

## OFFICIAL STATEMENT DATED MARCH 8, 2023

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES AND INTEREST ON BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS; HOWEVER, SUCH INTEREST IS TAKEN INTO ACCOUNT IN DETERMINING THE ANNUAL ADJUSTED FINANCIAL STATEMENT INCOME OF APPLICABLE CORPORATIONS FOR THE PURPOSE OF DETERMINING THE ALTERNATIVE MINIMUM TAX IMPOSED ON CORPORATIONS. SEE “TAX MATTERS” FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS ARE NOT DESIGNATED AS “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS.

### NEW ISSUE-Book-Entry Only

Insured Rating (AGM): S&P “AA” (stable outlook)  
See “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE” herein.

**\$5,000,000**

### **HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 422** *(A political subdivision of the State of Texas located within Harris County)* **UNLIMITED TAX BONDS** **SERIES 2023**

The bonds described above (the “Bonds”) are obligations solely of Harris County Municipal Utility District No. 422 (the “District”) and are not obligations of the State of Texas, Harris County, the City of Houston, or any entity other than the District.

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

**Dated Date: April 1, 2023**

**Due: September 1, as shown below**

**Interest Accrual Date: Date of Delivery**

Principal of the Bonds is payable at maturity or earlier redemption at the principal payment office of the paying agent/registrar, initially The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the “Paying Agent/Registrar”) upon surrender of the Bonds for payment. Interest on the Bonds accrues from the initial date of delivery (expected April 12, 2023) (the “Date of Delivery”), and is payable each September 1 and March 1, commencing September 1, 2023, until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds are subject to redemption prior to their maturity, as shown below.

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



The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”). See “MUNICIPAL BOND INSURANCE” herein.

### MATURITY SCHEDULE

Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)	Due (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (c)	CUSIP Number (b)
2025	\$ 125,000	6.500 %	3.65 %	41424E EA5	2037	\$ 215,000	(a) 4.000 %	4.15 %	41424E EN7
2026	130,000	6.500	3.65	41424E EB3	2038	230,000	(a) 4.000	4.20	41424E EP2
2027	135,000	6.500	3.65	41424E EC1	2039	240,000	(a) 4.125	4.25	41424E EQ0
2028	145,000	6.500	3.65	41424E ED9	2040	250,000	(a) 4.125	4.30	41424E ER8
2029	150,000	6.500	3.65	41424E EE7	2041	260,000	(a) 4.250	4.35	41424E ES6
2030	155,000	(a) 6.500	3.65	41424E EF4	2042	275,000	(a) 4.250	4.40	41424E ET4
2031	165,000	(a) 6.250	3.65	41424E EG2	2043	285,000	(a) 4.250	4.45	41424E EU1
2032	170,000	(a) 4.000	3.75	41424E EH0	2044	300,000	(a) 4.375	4.48	41424E EV9
2033	180,000	(a) 4.000	3.90	41424E EJ6	2045	315,000	(a) 4.375	4.50	41424E EW7
2034	190,000	(a) 4.000	4.00	41424E EK3	2046	330,000	(a) 4.375	4.52	41424E EX5
2035	200,000	(a) 4.000	4.05	41424E EL1	2047	345,000	(a) 4.375	4.54	41424E EY3
2036	210,000	(a) 4.000	4.11	41424E EM9					

- (a) Bonds maturing on or after September 1, 2030, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time in part, on September 1, 2029, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent Interest Payment Date (as herein defined) to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (b) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriter shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.
- (c) Initial yield represents the initial offering yield to the public, which has been established by the Underwriter (as herein defined) for offers to the public and which subsequently may be changed.

The Bonds are offered by the Underwriter subject to prior sale, when, as and if issued by the District and accepted by the respective Underwriter, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. See “LEGAL MATTERS.” Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about April 12, 2023.

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## USE OF INFORMATION IN OFFICIAL STATEMENT

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas, 77027, for further information.

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

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

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

## SALE AND DISTRIBUTION OF THE BONDS

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by SAMCO Capital Markets, Inc. (the "Underwriter") bearing the interest rates shown on the cover page hereof, at a price of 97.00% of the par value thereof, which resulted in a net effective interest rate of 4.581759%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended (the IBA method).

### **Prices and Marketability**

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

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

### **Securities Laws**

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

## OFFICIAL STATEMENT SUMMARY

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

### THE DISTRICT

<i>Description...</i>	The District is a political subdivision of the State of Texas, created by the Texas Commission on Environmental Quality (the “TCEQ”) effective December 12, 2006 and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District contains approximately 297 acres of land. See “THE DISTRICT.”
<i>Location...</i>	The District is located approximately 23 miles northeast of the central downtown business district of the City of Houston and is approximately 3 miles northeast of the intersection of East Sam Houston Parkway North and Westlake Houston Parkway. The District is bounded on the east by Lakewood Pines Subdivision within Harris County Municipal Utility District No. 499, on the west by Balmoral within Harris County Municipal Utility District No. 423, on the north by undeveloped acreage, on the south by the subdivision of Summerwood and is bisected by Lakewood Pines Boulevard and Timber Forest Boulevard. The entire District lies within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Humble Independent School District. See “THE DISTRICT” and “AERIAL PHOTOGRAPH.”
<i>The Developers...</i>	<p>The developer of Lakewood Pines, Section Two and Sections Seven through Fourteen (636 single-family residential lots on approximately 152 acres) is KB Home Lone Star Inc., a Texas corporation (“KB Home Lone Star”) and an indirect wholly-owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol KBH. KB Home Lone Star continues to own approximately 16 acres of developable land in the District.</p> <p>The developer of Balmoral East, Sections One through Three (320 single-family residential lots on approximately 88 acres) is Astro Balmoral LP, a Delaware limited partnership (“Astro Balmoral”), which is a special purpose entity created by Mr. Al P. Brende/the Land Tejas Companies and Starwood Land Astro Ventures LP solely for the purpose of developing and marketing land in District known as Balmoral East. Astro Balmoral does not own any land in the District for future development.</p> <p>KB Home Lone Star and Astro Balmoral are referred to herein as the “Developers.” See “THE DEVELOPERS” and “TAX DATA—Principal Taxpayers.”</p>
<i>Status of Development...</i>	Single-family residential development in the District consists of Lakewood Pines, Section Two, and Sections Seven through Fourteen (636 single-family residential lots on approximately 152 acres) and Balmoral East, Sections One through Three (320 single-family residential lots on approximately 88 acres). As of January 15, 2023, 367 homes were completed (354 occupied), 143 homes were under construction or in the name of a homebuilder and 446 vacant developed lots were available for home construction. The District also includes approximately 16 acres of developable land that have not been served with utilities, approximately 19 acres owned by Humble Independent School District where an elementary school has been constructed (which is not subject to ad valorem taxation) and approximately 22 undevelopable acres consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. See “THE DISTRICT—Land Use” and “—Status of Development.”

The District has entered into a wholesale Water Supply Agreement with the City of Houston, dated October 9, 2015 and amended May 11, 2021. Pursuant to the Water Supply Agreement, the City of Houston has allocated a maximum annual specified amount of water to the District, which is calculated to be adequate to serve approximately 825,000 gallons per day (“gpd”), or 110 equivalent single-family connections (“ESFC”) (the “Initial Allocation”) based on 250 gpd per ESFC. The City of Houston’s water supply infrastructure required to supply the Initial Allocation is in place. As provided in the Water Supply Agreement, the District can request an increase in the Initial Allocation on an annual basis. In response to the District’s request for an increase, the City of Houston notified the District that it cannot increase the allocated amount of water supplied under the Water Supply Agreement until the City of Houston’s surface water plants has been expanded, which is estimated by the City of Houston to be on or about 2025. The District has constructed Phase I of Water Plant No. 1, which included a 660 gallon per minute (“gpm”) water well, a 220,000-gallon Ground Storage Tank, a 15,000-gallon hydropneumatic tank and two 1,200-gpm booster pumps. The District’s water supply capacity is capable of serving 750 equivalent single-family connections (“ESFCs”) (limited by pressure tanks). Construction of Phase II of the Water Plant No. 1 expansion, which includes addition of a ground storage tank and a hydropneumatic tank, is underway with completion expected June 2023. As of January 15, 2023, the District was serving 510 ESFCs (including 367 completed homes and 143 homes under construction or in the name of a builder). See “THE SYSTEM—Water Supply” and “RISK FACTORS—Water Supply Restrictions.”

*Homebuilding...*

KB Home Lone Star is marketing and building homes in Lakewood Pines at sales prices ranging from approximately \$224,600 to \$355,300. Gehan Homes, CastleRock Communities, Lennar and Nuway Realty Group are marketing and building homes in Balmoral East at sale prices ranging from approximately \$250,000 to \$400,000. See “THE DISTRICT—Homebuilding.”

*Payment Record...*

The District has previously issued \$2,800,000 principal amount of unlimited tax bonds for water, wastewater and drainage purposes in one series, and \$7,660,000 principal amount of unlimited tax bonds for road purposes in three series, of which \$10,010,000 collectively remains outstanding (the “Outstanding Bonds”) as of the date hereof. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds.” The Bonds are the District’s second issuance of unlimited tax bonds for water, wastewater and drainage facilities. The District has never defaulted on its debt obligations. The District will capitalize twelve (12) months of interest from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

*Future Debt...*

The District expects to issue approximately \$3,440,000 principal amount of unlimited tax road bonds in the second quarter of 2023. See “THE BONDS—Issuance of Additional Debt” and “INVESTMENT CONSIDERATIONS—Future Debt.”

## THE BONDS

*Description...*

The \$5,000,000 Unlimited Tax Bonds, Series 2023 (the “Bonds”) are being issued pursuant to a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the District’s Board of Directors. The Bonds are scheduled to mature serially on September 1 in each of the years 2025 through 2047, both inclusive, and in the principal amounts and accrue interest at the rates shown on the cover page hereof. Interest on the Bonds accrues from the Date of Delivery, and is payable September 1, 2023, and each March 1 and September 1 thereafter, until the earlier of maturity or redemption. The Bonds will be issued in denominations of \$5,000 or integral multiples of \$5,000. See “THE BONDS.”

*Book-Entry-Only System...*

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

<i>Redemption...</i>	Bonds maturing on or after September 1, 2030 are subject to redemption in whole, or from time to time in part, at the option of the District prior to their maturity dates on September 1, 2029, or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
<i>Short Term Debt...</i>	The District sold a \$3,030,000 Bond Anticipation Note, Series 2022 (the “2022 BAN”) on September 21, 2022, with a maturity date of September 20, 2023. The District will use a portion of the Bond proceeds to redeem the 2022 BAN prior to maturity. The 2022 BAN is payable solely with Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS” and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt.”
<i>Use of Proceeds...</i>	Proceeds of the Bonds will be used to redeem the 2022 BAN prior to maturity and to pay for construction costs shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to capitalize twelve (12) months of interest on the Bonds; to pay interest on funds advanced by KB Home Lone Star on behalf of the District; to pay administrative and certain other costs associated with the 2022 BAN and the Bonds; and to pay engineering fees related to the issuance of the Bonds.
<i>Authority for Issuance...</i>	The Bonds are the second series of bonds issued out of an aggregate of \$234,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of constructing or acquiring water, wastewater and drainage facilities and for refunding such bonds. The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt,” and “RISK FACTORS—Future Debt.”
<i>Source of Payment...</i>	Principal of and interest on the Bonds are payable from the proceeds of a continuing direct annual ad valorem tax levied, without legal limitation as to rate or amount, against all taxable property within the District. The Bonds are obligations of the District and are not obligations of the City of Houston, Harris County, the State of Texas or any entity other than the District. See “THE BONDS—Source of Payment.”
<i>Municipal Bond Insurance and Municipal Bond Rating...</i>	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) assigned a municipal bond insured rating of “AA” (stable outlook) to the Bonds with the understanding that, upon issuance and delivery of the Bonds, a Bond Insurance Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the Bonds. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”
<i>Not Qualified Tax-Exempt Obligations...</i>	The Bonds are not designated as “qualified tax-exempt obligations” within the meaning of Section 265(b) of the Internal Revenue Code of 1986, as amended.
<i>Bond Counsel...</i>	Allen Boone Humphries Robinson LLP, Houston, Texas. See “MANAGEMENT OF THE DISTRICT,” “LEGAL MATTERS” and “TAX MATTERS.”
<i>Financial Advisor...</i>	Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT.”
<i>Disclosure Counsel...</i>	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
<i>Paying Agent/Registrar...</i>	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

## **RISK FACTORS**

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire Official Statement with respect to the investment security of the Bonds, including particularly the section captioned "RISK FACTORS."



