---------------------|---------------------------|---------------------|------------------|------------------------------------|---------------------|
| 2024 | \$185,000 | 6.50 % | 2.75 % | 41430C BA4 | 2033 | \$290,000 (c) | 4.00 % | 3.40 % | 41430C BK2 |
| 2025 | 195,000 | 6.50 | 2.80 | 41430C BB2 | 2034 | 305,000 (c) | 4.00 | 3.50 | 41430C BL0 |
| 2026 | 205,000 | 6.50 | 2.85 | 41430C BC0 | 2035 | 325,000 (c) | 4.00 | 3.60 | 41430C BM8 |
| 2027 | 215,000 | 6.50 | 2.90 | 41430C BD8 | 2036 | 340,000 (c) | 4.00 | 3.70 | 41430C BN6 |
| 2028 | 225,000 | 6.50 | 2.95 | 41430C BE6 | 2037 | 360,000 (c) | 4.00 | 3.80 | 41430C BP1 |
| 2029 | 240,000 | 6.50 | 3.00 | 41430C BF3 | 2038 | 375,000 (c) | 4.00 | 3.90 | 41430C BQ9 |
| 2030 | 250,000 (c) | 4.75 | 3.10 | 41430C BG1 | 2039 | 395,000 (c) | 4.00 | 4.00 | 41430C BR7 |
| 2031 | 265,000 (c) | 4.00 | 3.20 | 41430C BH9 | 2040 | 415,000 (c) | 4.00 | 4.05 | 41430C BS5 |
| 2032 | 275,000 (c) | 4.00 | 3.30 | 41430C BJ5 | | | | | |
| | | | | | | | | | |
| \$900,000 Term Bond due September 1, 2042 (c), 41430C BU0 (b), 4.00% Interest Rate, 4.10% Yield (a) | | | | | | | | | |
| \$1,535,000 Term Bond due September 1, 2045 (c), 41430C BX4 (b), 4.00% Interest Rate, 4.15% Yield (a) | | | | | | | | | |
| \$1,790,000 Term Bond due September 1, 2048 (c), 41430C CA3 (b), 4.00% Interest Rate, 4.20% Yield (a) | | | | | | | | | |

- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. 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 have been 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, 2030, 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, 2029, or on any date thereafter, at the par value thereof plus accrued interest from the most recent Interest Payment Date 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 Provisions."

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, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel (herein defined), for further information.

The Financial Advisor (herein defined) has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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 that they will be realized. Any information and expressions of opinion herein contained are subject to change without notice, and neither the delivery of this Official Statement nor any sale made hereunder shall, under any circumstances, create any implication that there has been no change in the affairs of the District or other matters described herein since the date hereof. However, the District has agreed to keep this Official Statement current by amendment or sticker to reflect material changes in the affairs of the District, and to the extent that information actually comes to its attention, other matters described in the Official Statement until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "CONTINUING DISCLOSURE OF INFORMATION" and "PREPARATION OF 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 any purpose.

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 headings "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

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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 of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover of this Official Statement at a price of 97.009141% of par, resulting in a net effective interest rate of 4.285544%, as calculated pursuant to Chapter 1204, Texas Government Code, as amended. No assurance can be given that any trading market will be developed for the Bonds after their sale by the District to the Initial Purchaser. The District has no control over the price at which the Bonds are subsequently sold, and the initial yields at which the Bonds are priced and reoffered are established by, and are the sole responsibility of, the Initial Purchaser.

Prices and Marketability

Subject to certain restrictions regarding the "hold-the-offering-price" rule as described in the Official Notice of Sale, the delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the Date of Delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the sole responsibility of the Initial Purchaser.

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 THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER-ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, 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 "APPENDIX B" to this Official Statement.

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

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 October 21, 2022, 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, 2022, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On 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.

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 September 30, 2022:

- The policyholders' surplus of AGM was approximately \$2,660 million.
- The contingency reserve of AGM was approximately \$915 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,102 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);
- (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);
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022 (filed by AGL with the SEC on August 4, 2022); and

- (iv) the Quarterly Report on Form 10-Q for the quarterly period ended September 30, 2022 (filed by AGL with the SEC on November 8, 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 “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 herein.

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 District is not aware of any ratings assigned to the Bonds other than the rating of S&P.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement. The offering of the Bonds to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

| | |
|-------------------------------------|---|
| <i>The District</i> | Harris County Municipal Utility District No. 465 (the "District"), a political subdivision of the State of Texas, is located in Harris County, Texas (the "County"). See "THE DISTRICT." |
| <i>The Bonds</i> | The District is issuing its \$9,085,000 Unlimited Tax Bonds, Series 2023 (the "Bonds"). The Bonds are dated February 1, 2023, and mature serially on September 1 in each of the years 2024 through 2040, both inclusive, and as term bonds on September 1 in each of the years 2042, 2045, and 2048 (the "Term Bonds") and in the principal amounts and pay interest at the rates set forth on the inside cover page hereof. Interest accrues from the initial date of delivery (expected to be February 22, 2023) (the "Date of Delivery"), at the rates per annum set forth on the inside cover of this Official Statement and is payable on September 1, 2023, and on each March 1 and September 1 thereafter until maturity or earlier redemption. The Bonds are offered in fully registered form in integral multiples of \$5,000 for any one maturity. See "THE BONDS." |
| <i>Redemption</i> | Bonds maturing on and after September 1, 2030, are subject to redemption, in whole or from time to time in part, at the option of the District on September 1, 2029, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS—Redemption Provisions." |
| <i>Source of Payment</i> | Principal of and interest on the Bonds are payable from the proceeds of an annual ad valorem tax levied upon all taxable property within the District without legal limitation as to rate or amount. The Bonds are obligations solely of the District and are not obligations of the State of Texas (the "State"); the County; the City of Houston, Texas (the "City"); or any other political subdivision or entity other than the District. See "THE BONDS—Source of Payment." |
| <i>Payment Record</i> | The Bonds are the second series of unlimited tax bonds issued by the District for the purpose of constructing or acquiring water, wastewater, and drainage facilities to serve the District (the "Utility System"). See "THE BONDS—Source of Payment." |
| <i>Outstanding Bonds</i> | The District has previously issued one series of bonds for the purpose of acquiring or constructing the Utility System (the "Outstanding Bonds"), of which \$5,700,000 principal amount remains outstanding as of December 1, 2022. See THE BONDS—Outstanding Bonds." |
| <i>Authority for Issuance</i> | At an election held within the District on May 12, 2007, voters of the District authorized the District's issuance of \$80,250,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and \$120,375,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; \$38,300,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a road system to serve the District (the "Road System") and \$57,450,000 principal amount of unlimited tax bonds for |

the refunding of such bonds. At a separate election on May 4, 2019, voters of the District also authorized the District's issuance of \$167,690,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and refunding of such bonds; \$107,980,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring park and recreational facilities to serve the District (the "Park System") and refunding of such bonds.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code and Chapter 8157 of the Texas Special District Local Laws Code; (ii) an election held within the District on May 12, 2007; (iii) an order adopted by the Board of Directors of the District on the date of sale of the Bonds (the "Bond Order"); and (iv) an order of the Texas Commission on Environmental Quality (the "TCEQ"). See "THE BONDS—Authority for Issuance."

Short-Term Debt In connection with the Bonds, the District has issued its \$4,985,000 Bond Anticipation Note, Series 2022 (the "BAN"), dated June 28, 2022, for the partial reimbursement of costs as set forth under "THE BONDS—Use and Distribution of Bond Proceeds." The BAN accrues interest at a rate of 3.75% per year (computed on the basis of a 360-day year and the actual days elapsed) and matures on June 27, 2023. See "THE BONDS—Short-Term Debt."

Use of Proceeds A portion of the proceeds of the sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer (defined herein) for a portion of the following: (i) phase one grading and detention for AVEX tract; (ii) phase two grading and mitigation for detention in Winward; (iii) water, wastewater and drainage facilities in AVEX, sections one through three and Winward sections four and five; (iv) engineering and testing costs; (v) Storm Water Pollution Prevention Planning (SWPPP) costs; and (vi) operating advances. In addition, a portion of the proceeds of the Bonds will be used to pay developer interest; twelve (12) months of capitalized interest; BAN interest; and certain other issuance costs associated with the issuance of the Bonds and the BAN. See "THE BONDS—Use and Distribution of Bond Proceeds."

Not Qualified Tax-Exempt Obligations The District will not designate the Bonds as "Qualified Tax-Exempt Obligations" for financial institutions. See "LEGAL MATTERS—Not Qualified Tax-Exempt Obligations."

Municipal Bond Insurance and Rating S&P Global Ratings (AGM Insured): "AA." See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING." The District is not aware of any ratings assigned to the Bonds other than the rating of S&P. See "MUNICIPAL BOND INSURANCE," "MUNICIPAL BOND RATING," "RISK FACTORS—Bond Insurance Risk Factors," and APPENDIX B.

Bond Counsel Coats Rose, P.C., Houston, Texas.

Disclosure Counsel Orrick, Herrington & Sutcliffe LLP, Houston, Texas.

Financial Advisor Robert W. Baird & Co. Incorporated, Houston, Texas.

Engineer Elevation Land Solutions, Houston, Texas.

THE DISTRICT

| | |
|--|--|
| <i>Description</i> | The District was created by Senate Bill No. 1888, Acts of the 79th Texas Legislature, Regular Session, 2005, codified as Chapter 8157, Texas Special District Local Laws Code, and by a confirmation election held within the District on May 12, 2007. The District comprises approximately 321 total acres and is situated entirely within the County, the extraterritorial jurisdiction of the City, and the boundaries of Katy Independent School District. See “THE DISTRICT—Authority” and “THE DISTRICT—Description.” |
| <i>Location</i> | The District is located approximately 30 miles west of the central business district of the City. The District is bounded by on the north by Longenbaugh Road, on the east by Katy-Hockley Road, and on the south by Farm to Market Road 529. See “THE DISTRICT—Description.” |
| <i>Winward</i> | The District is part of the residential community known as Winward. Winward is planned to include approximately 811 homes. See “DEVELOPMENT OF THE DISTRICT—Winward.” |
| <i>The Developer</i> | Land within the District is being developed by Friendswood Development Company (the “Developer”), which is wholly-owned by Lennar Corporation. See “THE DEVELOPER.” |
| <i>Development within the District</i> | To date, approximately 140 acres within the District have been developed as 670 single-family lots in the following single-family residential subdivisions: Winward, Sections 1 through 11. As of December 18, 2022, development within the District consisted of approximately 376 completed homes (367 occupied and 9 unoccupied), 81 homes under construction and approximately 213 vacant, developed lots. In addition, approximately 25 acres with 141 single-family lots is currently under construction with an expected completion by March 2023. The remainder of the land within the District includes approximately 156 undevelopable acres and no additional developable acres. See “DEVELOPMENT OF THE DISTRICT—Status of Development within the District.” |
| <i>Homebuilder</i> | Lennar Homes, a subsidiary of Lennar Corporation, is the only active homebuilder in the District. New homes being marketed in the District range in price from approximately \$230,000 to over approximately \$350,000. See “DEVELOPMENT OF THE DISTRICT—Homebuilder within the District.” |

RISK FACTORS

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

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

| | | |
|--|------------------|-----|
| 2022 Certified Taxable Assessed Valuation | \$ 54,026,259 | (a) |
| Estimated Taxable Assessed Valuation as of December 1, 2022..... | \$ 124,252,786 | (b) |
| Direct Debt: | | |
| The Outstanding Bonds..... | \$ 5,700,000 | |
| The Bonds..... | <u>9,085,000</u> | |
| Total | \$ 14,785,000 | |
| Estimated Overlapping Debt | <u>689,200</u> | (c) |
| Total Direct and Estimated Overlapping Debt | \$ 15,474,200 | (c) |
| Direct Debt Ratio: | | |
| As a Percentage of the 2022 Certified Taxable Assessed Valuation | 27.37% | |
| As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022. | 11.90% | |
| Direct and Estimated Overlapping Debt Ratio: | | |
| As a Percentage of the 2022 Certified Taxable Assessed Valuation | 28.64% | |
| As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022. | 12.45% | |
| Debt Service Fund Balance (as of December 20, 2022) | \$ 320,712 | (d) |
| Operating Fund Balance (as of December 20, 2022) | \$ 410,205 | |
| Capital Projects Fund Balance (as of December 20, 2022) | \$ 118,914 | |
| 2022 Tax Rate | | |
| Debt Service..... | \$ 0.70 | |
| Maintenance and Operations..... | <u>0.75</u> | |
| Total | \$ 1.45 | |
| Average Annual Debt Service Requirement (2023-2048)..... | \$ 945,192 | (e) |
| Maximum Annual Debt Service Requirement (2047) | \$ 1,009,750 | (e) |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds (2023-2048) | | |
| Based on the 2022 Certified Taxable Assessed Valuation at 95% Tax Collections..... | \$ 1.85 | |
| Based on the Estimated Taxable Assessed Valuation as of December 1, 2022, at 95% Tax Collections..... | \$ 0.81 | |
| Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds (2047) | | |
| Based on the 2022 Certified Taxable Assessed Valuation at 95% Tax Collections..... | \$ 1.97 | |
| Based on the Estimated Taxable Assessed Valuation as of December 1, 2022, at 95% Tax Collections..... | \$ 0.86 | |
| Number of Homes Completed (367 occupied)..... | 376 | |
| 2022 Estimated Population | 1,285 | (f) |

- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2022, as provided by the Harris County Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of all taxable property located within the District as of December 1, 2022, and includes an estimate of additional taxable value resulting from the construction of taxable improvements from January 1, 2022, through December 1, 2022. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT—Direct and Estimated Overlapping Debt Statement."
- (d) At the time of closing of the Bonds, twelve (12) months of capitalized interest on the Bonds will be deposited into the District's Debt Service Fund (herein defined). The balance represented above does not include such amount. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.
- (e) Requirement of debt service on the Outstanding Bonds and the Bonds. See "DISTRICT DEBT—Debt Service Requirement Schedule."
- (f) Based upon 3.5 persons per occupied residence.

\$9,085,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 465

UNLIMITED TAX BONDS

SERIES 2023

INTRODUCTION

This Official Statement of Harris County Municipal Utility District No. 465 (the "District") is provided to furnish information with respect to the issuance by the District of its \$9,085,000 Unlimited Tax Bonds, Series 2023 (the "Bonds").

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code and Chapter 8157 of the Texas Special District Local Laws Code; (ii) an election held within the District on May 12, 2007; (iii) an order adopted by the Board of Directors of the District (the "Board") on the date of sale of the Bonds (the "Bond Order"); and (iv) an order of the Texas Commission on Environmental Quality (the "TCEQ").

This Official Statement includes descriptions of the Bonds, the Developer (herein defined), the Bond Order, 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 Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046, upon payment of the costs of duplication therefor. Certain capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Bond Order, except as otherwise indicated herein.

RISK FACTORS

General

The Bonds, which are obligations of the District and not of the State of Texas; Harris County, Texas (the "County"); the City of Houston, Texas (the "City" or "Houston"); or any political subdivision other than the District, will be secured by a continuing, direct, 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."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The District is situated in the Houston area, and the rate of development of the District is directly related to the vitality of the residential housing industry in said metropolitan area. 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.

Principal Landowners/Developer: There is no commitment by, or legal requirement of, the principal landowners, the Developer, or any other landowner in 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 landowner'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," as of January 1, 2022, the District's principal taxpayers owned property located within the District the aggregate taxable assessed valuation of which comprised approximately 37.63% of the District's total assessed valuation. The Developer, the District's top two taxpayers, owns approximately 32.21% of the District's taxable assessed valuation as of January 1, 2022. See "THE DEVELOPER."

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 Order 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 taxable assessed valuation as of January 1, 2022, of all taxable property located within the District is \$54,026,259 and the Estimated Taxable Assessed Valuation as of December 1, 2022, is \$124,252,786. See "DISTRICT DEBT."

After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds (2047) is \$1,009,750 and the average annual debt service requirement on the Outstanding Bonds and the Bonds (2023-2048) is \$945,192. Assuming no decrease to the District's taxable assessed valuation as of January 1, 2022, tax rates of \$1.97 and \$1.85 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds and the average annual debt service requirement on the Outstanding Bonds and the Bonds, respectively. Assuming no decrease from the District's Estimated Taxable Assessed Valuation as of December 1, 2022, tax rates of \$0.86 and \$0.81 per \$100 of taxable assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement on the Outstanding Bonds and the Bonds and the average annual debt service requirement on the Outstanding Bonds and the Bonds, 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. For the 2022 tax year, the District levied a total tax rate of \$1.45 per \$100 of assessed valuation comprised by a maintenance and operations tax of \$0.75 per \$100 of assessed valuation and a debt service tax of \$0.70 per \$100 of assessed valuation. The District levied its initial debt service tax in tax year 2022. See "DISTRICT DEBT" and "TAX DATA."

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 any homebuilder(s) will be continued or completed. The respective competitive position of 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 Collections and Foreclosure Remedies

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other 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 procedure against a taxpayer, or (c) market conditions limiting the proceeds from a foreclosure sale of taxable property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. 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, a 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

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the Bonds (the "Registered Owners") have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of 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. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

If the petitioning District were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against a district. The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding with the initial purchaser of the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price for the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional issuers as such bonds are more generally bought, sold or traded in the secondary market. See "SALE AND DISTRIBUTION OF THE BONDS."

Future Debt

At an election held within the District on May 12, 2007, voters of the District authorized the District's issuance of \$80,250,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the water, wastewater, and drainage facilities to serve the District (the "Utility System") and \$120,375,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; \$38,300,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring a road system to serve the District (the "Road System") and \$57,450,000 principal amount of unlimited tax bonds for the refunding of such bonds. At a separate election on May 4, 2019, voters of the District also authorized the District's issuance of \$167,690,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and refunding of such bonds; \$107,980,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring park and recreational facilities to serve the District (the "Park System") and refunding of such bonds. See "THE BONDS—Authority for Issuance."

The Bonds represent the second series of unlimited tax bonds issued by the District for the purpose of constructing or acquiring the Utility System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$65,465,000 principal amount for the purpose of constructing or acquiring the Utility System and \$120,375,000 principal amount for the purpose of refunding such bonds; \$167,690,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and refunding of such bonds; \$38,300,000 for the purpose of constructing or acquiring the Road System and \$57,450,000 for the purpose of refunding such bonds; \$107,980,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 for the purpose of constructing or acquiring the Park System and refunding of such bonds. The District may also issue any additional bonds as may hereafter be approved by both the Board and voters of the District as well as (and approved by the TCEQ, as needed) certain additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Order. See "THE BONDS—Issuance of Additional Debt."

The District's issuance of the remaining authorized but unissued unlimited tax bonds for the purpose of constructing or acquiring the Utility System and the authorized but unissued unlimited tax bonds for the purpose of constructing or acquiring the Park System shall be subject to approval by the TCEQ.

Following the issuance of the Bonds, the District will owe the Developer approximately \$13,500,000 for its expenditures to construct or acquire the Utility System, approximately \$3,500,000 for its expenditures to construct or acquire the Road System, and approximately \$6,700,000 for its expenditures to construct or acquire the Park System, pursuant to a reimbursement agreement. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property-valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Continuing Compliance with Certain Covenants

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

On October 7, 2022, the EPA published final notice reclassifying the HGB Area from “serious” to “severe” under the 2008 Ozone Standard, effective November 7, 2022. The “severe” nonattainment area classification 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 attainment deadline for the HGB Area under the 2008 Ozone Standard is July 20, 2027, with an attainment year of 2026,

On October 7, 2022, the EPA published final notice reclassifying the HGB Area from “marginal” to “moderate” under the 2015 Ozone Standard, effective November 7, 2022. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties. The attainment deadline for the HGB Area under the 2015 Ozone Standard is August 3, 2024, with an attainment year of 2023.

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. As a result of the HGB Area's reclassification, the TCEQ must submit revisions of the SIP to the EPA no later than January 1, 2023, addressing the "moderate" nonattainment classification and by May 2024 addressing the "severe" nonattainment classification.

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.

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule ("NWPR"), which contains a new definition of "waters of the United States." The stated purpose of the NWPR is to restore and maintain the integrity of the nation's waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states' primary authority over land and water resources. The new definition outlines four categories of waters that are considered "waters of the United States," and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also

identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On July 30, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of “waters of the United States.” Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Infectious Disease Outbreak—COVID-19

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

Since such time, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including the State) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

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

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. 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.”

Specific 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.

Potential Impact of Natural Disaster

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 hurricane, tornado, tropical storm, or other adverse weather event. 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 valuation of the District or an increase in the District's tax rate.

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.

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 on each series of Bonds, collectively, (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 INSURANCE" and "MUNICIPAL BOND RATING."

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 or Underwriter have made independent investigation into the claims paying ability of the bond insurer and no assurance or representation regarding the financial strength or projected financial strength of the bond insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the 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 INSURANCE" and "MUNICIPAL BOND RATING" 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.

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.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which is qualified in its entirety by reference to the Bond Order. A copy of the Bond Order may be obtained from the District upon written request made to Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

The Bonds are dated February 1, 2023, with interest initially accruing from the Date of Delivery (expected to be February 22, 2023) and payable on September 1, 2023, and each March 1 and September 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 and principal amounts shown on the inside cover of this Official Statement. Principal of the Bonds will be payable to the Registered Owners at maturity or redemption upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Amegy Bank Division, Houston, Texas (the "Paying Agent/Registrar"). 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 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, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York ("DTC"), while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor (herein defined) believe the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

The District and the Financial Advisor cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), 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 by S&P Global Ratings of "AA+." The DTC rules applicable to its Participants are on file with the SEC. 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 Security ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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 Bonds 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 Bonds 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, the 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 the District takes no responsibility for the accuracy thereof.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Order will be given only to DTC.

Successor Paying Agent/Registrar

Provision is made in the Bond Order 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 is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston. 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. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds

surrendered for exchange or transfer. Neither the Paying Agent/Registrar nor the District is required to issue, transfer, or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding Interest Payment Date or to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Funds

The Bond Order confirms the fund for debt service on the Bonds, the Outstanding Bonds and any additional unlimited tax bonds issued by the District for the purpose of constructing or acquiring the Utility System (the "Debt Service Fund"). Twelve (12) months of capitalized interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Debt Service Fund. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds and the Bonds, and any additional unlimited tax bonds issued by the District for the purpose of constructing or acquiring the Utility System, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Outstanding Bonds and the Bonds and any of the District's duly authorized additional bonds issued for the purpose of constructing or acquiring the Utility System and payable in whole or part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

Redemption Provisions

Optional Redemption: Bonds maturing on September 1, 2030, 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, 2029, 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 2042, 2045, and 2048 are term bonds (the "Term Bonds"), which 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:

| \$900,000 Term Bonds | | \$1,535,000 Term Bonds | | \$1,790,000 Term Bonds | |
|------------------------------|------------------|-------------------------------|------------------|-------------------------------|------------------|
| Due September 1, 2042 | | Due September 1, 2045 | | Due September 1, 2048 | |
| Mandatory | Principal | Mandatory | Principal | Mandatory | Principal |
| Redemption Date | Amount | Redemption Date | Amount | Redemption Date | Amount |
| 2041 | \$ 440,000 | 2043 | \$ 485,000 | 2046 | \$ 565,000 |
| 2042 (maturity) | 460,000 | 2044 | 510,000 | 2047 | 595,000 |
| | | 2045 (maturity) | 540,000 | 2048 (maturity) | 630,000 |

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such

Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

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

At an election held within the District on May 12, 2007, voters of the District authorized the District's issuance of \$80,250,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and \$120,375,000 principal amount of unlimited tax bonds for the purpose of refunding such bonds; \$38,300,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and \$57,450,000 principal amount of unlimited tax bonds for the refunding of such bonds. At a separate election on May 4, 2019, voters of the District also authorized the District's issuance of \$167,690,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and refunding of such bonds; \$107,980,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring the Park System and refunding of such bonds.

The Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code and Chapter 8157 of the Texas Special District Local Laws Code; (ii) an election held within the District on May 12, 2007; (iii) the Bond Order; and (iv) an order of the TCEQ.

Outstanding Bonds

The District has previously issued one series of bonds for the purpose of acquiring or constructing the Utility System (the "Outstanding Bonds"), of which \$5,700,000 principal amount remains outstanding as of December 1, 2022.

Source of Payment

The Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, 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, and certain fees. Tax proceeds, after deduction for collection costs, will be placed in the Debt Service Fund and used solely to pay principal of and interest on the Bonds, and additional bonds payable from taxes which may be issued.

The Bonds are the second series of unlimited tax bonds issued by the District for the purpose of constructing or acquiring the Utility System. The District has never defaulted on the timely payment of principal and interest on its bonded indebtedness.

The Bonds are obligations solely of the District and are not the obligations of the State of Texas; the County; the City; or any entity other than the District.

Issuance of Additional Debt

The Bonds represent the second series of unlimited tax bonds issued by the District for the purpose of constructing or acquiring the Utility System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$65,465,000 for the purpose of constructing or acquiring the Utility System and \$120,375,000 for the purpose of refunding such bonds; \$167,690,000 for the purpose of constructing or acquiring the Utility System and refunding of such bonds; \$38,300,000 for the purpose of constructing or acquiring the Road System and \$57,450,000 for the purpose of refunding such bonds; \$107,980,000 principal amount for the purpose of constructing or acquiring the Road System and refunding of such bonds; and \$27,635,000 for the purpose of constructing or acquiring the Parks System and refunding of such bonds. The District may also issue any additional bonds as may hereafter be approved by both the Board and voters of the District (and approved by the TCEQ, as needed) as well as certain additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Order.