## SELECTED FINANCIAL INFORMATION (UNAUDITED)

2022 Certified Taxable Assessed Valuation.....	\$ 91,144,662	(a)
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$141,060,575	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds).....	\$15,010,000	(c)
Estimated Overlapping Debt .....	<u>4,758,160</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$19,768,160	
Ratios of Gross Direct Debt to: .....		
2022 Certified Taxable Assessed Valuation.....	16.47%	
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	10.64%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to: .....		
2022 Certified Taxable Assessed Valuation.....	21.69%	
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	14.01%	
Funds Available for Debt Service:		
Water/Sewer/Drainage Debt Service Funds Available as of February 8, 2023.....	\$585,962	(e)
Road Debt Service Funds Available as of February 8, 2023.....	81,203	(e)
Capitalized Interest from proceeds of the Bonds (Twelve (12) months) .....	<u>232,213</u>	(f)
Total Debt Service Funds Available .....	\$899,378	
Water/Sewer/Drainage Capital Projects Funds Available as of February 8, 2023 .....	\$1,006,550	
Road Capital Projects Funds Available as of February 8, 2023 .....	\$ 62,673	
Operating Funds Available as of February 8, 2023 .....	\$1,215,612	
2022 Debt Service Tax Rate.....	\$0.68	
2022 Maintenance and Operations Tax Rate.....	<u>0.82</u>	
2022 Total Tax Rate.....	\$1.50	
Average Annual Debt Service Requirement (2023-2047).....	\$888,381	(g)
Maximum Annual Debt Service Requirement (2025).....	\$987,670	(g)
Tax Rates Required to Pay Average Annual Debt Service (2023-2047) at a 95% Collection Rate		
2022 Certified Taxable Assessed Valuation.....	\$1.03	(h)
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$0.67	(h)
Tax Rates Required to Pay Maximum Annual Debt Service (2025) at a 95% Collection Rate		
2022 Certified Taxable Assessed Valuation.....	\$1.15	(h)
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$0.74	(h)
Status of Development as of January 15, 2023 (i):		
Homes Completed (354 Occupied) .....	367	
Homes Under Construction or in the Name of a Homebuilder .....	143	
Lots Available for Home Construction .....	446	
Estimated Population .....	1,239	(j)

- (a) As certified by the Harris Central Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on January 1, 2023. Increases in value that occur between January 1, 2022, and December 31, 2022, will be assessed for purposes of taxation on January 1, 2023. No tax will be levied on such amount until it is certified. See “TAXING PROCEDURES.”
- (c) After issuance of the Bonds. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT—Outstanding Bonds.”
- (d) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt” and “—Overlapping Taxes.”
- (e) Funds in the Water/Sewer/Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities (“Water/Sewer/Drainage Bonds”), including the Bonds and are not available to pay debt service on bonds issued for road facilities. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities (“Road Bonds”) and are not available to pay debt service on the District’s bonds issued for water, sewer and drainage facilities, including the Bonds. See “THE BONDS—Funds.”
- (f) The District will capitalize twelve (12) months of interest from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
- (g) See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements.”
- (h) See “TAX DATA—Tax Adequacy for Debt Service” and “RISK FACTORS—Possible Impact on District Tax Rates.”
- (i) See “THE DISTRICT—Land Use” and “—Status of Development.”
- (j) Based upon 3.5 persons per occupied single-family residence.

## OFFICIAL STATEMENT

**\$5,000,000**

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 422**  
*(A political subdivision of the State of Texas located within Harris County)*

**UNLIMITED TAX BONDS**  
**SERIES 2023**

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Municipal Utility District No. 422 (the “District”) of its \$5,000,000 Unlimited Tax Bonds, Series 2023 (the “Bonds”).

The Bonds are issued by the District pursuant to an order of the Texas Commission on Environmental Quality (the “TCEQ”), a resolution authorizing the issuance of the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”), Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Resolution, and certain other information about the District, KB Home Lone Star, Inc., a Texas corporation (“KB Home Lone Star”), Astro Balmoral LP, a Delaware limited partnership (“Astro Balmoral”) and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents may be obtained from Allen Boone Humphries Robinson LLP, Bond Counsel, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

## THE BONDS

### **Description**

The Bonds will be dated April 1, 2023 and accrue interest from the Date of Delivery, with interest payable each September 1 and March 1, beginning September 1, 2023 (the “Interest Payment Date”), and will mature on the dates and in the principal amounts and accrue interest at the rates shown on the cover page hereof. The Bonds are issued in fully registered form, in denominations of \$5,000 or any integral multiple of \$5,000. Interest calculations are based on a 360-day year comprised of twelve 30-day months.

### **Method of Payment of Principal and Interest**

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A., Dallas, Texas as the initial Paying Agent/Registrar for the Bonds. The principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America, which, on the date of payment, is legal tender for the payment of debts due the United States of America. In the event the book-entry system is discontinued, principal of the Bonds shall be payable upon presentation and surrender of the Bonds as they respectively become due and payable, at the principal payment office of the Paying Agent/Registrar in Dallas, Texas and interest on each Bond shall be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the February 15 or August 15 immediately preceding each Interest Payment Date (defined herein as the “Record Date”), to the address of such Registered Owner as shown on the Paying Agent/Registrar’s records (the “Register”) or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of the principal of or interest on any Bond is not a business day, then the date for such payment shall be the next succeeding business day, as defined in the Bond Resolution.

### **Source of Payment**

While the Bonds or any part of the principal thereof or interest thereon remains outstanding and unpaid, the District covenants to levy and annually assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, in each year, a continuing direct annual ad valorem tax, without limit as to rate, upon all taxable property in the District sufficient to pay the interest on the Bonds as the same becomes due and to pay each installment of the principal of the Bonds as the same matures, with full allowance being made for delinquencies and costs of collection. In the Bond Resolution, the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose.

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

## **Funds**

In the Bond Resolution, the Water/Sewer/Drainage Debt Service Fund is confirmed, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Resolution shall be deposited, as collected, in such fund.

The District also maintains a Road Service Fund that is not pledged to the Water/Sewer/Drainage Bonds. Funds in the Road Debt Service Fund are not available to pay principal and interest on the Outstanding Water/Sewer/Drainage Bonds and the Bonds and funds in the Water/Sewer/Drainage Debt Service Fund are not available to pay principal and interest on the Outstanding Road Bonds.

Twelve (12) months of capitalized interest shall be deposited into the Water/Sewer/Drainage Debt Service Fund upon receipt. A portion of the proceeds from the sale of the Bonds will be used to retire the 2022 BAN (as defined herein). The remaining proceeds of sale of the Bonds shall be deposited into the Water/Sewer/Drainage Capital Projects Fund, to be used for the purpose of reimbursing KB Home Lone Star for certain construction costs, to pay interest on funds advanced by KB Home Lone Star on behalf of the District and for paying the costs of issuance of the 2022 BAN and the Bonds. Any monies remaining in the Water/Sewer/Drainage Capital Projects Fund will be used as described in the Bond Resolution or ultimately transferred to the Water/Sewer/Drainage Debt Service Fund. See "USE AND DISTRIBUTION OF BOND PROCEEDS," and "FINANCIAL INFORMATION CONCERNING THE DISTRICT(UNAUDITED)—Short Term Debt."

## **No Arbitrage**

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

## **Redemption Provisions**

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2030, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on September 1, 2029, or any date thereafter, at a price of par value plus unpaid accrued interest on the principal amounts called for redemption from the most recent Interest Payment Date to the date fixed for redemption.

If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds to be redeemed shall be selected by the Paying Agent/Registrar by lot or other random method (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form).

If a Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Bond may be redeemed, but only in integral multiples of \$5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a Bond or Bonds of like maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered.

Notice of any redemption identifying the Bonds to be redeemed in whole or in part shall be given by the Paying Agent/Registrar at least thirty (30) days prior to the date fixed for redemption by sending written notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the Register. Such notices shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment and, if less than all the Bonds outstanding are to be redeemed, the numbers of the Bonds or the portions thereof to be redeemed. Any notice given shall be conclusively presumed to have been duly given, whether or not the Registered Owner receives such notice. By the date fixed for redemption, due provision shall be made with the Paying Agent/Registrar for payment of the redemption price of the Bonds or portions thereof to be redeemed, plus accrued interest to the date fixed for redemption. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.

### **Authority for Issuance**

At a bond election held within the District, voters of the District authorized the issuance of \$234,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring water, wastewater, and drainage facilities and for refunding such bonds. The Bonds are issued pursuant to such authorization. The TCEQ has approved the issuance of the Bonds subject to certain restrictions, including the use of Bond proceeds as summarized in "USE AND DISTRIBUTION OF BOND PROCEEDS."

The Bonds are issued by the District pursuant to an order of the TCEQ, the terms and conditions of the Bond Resolution, Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District and general laws of the State of Texas relating to the issuance of bonds by political subdivisions of the State of Texas.

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

### **Registration and Transfer**

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the Register at its principal payment office and, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the Book-Entry-Only System should be discontinued, each Bond shall be transferable only upon the presentation and surrender of such Bond at the principal payment office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or his authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the District to authenticate and deliver in exchange therefor, within three (3) business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity and aggregate principal amount and paying interest at the same rate as the Bond or Bonds so presented.

All Bonds shall be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds. Each Bond delivered shall be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the District nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending the next succeeding Interest Payment Date or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption of such Bond.

The District or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange shall be paid by the District.

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

In the event the Book-Entry-Only System should be discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar shall authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered owners of lost, stolen or destroyed Bonds will be required to pay the District's costs to replace such Bond. In addition, the District or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

### **Replacement of Paying Agent/Registrar**

Provision is made in the Bond Resolution for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as Paying Agent/Registrar for the Bonds.

### **Issuance of Additional Debt**

The District's voters have authorized the issuance of \$234,000,000 principal amount of unlimited tax bonds for the purpose of constructing water, wastewater and drainage facilities and for refunding such bonds, \$65,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring road facilities and for refunding such bonds and \$32,500,000 principal amount of unlimited tax bonds for the purpose of constructing and or acquiring park and recreational facilities and for refunding such bonds. The District could authorize additional amounts. After the issuance of the Bonds, \$226,200,000 principal amount of the unlimited tax bonds for constructing or acquiring water, wastewater and drainage facilities and for refunding such bonds, \$57,340,000 principal amount of the unlimited tax bonds for road facilities and for refunding such bonds and all of the amount of the unlimited tax bonds for park and recreational facilities and for refunding such bonds and will remain authorized but unissued. The District expects to issue approximately \$3,440,000 principal amount of unlimited tax road bonds in the second quarter of 2023. See "RISK FACTORS—Future Debt."

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 master plan and bonds for such purposes by the qualified voters in the District; (b) approval of the master plan and bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt/property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park plan and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. Further, the principal amount of unlimited tax bonds issued by the District for constructing or acquiring park and recreational facilities may not exceed one percent (1%) of the District's certified taxable assessed valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not three percent (3%) of the value of the taxable property in the District. The Board has approved a park plan and, at an election held on May 10, 2014, and voters of the District authorized the issuance of \$32,500,000 in unlimited tax bonds for the purpose of purchasing or constructing parks and recreational facilities, all of which remains authorized but unissued.

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.

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

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston consent ordinance. Generally, the District may be annexed by the City of Houston without the District's consent, and the City of Houston cannot annex territory within the District unless it annexes the entire District; however, the City of Houston may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. The District currently does not have a Strategic Partnership Agreement with the City.

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

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its assets (such as cash and the utility system) and liabilities (such as the Bonds) with the assets and liabilities of districts with which it is consolidating. Although no consolidation is presently contemplated by the District, no representation is made concerning the likelihood of consolidation in the future.

## **Remedies in Event of Default**

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

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

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

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

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

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

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

## **Defeasance**

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

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

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

The District cannot and does not give any assurances that DTC, DTC Direct Participants or Indirect Participants will distribute to the Beneficial Owners (a) payments of interest, principal or premium, if any, with respect to the Bonds, (b) Bonds representing ownership interest in or other confirmation or ownership interest in the Bonds, or (c) prepayment or other notices sent to DTC or Cede & Co., its nominee, as the Registered Owner of the Bonds, or that they will do so on a timely basis or that DTC, DTC Direct Participants or DTC Indirect Participants will act in the manner described in this OFFICIAL STATEMENT. The current "Rules" applicable to DTC are on file with the Securities and Exchange Commission and the current "Procedure" of DTC to be followed in dealing with DTC Direct Participants is on file with DTC.

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

DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants ("Direct Participants") deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants' accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

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

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

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

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

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

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

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



## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were compiled by Quiddity Engineering, LLC., the District’s engineer (the “Engineer”) and were submitted to the TCEQ in the District’s Bond Application. Non-construction costs are based upon either contract amounts, or estimates of various costs by the Engineer and Masterson Advisors LLC (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 review by the District’s auditor. The surplus funds may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ, where required.