The District's issuance of the remaining authorized but unissued unlimited tax bonds for the purpose of constructing or acquiring the Utility System and the authorized but unissued unlimited tax bonds for the purpose of constructing or acquiring the Park System shall be subject to approval by the TCEQ.

Following the issuance of the Bonds, the District will owe the Developer approximately \$13,500,000 for its expenditures to construct or acquire the Utility System, approximately \$3,500,000 for its expenditures to construct or acquire the Road System, and approximately \$6,700,000 for its expenditures to construct or acquire the Park System, pursuant to a reimbursement agreement. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property-valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

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. 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 has no current plans to submit an application for approval of a fire protection plan.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park 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. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent (1%) of the value of the taxable property in the District at the time of issuance.

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 the Park System 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 the Park System 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.

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 Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place of payment (paying agent) 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.

Remedies in the Event of Default

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right to seek a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies also may not be available. See “RISK FACTORS—Registered Owners’ Remedies.”

Short-Term Debt

In connection with the Bonds, the District has issued its \$4,985,000 Bond Anticipation Note, Series 2022 (the “BAN”), dated June 28, 2022, for the partial reimbursement of costs as set forth under “THE BONDS—Use and Distribution of Bond Proceeds.” The BAN accrues interest at a rate of 3.75% per year (computed on the basis of a 360-day year and the actual days elapsed) and matures on June 27, 2023.

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Use and Distribution of Bond Proceeds

A portion of the proceeds of the sale of the Bonds will be used to redeem the BAN, the proceeds of which were used to reimburse the Developer for a portion of the following: (i) phase one grading and detention for AVEX tract; (ii) phase two grading and mitigation for detention in Winward; (iii) water, wastewater and drainage facilities in AVEX, sections one through three and Winward sections four and five; (iv) engineering and testing costs; (v) Storm Water Pollution Prevention Planning (SWPPP) costs; and (vi) operating advances. In addition, a portion of the proceeds of the sale of the Bonds will be used to pay developer interest; twelve (12) months of capitalized interest; BAN interest; and certain other issuance costs associated with the issuance of the Bonds and the BAN.

Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor.

I. CONSTRUCTION COSTS

| | |
|--|---------------------|
| AVEX Tract Detention & Grading Phase One..... | \$ 1,921,702 |
| Winward Detention, Mitigation & Grading Phase Two..... | 1,251,081 |
| Avex Section One - Water, Wastewater & Drainage..... | 429,540 |
| Avex Section Two - Water, Wastewater & Drainage..... | 816,206 |
| Avex Section Three - Water, Wastewater & Drainage..... | 278,646 |
| Winward Section Four - Water, Wastewater & Drainage..... | 548,175 |
| Winward Section Five - Water, Wastewater & Drainage..... | 70,770 |
| Engineering & Testing..... | 1,093,604 |
| Stormwater Pollution Prevention Plan..... | 223,469 |
| Total Construction Costs..... | \$ 6,633,193 |

II. NON-CONSTRUCTION COSTS

| | |
|---|---------------------|
| Legal Fees..... | \$ 196,700 |
| Fiscal Agent Fees..... | 181,700 |
| Interest: | |
| a). Capitalized Interest (12 months) (a)..... | 396,900 |
| b). Developer Interest..... | 645,138 |
| c). BAN Interest (a) | 124,106 |
| BAN Issuance Expenses..... | 117,766 |
| Bond Discount (a)..... | 271,720 |
| Bond Issuance Expenses..... | 48,480 |
| Bond Application Report Costs..... | 62,700 |
| Operating Costs..... | 256,000 |
| Attorney General Fee..... | 9,085 |
| TCEQ Bond Issuance Fee..... | 22,713 |
| Contingency (a)..... | 118,800 |
| Total Non-Construction Costs..... | \$ 2,451,807 |

TOTAL BOND ISSUE REQUIREMENT..... \$ 9,085,000

(a) Contingency represents the difference in the estimated and actual amounts of capitalized interest, BAN interest, and Bond discount.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for approved uses in accordance with the rules of the TCEQ. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

Authority

The District was created by Senate Bill No. 1888, Acts of the 79th Texas Legislature, Regular Session, 2005, codified as Chapter 8157, Texas Special District Local Laws Code, and by a confirmation election held within the District on May 12, 2007. The District operates under Chapters 49 and 54 of the Texas Water Code and other general laws of the State of Texas applicable to municipal utility districts and 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. The District also is authorized to construct, develop and maintain roads and park and recreational facilities using operating revenues or by issuing bonds payable from taxes.

Description

The District comprises approximately 321 total acres and is situated entirely within the County, the extraterritorial jurisdiction of the City, and the boundaries of Katy Independent School District. The District is located approximately 30 miles west of the central business district of the City. The District is bounded by on the north by Longenbaugh Road, on the east by Katy-Hockley Road, and on the south by Farm to Market Road 529.

Management of the District

The District is governed by 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 four-year staggered terms. Elections are held in May of even-numbered years. The current members and officers of the Board are listed below:

| <u>Name</u> | <u>Position</u> | <u>Term</u> |
|------------------------|---------------------|-------------|
| Cynthia Hill | President | May 2024 |
| Darren O'Connor | Vice President | May 2026 |
| Christopher Charboneau | Secretary | May 2026 |
| Leslie Richardson | Assistant Secretary | May 2024 |
| Kimberly Lewis | Assistant Secretary | May 2024 |

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 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 bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the District is B&A Municipal Tax Service LLC (the "Tax Assessor/Collector").

Bookkeeper: The District's bookkeeper is L&S District Services, LLC.

Auditor: The financial statements of the District as of May 31, 2022, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein.

Engineer: The District's engineer is Elevation Land Solutions (the "Engineer").

Bond Counsel: The District has engaged Coats Rose, P.C., 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.

Disclosure Counsel: Orrick, Herrington & Sutcliffe LLP, Houston, Texas, serves as disclosure counsel (“Disclosure Counsel”) to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor: Robert W. Baird & Co. Incorporated is engaged as financial advisor to the District in connection with the issuance of the Bonds (the “Financial Advisor”). 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

Winward

The District is part of the residential community known as Winward, which lies entirely within the District. Winward is planned to include approximately 811 homes.

Status of Development within the District

To date, approximately 140 acres within the District have been developed as 670 single-family lots in the following single-family residential subdivisions: Winward, Sections 1 through 11. As of December 18, 2022, development within the District consisted of approximately 376 completed homes (367 occupied and 9 unoccupied), 81 homes under construction and approximately 213 vacant, developed lots. In addition, approximately 25 acres with 141 single-family lots is currently under construction with an expected completion by March 2023. The remainder of the lands within the District includes approximately 156 undevelopable acres and no additional developable acres.

The table below summarizes the status of development and land use within the District as of December 18, 2022:

| <u>Section</u> | <u>Type of Development</u> | <u>Acreage</u> | <u>No. of Lots</u> | <u>Homes</u> | | <u>Vacant Lots</u> |
|---------------------------------|----------------------------|----------------|--------------------|-----------------|---------------------------|--------------------|
| | | | | <u>Complete</u> | <u>Under Construction</u> | |
| Winward, Avex Tract - Section 1 | Single Family | 15 | 65 | 65 | 0 | 0 |
| Winward, Avex Tract- Section 2 | Single Family | 12 | 56 | 56 | 0 | 0 |
| Winward, Avex Tract - Section 3 | Single Family | 8 | 43 | 43 | 0 | 0 |
| Subtotal | | 35 | 164 | 164 | 0 | 0 |
| Winward - Section 4 | Single Family | 11 | 43 | 43 | 0 | 0 |
| Winward - Section 5 | Single Family | 10 | 61 | 61 | 0 | 0 |
| Winward - Section 6 | Single Family | 10 | 45 | 41 | 4 | 0 |
| Winward - Section 7 | Single Family | 11 | 65 | 65 | 0 | 0 |
| Winward - Section 8 | Single Family | 18 | 77 | 0 | 27 | 50 |
| Winward - Section 9 | Single Family | 8 | 49 | 2 | 47 | 0 |
| Winward - Section 10 | Single Family | 17 | 71 | 0 | 0 | 71 |
| Winward - Section 11 | Single Family | 20 | 95 | 0 | 3 | 92 |
| Subtotal | | 105 | 506 | 212 | 81 | 213 |
| Total | | 140 | 670 | 376 | 81 | 213 |
| Under Development | | 25 | | | | |
| Institutional Acreage | | - | | | | |
| Undevelopable | | 156 | | | | |
| Remaining Developable | | 0 | | | | |
| Total District Acreage | | 321 | | | | |

Homebuilder within the District

Lennar Homes, a subsidiary of Lennar Corporation, is the only active homebuilder in the District. New homes being marketed in the District range in price from approximately \$230,000 to over approximately \$350,000. See "THE DEVELOPER."

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AERIAL PHOTOGRAPH OF THE DISTRICT
(December 2022)



PHOTOGRAPHS TAKEN IN THE DISTRICT
(December 2022)



PHOTOGRAPHS TAKEN IN THE DISTRICT

(December 2022)



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 (30%) of the cost of constructing certain of the water, wastewater, and drainage facilities in a municipal 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 municipal 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 entities, are obligated to pay principal of or interest on the Bonds. Furthermore, neither the Developer, nor any affiliate entities, have 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 Developer or 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.

The Developer

Land within the District is being developed by Friendswood Development Company (the "Developer"), which is wholly-owned by Lennar Corporation. The sole general partner of the Developer is U.S. Home, LLC, a Delaware limited liability company. U.S. Home, LLC is wholly-owned by Lennar Corporation. Lennar Corporation is a publicly traded corporation whose stock is listed on the New York Stock Exchange as LEN. Audited financial statements for Lennar Corporation can be found online at <http://phx.corporate-ir.net/phoenix.zhtml?c=65842&p=irol-irhome>. Lennar Corporation is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the SEC. Reports, proxy statements and other information filed by Lennar can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

Certain financial information concerning the Developer is included as part of the consolidated financial statements of Lennar Corporation. However, Lennar Corporation is not legally obligated to provide funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer. Further, neither the Developer nor Lennar Corporation is responsible for, is liable for or has made any commitment for payment of the Bonds or other obligations of the District, and the inclusion of such financial statements and description of financial arrangements herein should not be construed as an implication to that effect. Neither the Developer nor Lennar Corporation has any legal commitment to the District or owners of the Bonds to continue development of the land within the District and the Developer may sell or otherwise dispose of its property within the District, or any other assets, at any time. Further, the financial condition of the Developer and Lennar Corporation is subject to change at any time. Because of the foregoing, financial information concerning the Developer and Lennar Corporation will neither be updated nor provided following issuance of the Bonds.

The Developer is also a developer in the Houston area master-planned communities of Kingwood, West Ranch, Lakemont, Graystone Hills, Lakes of Savannah, Tavola, Wildwood at Northpointe, and Fairfield, as well as numerous smaller communities, including Bay Colony West, Clearview Village, Hidden Creek, Falls at Green Meadows and other communities. The District cautions that the foregoing development experience was gained in different markets and under different circumstances than exist today, and such prior success is no guarantee that the Developer will be successful in the development of land in the District.

THE UTILITY SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District 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 the County. According to the 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 obtains water from one (1) water plant, which is owned, operated and maintained by the District. Water Plant No. 1 consists of one (1) 1,000 gallons per minute ("gpm") water well, one (1) 500 gpm water well; two (2) 15,578 gallon hydro-pneumatic tank; two (2) 247,217 gallon ground storage tank; and four (4) 900 gpm booster pumps. The existing water supply capacity is adequate to serve the 2,500 ESFCs in the District. In addition, the District's wells are included in an aggregate permit issued to the West Harris County Regional Water Authority (the "Authority"), with a total permitted annual withdrawal of 15.5 billion gallons.

Wastewater Treatment: The District currently leases a 0.10 million gallons per day ("mgd") wastewater treatment plant facility from AUC Group, Inc ("AUC Group"). The TCEQ issued a wastewater discharge permit to the District, dated September 18, 2019, authorizing the treatment and disposal from the plant with a permitted maximum daily effluent flow not to exceed 0.40 mgd ultimately. The District is currently operating in the Interim I Phase of the permit which limits effluent to 0.10 mgd. The District is capable of serving 400 ESFCs. The District has signed a lease with AUC Group for the design and construction of the second phase of the wastewater treatment plant, which is currently in the design phase. It will expand capacity to 0.20 mgd and increase the capable number of ESFCs to an additional 800.

Drainage: Land within the District naturally drains northwest to southeast, through a series of agricultural ditches to an unnamed tributary to South Mayde Creek, then to South Mayde Creek, Langham Creek, and ultimately to Buffalo Bayou. South Mayde Creek is maintained by Harris County Flood Control District.

Subsidence District

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

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

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

Under the Subsidence District regulations and the GRP, the Authority is required to: (i) limit groundwater withdrawals to no more than 70% of the total water demand of the water users within the Authority's GRP beginning in the year 2010; (ii) limit groundwater withdrawals to no more than 40% of the total water demand of the water users within the Authority's GRP beginning in the year 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand of the water users within the Authority's GRP beginning in the year 2035. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a substantial disincentive fee penalty ("Disincentive Fees") imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total water demand in the Authority's GRP. The current rate for Disincentive Fees imposed by the Subsidence District is \$9.80 per 1,000 gallons. In the event of such Authority failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely impose monetary or other penalties against the District.

The District cannot predict the amount or level of fees and charges, which may be due the Authority in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. In addition, conversion to surface water could necessitate improvements to the Utility System which could require the issuance of additional bonds by the District. No representation is made that the Authority: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District's surface water conversion requirements, or (iii) will comply with its GRP.

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 is a summary of the District's general fund activity. The summary has been prepared by the Financial Advisor based upon information obtained from the District's audited financial statements. Reference is made to such statements for further and more complete information. See "APPENDIX A."

| | Fiscal Year Ended | |
|---|---------------------|---------------------|
| | 5/31/2022 | 5/31/2021 |
| <u>Revenues</u> | | |
| Water Service | \$ 46,726 | \$ 1,500 |
| Sewer Service | 49,475 | 1,178 |
| Property Taxes | 224,514 | 852 |
| Penalties and Interest | 3,540 | - |
| Tap Connection and Inspection | 453,749 | 137,292 |
| Regional Water Authority Fees | 64,363 | 935 |
| Sale of Capacity | - | 1,237,236 |
| Investment Earnings | 512 | - |
| Other Income | 211,168 | - |
| Total | <u>\$ 1,054,047</u> | <u>\$ 1,378,993</u> |
| <u>Expenditures</u> | | |
| Lease Payments | \$ 135,600 | \$ 56,500 |
| Professional Fees | 79,791 | 57,765 |
| Regional Water Fee | 22,452 | - |
| Contracted Services | 125,944 | 25,986 |
| Solid Waste | 13,655 | 281 |
| Repairs and Maintenance | 145,877 | 126,454 |
| Utilities | 35,087 | 10,730 |
| Tap Connections | 173,600 | 64,600 |
| Other | 18,471 | 15,511 |
| Debt Issuance Costs | 40,000 | |
| Capital Outlay | 689,324 (a) | |
| Total | <u>\$ 1,479,801</u> | <u>\$ 357,827</u> |
| NET REVENUES (Deficit) | <u>\$ (425,754)</u> | <u>\$1,021,166</u> |
| <u>Other Financing Sources (Uses):</u> | | |
| Developer Advances | \$ 238,000 | \$ 198,000 |
| Beginning fund balance | \$1,233,839 | \$ 14,673 |
| Ending fund balance | <u>\$ 1,046,085</u> | <u>\$1,233,839</u> |

(a) Represents expenses associated with Water Plant No. 1 modification project for the water well, hydro tank and booster pumps.

DISTRICT DEBT

General

| | | |
|---|----------------|-----|
| 2022 Certified Taxable Assessed Valuation | \$ 54,026,259 | (a) |
| Estimated Taxable Assessed Valuation as of December 1, 2022..... | \$ 124,252,786 | (b) |
| Direct Debt: | | |
| The Outstanding Bonds..... | \$ 5,700,000 | |
| The Bonds..... | \$ 9,085,000 | |
| Total | \$ 14,785,000 | |
| Estimated Overlapping Debt | \$ 689,200 | (c) |
| Total Direct and Estimated Overlapping Debt | \$ 15,474,200 | (c) |
| Direct Debt Ratio: | | |
| As a Percentage of the 2022 Certified Taxable Assessed Valuation | 27.37% | |
| As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022. | 11.90% | |
| Direct and Estimated Overlapping Debt Ratio: | | |
| As a Percentage of the 2022 Certified Taxable Assessed Valuation | 28.64% | |
| As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022. | 12.45% | |
| Debt Service Fund Balance (as of December 20, 2022) | \$ 320,712 | (d) |
| Operating Fund Balance (as of December 20, 2022) | \$ 410,205 | |
| Capital Projects Fund Balance (as of December 20, 2022) | \$ 118,914 | |

-
- (a) Represents the assessed valuation of all taxable property in the District as of January 1, 2022, as provided by the Harris County Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only, this amount is an estimate of all taxable property located within the District as of December 1, 2022, and includes an estimate of additional taxable value resulting from the construction of taxable improvements from January 1, 2022, through December 1, 2022. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "Direct and Estimated Overlapping Debt Statement" herein.
- (d) At the time of closing of the Bonds, twelve (12) months of capitalized interest on the Bonds will be deposited into the District's Debt Service Fund (herein defined). The balance represented above does not include such amount. Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Debt Service Fund.

Debt Service Requirement Schedule

The following schedule sets forth the debt service on the Outstanding Bonds and the principal and interest requirements on the Bonds.

| Year Ending 12/31 | Outstanding Debt Service | Principal | Interest | Total Debt Service |
|----------------------|-----------------------------|--------------------|--------------------|-----------------------|
| 2023 | \$ 298,343 | \$ - | \$ 208,373 | \$ 506,715 |
| 2024 | 382,475 | 185,000 | 396,900 | 964,375 |
| 2025 | 382,975 | 195,000 | 384,875 | 962,850 |
| 2026 | 383,325 | 205,000 | 372,200 | 960,525 |
| 2027 | 388,525 | 215,000 | 358,875 | 962,400 |
| 2028 | 388,425 | 225,000 | 344,900 | 958,325 |
| 2029 | 387,738 | 240,000 | 330,275 | 958,013 |
| 2030 | 391,438 | 250,000 | 314,675 | 956,113 |
| 2031 | 389,313 | 265,000 | 302,800 | 957,113 |
| 2032 | 387,000 | 275,000 | 292,200 | 954,200 |
| 2033 | 389,500 | 290,000 | 281,200 | 960,700 |
| 2034 | 391,100 | 305,000 | 269,600 | 965,700 |
| 2035 | 387,300 | 325,000 | 257,400 | 969,700 |
| 2036 | 388,300 | 340,000 | 244,400 | 972,700 |
| 2037 | 388,313 | 360,000 | 230,800 | 979,113 |
| 2038 | 387,900 | 375,000 | 216,400 | 979,300 |
| 2039 | 382,063 | 395,000 | 201,400 | 978,463 |
| 2040 | 380,688 | 415,000 | 185,600 | 981,288 |
| 2041 | 378,875 | 440,000 | 169,000 | 987,875 |
| 2042 | 376,625 | 460,000 | 151,400 | 988,025 |
| 2043 | 378,575 | 485,000 | 133,000 | 996,575 |
| 2044 | 374,850 | 510,000 | 113,600 | 998,450 |
| 2045 | 370,675 | 540,000 | 93,200 | 1,003,875 |
| 2046 | 371,050 | 565,000 | 71,600 | 1,007,650 |
| 2047 | 365,750 | 595,000 | 49,000 | 1,009,750 |
| 2048 | - | 630,000 | 25,200 | 655,200 |
| | <u>\$9,491,118</u> | <u>\$9,085,000</u> | <u>\$5,998,873</u> | <u>\$24,574,990</u> |

Average Annual Debt Service Requirement (2023-2048)..... \$ 945,192

Maximum Annual Debt Service Requirement (2047) \$1,009,750

Direct and Estimated 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 and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

| <u>Taxing Jurisdiction</u> | <u>Tax Year</u> | <u>AV</u> | <u>Debt as of</u> <u>1/31/2022</u> | <u>Overlapping</u> | |
|--|-----------------|--------------------|---------------------------------------|--------------------|---------------|
| | | | | <u>Percent</u> | <u>Amount</u> |
| Harris County | 2021 | \$ 520,844,496,735 | \$ 1,740,717,125 | 0.00% | (a) |
| Katy Independent School District | 2021 | 48,084,791,240 | 2,140,211,367 | 0.03% | \$ 689,200 |
| Harris County Flood Control District | 2021 | 512,016,859,404 | 797,615,000 | 0.00% | (a) |
| Port of Houston Authority | 2021 | 511,987,515,441 | 445,749,397 | 0.00% | (a) |
| Harris County Hospital District | 2021 | 512,120,554,610 | 76,385,000 | 0.00% | (a) |
| Harris County Department of Education | 2021 | 520,979,955,913 | 20,185,000 | 0.00% | (a) |
| Total Estimated Overlapping Debt | | | | | \$ 689,200 |
| The District Direct Debt (b) | | | | | \$ 14,785,000 |
| Total Direct Debt and Estimated Overlapping Debt | | | | | \$ 15,474,200 |

(a) Less than 0.01%.

(b) Includes the Outstanding Bonds and the Bonds.

Debt Ratios

Ratio of Direct Debt (a):

As a Percentage of the 2022 Certified Taxable Assessed Valuation 27.37%

As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022 11.90%

Ratio of Direct and Estimated Overlapping Debt (a):

As a Percentage of the 2022 Certified Taxable Assessed Valuation 28.64%

As a Percentage of the Estimated Taxable Assessed Valuation as of December 1, 2022 12.45%

(a) Includes the Outstanding Bonds and the Bonds.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Outstanding Bonds and the Bonds, and any additional bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year-to-year as described more fully herein under "THE BONDS—Source of Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and its water and wastewater system and for the payment of certain contractual obligations if authorized by its voters. See "TAX DATA—Tax Rate Limitation" and "RISK FACTORS—Future Debt."

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the "Property Code"), specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Code are complex and are not fully summarized herein. The Property 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 the 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.

The Property Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions. A taxing unit may not, however, challenge the valuation of individual properties.

Although the District has the responsibility for establishing tax rates and levying and collecting its taxes each year, under the Property Code, the District does not establish appraisal standards or determine the frequency of revaluation or reappraisal. The appraisal district is governed by a board of directors elected by the governing bodies of the county and all cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district. The Property Code requires each appraisal district to implement a plan for periodic reappraisal of property to update appraised values. Such plan must provide for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of future reappraisals will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

Property Subject to Taxation by the District

General: 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 has not adopted any such exemption in prior tax years. 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 certain surviving dependents of disabled veterans, if requested, but only to the maximum extent allowed by law. The disabled veteran exemption ranges between \$5,000 and \$12,000, depending upon the disability rating of the veteran claiming the exemption, and qualifying surviving spouses of persons 65 years of age or older will be entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. A veteran who receives a disability rating of 100% is entitled to an exemption of the full value of the veteran's residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. 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 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 May 1. The District has not adopted a general homestead exemption.

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 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2013 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

The County may designate all or part of the area within the District as a reinvestment zone. Thereafter, the County 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, the 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 Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Code.

The Property 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 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 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 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 and taxes for the previous five years for open space land and timberland.

The Property 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.

Reappraisal of Property After Disaster

The Property Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for

a temporary exemption under the Property 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 Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

Tax Payment Installments After Disaster

Certain qualified taxpayers, including owners of residential homesteads, located within a natural disaster area and whose property has been damaged as a direct result of the disaster, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District if the 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.

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 Code.

The Property Code sets forth notice and hearing procedures for certain tax rate increases by the District and provides for taxpayer referenda that could result in the repeal of certain tax increases. The Property 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 date of delinquency may be postponed if the tax bills are mailed after January 1. A person over sixty-five (65) years of age is entitled by law to pay current taxes on his residential homestead in installments or to defer tax without penalty during the time he owns and occupies the property as his residential homestead. By September 1 of each year, or as soon thereafter as practicable, the rate of taxation is set by the Board of Directors of the District based on valuation of property within the District as of the preceding January 1.

Taxes are due September 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. 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 of up to twenty percent (20%) if imposed by the District. The delinquent tax also accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person at least sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas Law is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in equal installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes within the District in the preceding 24 months.

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

Developed Districts: Developed Districts that adopt a total tax rate that would impose more than 1.035 times the amount of the total tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, plus any unused increment rates, as calculated and described in Section 26.013 of the Tax Code, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Developed District is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.035 times the amount of operation and maintenance tax imposed by the district in the preceding year on a residence homestead appraised at the average appraised value of a residence homestead in the district in that year, subject to certain homestead exemptions, plus any unused increment rates. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor of Texas or President of the United States, alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a 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 imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead in the district, subject to certain homestead exemptions, are authorized to petition for an election to reduce the operation and maintenance tax rate. If an election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the District in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the District in that year, subject to certain homestead exemptions.

The District: A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District was designated as a "Developing District" in 2022. 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 against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

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." In the Bond Order, the Board covenants 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 "RISK FACTORS." For the 2022 tax year, the District levied a total tax rate of \$1.45 per \$100 of assessed valuation comprised of a maintenance and operations tax rate of \$0.75 per \$100 of taxable assessed valuation and a debt service tax rate of \$0.70 per \$100 of taxable assessed valuation.

Tax Rate Limitation

| | |
|---|--|
| Debt Service..... | Unlimited (no legal limit as to rate or amount). |
| Maintenance and Operation General | \$1.50 per \$100 taxable assessed valuation. |
| Maintenance and Operation Road..... | \$1.50 per \$100 taxable assessed valuation. |
| Maintenance and Operation Recreation..... | \$0.10 per \$100 taxable assessed valuation. |

Debt Service Taxes

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. Such tax is in addition to the maintenance and operation tax the District levies for maintenance and operation purposes. The District levied its initial debt service tax rate in 2022 in the amount of \$0.70 per \$100 of taxable assessed valuation. See "Tax Rate Distribution" herein.