### I. CONSTRUCTION COSTS

• Lakewood Pines Storm Water Quality Pond.....	\$	720,387
• Lakewood Pines Section One Water, Wastewater and Drainage.....		555,225
• Lakewood Pines Section Two Water, Wastewater and Drainage.....		389,775
• Lakewood Pines Clearing and Grubbing Phase III.....		146,898
• Lakewood Pines Boulevard Phase I Water, Wastewater and Drainage.....		222,052
• Lakewood Pines Section Seven Water, Wastewater and Drainage.....		166,737
• MUD 499 Regional Lift Station.....		480,976
• MUD 400 0.6-MGD Wastewater Treatment Plant Expansion.....		231,028
• City of Houston Water Impact Fees.....		178,022
• Engineering.....		406,986
• Testing and Storm Water Pollution Prevention Planning.....		65,534
• Less: Use of Landowner Contributions.....		<u>(145,430) (a)</u>
<b>Total Construction Costs.....</b>	<b>\$</b>	<b>3,418,190 (b)</b>

### III. NON-CONSTRUCTION COSTS

• Bond Discount.....	\$	150,000
• Capitalized Interest (c).....		232,213
• Operating Advance.....		241,967
• BAN Interest (estimated) (b).....		121,200
• BAN Issuance Expenses (b).....		71,336
• Developer Interest (estimated).....		<u>367,087</u>
<b>Total Non-Construction Costs.....</b>	<b>\$</b>	<b>1,183,803</b>

### IV. ISSUANCE COSTS AND FEES

• Issuance Costs and Professional Fees.....	\$	290,220
• Bond Application Report Costs.....		60,000
• State Regulatory Fees.....		17,500
• Contingency (c).....		<u>30,288</u>
<b>Total Issuance Costs and Fees.....</b>	<b>\$</b>	<b>398,008</b>
<b>TOTAL BOND ISSUE.....</b>	<b>\$</b>	<b>5,000,000</b>

- (a) Represents the use of funds from the Tax-Exempt Tap Fee paid to the District by Humble Independent School District.
- (b) The District issued a \$3,030,000 Bond Anticipation Note, Series 2022 (the “2022 BAN”) on September 21, 2022, with a maturity date of September 20, 2023. The District will use a portion of Bond proceeds to redeem the BAN prior to maturity. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Short Term Debt.
- (c) The TCEQ approved a maximum amount of twelve (12) months of capitalized interest assuming an estimated interest rate of 5.25%. Contingency represents the difference in the estimated and actual amount of capitalized interest.

In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses in accordance with the rules of the TCEQ. In the event actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ notice or approval and the issuance of additional bonds may be required.

## THE DISTRICT

### **General**

The District is a political subdivision of the State of Texas, created by the TCEQ effective December 12, 2006, and operates pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, and Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution. The District contains approximately 297 acres of land.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District is also authorized to develop parks and recreation facilities, including the issuance of bonds payable from taxes for such purposes. The District is also empowered to establish, operate, and maintain fire-fighting facilities, independently or with one or more conservation and reclamation districts, after approval by the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance roads.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent for creation from the City of Houston, the District is required to observe certain requirements of the City of Houston which: (i) limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, the provision of parks and recreational facilities and roads; (ii) limit the net effective interest rate on such bonds and other terms of such bonds; (iii) require approval by the City of Houston of District construction plans; and (iv) permit connections only to lots and commercial or multi-family reserves described in plats which have been approved by the Planning Commission of the City of Houston and recorded in the real property records. Construction and operation of the District's system is subject to the regulatory jurisdiction of additional governmental agencies. See "THE SYSTEM—Regulation."

### **Description and Location**

The District is located approximately 23 miles northeast of the central downtown business district of the City of Houston and is approximately 3 miles northeast of the intersection of East Sam Houston Parkway North and Westlake Houston Parkway. The District is bounded on the east by Lakewood Pines Subdivision within Harris County Municipal Utility District No. 499, on the west by Balmoral within Harris County Municipal Utility District No. 423, on the north by undeveloped acreage, on the south by the subdivision of Summerwood and is bisected by Lakewood Pines Boulevard and Timber Forest Boulevard. The entire District lies within the extraterritorial jurisdiction of the City of Houston and within the boundaries of Humble Independent School District. See "AERIAL PHOTOGRAPH."

**Land Use**

The District’s land plan currently includes approximately 240 acres developed as 956 single-family residential lots, approximately 16 developable acres that have not been fully provided with water distribution, wastewater collection and storm drainage facilities, approximately 19 acres owned by Humble Independent School District where an elementary school has been constructed (not subject to ad valorem taxation), and approximately 22 acres that are undevelopable, consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. The table below represents a detailed breakdown of the current acreage and development in the District.

	Approximate <u>Acres</u>	<u>Lots</u>
<b><u>Single-Family Residential</u></b>		
<i>Lakewood Pines:</i>		
Section Two.....	8	30
Section Seven.....	18	68
Section Eight.....	10	30
Section Nine.....	13	62
Section Ten.....	23	119
Section Eleven.....	17	61
Section Twelve.....	25	89
Section Thirteen.....	14	72
Section Fourteen.....	<u>24</u>	<u>105</u>
Subtotal.....	152	636
 <i>Balmoral East:</i>		
Section One.....	27	112
Section Two.....	27	90
Section Three.....	<u>34</u>	<u>118</u>
Subtotal.....	88	320
 Total Single-Family Residential.....	 240	 956
 School (a).....	 19	 ---
Future Development.....	16	---
Undevelopable (b).....	<u>22</u>	<u>---</u>
 Totals.....	 297	 956

(a) Exempt from the payment of ad valorem taxes.

(b) Consist of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space.

**Status of Development**

Single-family residential development in the District consists of Lakewood Pines, Section Two, and Sections Seven through Fourteen (636 single-family residential lots on approximately 152 acres) and Balmoral East, Sections One through Three (320 single-family residential lots on approximately 88 acres). As of January 15, 2023, 367 homes were completed (354 occupied), 143 homes were under construction or in the name of a homebuilder and 446 vacant developed lots were available for home construction. Of the 446 vacant lots in the District, 255 are not currently connected to the power grid and of the 143 homes under construction or in the name of a builder in the District, 65 are not currently connected to the power grid. See “RISK FACTORS—Transformer Shortage.” There are approximately 16 acres of developable land that have not been served with utilities, approximately 19 acres owned by Humble Independent School District where an elementary school has been constructed and approximately 22 undevelopable acres of consisting of rights-of-way, detention ponds, easements, permanent floodplain, and parks, recreational and open space. See “THE SYSTEM—Water Supply.”

**Homebuilding**

KB Home Lone Star is marketing and building homes in Lakewood Pines at sales prices ranging from approximately \$224,600 to \$355,300. Gehan Homes, CastleRock Communities, Lennar and Nuway Realty Group are marketing and building homes in Balmoral East at sale prices ranging from approximately \$250,000 to \$400,000. See “THE DEVELOPERS.”

## THE DEVELOPERS

### **General**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas where utilities are to be financed by a district through a specified bond issue, a developer is under no obligation to a district to undertake development activities according to any particular plan or schedule. Furthermore, there is no restriction on a developer's right to sell any or all of the land which the developer owns within a district. In addition, the developer is ordinarily the major taxpayer within the district during the early stages of development. The relative success or failure of a developer to perform in the above-described capacities may affect the ability of a district to collect sufficient taxes to pay debt service and retire bonds.

Prospective Bond purchasers should note that the prior real estate experience of the Developers should not be construed as an indication that further development within the District will occur, or that 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. See "RISK FACTORS."

### **KB Home Lone Star Inc.**

The developer of Lakewood Pines, Section Two and Sections Seven through Fourteen (636 single-family residential lots on approximately 152 acres) is KB Home Lone Star Inc., a Texas corporation ("KB Home Lone Star") and an indirect wholly-owned subsidiary of KB Home, a Delaware corporation, the stock of which is publicly traded on the New York Stock Exchange under the ticker symbol KBH. KB Home Lone Star is currently building homes in Lakewood Pines at sales prices ranging from approximately \$224,600 to \$355,300. KB Home Lone Star continues to own approximately 16 acres of developable land in the District. See "THE DISTRICT—Land Use," "TAX DATA—Principal Taxpayers" and "RISK FACTORS—Dependence on Major Taxpayers and the Developers."

**Acquisition and Development Financing:** All funds required by KB Home Lone Star for home construction, development activities and payment of taxes are provided by KB Home. KB Home Lone Star is dependent on its parent company to provide funds for developing and operating the District. The parent company is not legally obligated to continuing providing funds for development of the District or to provide funds to pay taxes on the KB Home Lone Star's taxable property within the District or to pay any other obligations of the KB Home Lone Star. KB Home Lone Star has stated that there are no liens securing third party indebtedness against the land or lots in the District owned by the KB Home Lone Star.

**Financial Information KB Home:** KB Home files annual, quarterly and current reports, proxy statements and other information with the SEC. KB Home filings are available to the public over the internet at the SEC's website at <http://www.sec.gov>. You may also read and copy any document that KB Home has filed with the SEC at the SEC's Public Reference Room at 100 F Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room. In addition, KB Home makes available on its web sites <http://www.kbhome.com> its annual reports on form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC. Unless otherwise specified, information contained on KB Home's web site, available by hyperlink from KB Home's web site or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT. The District has not obtained any representations from KB Home concerning its publicly available filings or undertaken any review thereof and assumes no responsibility for the information contained therein.

### **Astro Balmoral LP**

The developer of Balmoral East, Sections One through Three (320 single-family residential lots on approximately 88 acres) is Astro Balmoral LP, a Delaware limited partnership ("Astro Balmoral"), which is a special purpose entity created by Mr. Al P. Brende/the Land Tejas Companies and Starwood Land Astro Ventures LP solely for the purpose of developing and marketing land in District known as Balmoral East. Astro Balmoral does not own any land in the District for future development. See "THE DISTRICT—Land Use," "TAX DATA—Principal Taxpayers" and "RISK FACTORS—Dependence on Major Taxpayers and the Developers."

KB Home Lone Star and Astro Balmoral are referred to herein as the "Developers."

### **Obligations of the Developers**

The Developers do not have any legal commitment to the District or to owners of the Bonds to continue development of the land within the District and the Developers may sell or otherwise dispose of their property within the District, or any other assets, at any time. Further, the financial condition of the Developers is subject to change at any time. See "TAX DATA—Principal Taxpayers" and "RISK FACTORS—Dependence on Major Taxpayers and the Developers" and "—Landowner Obligation to the District."

## MANAGEMENT OF THE DISTRICT

### **Board of Directors**

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year terms and elections are held in May in even numbered years only. None of the Board members reside within the District; however, each of the Board members owns land within the District subject to a note and deed of trust in favor of KB Home Lone Star. Directors have staggered four-year terms. The current members and officers of the Board along with their titles and terms, are listed as follows:

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
Norm Scholes	President	May 2024
Gareth Young	Vice President	May 2026
George Bravenec	Secretary	May 2026
Nancy Davis	Assistant Vice President	May 2026
Glen Crocker	Assistant Secretary	May 2024

### **District Consultants**

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

*Bond Counsel/Attorney:* The District has engaged Allen Boone Humphries Robinson LLP as general counsel to the District and as Bond Counsel in connection with the issuance of the District's bonds. The fees of the attorneys in their capacity as Bond Counsel are contingent upon the sale and delivery of the Bonds. Compensation to the attorneys for other services to the District is based on time charges actually incurred.

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

*Auditor:* The District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the fiscal year ending March 31, 2022, were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's audited financial statements for the fiscal year ending March 31, 2022.

*Engineer:* The District's consulting engineer is Quiddity Engineering, LLC.

*Tax Appraisal:* The Harris Central Appraisal District has the responsibility of appraising all property within the District. See "TAXING PROCEDURES."

*Tax Assessor/Collector:* The District has appointed an independent tax assessor/collector to perform the tax collection function. Assessments of the Southwest, Inc. (the "Tax Assessor/Collector") has been employed by the District to serve in this capacity.

*Bookkeeper:* The District has contracted with McLennan & Associates, LP (the "Bookkeeper") for bookkeeping services.

*Utility System Operator:* The operator of the District's water and wastewater system is Environmental Development Partners, LLC.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the water, wastewater and storm drainage system serving the District as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Discharge of treated sewage into Texas waters is also subject to the regulatory authority of the City of Houston, TCEQ and the United States Environmental Protection Agency. Construction of drainage facilities is subject to the regulatory authority of the City of Houston. The City of Houston and the Texas Department of Health also exercise regulatory jurisdiction over the District's water and wastewater system.

### **Water Supply**

The District has entered into a wholesale Water Supply Agreement with the City of Houston, dated October 9, 2015 and amended May 11, 2021. Pursuant to the Water Supply Agreement, the City of Houston has allocated a maximum annual specified amount of water to the District, which is calculated to be adequate to serve approximately 825,000 gallons per day ("gpd"), or 110 equivalent single-family connections ("ESFC") (the "Initial Allocation") based on 250 gpd per ESFC. The City of Houston's water supply infrastructure required to supply the Initial Allocation is in place. As provided in the Water Supply Agreement, the District can request an increase in the Initial Allocation on an annual basis. In response to the District's request for an increase, the City of Houston notified the District that it cannot increase the allocated amount of water supplied under the Water Supply Agreement until the City of Houston's surface water plants has been expanded, which is estimated by the City of Houston to be on or about 2025. The District has constructed Phase I of Water Plant No. 1, which included a 660 gallon per minute ("gpm") water well, a 220,000-gallon Ground Storage Tank, a 15,000-gallon hydropneumatics tank and two 1,200-gpm booster pumps. The District's water supply capacity is capable of serving 750 ESFCs (limited by pressure tanks). Construction of Phase II of the Water Plant No. 1 expansion, which includes addition of a ground storage tank and a hydropneumatic tank, is underway with completion expected June 2023. As of January 15, 2023, the District was serving 510 ESFCs (including 367 completed homes and 143 homes under construction or in the name of a homebuilder).