At the time of closing of the Bonds, twelve (12) months of capitalized interest on the Bonds will be deposited into the Debt Service Fund.

Maintenance Taxes

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. For the 2022 tax year, the District levied a maintenance and operations tax rate of \$0.75 per \$100 of assessed valuation. See "Tax Rate Distribution" herein.

Tax Exemption

As discussed in the section entitled "TAXING PROCEDURES," certain property in the District may be exempt from taxation by the District. The District does not exempt any percentage of the market value of any residential homesteads from taxation.

Historical Tax Collections

The following table illustrates the collection history of the District for the 2019-2022 tax years:

| Year | Assessed Valuation | Tax Rate per \$100 | Tax Levy | % of Current Collections | Tax Year Ended 9/30 | Collections as 11/30/2022 |
|------|--------------------|--------------------|----------|--------------------------|---------------------|---------------------------|
| 2019 | \$ 37,054 | \$ 1.450000 | \$ 537 | 100.00% | 2020 | 100.00% |
| 2020 | 73,873 | 1.450000 | 1,071 | 100.00% | 2021 | 100.00% |
| 2021 | 15,484,477 | 1.450000 | 224,525 | 100.00% | 2022 | 100.00% |
| 2022 | 54,026,259 | 1.450000 | 783,381 | (a) | 2023 | (a) |

(a) In process of collection. 2022 taxes are due January 31, 2023.

Tax Rate Distribution

The following table sets out the components of the District's tax levy for the 2019-2022 tax years.

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|--------------|-------------|-------------|-------------|-------------|
| Debt Service | \$ 0.70 | \$ - | \$ - | \$ - |
| M&O | 0.75 | 1.45 | 1.45 | 1.45 |
| Total | \$ 1.45 | \$ 1.45 | \$ 1.45 | \$ 1.45 |

Analysis of Tax Base

The following represents the types of property comprising the District's taxable assessed valuation as of January 1 for the 2019-2022 tax years.

| Type of Property | 2022 Certified Taxable Assessed Valuation | 2021 Certified Taxable Assessed Valuation | 2020 Certified Taxable Assessed Valuation | 2019 Certified Taxable Assessed Valuation |
|-------------------|--|--|--|--|
| Land | \$ 25,613,625 | \$ 15,520,816 | \$ 4,380 | \$ 4,380 |
| Improvements | 30,618,758 | 439,060 | 69,493 | 32,674 |
| Personal Property | 79,004 | 93 | 103 | - |
| Exemptions | (2,285,128) | (475,492) | (103) | - |
| Total | <u>\$54,026,259</u> | <u>\$15,484,477</u> | <u>\$73,873</u> | <u>\$37,054</u> |

Principal Taxpayers

The following represents the principal taxpayers, type of property and their taxable assessed valuations as of January 1, 2022:

| Taxpayer | Property Type | 2022 Tax Year | % of Tax Roll |
|-------------------------------------|---------------------|------------------|------------------|
| Lennar Homes of Texas (a) | Land & Improvements | \$ 12,999,907 | 24.06% |
| Friendswood Development Company (b) | Land & Improvements | 4,401,832 | 8.15% |
| Individual | Land & Improvements | 416,490 | 0.77% |
| Individual | Land & Improvements | 377,634 | 0.70% |
| Individual | Land & Improvements | 372,880 | 0.69% |
| Individual | Land & Improvements | 366,767 | 0.68% |
| Individual | Land & Improvements | 354,711 | 0.66% |
| Individual | Land & Improvements | 354,637 | 0.66% |
| Individual | Land & Improvements | 352,512 | 0.65% |
| Individual | Land & Improvements | 334,556 | 0.62% |
| Total | | 20,331,926 | 37.63% |

(a) Lennar Homes is a subsidiary of Lennar Corporation. See "THE DEVELOPER."

(b) Friendswood Development Company is wholly owned by Lennar Corporation. See "THE DEVELOPER."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District's tax base occurs beyond the District's taxable assessed valuation as of January 1, 2022 (\$54,026,259) or the Estimated Taxable Assessed Valuation as of December 1, 2022 (\$124,252,786). The calculations assume collection of 95% of taxes levied and the sale of the Bonds but not the sale of any additional bonds by the District.

| | |
|--|--------------|
| Average Annual Debt Service Requirement (2023-2048)..... | \$ 945,192 |
| \$1.85 on the 2022 Certified Taxable Assessed Valuation Produces | \$ 949,512 |
| \$0.81 on the Estimated Taxable Assessed Valuation as of December 1, 2022, Produces..... | \$ 956,125 |
| Maximum Annual Debt Service Requirement (2047) | \$ 1,009,750 |
| \$1.97 on the 2022 Certified Taxable Assessed Valuation Produces | \$ 1,011,101 |
| \$0.86 on the Estimated Taxable Assessed Valuation as of December 1, 2022, Produces..... | \$ 1,015,145 |

No representations or suggestions are made that the Estimated Taxable Assessed Valuation as of December 1, 2022 provided by the Appraisal District for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amount or its inclusion herein as assurance of its attainment. See "TAXING PROCEDURES."

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, 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. See "DISTRICT DEBT—Direct and Estimated Overlapping Debt Statement."

Set forth below is an estimation of all 2022 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. 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>2022 Tax Rate</u> |
|---------------------------------------|----------------------|
| The District | \$ 1.450000 |
| Harris County | 0.360110 |
| Katy Independent School District | 1.304800 |
| Harris County Flood Control District | 0.035780 |
| Port of Houston Authority | 0.007420 |
| Harris County Hospital District | 0.190230 |
| Harris County Department of Education | 0.004915 |
| Waller-Harris ESD 200 | 0.097426 |
| Estimated Total Tax Rate | \$ 3.450681 |

LEGAL MATTERS

Legal Opinions

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of Coats Rose, P.C., Houston, Texas, Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, except to the extent that enforcement of the rights and remedies of the Registered Owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District and to the effect that interest on the Bonds is excludable from gross income for federal income tax purposes under the statutes, regulations, published rulings and court decisions existing on the date of such opinion, assuming compliance by the District with certain covenants relating to the use and investment of the proceeds of the Bonds. See "Tax Exemption" below. The legal opinion of Bond Counsel will further state that the Bonds are payable, both as to principal and interest, from the levy of ad valorem taxes, without legal limitation as to rate or amount, upon all taxable property within the District. Bond Counsel's opinion will also address the matters described below.

In addition to serving as Bond Counsel, Coats Rose, P.C., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Disclosure Counsel.

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

Legal Review

In its capacity as Bond Counsel, Coats Rose, P.C., has reviewed the information appearing in this Official Statement under the captioned sections "THE BONDS" (except for information under the subsections "Book-Entry-Only System" and "Use and Distribution of Bond Proceeds"), "THE DISTRICT," "TAXING PROCEDURES" and "LEGAL MATTERS" solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this Official Statement, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this Official Statement. No person is entitled to rely upon such firm'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 of the other information contained herein.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under Section 57(a)(5) of the Internal Revenue Code of 1986, as amended. 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.

In rendering its opinion, Bond Counsel will rely upon, and assume continuing compliance with, (a) certain information and representations of the District, including information and representations contained in the District's federal tax certificate issued in connection with the Bonds, and (b) covenants of the District contained in the Bond Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law, upon which Bond Counsel has based its opinion, is subject to change by Congress, administrative interpretation by the Department of the Treasury and to subsequent judicial interpretation. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of ownership of the Bonds.

Not Qualified Tax-Exempt Obligations

The Bonds are not "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code.

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law which is subject to change or modification retroactively.

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, 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, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT

BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof, or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or is in excess of one year (the “Original Issue Discount Bonds”). The difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public 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 in the initial public offering of the Bonds. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, 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. See “Tax Exemption” for a discussion of certain collateral federal tax consequences.

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 Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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 date 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 Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the 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 and 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, 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 ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

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

NO MATERIAL ADVERSE CHANGE

The obligations of the Initial Purchaser 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 financial condition of the District subsequent to the date of sale from that set forth or contemplated in the Official Statement, as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE

With the delivery of the Bonds, the President or Vice President and Secretary or Assistant Secretary of the Board will, on behalf of the District, execute and deliver to the Initial Purchaser a certificate dated as of the Date of Delivery, to the effect that no litigation of any nature of which the District has notice is pending against or, to the knowledge of the District's certifying officers, threatened against the District, either in state or federal courts, contesting or attacking the Bonds; restraining or enjoining the authorization, execution or delivery of the Bonds; affecting the provision made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the authorization, execution or delivery of the Bonds; or affecting the validity of the Bonds, the corporate existence or boundaries of the District or the title of the then present officers and directors of the Board.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Consultants

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

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

Engineer: The information contained in this Official Statement relating to engineering and to the description of the water, sewer and drainage system and, in particular that information included in the sections entitled "THE DISTRICT," "DEVELOPMENT OF THE DISTRICT" and "THE UTILITY SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Bookkeeper: The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE UTILITY SYSTEM—General Fund Operating Statement" has been provided by L&S District Services, LLC and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period" (as defined in SEC Rule 15c2-12 of the Securities Exchange Act (the "Rule")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity in reliance upon the experts listed above, hereby certifies, as of the date hereof, that to the best of its knowledge, 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.

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 these agreements 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, as well as timely notice of specified events, to the Municipal Securities Rulemaking Board or any successor to its function as a repository (the "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. The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement included under the headings "DISTRICT DEBT" (except for the subheading "—Estimated Direct and Overlapping Debt Statement"), "TAX DATA," and in "APPENDIX A." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2023. The District will provide the updated information to the MSRB.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report 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 when and if the audit report becomes available. The District's current fiscal year end is May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Material 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-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of 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 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 obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. 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

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District 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

The District is in compliance in all material respects with its previous continuing disclosure undertakings made pursuant to SEC Rule 15c2-12.

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 465 as of the date shown on the cover of this Official Statement.

/s/ Cynthia Hill
President, Board of Directors
Harris County Municipal Utility District No. 465

ATTEST:

/s/ Christopher Charboneau
Secretary, Board of Directors
Harris County Municipal Utility District No. 465

APPENDIX A

Independent Auditor's Report and Financial Statements of the District

Harris County Municipal Utility District No. 465
Harris County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2022

Harris County Municipal Utility District No. 465
May 31, 2022

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Independent Auditor's Report

Board of Directors
Harris County Municipal Utility District No. 465
Harris County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 465 (the District), as of and for the year ended May 31, 2022, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of May 31, 2022, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

We conducted our audit in accordance with auditing standards generally accepted in the United States of America (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management 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, and for 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.

In preparing the financial statements, management is required to evaluate whether there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for 12 months beyond the financial statement date, including any currently known information that may raise substantial doubt shortly thereafter.

Auditor's Responsibilities for the Audit of the Financial Statements

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance, but is not absolute assurance

and, therefore, is not a guarantee that an audit conducted in accordance with GAAS will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with GAAS, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit 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 District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

We are required to communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit, significant audit findings and certain internal control-related matters that we identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, 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.

Supplementary Information (Not Subjected to Audit Procedures)

Our audit was performed for the purpose of forming opinions on the basic financial statements as a whole. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents are presented for the purposes of additional analysis and are not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS, LLP

Houston, Texas
October 13, 2022

Harris County Municipal Utility District No. 465

Management's Discussion and Analysis

May 31, 2022

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

Harris County Municipal Utility District No. 465

Management's Discussion and Analysis (Continued)

May 31, 2022

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

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

Harris County Municipal Utility District No. 465

Management's Discussion and Analysis (Continued)

May 31, 2022

Financial Analysis of the District as a Whole

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

Summary of Net Position

| | 2022 | 2021 |
|----------------------------------|----------------------|----------------------|
| Current and other assets | \$ 1,712,377 | \$ 1,336,313 |
| Capital assets | 14,259,747 | 9,111,494 |
| Total assets | <u>\$ 15,972,124</u> | <u>\$ 10,447,807</u> |
| Long-term liabilities | \$ 15,455,449 | \$ 9,618,494 |
| Other liabilities | 244,702 | 101,831 |
| Total liabilities | <u>15,700,151</u> | <u>9,720,325</u> |
| Net position: | | |
| Net investment in capital assets | (843,537) | (507,000) |
| Unrestricted | 1,115,510 | 1,234,482 |
| Total net position | <u>\$ 271,973</u> | <u>\$ 727,482</u> |

The total net position of the District decreased by \$455,509 or approximately 63 percent. The majority of the decrease in net position is related to services expenses exceeding property taxes and charges for services revenues. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

| | 2022 | 2021 |
|---------------------------------|-------------------|-------------------|
| Revenues: | | |
| Property taxes | \$ 224,524 | \$ 1,495 |
| Charges for services | 160,564 | 3,613 |
| Other revenues | 668,979 | 1,374,528 |
| Total revenues | <u>1,054,067</u> | <u>1,379,636</u> |
| Expenses: | | |
| Services | 836,021 | \$ 357,827 |
| Depreciation | 238,182 | 179,713 |
| Debt service | 435,373 | - |
| Total expenses | <u>1,509,576</u> | <u>537,540</u> |
| Change in net position | (455,509) | 842,096 |
| Net position, beginning of year | 727,482 | (114,614) |
| Net position, end of year | <u>\$ 271,973</u> | <u>\$ 727,482</u> |

Harris County Municipal Utility District No. 465

Management's Discussion and Analysis (Continued)

May 31, 2022

Financial Analysis of the District's Fund

The District's combined fund balances as of the end of the fiscal year ended May 31, 2022, were \$1,467,022, an increase of \$233,183 from the prior year.

The general fund's fund balance decreased by \$187,754, primarily due to capital outlay expenditures pertaining to modifications to the water plant.

The debt service fund's fund balance increased by \$320,465 because of proceeds received from the sale of the Series 2022 bonds to fund capitalized interest.

The capital projects fund's fund balance increased by \$100,472 due to proceeds received from the sale of the Series 2021 bond anticipation note and Series 2022 bonds being used to repay developers for facilities located within the District's boundaries. The Series 2021 bond anticipation note was redeemed using proceeds from the Series 2022 bonds.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to regional water fee revenues, tap connection and inspection fees revenues and related expenditures, contracted services expenditures and developer advances received being greater than anticipated. Also, capital outlay expenditures were less than anticipated, as well as other income and debt issuance costs were not included in the current year budget. The fund balance as of May 31, 2022, was expected to be \$(3,397) and the actual end-of-year fund balance was \$1,046,085.

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

| | 2022 | 2021 |
|----------------------------|----------------------|---------------------|
| Land and improvements | \$ 5,535,012 | \$ 3,079,907 |
| Construction in progress | 689,324 | - |
| Water facilities | 1,992,372 | 1,813,113 |
| Wastewater facilities | 2,177,965 | 1,675,666 |
| Drainage facilities | 1,905,306 | 1,191,786 |
| Road and paving facilities | 1,959,768 | 1,351,022 |
| Total capital assets | <u>\$ 14,259,747</u> | <u>\$ 9,111,494</u> |

Harris County Municipal Utility District No. 465
Management's Discussion and Analysis (Continued)
May 31, 2022

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

| | |
|---|---------------------|
| Construction in progress related to water plant modifications | \$ 689,324 |
| Water, sewer and drainage facilities to serve Winward, Sections 4, 5 and 6 and Avex, Sections 1-4 | 1,297,548 |
| Water plant | 61,236 |
| Wastewater treatment plant and lift station electrical package | 124,914 |
| Lift station | 19,820 |
| Concrete fence to serve the water plant and wastewater treatment plant | 78,604 |
| Logenbaugh Road Winward reserve improvements | 659,884 |
| Land additions: 2.3080-acre site to serve the water plant and wastewater treatment plant, 2.4930-acre to serve water plant and wastewater treatment plant reserves, 32.105-acre detention site and Winward detention, mitigation and grading, Phase 2 | 2,455,105 |
| Total additions to capital assets | <u>\$ 5,386,435</u> |

The developer within the District has constructed facilities on behalf of the District under the terms of contracts with the District. The District has agreed to reimburse the cost of these facilities, plus interest, from the proceeds of future bond issues, subject to the approval of the Commission, as applicable, and the terms of the contracts with the developer. As of May 31, 2022, a liability for developer-constructed capital assets of \$9,591,371 was recorded in the government-wide financial statements.

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2022, are summarized as follows:

| | |
|---|----------------------|
| Long-term debt payable, beginning of year | \$ 9,618,494 |
| Increases in long-term debt | 12,958,816 |
| Decreases in long-term debt | <u>(7,121,861)</u> |
| Long-term debt payable, end of year | <u>\$ 15,455,449</u> |

At May 31, 2022, the District had \$242,240,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and for refunding such bonds, \$27,635,000 of unlimited tax bonds authorized, but unissued, for the purposes of constructing park and recreational facilities and for refunding such bonds and \$146,280,000 of unlimited tax bonds authorized, but unissued, for the purpose of constructing roads and for refunding such bonds.

The District's bonds are not rated.

Harris County Municipal Utility District No. 465
Management's Discussion and Analysis (Continued)
May 31, 2022

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. If the District is annexed, the City must assume the District's assets and obligations (including the bond indebtedness) and abolish the District within 90 days.

Economic Dependency

The District's developer owns the majority of the taxable property within the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Since inception, the developer has advanced \$280,287 to the District for operations, net of repayments. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming fiscal year. These advances have been recorded as liabilities in the government-wide financial statements.

Contingencies

The developer of the District is constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds from future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$4,249,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Subsequent Event

On June 21, 2022, the District awarded the sale of its Series 2022 bond anticipation note in the amount of \$4,985,000. The note is dated June 28, 2022, bears interest at the rate of 3.75 percent and matures June 27, 2023, unless called for earlier redemption. The note was sold to reimburse the District's developer for facilities located within the boundaries of the District.

Harris County Municipal Utility District No. 465

Statement of Net Position and Governmental Funds Balance Sheet

May 31, 2022

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|------------------|----------------------|---------------------------------|
| Assets | | | | | | |
| Cash | \$ 1,169,083 | \$ 320,465 | \$ 161,923 | \$ 1,651,471 | \$ - | \$ 1,651,471 |
| Receivables: | | | | | | |
| Property taxes | 653 | - | - | 653 | - | 653 |
| Service accounts | 26,353 | - | - | 26,353 | - | 26,353 |
| Interfund receivables | 61,451 | - | - | 61,451 | (61,451) | - |
| Prepaid expenditures | 33,900 | - | - | 33,900 | - | 33,900 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land and improvements | - | - | - | - | 5,535,012 | 5,535,012 |
| Construction in progress | - | - | - | - | 689,324 | 689,324 |
| Infrastructure | - | - | - | - | 6,075,643 | 6,075,643 |
| Road facilities | - | - | - | - | 1,959,768 | 1,959,768 |
| Total assets | \$ 1,291,440 | 320,465 | 161,923 | 1,773,828 | \$ 14,198,296 | \$ 15,972,124 |

Harris County Municipal Utility District No. 465
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2022

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|-----------------|-------------------------|-----------------------------|--------------|-------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 153,189 | \$ - | \$ - | \$ 153,189 | \$ - | \$ 153,189 |
| Customer deposits | 22,581 | - | - | 22,581 | - | 22,581 |
| Interfund payables | - | - | 61,451 | 61,451 | (61,451) | - |
| Retainage payables | 68,932 | - | - | 68,932 | - | 68,932 |
| Long-term liabilities, due after one year | - | - | - | - | 15,455,449 | 15,455,449 |
| Total liabilities | 244,702 | 0 | 61,451 | 306,153 | 15,393,998 | 15,700,151 |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | 653 | 0 | 0 | 653 | (653) | 0 |
| Fund Balances/Net Position | | | | | | |
| Fund balances: | | | | | | |
| Nonspendable, prepaid expenditures | 33,900 | - | - | 33,900 | (33,900) | - |
| Restricted, unlimited tax bonds | - | 320,465 | 100,472 | 420,937 | (420,937) | - |
| Assigned, future expenditures | 595,339 | - | - | 595,339 | (595,339) | - |
| Unassigned | 416,846 | - | - | 416,846 | (416,846) | - |
| Total fund balances | 1,046,085 | 320,465 | 100,472 | 1,467,022 | (1,467,022) | 0 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 1,291,440 | \$ 320,465 | \$ 161,923 | \$ 1,773,828 | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | (843,537) | (843,537) |
| Unrestricted | | | | | 1,115,510 | 1,115,510 |
| Total net position | | | | | \$ 271,973 | \$ 271,973 |

Harris County Municipal Utility District No. 465

Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances

Year Ended May 31, 2022

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|---|-----------------|-------------------------|-----------------------------|--------------|-------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 224,514 | \$ - | \$ - | \$ 224,514 | \$ 10 | \$ 224,524 |
| Water service | 46,726 | - | - | 46,726 | - | 46,726 |
| Sewer service | 49,475 | - | - | 49,475 | - | 49,475 |
| Regional water fee | 64,363 | - | - | 64,363 | - | 64,363 |
| Penalty and interest | 3,540 | - | - | 3,540 | - | 3,540 |
| Tap connection and inspection fees | 453,749 | - | - | 453,749 | - | 453,749 |
| Investment income | 512 | 10 | - | 522 | - | 522 |
| Other income | 211,168 | - | - | 211,168 | - | 211,168 |
| Total revenues | 1,054,047 | 10 | 0 | 1,054,057 | 10 | 1,054,067 |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Lease payments | 135,600 | - | - | 135,600 | - | 135,600 |
| Regional water fee | 22,452 | - | - | 22,452 | - | 22,452 |
| Professional fees | 79,791 | - | - | 79,791 | 85,014 | 164,805 |
| Contracted services | 125,944 | - | - | 125,944 | - | 125,944 |
| Solid waste | 13,655 | - | - | 13,655 | - | 13,655 |
| Utilities | 35,087 | - | - | 35,087 | - | 35,087 |
| Repairs and maintenance | 145,877 | - | - | 145,877 | - | 145,877 |
| Other expenditures | 18,471 | 170 | 360 | 19,001 | - | 19,001 |
| Tap connections | 173,600 | - | - | 173,600 | - | 173,600 |
| Capital outlay | 689,324 | - | 4,497,938 | 5,187,262 | (5,187,262) | - |
| Depreciation | - | - | - | - | 238,182 | 238,182 |
| Debt service: | | | | | | |
| Principal retirement | - | - | 3,695,000 | 3,695,000 | (3,695,000) | - |
| Interest and fees | - | - | 45,438 | 45,438 | 15,977 | 61,415 |
| Debt issuance costs | 40,000 | - | 333,958 | 373,958 | - | 373,958 |
| Total expenditures/expenses | 1,479,801 | 170 | 8,572,694 | 10,052,665 | (8,543,089) | 1,509,576 |
| Deficiency of Revenues Over Expenditures | (425,754) | (160) | (8,572,694) | (8,998,608) | 8,543,099 | |
| Other Financing Sources (Uses) | | | | | | |
| General obligation bonds issued | - | 320,625 | 5,379,375 | 5,700,000 | (5,700,000) | |
| Bond anticipation notes issued | - | - | 3,695,000 | 3,695,000 | (3,695,000) | |
| Discount on debt issued | - | - | (116,209) | (116,209) | 116,209 | |
| Developer advances received | 238,000 | - | - | 238,000 | (238,000) | |
| Repayment of developer advances | - | - | (285,000) | (285,000) | 285,000 | |
| Total other financing sources | 238,000 | 320,625 | 8,673,166 | 9,231,791 | (9,231,791) | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (187,754) | 320,465 | 100,472 | 233,183 | (233,183) | |
| Change in Net Position | | | | | (455,509) | (455,509) |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | 1,233,839 | - | - | 1,233,839 | - | 727,482 |
| End of year | \$ 1,046,085 | \$ 320,465 | \$ 100,472 | \$ 1,467,022 | \$ 0 | \$ 271,973 |

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

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

Harris County Municipal Utility District No. 465 (the District) was created pursuant to Section 52, Article III, and Section 59, Article XVI, of the Texas Constitution by an Act of the 79th Legislature of the State of Texas, effective September 1, 2005, codified as Chapter 8157, Texas Special District Local Laws Code (the Act). The District operates in accordance with Chapters 49 and 54 of the Texas Water Code and is subject to the continuing supervision of the Texas Commission on Environmental Quality (the Commission). The principal functions of the District are to finance, construct, own and operate waterworks, wastewater, drainage, park, road and other facilities and to provide such facilities and services to the customers of the District. The District may also provide solid waste disposal services.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

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

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

The District presents the following major governmental funds:

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

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

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

Fund Balances – Governmental Funds

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

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

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

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

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

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

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

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

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

Deferred Outflows and Inflows of Resources

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

Interfund Transactions

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

Pension Costs

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

Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

An appraisal district annually prepares appraisal records listing all property within the District and the appraised value of each parcel or item as of January 1. Additionally, on January 1, a tax lien attaches to property to secure the payment of all taxes, penalty and interest ultimately imposed for the year on the property. After the District receives its certified appraisal roll from the appraisal

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

district, the rate of taxation is set by the Board of the District based upon the aggregate appraisal value. Taxes are due and payable October 1 or when billed, whichever is later, and become delinquent after January 31 of the following year.