Water rates charged by the District to its customers within its boundaries are adopted in the District's rate order and such revenue belongs to the District. See "Water and Wastewater Operations" herein.

### **Subsidence District Requirements**

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. Because the District is served by the City of Houston with water, the District has no potable water well subject to regulation by the Subsidence District.

### **Wastewater Treatment**

The District has entered into an Amended and Restated Wastewater Treatment Plant Agreement, dated July 1, 2013 (the "Wastewater Agreement") with Harris County Municipal Utility District No. 400 ("MUD 400"), MUD 423, MUD 499 and Harris County Freshwater Supply District No. 48 ("FWSD 48"). Under the Wastewater Agreement, wastewater treatment is provided to the District by an interim 600,000 gallons per day ("gpd") regional wastewater treatment plant constructed and owned by MUD 400 to serve the participants.

As of the date hereof, the participants in the interim wastewater treatment plant are MUD 400, MUD 423, MUD 499, FWSD 48 and the District. The interim wastewater treatment plant is capable of serving 2,444 equivalent single-family connections, of which 16.16% (or 395 connections) is allocated to the District.

The District also entered into a Wastewater Treatment Plant Agreement on November 1, 2021, with MUD 400, MUD 423 and MUD 499. This agreement allows for a Phase III expansion to expand the shared facility an additional 850,000 gpd to provide additional wastewater capacity. This expansion is under construction and completion is expected September 2023. This expansion will provide an additional 673 ESFCs capacity to the District and the District's total capacity upon completion of the Phase III expansion will be 1,068 ESFCs. Over the past twelve months, the average daily flow was approximately 544,000 gpd and the discharge levels remain below permitted capacity. As of January 15, 2023, the District was serving 510 ESFCs (including 367 completed homes and 143 homes under construction or in the name of a homebuilder).

## **Water Distribution, Wastewater Collection and Storm Drainage Facilities**

Water distribution, wastewater collection and storm drainage facilities have been constructed to serve 956 single-family residential lots on approximately 240 acres and an elementary school constructed on approximately 19 acres owned by Humble Independent School District. See “RISK FACTORS—Water Supply Restrictions.”

### **100-Year Flood Plain**

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

According to the Engineer, none of the developable acreage within the District planned for development is located within the 100-year flood plain. See “RISK FACTORS—Extreme Weather Events.”

### **Atlas 14**

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

**Water and Wastewater Operations**

The Outstanding Bonds and the Bonds are payable solely from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon all taxable property in the District. Net revenues, from operations of the District’s system, if any, are available for any legal purpose, including, upon Board action, the payment of debt service on the Outstanding Bonds and the Bonds. It is anticipated that no significant operation revenues will be used for debt service on the Outstanding Bonds and Bonds in the foreseeable future.

The following statement sets forth in condensed form the General Operating Fund as shown in the District’s audited financial statements for the fiscal years ended March 31, 2019 through 2022 and an unaudited summary provided by the Bookkeeper for the ten-month period ended January 31, 2023. Accounting principles customarily employed in the determination of net revenues have been observed and in all instances exclude depreciation. Reference is made to “APPENDIX A” for further and complete information.

	4/1/22 thru 1/31/2023  (unaudited)	Fiscal Year Ended March 31			
		2022	2021	2020	2019
<b>Revenues</b>					
Water Service	\$ 198,224	\$ 93,479	\$ 83,836	\$ 49,394	\$ 32,137
Sewer Service	144,841	152,123	114,964	81,204	45,622
Property Taxes	603,821	500,511	513,929	436,699	404,601
Penalties and Interest	7,555	4,363	1,813	1,797	8,838
Tap Connection and Inspection	254,859	80,565	158,065	129,960	108,425
Investment Earnings	11,119	273	652	6,083	-
Miscellaneous Revenues	10,498	3,367	1,450	1,514	563
<b>Total Revenues</b>	<b>\$ 1,230,916</b>	<b>\$ 834,681</b>	<b>\$ 874,709</b>	<b>\$ 706,651</b>	<b>\$ 600,186</b>
<b>Expenditures</b>					
Purchased Services	\$ 96,975	\$ 270,216	\$ 245,004	\$ 252,266	\$ 71,271
Professional Fees	180,827	150,825	162,772	205,248	128,237
Contracted Services	217,877	129,625	152,735	120,487	93,113
Repairs and maintenance	47,959	81,364	84,065	77,254	39,315
Administrative	222,679	28,854	22,312	24,197	18,869
Other	-	15,447	9,123	24,499	3,816
<b>Total Expenditures</b>	<b>\$ 766,317</b>	<b>\$ 676,331</b>	<b>\$ 676,011</b>	<b>\$ 703,951</b>	<b>\$ 354,621</b>
<b>Revenues Over (Under) Expenditures</b>	<b>\$ 464,600</b>	<b>\$ 158,350</b>	<b>\$ 198,698</b>	<b>\$ 2,700</b>	<b>\$ 245,565</b>
<b>Other Financing Sources</b>					
Reimbursement of WWTP Expansion Funds	\$ -	\$ -	\$ -	\$ -	\$ 91,711
Developer Advances	\$ -	\$ -	\$ -	\$ -	\$ 232,000
<b>Fund Balance (Beginning of Year)</b>	<b>\$ 859,146</b>	<b>\$ 700,796</b>	<b>\$ 502,098</b>	<b>\$ 499,398</b>	<b>\$ (69,878)</b>
<b>Fund Balance (End of Year)</b>	<b>\$ 1,323,746</b>	<b>\$ 859,146</b>	<b>\$ 700,796</b>	<b>\$ 502,098</b>	<b>\$ 499,398</b>



## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2022 Certified Taxable Assessed Valuation.....	\$ 91,144,662	(a)
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$141,060,575	(b)
Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds).....	\$15,010,000	(c)
Estimated Overlapping Debt .....	<u>4,758,160</u>	(d)
Gross Direct Debt and Estimated Overlapping Debt.....	\$19,768,160	
Ratios of Gross Direct Debt to:		
2022 Certified Taxable Assessed Valuation.....	16.47%	
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	10.64%	
Ratios of Gross Direct Debt and Estimated Overlapping Debt to:		
2022 Certified Taxable Assessed Valuation.....	21.69%	
Estimated Taxable Assessed Valuation as of January 1, 2023 .....	14.01%	
Funds Available for Debt Service:		
Water/Sewer/Drainage Debt Service Funds Available as of February 8, 2023.....	\$585,962	(e)
Road Debt Service Funds Available as of February 8, 2023.....	81,203	(e)
Capitalized Interest from proceeds of the Bonds (Twelve (12) months) .....	<u>232,213</u>	(f)
Total Debt Service Funds Available .....	\$899,378	
Water/Sewer/Drainage Capital Projects Funds Available as of February 8, 2023 .....	\$1,006,550	
Road Capital Projects Funds Available as of February 8, 2023 .....	\$ 62,673	
Operating Funds Available as of February 8, 2023 .....	\$1,215,612	

- (a) As certified by the Harris Central Appraisal District (the “Appraisal District”). See “TAXING PROCEDURES.”
- (b) Provided by the Appraisal District for informational purposes only. Such amounts reflect an estimate of the taxable assessed value within the District on January 1, 2023. Increases in value that occur between January 1, 2022, and December 31, 2022, will be assessed for purposes of taxation on January 1, 2023. No tax will be levied on such amount until it is certified. See “TAXING PROCEDURES.”
- (c) After issuance of the Bonds. See “—Outstanding Bonds.”
- (d) See “—Estimated Overlapping Debt” and “— Overlapping Taxes.”
- (e) Funds in the Water/Sewer/Drainage Debt Service Fund are available to pay debt service on the bonds issued for water, sewer and drainage facilities, including the Bonds and are not available to pay debt service on bonds issued for road facilities. Funds in the Road Debt Service Fund are available to pay debt service on bonds issued for road facilities and are not available to pay debt service on the District’s bonds issued for water, sewer and drainage facilities, including the Bonds. See “THE BONDS—Funds.”
- (f) The District will capitalize twelve (12) months of interest from Bond proceeds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

### **Short Term Debt**

The District sold a \$3,030,000 Bond Anticipation Note, Series 2022 (the “2022 BAN”) on September 21, 2022, with a maturity date of September 20, 2023. The District will use a portion of the proceeds of the Bonds to redeem the 2022 BAN prior to maturity. The 2022 BAN is payable solely with Bond proceeds. Proceeds from the 2022 BAN were used to reimburse KB Home Lone Star for a portion of certain costs shown under “USE AND DISTRIBUTION OF BOND PROCEEDS” herein.

### **Investments of the District**

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

**Outstanding Bonds**

The District has previously issued one series of unlimited tax bonds for acquiring or constructing water, wastewater, and drainage facilities and three series of unlimited tax road bonds for acquiring or constructing road facilities. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds outstanding as of the date hereof (the “Outstanding Bonds”).

Series	Principal Amount	Outstanding Bonds
2019	\$ 2,800,000	\$ 2,575,000
2019 (a)	3,375,000	3,195,000
2020 (a)	1,575,000	1,530,000
2021 (a)	2,710,000	2,710,000
<b>Total</b>	<b>\$ 10,460,000</b>	<b>\$ 10,010,000</b>

(a) Unlimited tax road bonds.

**Debt Service Requirements**

The following sets forth the debt service requirements on the Outstanding Bonds (see “Outstanding Bonds” in this section) and the Bonds. This schedule does not reflect the fact that twelve (12) months of interest will be capitalized from Bonds proceeds to pay debt service on the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2023	\$ 628,192.52	\$ -	\$ 89,659.83	\$ 89,659.83	\$ 717,852.35
2024	632,142.52	-	232,212.50	232,212.50	864,355.02
2025	630,457.52	125,000	232,212.50	357,212.50	987,670.02
2026	618,540.02	130,000	224,087.50	354,087.50	972,627.52
2027	617,400.02	135,000	215,637.50	350,637.50	968,037.52
2028	620,885.02	145,000	206,862.50	351,862.50	972,747.52
2029	621,641.26	150,000	197,437.50	347,437.50	969,078.76
2030	621,871.26	155,000	187,687.50	342,687.50	964,558.76
2031	626,552.50	165,000	177,612.50	342,612.50	969,165.00
2032	625,562.50	170,000	167,300.00	337,300.00	962,862.50
2033	628,987.50	180,000	160,500.00	340,500.00	969,487.50
2034	626,837.50	190,000	153,300.00	343,300.00	970,137.50
2035	624,200.00	200,000	145,700.00	345,700.00	969,900.00
2036	626,225.00	210,000	137,700.00	347,700.00	973,925.00
2037	617,618.74	215,000	129,300.00	344,300.00	961,918.74
2038	618,068.74	230,000	120,700.00	350,700.00	968,768.74
2039	622,681.24	240,000	111,500.00	351,500.00	974,181.24
2040	621,400.00	250,000	101,600.00	351,600.00	973,000.00
2041	614,412.50	260,000	91,287.50	351,287.50	965,700.00
2042	621,925.00	275,000	80,237.50	355,237.50	977,162.50
2043	618,562.50	285,000	68,550.00	353,550.00	972,112.50
2044	424,637.50	300,000	56,437.50	356,437.50	781,075.00
2045	212,800.00	315,000	43,312.50	358,312.50	571,112.50
2046	112,475.00	330,000	29,531.25	359,531.25	472,006.25
2047	-	345,000	15,093.75	360,093.75	360,093.75
<b>Total</b>	<b>\$ 13,834,076.36</b>	<b>\$ 5,000,000</b>	<b>\$ 3,375,459.83</b>	<b>\$ 8,375,459.83</b>	<b>\$ 22,209,536.19</b>

Average Annual Debt Service Requirements (2023-2047) ..... \$888,381  
 Maximum Annual Debt Service Requirement (2025) ..... \$987,670

**Estimated Overlapping Debt**

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Harris County (a).....	\$ 1,453,122,125	1/31/2023	0.02%	\$ 290,624
Harris County Flood Control District.....	797,615,000	1/31/2023	0.02%	159,523
Harris County Hospital District.....	76,385,000	1/31/2023	0.02%	15,277
Harris County Department of Education.....	20,185,000	1/31/2023	0.02%	4,037
Port of Houston Authority.....	445,749,397	1/31/2023	0.02%	89,150
Humble Independent School District.....	1,145,070,000	1/31/2023	0.35%	4,007,745
Lone Star College District.....	639,345,000	1/31/2023	0.03%	191,804
Total Estimated Overlapping Debt.....				\$ 4,758,160
The District.....	15,010,000	(b)	100.00%	15,010,000
Total Direct and Estimated Overlapping Debt.....				\$ 19,768,160

Direct and Estimated Overlapping Debt as a Percentage of:

2022 Certified Taxable Assessed Valuation of \$91,144,662 .....	21.69%
Estimated Taxable Assessed Valuation as of January 1, 2023 of \$141,060,575.....	14.01%

- (a) Excludes the outstanding Harris County Toll Road Unlimited Tax Bonds in the principal amount of \$151,335,000. Historically, Harris County has provided for payment of such debt service from toll road revenues and certain other funds and, no ad valorem tax revenue has been required to pay debt service on such bonds.
- (b) Includes the Bonds and the Outstanding Bonds.

**Overlapping Taxes**

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

Set forth below are all of the taxes levied for the 2022 tax year by all taxing jurisdictions overlapping the District and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

	<u>Tax Rate per \$100 of Taxable Assessed Valuation</u>
Harris County (including Harris County Flood Control District, Harris County Hospital District, Harris County Department of Education, Harris County County Flood Control District, and the Port of Houston Authority)	\$ 0.535121
Humble Independent School District.....	1.292900
Lone Star College System.....	<u>0.107800</u>
Total Overlapping Tax Rate.....	\$ 1.935821
The District (a).....	<u>1.500000</u>
Total Tax Rate.....	\$ 3.435821

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

**TAX DATA**

**Debt Service Tax**

The District covenants in the Bond Resolution 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. See “Historical Tax Rate Distribution” and “Tax Roll Information” herein, and “TAXING PROCEDURES.”

**Maintenance and Operations Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was conducted May 10, 2014, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 of taxable assessed valuation. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

**Historical Tax Rate Distribution**

	2022	2021	2020	2019	2018
Debt Service	\$ 0.68 (a)	\$ 0.77	\$ 0.50	\$ 0.45	\$ -
Maintenance and Operations	0.82	0.73	1.00	1.05	1.50
Total	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50

(a) Of such \$0.68 debt service tax rate for 2022, \$0.18 per \$100 assed valuation is allocated to pay debt service on Water/Sewer/Drainage Bonds and \$0.50 per \$100 assed valuation is allocated to pay debt service on Road Bonds.

**Exemptions**

For tax year 2023, the District did not grant any exemptions.

**Additional Penalties**

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

**Historical Tax Collections**

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

Tax Year	Certified		Tax Rate	Total Tax Levy (b)	Total Collections as of January 31, 2023 (c)	
	Taxable Assessed Valuation (a)				Amount	Percent
2018	\$ 19,784,585		\$ 1.50	\$ 296,769	\$ 296,769	100.00%
2019	34,946,861		1.50	524,203	524,203	100.00%
2020	50,506,129		1.50	757,592	757,592	100.00%
2021	69,940,964		1.50	1,049,114	1,047,436	99.84%
2022	91,144,662		1.50	1,367,170	1,296,214	94.81%

- (a) As certified by the Appraisal District less any exemptions granted. See “Tax Roll Information” below for gross appraised value and exemptions granted by the District.
- (b) Represents actual tax levy, including any adjustments by the Appraisal District, as of the date hereof.
- (c) Unaudited.

**Tax Roll Information**

The District’s assessed value as of January 1 of each year is used by the District in establishing its tax rate (see “TAXING PROCEDURES—Valuation of Property for Taxation”). The following represents the composition of property comprising the 2018 through 2022 Certified Taxable Assessed Valuations. Taxes are levied on taxable value certified by the Appraisal District as of January 1 of each year. A breakdown of the Estimated Taxable Assessed Valuation as of January 1, 2023 of \$141,060,575, is not available.

Tax Year	Type of Property			Gross Assessed Valuations	Deferments and Exemptions	Certified Taxable Assessed Valuations
	Land	Improvements	Personal Property			
2018	\$ 11,530,271	\$ 9,036,748	\$ 51,961	\$ 20,618,980	\$ (834,395)	\$ 19,784,585
2019	14,080,911	22,059,023	185,565	36,325,499	(1,378,638)	34,946,861
2020	18,971,743	41,715,153	360,413	61,047,309	(10,541,180)	50,506,129
2021	19,862,437	71,014,314	432,311	91,309,062	(21,368,098)	69,940,964
2022	21,568,146	96,372,427	755,662	118,696,235	(27,551,573)	91,144,662

**Principal Taxpayers**

The following table represents the ten major taxpayers, the certified taxable assessed valuation of such property, and such property’s certified taxable assessed valuation as a percentage of the 2022 Certified Taxable Assessed Valuation of \$91,144,662. A principal taxpayer lists related to the Estimated Taxable Assessed Valuation as of January 1, 2023 of \$141,060,575, is not available.

Taxpayer	2022 Certified Taxable Assessed Valuation	% of 2022 Certified Taxable Assessed Valuation
KB Homes Lone Star Inc. (a)	\$ 4,272,312	4.69%
CBA Strategic Fund I LP (b)	1,901,237	2.09%
Individual	981,638	1.08%
XIXI Real Estate Investment LLC	598,716	0.66%
Individual	402,947	0.44%
Individual	402,944	0.44%
Individual	396,826	0.44%
Individual	362,201	0.40%
Individual	359,508	0.39%
Individual	357,513	0.39%
Total	\$ 10,035,842	11.01%

(a) See “THE DEVELOPERS—KB Home Lone Star Inc.”

(b) Property transferred to Astro Balmoral LP subsequent to the date of the 2022 Certified Taxable Assessed Valuation. See “THE DEVELOPERS—Astro Balmoral LP.”

**Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements if no growth in the District’s tax base occurred beyond the 2022 Certified Taxable Assessed Valuation of \$91,144,662 and the Estimated Taxable Assessed Valuation as of January 1, 2023, of \$141,060,575. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds, when due, assuming no further increase or any decrease in taxable values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “RISK FACTORS—Possible Impact on District Tax Rates”

Average Annual Debt Service Requirement (2023-2047) .....	\$888,381
\$1.03 Tax Rate on the 2022 Certified Taxable Assessed Valuation .....	\$891,851
\$0.67 Tax Rate on the Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$897,851
Maximum Annual Debt Service Requirement (2025).....	\$987,670
\$1.15 Tax Rate on the 2022 Certified Taxable Assessed Valuation .....	\$995,755
\$0.74 Tax Rate on the Estimated Taxable Assessed Valuation as of January 1, 2023 .....	\$991,656

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of January 1, 2023, 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 amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

## TAXING PROCEDURES

### **Authority to Levy Taxes**

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

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

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

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

### **Property Subject to Taxation by the District**

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years of age or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the previous 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, of between \$3,000 and \$12,000 of taxable valuation 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 residential 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 for the full amount 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. Also, the surviving spouse of a member of the armed forces who was killed or fatally injured in the line of duty is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. See “TAX DATA.”

*Residential Homestead Exemptions:* The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. To date, the District has not adopted a homestead exemption. See “TAX DATA.”

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

### **Tax Abatement**

Harris County or the City of Houston may designate all or part of the area within the District as a reinvestment zone. Thereafter, Harris County, the City of Houston and the District, under certain circumstances, 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 appraised valuation of property covered by the agreement over its appraised 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 agreement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. To date, neither Harris County nor the City of Houston has designated land within the District as a reinvestment zone.

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

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

Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. Increases in the appraised value of residence homesteads to ten percent (10%) annually regardless of the market value of the property. The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, for open space land, and timberland.

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



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

### **District and Taxpayer Remedies**

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

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

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Certain qualified taxpayers, including owners of residential homesteads, located within a 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 tax payer pays at least one-fourth of the tax bill imposed on the property by the delinquency date. The remaining taxes may be paid without penalty or interest in three equal installments within six months of the delinquency date.

### **Rollback of Operation and Maintenance Tax Rate**

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

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

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

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

*The District:* A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board of Directors on an annual basis. The District is designated as a "Developing District" for the 2022 tax year. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

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

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

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

## RISK FACTORS

### **General**

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

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

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

### **Extreme Weather Events**

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. "500-year flood" events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 25, 2017, and brought historic levels of rainfall during the successive four days.

According to the Engineer, the water and sewer system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, no homes within the District experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

### **Specific Flood Type Risks**

*River (or Fluvial) Flood:* 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 sheetflow overland. 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 floods are very dangerous and destructive not only because of the force of the water, but also the hurtling debris that is often swept up in the flow. They can occur within minutes or a few hours of excessive rainfall. They can also occur even if no rain has fallen, for instance, after a levee, dam or reservoir has failed, or after a sudden release of water by a debris or ice jam. Controlled releases from a dam, levee or reservoir also could potentially create a flooding condition in rivers, bayous, or man-made drainage systems (canals or channels) downstream.

*Ponding (or Pluvial) Flood:* occurs when heavy rainfall creates a flood event independent of an overflowing water body, typically in relatively flat areas. Intense rainfall can overcapacitate a drainage system which becomes trapped and flows out into streets and nearby structures until it reaches a natural outlet. Ponding can also occur in a flood pool upstream or behind a dam, levee, or reservoir.

### **Economic Factors and Interest Rates**

A substantial percentage of the taxable value of the District results from the current market value of single-family residences and of developed lots. The market value of such homes and lots is related to general economic conditions in the Houston region and the national economy and those conditions can affect the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability (see “Credit Market and Liquidity in the Financial Markets” below), construction costs and the prosperity and demographic characteristics of the urban center toward which the marketing of lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values.

### **Credit Markets and Liquidity in the Financial Markets**

Interest rates and the availability of mortgage and development funding have a direct impact on construction activity in the District, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 23 miles northeast of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston or a decline in the nation’s real estate and financial markets could adversely affect development and home-building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

### **Competition**

The demand for and construction of single-family homes in the District could be affected by competition from other residential developments located in the northern portion of the Houston metropolitan area. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District and in more established neighborhoods closer to downtown Houston. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Developers in the sale of developed lots and the construction of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District.

The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

### **Possible Impact on District Tax Rates**

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2022 Certified Taxable Assessed Valuation is \$91,144,662. After issuance of the Bonds, the maximum annual debt service requirement will be \$987,670 (2025), and the average annual debt service requirement will be \$888,381 (2023-2047 inclusive). Assuming no increase or decrease from the 2022 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$1.15 and \$1.03 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirements, respectively. The Estimated Taxable Assessed Valuation as of January 1, 2023 is \$141,060,575, which reduces the above tax calculations to \$0.74 and \$0.67 per \$100 of taxable assessed valuation, respectively. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “TAX DATA—Tax Adequacy for Debt Service.”

No representation or suggestion is made that the Estimated Taxable Assessed Valuation as of January 1, 2023, 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 amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

### **Undeveloped Acreage and Vacant Lots**

There are approximately 16 developable acres of land within the District that have not been provided with water, wastewater and storm drainage facilities necessary to the construction of new development. In addition, as of January 15, 2023, 446 vacant developed lots were available for new home construction. The District makes no representation as to when or if development of the undeveloped acreage will occur or the success of any homebuilding programs. See “Transformer Shortage” below, “THE DISTRICT—Land Use” and “—Status of Development.”

## **Transformer Shortage**

The construction and sale of new homes in the District is subject to various risk factors, including shortages in obtaining materials. Recently, the Developers in the District have reported difficulties and long delays in obtaining the electrical transformers needed to transform high voltage in electrical power lines to the low voltage used in homes as a result of ongoing supply chain issues throughout the country. Without transformers, new homes cannot be connected to the power grid. Historically, transformers have been installed within thirty (30) to ninety (90) days after homebuilders begin the construction of homes on vacant lots and delays in receiving transformers is currently six (6) months to over twelve (12) months. If delays and the lack of availability of transformers continues, homebuilders may be unwilling to purchase lots in the District or to begin construction of homes on lots already purchased. Of the 446 vacant lots in the District, 255 are not currently connected to the power grid and of the 143 homes under construction or in the name of a builder in the District, 65 are not currently connected to the power grid. The delay of construction of new homes in the District could impact the future growth of the District's tax base. The delays being experienced by the Developers in the District are delays that are being experienced throughout the region and nationally. See "THE DISTRICT—Status of Development."

## **Landowner Obligation to the District**

There are no commitments from or obligations of the Developers, or any landowner, to the District to proceed at any particular rate or according to any specified plan with the development of land or construction of improvements in the District, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds the District will increase or maintain its taxable property. See "THE DEVELOPERS."

## **Tax Collections Limitations and Foreclosure Remedies**

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other local taxing authorities on the property against which taxes are levied, and such lien may be enforced by judicial foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, or (c) market conditions affecting the marketability of taxable property within the District and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the District available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property (see "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Overlapping Taxes"), by the current aggregate tax rate being levied against the property, and by other factors (including the taxpayers' right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property). Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

## **Registered Owners' Remedies and Bankruptcy Limitations**

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

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

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

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

A district may not be forced into bankruptcy involuntarily.