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2022, include collections during the current period or within 60 days of year-end related to the 2021 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2022, the 2021 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

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

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

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

| | Years |
|--|--------------|
| Water production and distribution facilities | 10-45 |
| Wastewater collection and treatment facilities | 10-45 |
| Drainage facilities | 10-45 |
| Road and paving facilities | 10-30 |

Debt Issuance Costs

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

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

Long-term Obligations

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

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

Net Position/Fund Balances

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

| | |
|--|------------------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 14,259,747 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 653 |
| Long-term debt obligations are not due and payable in the current period and are not reported in the funds. | <u>(15,455,449)</u> |
| Adjustment to fund balances to arrive at net position. | <u><u>\$ (1,195,049)</u></u> |

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

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

| | |
|---|---------------------|
| Change in fund balances. | \$ 233,183 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense. This is the amount by which capital outlay expenditures exceeded depreciation expense and noncapitalized costs in the current period. | 4,864,066 |
| Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer. | 47,000 |
| Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | 116,209 |
| Governmental funds report proceeds from sales of bonds and bond anticipation notes because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any affect on net position. | (5,700,000) |
| Revenues that do not provide current financial resources are not reported as revenues for the funds but are reported as revenues in the statement of activities. | 10 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | <u>(15,977)</u> |
| Change in net position of governmental activities. | <u>\$ (455,509)</u> |

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

At May 31, 2022, none of the District's bank balances were exposed to custodial credit risk.

Investments

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

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

At May 31, 2022, the District had no investments.

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2022, is presented as follows.

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

| Governmental Activities | Balances, Beginning of Year | Additions | Balances, End of Year |
|--|-----------------------------------|--------------|-----------------------------|
| Capital assets, non-depreciable: | | | |
| Land and improvements | \$ 3,079,907 | \$ 2,455,105 | \$ 5,535,012 |
| Construction in progress | - | 689,324 | 689,324 |
| Total capital assets, non-depreciable | 3,079,907 | 3,144,429 | 6,224,336 |
| Capital assets, depreciable: | | | |
| Water production and distribution facilities | 1,873,153 | 246,789 | 2,119,942 |
| Wastewater collection and treatment facilities | 1,733,611 | 577,775 | 2,311,386 |
| Drainage facilities | 1,218,872 | 757,558 | 1,976,430 |
| Road facilities | 1,385,664 | 659,884 | 2,045,548 |
| Total capital assets, depreciable | 6,211,300 | 2,242,006 | 8,453,306 |
| Less accumulated depreciation: | | | |
| Water production and distribution facilities | (60,040) | (67,530) | (127,570) |
| Wastewater collection and treatment facilities | (57,945) | (75,476) | (133,421) |
| Drainage facilities | (27,086) | (44,038) | (71,124) |
| Road facilities | (34,642) | (51,138) | (85,780) |
| Total accumulated depreciation | (179,713) | (238,182) | (417,895) |
| Total governmental activities, net | \$ 9,111,494 | \$ 5,148,253 | \$ 14,259,747 |

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2022, were as follows:

| Governmental Activities | Balances, Beginning of Year | Increases | Decreases | Balances, End of Year | Amounts Due in One Year |
|--|-----------------------------------|---------------|--------------|-----------------------------|-------------------------------|
| Bonds payable: | | | | | |
| General obligation bonds | \$ - | \$ 5,700,000 | \$ - | \$ 5,700,000 | \$ - |
| Less discounts on bonds | - | 116,209 | - | 116,209 | - |
| | 0 | 5,583,791 | 0 | 5,583,791 | 0 |
| Bond anticipation note payable | - | 3,695,000 | 3,695,000 | - | - |
| Developer advances | 327,287 | 238,000 | 285,000 | 280,287 | - |
| Due to developer | 9,291,207 | 3,442,025 | 3,141,861 | 9,591,371 | - |
| Total governmental activities long-term liabilities | \$ 9,618,494 | \$ 12,958,816 | \$ 7,121,861 | \$ 15,455,449 | \$ 0 |

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

General Obligation Bonds Issued

| | Series 2022 |
|--|---------------------------|
| Amount outstanding, May 31, 2022 | \$5,700,000 |
| Interest rates | 3.00% to 4.50% |
| Maturity dates, serially beginning/ending | September 1, 2024/2047 |
| Interest payment dates | March 1/September 1 |
| Callable date* | September 1, 2028 |

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

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2022:

| Year | Principal | Interest | Total |
|-------------|---------------------|---------------------|---------------------|
| 2023 | \$ - | \$ 182,105 | \$ 182,105 |
| 2024 | - | 232,475 | 232,475 |
| 2025 | 150,000 | 230,225 | 380,225 |
| 2026 | 155,000 | 225,650 | 380,650 |
| 2027 | 160,000 | 220,925 | 380,925 |
| 2028-2032 | 910,000 | 1,019,675 | 1,929,675 |
| 2033-2037 | 1,090,000 | 831,357 | 1,921,357 |
| 2038-2042 | 1,310,000 | 579,493 | 1,889,493 |
| 2043-2047 | 1,575,000 | 261,338 | 1,836,338 |
| 2048 | <u>350,000</u> | <u>7,875</u> | <u>357,875</u> |
| Total | <u>\$ 5,700,000</u> | <u>\$ 3,791,118</u> | <u>\$ 9,491,118</u> |

The bonds are payable from proceeds of an ad valorem tax levied upon all property within the District subject to taxation, without limitation as to rate or amount.

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

Bonds voted:

| | |
|--|----------------|
| Water, sewer and drainage facilities and refunding | \$ 247,940,000 |
| Park and recreational facilities and refunding | 27,635,000 |
| Road facilities and refunding | 146,280,000 |

Bonds sold:

| | |
|--------------------------------------|-----------|
| Water, sewer and drainage facilities | 5,700,000 |
|--------------------------------------|-----------|

Due to Developer

The developer within the District has constructed facilities on behalf of the District. The District has agreed to reimburse the developer for these construction costs and interest to the extent approved by the Commission, as applicable, from the proceeds of future bond sales. The District's engineer estimates reimbursable costs for completed projects are \$9,591,371. These amounts have been recorded in the financial statements as long-term liabilities.

Developer Advances

Since inception, the developer has advanced the District \$280,287, net of repayments, to the District for operations. The District does not have sufficient funds or anticipated revenues sufficient to liquidate these advances during the forthcoming year. These advances have been recorded as liabilities in the financial statements.

Bond Anticipation Note

On September 28, 2021, the District issued its Series 2021 Bond Anticipation Note in the amount of \$3,695,000 at an interest rate of 1.90 percent. The note is a special limited obligation of the District and is payable solely from proceeds of the sale of the bonds. On April 19, 2022, the District issued bonds and redeemed the Series 2021 bond anticipation note.

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Order requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2022, the District did not levy an ad valorem debt service tax.
- B. In accordance with the Series 2022 Bond Order, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest during the construction period. The bond interest reserve is reduced as the interest is paid.

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

| | |
|---|--------------------------|
| Bond interest reserve, beginning of year | \$ - |
| Additions--Interest appropriated from Series 2022 bond proceeds | <u>320,625</u> |
| Bond interest reserve, end of year | <u><u>\$ 320,625</u></u> |

Note 6: Maintenance Taxes

At an election held May 12, 2007, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District levied an ad valorem maintenance tax at the rate of \$1.4500 per \$100 of assessed valuation, which resulted in a tax levy of \$224,525 on the taxable valuation of \$15,484,477 for the 2022 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

At an election held May 4, 2019, voters authorized a road facilities maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District did not levy an ad valorem road facilities maintenance tax.

At an election held May 4, 2019, voters authorized a park and recreational facilities maintenance tax not to exceed \$0.1000 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2022, the District did not levy an ad valorem park and recreational facilities maintenance tax.

Note 7: Lease Agreement

On February 7, 2020, the District entered into an agreement to lease a 100,000 gallons per day sewage treatment plant from AUC Group, Inc. Monthly lease payments of \$11,300 will commence on the first day of the month following substantial completion of the installation and start-up of the leased equipment and continue for a term of 60 months. After the initial term, the lease continues on a month-to-month basis with monthly payments of \$8,000. During the current year the District recorded \$135,600 in expenditures related to the lease. Future minimum annual lease payments are 2023 - \$135,600; 2024 - \$135,600; 2025 - \$135,600; and 2026 - \$79,100.

Note 8: Regional Water Authority

The District is within the boundaries of the West Harris County Regional Water Authority (the Authority) which was created by the Texas Legislature. The Authority was created to provide a regional entity to acquire surface water and build the necessary facilities to convert from groundwater to surface water in order to meet conversion requirements mandated by the

Harris County Municipal Utility District No. 465

Notes to Financial Statements

May 31, 2022

Harris-Galveston Subsidence District, which regulates groundwater withdrawal. As of May 31, 2022, the Authority was billing the District \$3.70 per 1,000 gallons of water pumped from its wells. This amount is subject to future increases.

Note 9: Risk Management

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

Note 10: Economic Dependency

The District's developer owns the majority of the taxable property in the District. The District's ability to meet its obligations is dependent on the developer's ability to pay property taxes.

Note 11: Contingencies

The developer of the District is constructing facilities on behalf of the District within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds of future bond sales, to the extent approved by the Commission, as applicable. The District's engineer has stated that current construction amounts are approximately \$4,249,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Note 12: Subsequent Event

On June 21, 2022, the District awarded the sale of its Series 2022 bond anticipation note in the amount of \$4,985,000. The note is dated June 28, 2022, bears interest at a rate of 3.75 percent and matures June 27, 2023, unless called for earlier redemption. The note was sold to reimburse the District's developer for facilities located within the boundaries of the District.

Required Supplementary Information

Harris County Municipal Utility District No. 465
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2022

| | Original Budget | Actual | Variance Favorable (Unfavorable) |
|--|----------------------------|---------------------|---|
| Revenues | | | |
| Property taxes | \$ 206,625 | \$ 224,514 | \$ 17,889 |
| Water service | 14,400 | 46,726 | 32,326 |
| Sewer service | 10,000 | 49,475 | 39,475 |
| Regional water fee | 11,385 | 64,363 | 52,978 |
| Penalty and interest | - | 3,540 | 3,540 |
| Tap connection and inspection fees | 183,900 | 453,749 | 269,849 |
| Investment income | - | 512 | 512 |
| Other income | - | 211,168 | 211,168 |
| | <u>426,310</u> | <u>1,054,047</u> | <u>627,737</u> |
| Total revenues | | | |
| Expenditures | | | |
| Service operations: | | | |
| Lease payments | 135,600 | 135,600 | - |
| Regional water fee | 10,350 | 22,452 | (12,102) |
| Professional fees | 58,500 | 79,791 | (21,291) |
| Contracted services | 30,575 | 125,944 | (95,369) |
| Solid waste | 4,000 | 13,655 | (9,655) |
| Utilities | 16,750 | 35,087 | (18,337) |
| Repairs and maintenance | 174,999 | 145,877 | 29,122 |
| Other expenditures | 19,346 | 18,471 | 875 |
| Tap connections | 84,000 | 173,600 | (89,600) |
| Capital outlay | 1,237,236 | 689,324 | 547,912 |
| Debt service, debt issuance costs | - | 40,000 | (40,000) |
| | <u>1,771,356</u> | <u>1,479,801</u> | <u>291,555</u> |
| Total expenditures | | | |
| Deficiency of Revenues Over Expenditures | (1,345,046) | (425,754) | 919,292 |
| Other Financing Sources | | | |
| Developer advances received | 107,810 | 238,000 | 130,190 |
| Deficiency of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (1,237,236) | (187,754) | 1,049,482 |
| Fund Balance, Beginning of Year | 1,233,839 | 1,233,839 | - |
| Fund Balance, End of Year | <u>\$ (3,397)</u> | <u>\$ 1,046,085</u> | <u>\$ 1,049,482</u> |

Harris County Municipal Utility District No. 465

Notes to Required Supplementary Information

May 31, 2022

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was not amended during fiscal 2022.

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

Supplementary Information
(Not Subjected to Audit Procedures)

Harris County Municipal Utility District No. 465
Other Schedules Included Within This Report
May 31, 2022

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 13-25
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [] Schedule of Temporary Investments – Not Applicable
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund
- [X] Board Members, Key Personnel and Consultants

Harris County Municipal Utility District No. 465

Schedule of Services and Rates

Year Ended May 31, 2022

1. Services provided by the District:

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

2. Retail service providers

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

| | Minimum Charge | Minimum Usage | Flat Rate Y/N | Rate Per 1,000 Gallons Over Minimum | Usage Levels | |
|---|----------------|---------------|---------------|-------------------------------------|---|-----------------------------|
| Water: | \$ 24.00 | 5,000 | N | \$ 1.00 | 5,001 to | 10,000 |
| | | | | \$ 1.50 | 10,001 to | 20,000 |
| | | | | \$ 2.00 | 20,001 to | No Limit |
| Wastewater: | \$ 34.05 | 0 | Y | | | |
| Regional water fee: | \$ 4.07 | 1,000 | N | \$ 4.07 | 1,001 to | No Limit |
| Does the District employ winter averaging for wastewater usage? | | | | | Yes <input checked="" type="checkbox"/> | No <input type="checkbox"/> |
| Total charges per 10,000 gallons usage (including fees): | | | Water | \$ 69.70 | Wastewater | \$ 34.05 |

b. Water and wastewater retail connections:

| Meter Size | Total Connections | Active Connections | ESFC Factor | Active ESFC* |
|------------------|-------------------|--------------------|-------------|--------------|
| Unmetered | - | - | x1.0 | - |
| ≤ 3/4" | 189 | 162 | x1.0 | 162 |
| 1" | - | - | x2.5 | - |
| 1 1/2" | - | - | x5.0 | - |
| 2" | 5 | 4 | x8.0 | 32 |
| 3" | - | - | x15.0 | - |
| 4" | - | - | x25.0 | - |
| 6" | - | - | x50.0 | - |
| 8" | - | - | x80.0 | - |
| 10" | - | - | x115.0 | - |
| Total water | 194 | 166 | | 194 |
| Total wastewater | 187 | 160 | x1.0 | 160 |

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

| | |
|---|--------|
| Gallons pumped into the system: | 22,163 |
| Gallons billed to customers: | 20,289 |
| Water accountability ratio (gallons billed/gallons pumped): | 91.54% |

*"ESFC" means equivalent single-family connections

Harris County Municipal Utility District No. 465
Schedule of General Fund Expenditures
Year Ended May 31, 2022

| | | | |
|---|----|---------|-----------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ | 12,200 | |
| Legal | | 45,335 | |
| Engineering | | 22,256 | |
| Financial advisor | | - | 79,791 |
| | | | |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | - |
| | | | |
| Regional Water Fee | | | 22,452 |
| | | | |
| Contracted Services | | | |
| Bookkeeping | | 5,412 | |
| General manager | | - | |
| Appraisal district | | 1,964 | |
| Tax collector | | 12,682 | |
| Security | | - | |
| Other contracted services | | 105,886 | 125,944 |
| | | | |
| Utilities | | | 35,087 |
| | | | |
| Repairs and Maintenance | | | 145,877 |
| | | | |
| Administrative Expenditures | | | |
| Directors' fees | | 5,250 | |
| Office supplies | | - | |
| Insurance | | 9,171 | |
| Other administrative expenditures | | 4,050 | 18,471 |
| | | | |
| Capital Outlay | | | |
| Capitalized assets | | 689,324 | |
| Expenditures not capitalized | | - | 689,324 |
| | | | |
| Tap Connection Expenditures | | | 173,600 |
| | | | |
| Solid Waste Disposal | | | 13,655 |
| | | | |
| Lease Payments | | | 135,600 |
| | | | |
| Parks and Recreation | | | - |
| | | | |
| Other Expenditures - Debt Issuance Costs | | | 40,000 |
| | | | |
| Total expenditures | | \$ | 1,479,801 |

Harris County Municipal Utility District No. 465
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2022

| | Maintenance Taxes |
|---|------------------------------|
| Receivable, Beginning of Year | \$ 643 |
| Additions and corrections to prior years' taxes | <u>-</u> |
| Adjusted receivable, beginning of year | <u>643</u> |
| 2021 Original Tax Levy | 103,625 |
| Additions and corrections | <u>120,900</u> |
| Adjusted tax levy | <u>224,525</u> |
| Total to be accounted for | 225,168 |
| Tax collections: Current year | (223,872) |
| Prior years | <u>(643)</u> |
| Receivable, end of year | <u><u>\$ 653</u></u> |
| Receivable, by Years | |
| 2021 | <u><u>\$ 653</u></u> |

Harris County Municipal Utility District No. 465

Analysis of Taxes Levied and Receivable (Continued)

Year Ended May 31, 2022

| | 2021 | 2020 | 2019 |
|---|----------------------|------------------|------------------|
| Property Valuations | | | |
| Land | \$ 15,521,606 | \$ 73,873 | \$ 37,054 |
| Improvements | 438,270 | - | - |
| Personal property | 93 | 103 | - |
| Exemptions | (475,492) | (103) | - |
| Total property valuations | <u>\$ 15,484,477</u> | <u>\$ 73,873</u> | <u>\$ 37,054</u> |
| Tax Rates per \$100 Valuation | | | |
| Maintenance tax rates* | <u>\$ 1.4500</u> | <u>\$ 1.4500</u> | <u>\$ 1.4500</u> |
| Tax Levy | <u>\$ 224,525</u> | <u>\$ 1,071</u> | <u>\$ 537</u> |
| Percent of Taxes Collected to Taxes Levied** | <u>99%</u> | <u>100%</u> | <u>100%</u> |

*Maximum tax rate approved by voters: \$1.50 on May 12, 2007

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

Harris County Municipal Utility District No. 465
Schedule of Long-term Debt Service Requirements by Years
May 31, 2022

| Due During Fiscal Years Ending May 31 | Series 2022 | | Total |
|---|---------------------------------|---|--------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | |
| 2023 | \$ - | \$ 182,105 | 182,105 |
| 2024 | - | 232,475 | 232,475 |
| 2025 | 150,000 | 230,225 | 380,225 |
| 2026 | 155,000 | 225,650 | 380,650 |
| 2027 | 160,000 | 220,925 | 380,925 |
| 2028 | 170,000 | 215,975 | 385,975 |
| 2029 | 175,000 | 210,582 | 385,582 |
| 2030 | 180,000 | 204,587 | 384,587 |
| 2031 | 190,000 | 197,875 | 387,875 |
| 2032 | 195,000 | 190,656 | 385,656 |
| 2033 | 200,000 | 183,250 | 383,250 |
| 2034 | 210,000 | 175,300 | 385,300 |
| 2035 | 220,000 | 166,700 | 386,700 |
| 2036 | 225,000 | 157,800 | 382,800 |
| 2037 | 235,000 | 148,307 | 383,307 |
| 2038 | 245,000 | 138,106 | 383,106 |
| 2039 | 255,000 | 127,481 | 382,481 |
| 2040 | 260,000 | 116,375 | 376,375 |
| 2041 | 270,000 | 104,781 | 374,781 |
| 2042 | 280,000 | 92,750 | 372,750 |
| 2043 | 290,000 | 80,100 | 370,100 |
| 2044 | 305,000 | 66,713 | 371,713 |
| 2045 | 315,000 | 52,762 | 367,762 |
| 2046 | 325,000 | 38,363 | 363,363 |
| 2047 | 340,000 | 23,400 | 363,400 |
| 2048 | 350,000 | 7,875 | 357,875 |
| Totals | \$ 5,700,000 | \$ 3,791,118 | \$ 9,491,118 |

Harris County Municipal Utility District No. 465

Changes in Long-term Bonded Debt

Year Ended May 31, 2022

| | Bond Issue |
|--|---------------------------|
| | Series 2022 |
| Interest rates | 3.00% to 4.50% |
| Dates interest payable | March 1/ September 1 |
| Maturity dates | September 1, 2024/2047 |
| Bonds outstanding, beginning of current year | \$ - |
| Bonds sold during current year | 5,700,000 |
| Retirements, principal | - |
| Bonds outstanding, end of current year | <u>\$ 5,700,000</u> |
| Interest paid during current year | <u>\$ 0</u> |

Paying agent's name and address:

Series 2022 - Zions Bancorporation, National Association, Houston, Texas

Bond authority:

| | Water, Sewer and Drainage and Refunding Bonds | Park and Recreational and Refunding Bonds | Road and Refunding Bonds |
|-----------------------------|--|--|---|
| Amount authorized by voters | <u>\$ 247,940,000</u> | <u>\$ 27,635,000</u> | <u>\$ 146,280,000</u> |
| Amount issued | <u>\$ 5,700,000</u> | <u>\$ -</u> | <u>\$ -</u> |
| Remaining to be issued | <u>\$ 242,240,000</u> | <u>\$ 27,635,000</u> | <u>\$ 146,280,000</u> |

Debt service fund cash and temporary investment balances as of May 31, 2022: \$ 320,465

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 365,043

Harris County Municipal Utility District No. 465

Comparative Schedule of Revenues and Expenditures – General Fund

Two Years Ended May 31,

| | Amounts | | Percent of Fund Total Revenues | |
|---|--------------|--------------|--------------------------------|--------|
| | 2022 | 2021 | 2022 | 2021 |
| General Fund | | | | |
| Revenues | | | | |
| Property taxes | \$ 224,514 | \$ 852 | 21.3 % | 0.0 % |
| Water service | 46,726 | 1,500 | 4.4 | 0.1 |
| Sewer service | 49,475 | 1,178 | 4.7 | 0.2 |
| Regional water fee | 64,363 | 935 | 6.1 | 0.0 |
| Penalty and interest | 3,540 | - | 0.3 | - |
| Tap connection and inspection fees | 453,749 | 137,292 | 43.1 | 9.9 |
| Investment income | 512 | - | 0.1 | - |
| Sale of capacity | - | 1,237,236 | - | 89.8 |
| Other income | 211,168 | - | 20.0 | - |
| Total revenues | 1,054,047 | 1,378,993 | 100.0 | 100.0 |
| Expenditures | | | | |
| Service operations: | | | | |
| Lease payments | 135,600 | 56,500 | 12.9 | 4.1 |
| Regional water fee | 22,452 | - | 2.1 | - |
| Professional fees | 79,791 | 57,765 | 7.6 | 4.1 |
| Contracted services | 125,944 | 25,986 | 11.9 | 1.9 |
| Solid waste | 13,655 | 281 | 1.3 | 0.2 |
| Utilities | 35,087 | 10,730 | 3.3 | 0.8 |
| Repairs and maintenance | 145,877 | 126,454 | 13.8 | 9.1 |
| Other expenditures | 18,471 | 15,511 | 1.8 | 1.1 |
| Tap connections | 173,600 | 64,600 | 16.5 | 4.6 |
| Capital outlay | 689,324 | - | 65.4 | - |
| Debt service, debt issuance costs | 40,000 | - | 3.8 | - |
| Total expenditures | 1,479,801 | 357,827 | 140.4 | 25.9 |
| Excess (Deficiency) of Revenues Over Expenditures | (425,754) | 1,021,166 | (40.4) % | 74.1 % |
| Other Financing Sources | | | | |
| Developer advances received | 238,000 | 198,000 | | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (187,754) | 1,219,166 | | |
| Fund Balance, Beginning of Year | 1,233,839 | 14,673 | | |
| Fund Balance, End of Year | \$ 1,046,085 | \$ 1,233,839 | | |
| Total Active Retail Water Connections | 166 | 31 | | |
| Total Active Retail Wastewater Connections | 160 | 28 | | |

Harris County Municipal Utility District No. 465

Schedule of Revenues and Expenditures – Debt Service Fund

Year Ended May 31, 2022

| | <u>Amounts</u> | <u>Percent of Fund Total Revenues</u> |
|--|--------------------------|---|
| Debt Service Fund | | |
| Revenues | | |
| Investment income | \$ 10 | 100.0 % |
| Expenditures | | |
| Current: | | |
| Other expenditures | <u>170</u> | <u>1,700.0</u> |
| Deficiency of Revenues Over Expenditures | (160) | <u>(1,600.0) %</u> |
| Other Financing Sources | | |
| General obligation bonds issued | <u>320,625</u> | |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 320,465 | |
| Fund Balance, Beginning of Year | <u>-</u> | |
| Fund Balance, End of Year | <u><u>\$ 320,465</u></u> | |

Harris County Municipal Utility District No. 465
Board Members, Key Personnel and Consultants
Year Ended May 31, 2022

| | |
|--|--|
| Complete District mailing address: | Harris County Municipal Utility District No. 465 c/o Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046 |
| District business telephone number: | 713.651.0111 |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | February 13, 2019 |
| Limit on fees of office that a director may receive during a fiscal year: | \$ 7,200 |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|------------------------|---|--------------|-----------------------------------|------------------------------|
| Cynthia Hill | Elected 05/20- 05/24 | \$ 1,200 | \$ 29 | President |
| Darren O'Connor | Elected 05/22- 05/26 | 1,200 | 14 | Vice President |
| Christopher Charboneau | Elected 05/22- 05/26 | 1,050 | 14 | Secretary |
| Kimberly Lewis | Appointed 01/22- 05/24 | 450 | 0 | Assistant Secretary |
| Leslie Richardson | Elected 05/20- 05/24 | 750 | 23 | Assistant Secretary |
| Katie May | Elected 05/20- 01/22 | 600 | 43 | Resigned |

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

Harris County Municipal Utility District No. 465
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2022

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|----------------------------------|-----------------------|--|----------------------------|
| B&A Municipal Tax Service, LLC | 05/13/19 | \$ 13,217 | Tax Assessor/ Collector |
| BKD, LLP | 05/26/21 | 29,700 | Auditor |
| Coats Rose, P.C. | 12/20/06 | 217,193 | General Counsel |
| Elevation Land Solutions, LLC | 01/29/19 | 102,256 | Engineer |
| Harris County Appraisal District | Legislative Action | 1,964 | Appraiser |
| L&S District Services, LLC | 02/28/07 | 6,612 | Bookkeeper |
| Robert W. Baird & Co. Inc. | 01/29/19 | 154,065 | Financial Advisor |
| TNG Utility Corp. | 05/13/19 | 364,814 | Operator |
| Investment Officer | | | |
| Debra Loggins | 01/01/19 | N/A | Bookkeeper |

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