### **Dependence on Major Taxpayers and the Developers**

The ten principal taxpayers in the District represent \$10,035,842 or 11.01% of the 2022 Certified Taxable Assessed Valuation of \$91,144,662 within the District. The Developers represent \$6,173,549 or 6.77% of the 2022 Certified Taxable Assessed Valuation. See "THE DEVELOPERS" and "TAX DATA—Principal Taxpayers." The ability of any principal taxpayer 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. If, for any reason, any one or more principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to levy additional taxes or use other funds available for debt service purposes. However, the District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund or any other funds to allow for any such delinquencies. Therefore, failure by one or more principal taxpayers to pay their taxes could have a material adverse effect upon the District's ability to pay debt service on the Bonds.

The Developers have informed the District that its current plans are to continue developing its property in the District and/or marketing lots. However, neither the Developers nor any future developer is obligated to implement development plans on any particular schedule or at all. Thus, the furnishing of any information related to any proposed development should not be interpreted as a commitment. The District makes no representation about the probability of development continuing in a timely manner or about the ability of the Developers to implement any plan of development. Furthermore, there is no restriction on any landowner's right to sell land. The District can make no prediction as to the effects that current or future economic conditions or governmental circumstances may have on any plans of the Developers or any other landowners.

### **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid purpose. A total of \$234,000,000 principal amount of unlimited tax bonds for the purpose of constructing water, wastewater and drainage facilities and for refunding such bonds, \$65,000,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring road facilities and for refunding such bonds and \$32,500,000 principal amount of unlimited tax bonds for the purpose of constructing or acquiring park and recreational facilities and for refunding such bonds has been authorized by the District's voters. After the issuance of the Bonds, \$226,200,000 principal amount of the unlimited tax bonds for water, wastewater and drainage facilities and refunding such bonds, \$57,340,000 principal amount of the unlimited tax bonds for road facilities and refunding such bonds and all of the principal amount of the unlimited tax bonds for park and recreational facilities and refunding such bonds will remain authorized but unissued. The District expects to issue approximately \$3,440,000 principal amount of unlimited tax road bonds in the second quarter of 2023. In addition, voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District's tax rate and could adversely affect the security for, and the investment quality and value of, the Bonds.

To date, the Developers have advanced certain funds for engineering and construction of water, wastewater and drainage facilities, recreational facilities and roads and related facilities for which they have not been reimbursed. After the reimbursements are made with Bond proceeds, the District will continue to owe approximately \$35,500,000 plus interest to the Developers. The District intends to issue additional bonds in order to reimburse the Developers for existing development and to develop the remainder of undeveloped but developable land (approximately 16 acres). The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. The issuance of additional bonds for water, wastewater and drainage facilities and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. Further, the principal amount of unlimited tax bonds issued by the District for constructing or acquiring park and recreational facilities may not exceed one percent (1%) of the District's certified taxable assessed valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) but not three percent (3%) of the value of the taxable property in the District. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. See "THE BONDS—Issuance of Additional Debt."

### **Environmental Regulation**

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

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

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

*Air Quality Issues.* Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion ("ppb")) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the "1997 Ozone Standards"); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the "2008 Ozone Standard"), and the EPA's most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the "2015 Ozone Standard"). While the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

While the EPA has revoked the 1997 Ozone Standards, the EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB Area remained subject to continuing severe nonattainment area "anti-backsliding" requirements, despite the fact that HGB Area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, the EPA approved the TCEQ's "redesignation substitute" for the HGB Area under the revoked 1997 Ozone Standards, leaving the HGB Area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA's decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA's April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court's ruling, the TCEQ developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners adopted the request and maintenance plan for the 1997 one-hour and eight-hour standards on December 12, 2018. On May 16, 2019, the EPA proposed a determination that the HGB Area has met the redesignation criteria and continues to attain the 1997 one-hour and eight-hour standards, the termination of the anti-backsliding obligations, and approval of the proposed maintenance plan.

The HGB Area is currently designated as a “serious” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2021. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a “marginal” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2021. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

In order to demonstrate progress toward attainment of the EPA’s ozone standards, the TCEQ has established a state implementation plan (“SIP”) for the HGB Area setting emission control requirements, some of which regulate the inspection and use of automobiles. These types of measures could impact how people travel, what distances people are willing to travel, where people choose to live and work, and what jobs are available in the HGB Area. These SIP requirements can negatively impact business due to the additional permitting/regulatory constraints that accompany this designation and because of the community stigma associated with a nonattainment designation. It is possible that additional controls will be necessary to allow the HGB Area to reach attainment with the ozone standards by the EPA’s attainment deadlines. These additional controls could have a negative impact on the HGB Area’s economic growth and development.

*Water Supply & Discharge Issues.* Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

Certain governmental entities regulate groundwater usage in the HGB Area. A municipal utility district or other type of special purpose district that (i) is located within the boundaries of such an entity that regulates groundwater usage, and (ii) relies on local groundwater as a source of water supply, may be subject to requirements and restrictions on the drilling of water wells and/or the production of groundwater that could affect both the engineering and economic feasibility of district water supply projects.

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The District is subject to the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which was issued by the TCEQ on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. The District has applied for coverage under the MS4 Permit and is awaiting final approval from the TCEQ. In order to maintain compliance with the MS4 Permit, the District continues to develop, implement, and maintain the required plans, as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff. Costs associated with these compliance activities could be substantial in the future.

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



In 2015, the EPA and USACE promulgated a rule known as the Clean Water Rule (“CWR”) aimed at redefining “waters of the United States” over which the EPA and USACE have jurisdiction under the CWA. The CWR significantly expanded the scope of the federal government’s CWA jurisdiction over intrastate water bodies and wetlands. 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 itself became the subject of litigation in multiple jurisdictions.

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contained a new definition of “waters of the United States.” The NWPR became effective June 22, 2020, and is the subject of ongoing litigation.

On June 9, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE made plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice of Proposed Rulemaking to put back into place the pre-2015 definition of “waters of the United States,” and on December 7, 2021, the proposed rule was published in the Federal Register, with the public comment period closing on February 7, 2022. On December 30, 2022, the EPA and USACE finalized the proposed rule, effective as of March 20, 2023, which vacates and remands the NWPR released in 2020 and interprets “waters of the United States” consistent with the pre-2015 regulatory regime. The adoption of the new rule is the subject of litigation, including a suit filed in the United States District Court for the Southern District of Texas. Due to this existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

### **Marketability of the Bonds**

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

### **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.

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

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

### **Risk Factors Related to the Purchase of Municipal Bond Insurance**

The Underwriter has entered into an agreement with Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P. See “MUNICIPAL BOND INSURANCE.”

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

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

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

## **MUNICIPAL BOND RATING**

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) assigned a municipal bond insured rating of “AA” (stable outlook) to the Bonds with the understanding that, upon issuance and delivery of the Bonds, a Bond Insurance Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”). An explanation of the ratings may be obtained from S&P. No application has been made to a municipal rating company for an underlying rating on the Bonds, nor is it expected that the District would have received an investment grade rating if application had been made.

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by S&P, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds. See “RISK FACTORS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE.”

## **MUNICIPAL BOND INSURANCE**

### **Bond Insurance Policy**

Concurrently with the issuance of the Bonds, Assured Guaranty Municipal Corp. (“AGM” or the “Insurer”) 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, 2022.

### *Capitalization of AGM*

At December 31, 2022:

- The policyholders' surplus of AGM was approximately \$2,747 million.
- The contingency reserve of AGM was approximately \$855 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,134 million. Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM's wholly owned subsidiary Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

The policyholders' surplus of AGM and the contingency reserves, net unearned premium reserves and net 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 AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2022 filed with the Securities and Exchange Commission (the "SEC") on March 1, 2023 that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof.

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

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

### *Miscellaneous Matters*

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

## LEGAL MATTERS

### **Legal Proceedings**

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

Bond Counsel has reviewed the information appearing in this OFFICIAL STATEMENT under “THE BONDS,” “THE DISTRICT—General,” “TAXING PROCEDURES,” “LEGAL MATTERS,” “TAX MATTERS” and “CONTINUING DISCLOSURE OF INFORMATION” solely to determine if such information, insofar as it relates to matters of law, is true and correct, and whether such information fairly summarizes the provisions of the documents referred to therein. Bond Counsel has not, however, independently verified any of the factual information contained in this OFFICIAL STATEMENT nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon Bond Counsel’s limited participation as an assumption of responsibility for or an expression of opinion of any kind with regard to the accuracy or completeness of any information contained herein.

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

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

### **No Material Adverse Change**

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

### **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, executed by both the President and Secretary of the Board, and dated as of the Date of Delivery of the Bonds, to the effect that there is not pending, and to their knowledge, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices, and that no additional bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

## TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals, however, such interest is taken into account in determining the annual adjusted financial statement income of applicable corporations (as defined in section 59(k) of the Internal Revenue Code of 1986, as amended (the “Code”)) for the purpose of determining the alternative minimum tax imposed on corporations.

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

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

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

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

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

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

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

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

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

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

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

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

### **Not Qualified Tax-Exempt Obligations**

The District has not designated the Bonds as "qualified tax-exempt obligations" for financial institutions.

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

### **Financial Advisor**

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

## **Consultants**

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

*Tax Assessor/Collector:* The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" has been provided by Assessments of the Southwest, Inc., 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 District's water, wastewater and storm drainage system and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Quiddity Engineering, LLC., Consulting Engineers, and has been included herein in reliance upon the authority of said firm as the District's Engineer.

*Auditor:* The District's financial statements for the period ending March 31, 2022 were audited by McGrath & Co., PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's March 31, 2022 financial statements.

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Fund as it appears in "THE SYSTEM—Water and Wastewater Operations" has been provided by McLennan & Associates, LP and is included herein in reliance upon the authority of such firm as experts in tracking and managing the various funds of municipal utility districts.

## **Updating the Official Statement**

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

## **Certification of Official Statement**

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

## **CONTINUING DISCLOSURE OF INFORMATION**

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

## **Annual Reports**

The District will provide certain financial information and operating data annually to the MSRB. The financial information and operating data which will be provided with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement under the headings “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” (except for “Estimated Overlapping Debt”), “TAX DATA,” and in APPENDIX A (Auditor’s Report and Financial Statements of the District and certain supplemental schedules). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2023. Any financial statements provided by the District shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report 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 the audit report becomes available.

The District’s current fiscal year end is March 31. Accordingly, it must provide updated information by September 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

## **Event Notices**

The District will provide timely notices of certain specified events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person within the meaning of the Rule, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person within the meaning of the Rule, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

## **Availability of Information from the MSRB**

The District has agreed to provide the foregoing updated information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at [www.emma.msrb.org](http://www.emma.msrb.org).

## **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects; nor has the District agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although Registered or Beneficial Owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.



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

### **Compliance With Prior Undertakings**

Since the District’s first issuance of Bonds in 2019, the District has complied in all material respects with its prior continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

### **MISCELLANEOUS**

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

/s/ Norm Scholes  
President, Board of Directors

ATTEST:

/s/ George Bravenec  
Secretary, Board of Directors

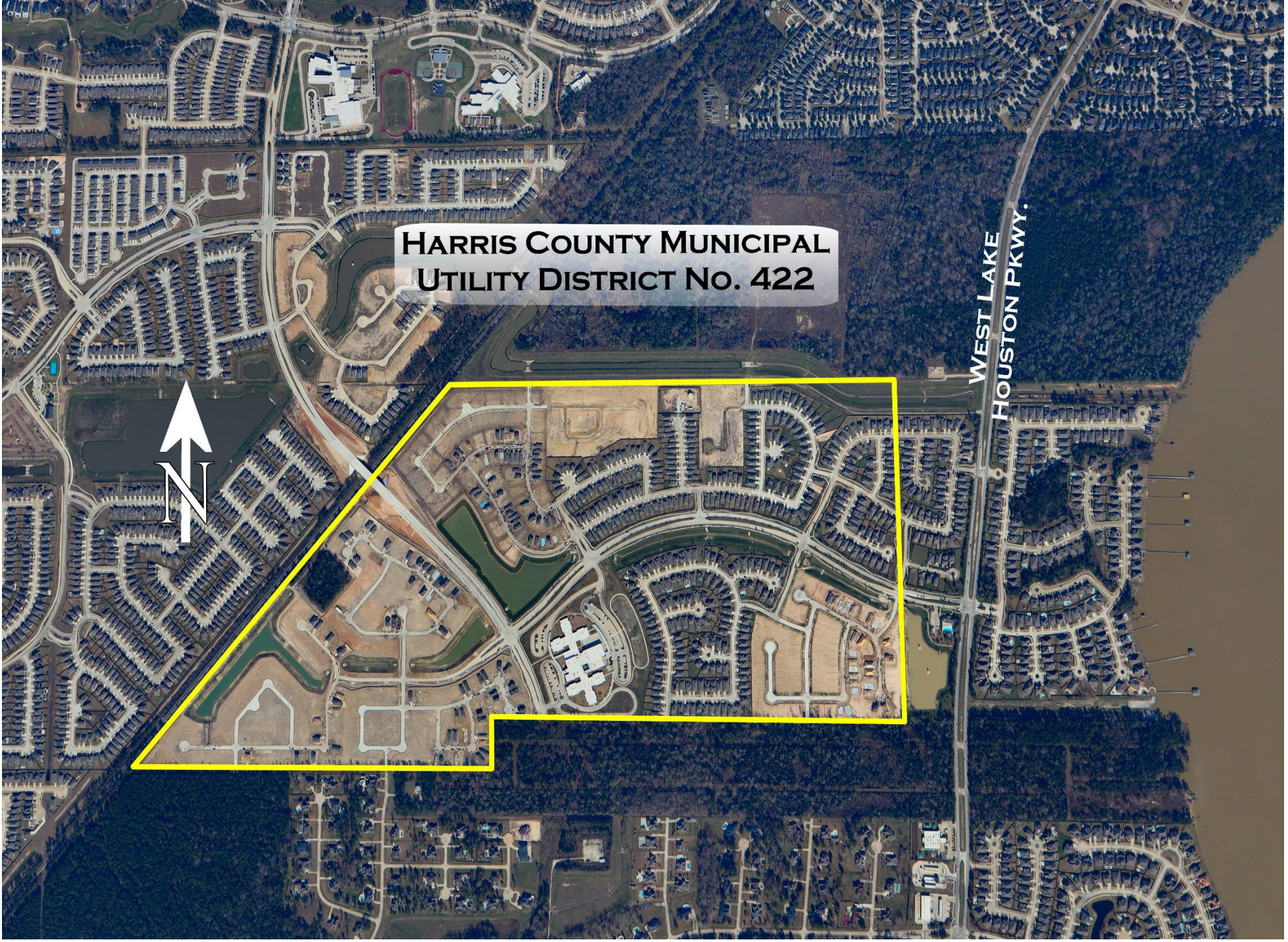
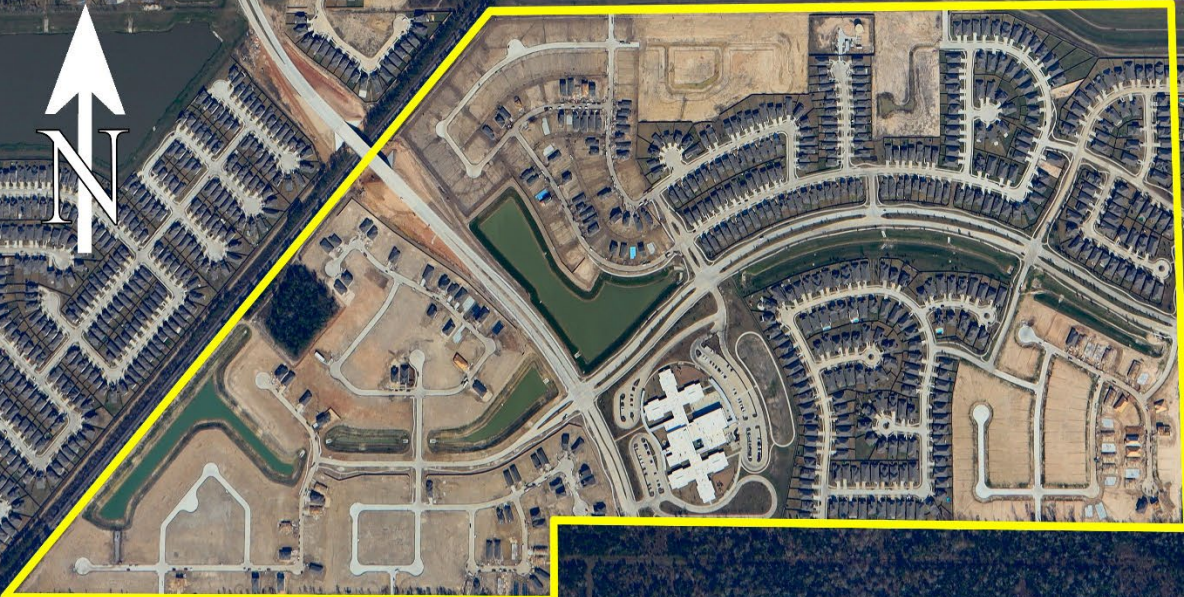
**AERIAL PHOTOGRAPH**  
**(As of January 2023)**



**HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT No. 422**



WEST LAKE  
HOUSTON PKWY.





**PHOTOGRAPHS OF THE DISTRICT  
(As of January 2023)**





















**APPENDIX A**

**Financial Statement of the District for the fiscal year ended March 31, 2022**

**HARRIS COUNTY MUNICIPAL  
UTILITY DISTRICT NO. 422**

**HARRIS COUNTY, TEXAS**

**FINANCIAL REPORT**

**March 31, 2022**



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# **McGRATH & CO., PLLC**

*Certified Public Accountants*

2900 North Loop West, Suite 880

Houston, Texas 77092

## **Independent Auditor's Report**

Board of Directors  
Harris County Municipal Utility District No. 422  
Harris County, Texas

### **Opinions**

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 422 (the "District"), as of and for the year ended March 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 financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Harris County Municipal Utility District No. 422, as of March 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. 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 the 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 twelve 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 generally accepted auditing standards 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 generally accepted auditing standards, 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 information 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

***Board of Directors  
Harris County Municipal Utility District No. 422  
Harris County, Texas***

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**

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

*W. G. Grath & Co., P.C.*

Houston, Texas  
July 13, 2022

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## **Management's Discussion and Analysis**

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***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

**Using this Annual Report**

Within this section of the financial report of Harris County Municipal Utility District No. 422 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2022. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

**Overview of the Financial Statements**

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

**Government-Wide Financial Statements**

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

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

***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

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

**Fund Financial Statements**

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

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

**Financial Analysis of the District as a Whole**

The District's net position at March 31, 2022, was negative \$8,715,876. This amount is negative because the District incurs debt to construct roads and storm water conveyance facilities which it conveys to Harris County. A comparative summary of the District's overall financial position, as of March 31, 2022 and 2021, is as follows:

	<u>2022</u>	<u>2021</u>
Current and other assets	\$ 3,511,793	\$ 1,504,717
Capital assets	14,737,922	11,973,914
Total assets	<u>18,249,715</u>	<u>13,478,631</u>
Current liabilities	3,815,001	315,345
Long-term liabilities	23,150,590	21,280,482
Total liabilities	<u>26,965,591</u>	<u>21,595,827</u>
Net position		
Net investment in capital assets	(1,964,158)	(1,447,647)
Restricted	585,428	420,903
Unrestricted	(7,337,146)	(7,090,452)
Total net position	<u>\$ (8,715,876)</u>	<u>\$ (8,117,196)</u>

***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

The total net position of the District decreased during the current fiscal year by \$598,680. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2022</u>	<u>2021</u>
Revenues		
Property taxes, penalties and interest	\$ 1,055,957	\$ 768,075
Water and sewer service	245,602	198,800
Other	84,672	160,857
Total revenues	<u>1,386,231</u>	<u>1,127,732</u>
Expenses		
Current service operations	747,507	718,802
Debt interest and fees	276,465	212,312
Developer interest	119,525	91,525
Debt issuance costs	244,304	166,999
Depreciation and amortization	303,220	294,125
Total expenses	<u>1,691,021</u>	<u>1,483,763</u>
Change in net position before other items	(304,790)	(356,031)
Other items		
Transfers to other governments	<u>(293,890)</u>	<u>(322,019)</u>
Change in net position	(598,680)	(678,050)
Net position, beginning of year	<u>(8,117,196)</u>	<u>(7,439,146)</u>
Net position, end of year	<u><u>\$ (8,715,876)</u></u>	<u><u>\$ (8,117,196)</u></u>

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

The District's combined fund balances, as of March 31, 2022, were \$1,643,674, which consists of \$859,146 in the General Fund, \$570,402 in the Debt Service Fund, and \$214,126 in the Capital Projects Fund.



***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

*General Fund*

A comparative summary of the General Fund's financial position as of March 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Total assets	<u>\$ 991,836</u>	<u>\$ 822,710</u>
Total liabilities	\$ 119,284	\$ 116,943
Total deferred inflows	13,406	4,971
Total fund balance	<u>859,146</u>	<u>700,796</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 991,836</u>	<u>\$ 822,710</u>

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

	<u>2022</u>	<u>2021</u>
Total revenues	\$ 834,681	\$ 874,709
Total expenditures	<u>(676,331)</u>	<u>(676,011)</u>
Revenues over expenditures	<u>\$ 158,350</u>	<u>\$ 198,698</u>

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

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

***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

*Debt Service Fund*

A comparative summary of the Debt Service Fund's financial position as of March 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Total assets	<u>\$ 585,428</u>	<u>\$ 423,692</u>
Total liabilities	\$ -	\$ 2,789
Total deferred inflows	15,026	2,413
Total fund balance	<u>570,402</u>	<u>418,490</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 585,428</u>	<u>\$ 423,692</u>

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

	<u>2022</u>	<u>2021</u>
Total revenues	\$ 530,413	\$ 259,362
Total expenditures	<u>(449,138)</u>	<u>(306,654)</u>
Revenues over/(under) expenditures	81,275	(47,292)
Other changes in fund balance	70,637	43,350
Net change in fund balance	<u>\$ 151,912</u>	<u>\$ (3,942)</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund's financial position as of March 31, 2022 and 2021 is as follows:

	<u>2022</u>	<u>2021</u>
Total assets	<u>\$ 1,934,529</u>	<u>\$ 258,315</u>
Total liabilities	\$ 1,720,403	\$ 15,895
Total fund balance	<u>214,126</u>	<u>242,420</u>
Total liabilities and fund balance	<u>\$ 1,934,529</u>	<u>\$ 258,315</u>

***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	<u>2022</u>	<u>2021</u>
Total revenues	\$ 89	\$ -
Total expenditures	<u>(2,667,746)</u>	<u>(1,819,873)</u>
Revenues under expenditures	(2,667,657)	(1,819,873)
Other changes in fund balance	2,639,363	1,531,650
Net change in fund balance	<u>\$ (28,294)</u>	<u>\$ (288,223)</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2021 Unlimited Tax Road Bonds in the current year and the proceeds from the sale of its Series 2020 Unlimited Tax Roads Bonds in the prior year.

**General Fund Budgetary Highlights**

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$8,171 greater than budgeted. The *Budgetary Comparison Schedule* on page 40 of this report provides variance information per financial statement line item.

**Capital Assets**

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

***Harris County Municipal Utility District No. 422  
Management's Discussion and Analysis  
March 31, 2022***

Capital assets held by the District at March 31, 2022 and 2021 are summarized as follows:

	<u>2022</u>	<u>2021</u>
Capital assets not being depreciated/amortized		
Land and improvements	\$ 1,372,123	\$ 1,372,123
Construction in progress	<u>300,023</u>	<u>253,577</u>
	<u>1,672,146</u>	<u>1,625,700</u>
Capital assets being depreciated/amortized		
Infrastructure	7,440,444	7,440,444
Interest in joint facilities	5,194,549	2,355,670
Landscaping improvements	<u>1,618,200</u>	<u>1,436,297</u>
	<u>14,253,193</u>	<u>11,232,411</u>
Less accumulated depreciation/amortization		
Infrastructure	(592,496)	(426,126)
Interest in joint facilities	(328,828)	(272,887)
Landscaping improvements	<u>(266,093)</u>	<u>(185,184)</u>
	<u>(1,187,417)</u>	<u>(884,197)</u>
Depreciable/amortizable capital assets, net	<u>13,065,776</u>	<u>10,348,214</u>
Capital assets, net	<u>\$ 14,737,922</u>	<u>\$ 11,973,914</u>

Capital asset additions during the current year include landscaping improvements to serve Lakewood Pines Section 11 and the District's investment in regional wastewater facilities.

The District's construction in progress is for the construction of phase 1 of the water plant.

The District, Harris County Municipal Utility District No. 499 ("MUD 499"), and other participating Districts (see Notes 11 and 12), have entered into cost sharing agreements for the construction of certain capital assets in proration to the benefit that each District receives. The District's interest in joint facilities reflects the District's right to capacity in the completed facilities pursuant to the regional agreements among participating districts.

Harris County assumes responsibility for all road and storm water conveyance facilities constructed within the County. Consequently, these projects are not recorded as capital assets on the District's financial statements but are recorded as transfers to other governments upon completion of construction. For the year ended March 31, 2022, capital assets in the amount of \$293,890 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 9.

### **Long-Term Debt and Related Liabilities**

As of March 31, 2022, the District owes approximately \$13,140,590 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is

***Harris County Municipal Utility District No. 422  
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March 31, 2022***

recorded on the District's financial statements upon completion of construction. As discussed in Note 6, the District has an additional commitment in the amount of \$23,444,289 for projects in progress by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At March 31, 2022 and 2021, the District had total bonded debt outstanding as shown below:

Series	2022	2021
2019	\$ 2,645,000	\$ 2,715,000
2019 Road	3,285,000	3,375,000
2020 Road	1,575,000	1,575,000
2021 Road	2,710,000	
	\$ 10,215,000	\$ 7,665,000

During the current year, the District issued \$2,710,000 in unlimited tax road bonds. At March 31, 2022, the District had \$231,200,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$32,500,000 for parks and recreational facilities and the refunding of such bonds; and \$57,340,000 for road improvements and the refunding of such bonds.

Additionally, the District entered into an agreement with Harris County Municipal Utility District 400 for the expansion of the Wastewater Treatment Plant which was financed through debt issued by MUD 400. The District is obligated for its allocated share of debt service payments with principal amount of \$1,745,000. See Note 11 for additional information.

**Next Year's Budget**

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

	2022 Actual	2023 Budget
Total revenues	\$ 834,681	\$ 1,162,162
Total expenditures	(676,331)	(934,196)
Revenues over expenditures	158,350	227,966
Beginning fund balance	700,796	859,146
Ending fund balance	\$ 859,146	\$ 1,087,112

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**Property Taxes**

The District's property tax base increased approximately \$24,968,000 for the 2022 tax year from \$70,098,755 to \$95,066,128, based on preliminary values. This increase was primarily due to new construction in the District and increased property values.

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## **Basic Financial Statements**



**Harris County Municipal Utility District No. 422**  
**Statement of Net Position and Governmental Fund Balance Sheet**  
**March 31, 2022**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 77,890	\$ 63,727	\$ 237	\$ 141,854	\$ -	\$ 141,854
Investments	803,484	524,215	1,939,692	3,267,391		3,267,391
Taxes receivable	13,406	15,026		28,432		28,432
Customer service receivables	29,827			29,827		29,827
Internal balances	23,610	(18,210)	(5,400)			
Other receivables		670		670		670
Operating Reserve - Wastewater Treatment Plant	42,043			42,043		42,043
Prepaid expenses	1,576			1,576		1,576
Capital assets not being depreciated					1,672,146	1,672,146
Capital assets, net					13,065,776	13,065,776
<b>Total Assets</b>	<b>\$ 991,836</b>	<b>\$ 585,428</b>	<b>\$ 1,934,529</b>	<b>\$ 3,511,793</b>	<b>14,737,922</b>	<b>18,249,715</b>
<b>Liabilities</b>						
Accounts payable	\$ 39,191	\$ -	\$ 45,049	\$ 84,240		84,240
Other payables	1,354			1,354		1,354
Customer deposits	37,225			37,225		37,225
Unearned revenue	15,436			15,436		15,436
Due to other governments	26,078			26,078		26,078
Construction advances			1,675,354	1,675,354		1,675,354
Accrued interest payable					25,314	25,314
Due to developers					13,140,590	13,140,590
Long-term debt						
Due within one year					205,000	205,000
Due after one year					10,010,000	10,010,000
Contractual obligations						
Due after one year					1,745,000	1,745,000
<b>Total Liabilities</b>	<b>119,284</b>		<b>1,720,403</b>	<b>1,839,687</b>	<b>25,125,904</b>	<b>26,965,591</b>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	13,406	15,026		28,432	(28,432)	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	43,619			43,619	(43,619)	
Restricted		570,402	214,126	784,528	(784,528)	
Unassigned	815,527			815,527	(815,527)	
<b>Total Fund Balances</b>	<b>859,146</b>	<b>570,402</b>	<b>214,126</b>	<b>1,643,674</b>	<b>(1,643,674)</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 991,836</b>	<b>\$ 585,428</b>	<b>\$ 1,934,529</b>	<b>\$ 3,511,793</b>		
<b>Net Position</b>						
Net investment in capital assets					(1,964,158)	(1,964,158)
Restricted for debt service					585,428	585,428
Unrestricted					(7,337,146)	(7,337,146)
<b>Total Net Position</b>					<b>\$ (8,715,876)</b>	<b>\$ (8,715,876)</b>

**Harris County Municipal Utility District No. 422**

**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances  
For the Year Ended March 31, 2022**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Water service	\$ 93,479	\$ -	\$ -	\$ 93,479	\$ -	\$ 93,479
Sewer service	152,123			152,123		152,123
Property taxes	500,511	529,597		1,030,108	17,902	1,048,010
Penalties and interest	4,363	438		4,801	3,146	7,947
Tap connection and inspection	80,565			80,565		80,565
Miscellaneous	3,367			3,367		3,367
Investment earnings	273	378	89	740		740
<b>Total Revenues</b>	<b>834,681</b>	<b>530,413</b>	<b>89</b>	<b>1,365,183</b>	<b>21,048</b>	<b>1,386,231</b>
<b>Expenditures/Expenses</b>						
Current service operations						
Purchased services	270,216			270,216		270,216
Professional fees	150,825		52,907	203,732		203,732
Contracted services	129,625	12,375		142,000		142,000
Repairs and maintenance	81,364			81,364		81,364
Administrative	28,854	2,098		30,952		30,952
Other	15,447	3,796		19,243		19,243
Capital outlay			2,251,010	2,251,010	(2,251,010)	
Debt service						
Principal		160,000		160,000	(160,000)	
Interest and fees		270,869		270,869	5,596	276,465
Developer interest			119,525	119,525		119,525
Debt issuance costs			244,304	244,304		244,304
Depreciation and amortization					303,220	303,220
<b>Total Expenditures/Expenses</b>	<b>676,331</b>	<b>449,138</b>	<b>2,667,746</b>	<b>3,793,215</b>	<b>(2,102,194)</b>	<b>1,691,021</b>
<b>Revenues Over/(Under)</b>						
<b>Expenditures/Expenses</b>	158,350	81,275	(2,667,657)	(2,428,032)	2,123,242	(304,790)
<b>Other Financing Sources</b>						
Proceeds from sale of bonds		70,637	2,639,363	2,710,000	(2,710,000)	
<b>Other Items</b>						
Transfers to other governments					(293,890)	(293,890)
<b>Net Change in Fund Balances</b>	158,350	151,912	(28,294)	281,968	(281,968)	
<b>Change in Net Position</b>					(598,680)	(598,680)
Fund Balances/Net Position						
Beginning of the year	700,796	418,490	242,420	1,361,706	(9,478,902)	(8,117,196)
<b>End of the year</b>	<b>\$ 859,146</b>	<b>\$ 570,402</b>	<b>\$ 214,126</b>	<b>\$ 1,643,674</b>	<b>\$ (10,359,550)</b>	<b>\$ (8,715,876)</b>

See notes to basic financial statements.

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## **Note 1 – Summary of Significant Accounting Policies**

The accounting policies of Harris County Municipal Utility District No. 422 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

### **Creation**

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated December 12, 2006, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on October 3, 2013, and the first bonds were issued on April 11, 2019.

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

### **Reporting Entity**

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

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

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

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Government-Wide and Fund Financial Statements (continued)**

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District's water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District's general long-term debt. The primary sources of revenue for debt service are property taxes and capitalized interest. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District's water, sewer, drainage and facilities.

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

**Measurement Focus and Basis of Accounting**

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

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

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

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Use of Restricted Resources**

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

**Prepaid Items**

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

**Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At March 31, 2022, an allowance for uncollectible accounts was not considered necessary.

**Interfund Activity**

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

**Capital Assets**

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$50,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Depreciable capital assets, which primarily consist of District’s interest in joint facilities, water, wastewater and drainage facilities, and landscaping improvements, are depreciated (or amortized in the case of intangible assets) using the straight-line method as follows:

Assets	Useful Life
Infrastructure	40-45 years
Interest in joint facilities	10-45 years
Landscaping improvements	20 years

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Capital Assets (continued)**

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

**Deferred Inflows and Outflows of Financial Resources**

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

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

**Net Position – Governmental Activities**

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

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

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

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items and operating reserves paid to Harris County Municipal Utility District No. 400 for the regional wastewater treatment plant (Note 11).

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

**Note 1 – Summary of Significant Accounting Policies (continued)**

**Fund Balances – Governmental Funds (continued)**

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

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

Unassigned - all other spendable amounts in the General Fund.

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

**Use of Estimates**

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



*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

**Note 2 – Adjustment from Governmental to Government-wide Basis**

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

Total fund balance, governmental funds	\$ 1,643,674
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in the governmental funds.

Historical cost	\$ 15,925,339	
Less accumulated depreciation/amortization	<u>(1,187,417)</u>	
Change due to capital assets		14,737,922

Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:

Bonds payable, net	(10,215,000)	
Interest payable on bonds	<u>(25,314)</u>	
Change due to long-term debt		(10,240,314)

Accrued District's contractual obligations to Harris County Municipal Utility District No. 400 is not due and payable in the current period and, therefore, is not reported as liabilities in the governmental funds. It is, however, recorded as a liability in *Statement of Net Position*.

(1,745,000)

Amounts due to the District's developers for prefunded construction and developer advances are recorded as a liability in the *Statement of Net Position*.

(13,140,590)

Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.

28,432

Total net position - governmental activities

\$ (8,715,876)

*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

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

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

Net change in fund balance - total governmental funds \$ 281,968

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. 21,048

Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, the costs of capital assets are capitalized and charged to expense over the remaining life of the asset. Public roads conveyed to the Harris County are recorded as transfers to other governments.

Capital outlays	\$ 2,251,010	
Transfers to other governments	(293,890)	
Depreciation/amortization expense	<u>(303,220)</u>	
		1,653,900

The issuance of long-term debt provides current financial resources to governmental funds. However, this amount is recognized as a liability on the *Statement of Net Position*. Other elements of debt financing are reported differently between the fund and government wide statements.

Issuance of long-term debt	(2,710,000)	
Principal payments	160,000	
Interest expense accrual	<u>(5,596)</u>	
		(2,555,596)

Change in net position of governmental activities \$ (598,680)

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

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

**Note 3 – Deposits and Investments (continued)**

**Investments**

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

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

As of March 31, 2022, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
TexPool	General	\$ 803,484	AAAm	29 days
	Debt Service	524,215		
	Capital Projects	1,939,692		
Total		<u>\$ 3,267,391</u>		

**TexPool**

The District participates in TexPool, the Texas Local Government Investment Pool. The State Comptroller of Public Accounts exercises oversight responsibility of TexPool, which includes (1) the ability to significantly influence operations, (2) designation of management and (3) accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed of both participants in TexPool and other persons who do not have a business relationship with TexPool. The Advisory Board members review the investment policy and management fee structure.

*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

**Note 3 – Deposits and Investments (continued)**

**TexPool (continued)**

As permitted by GAAP, TexPool uses amortized cost (which excludes unrealized gains and losses) rather than market value to compute share price and seeks to maintain a constant dollar value per share. Accordingly, the fair value of the District’s position in TexPool is the same as the value of TexPool shares. Investments in TexPool may be withdrawn on a same day basis, as long as the transaction is executed by 3:30 p.m.

**Investment Credit and Interest Rate Risk**

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District’s investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

**Note 4 – Interfund Balances and Transactions**

Amounts due to/from other funds at March 31, 2022, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 18,210	Maintenance tax collections not remitted as of year end
General Fund	Capital Projects Fund	5,400	Bond application fees paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

**Harris County Municipal Utility District No. 422**  
**Notes to Financial Statements**  
**March 31, 2022**

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended March 31, 2022, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated/amortized			
Land and improvements	\$ 1,372,123	\$ -	\$ 1,372,123
Construction in progress	253,577	46,446	300,023
	<u>1,625,700</u>	<u>46,446</u>	<u>1,672,146</u>
Capital assets being depreciated/amortized			
Infrastructure	7,440,444		7,440,444
Interest in joint facilities	2,355,670	2,838,879	5,194,549
Landscaping improvements	1,436,297	181,903	1,618,200
	<u>11,232,411</u>	<u>3,020,782</u>	<u>14,253,193</u>
Less accumulated depreciation/amortization			
Infrastructure	(426,126)	(166,370)	(592,496)
Interest in joint facilities	(272,887)	(55,941)	(328,828)
Landscaping improvements	(185,184)	(80,909)	(266,093)
	<u>(884,197)</u>	<u>(303,220)</u>	<u>(1,187,417)</u>
Subtotal depreciable/amortizable capital assets, net	<u>10,348,214</u>	<u>2,717,562</u>	<u>13,065,776</u>
Capital assets, net	<u>\$ 11,973,914</u>	<u>\$ 2,764,008</u>	<u>\$ 14,737,922</u>

Depreciation expense for the current year was \$303,220.

**Note 6 – Due to Developers**

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

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

Due to developers, beginning of year	\$ 13,775,482
Developer reimbursements	(2,204,564)
Developer funded construction and adjustments	1,569,672
Due to developers, end of year	<u>\$ 13,140,590</u>

**Harris County Municipal Utility District No. 422**  
**Notes to Financial Statements**  
**March 31, 2022**

**Note 6 – Due to Developers (continued)**

In addition, the District will owe the developers approximately \$23,444,289, which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District’s auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Lakewood Pines, Phase 5 - clearing and grubbing	\$ 794,432	\$ 682,906	\$ 111,526
Lakewood Pines, Section 11 - paving	1,050,926	991,684	59,242
Lakewood Pines, Section 11 - utilities	569,273	557,888	11,385
Water Plant Phase I and Water Well	4,088,623	3,284,413	804,210
Lakewood Pines, detention expansion	1,644,471	840,671	803,800
Lakewood Pines, Section 12 and 13 - utilities	1,631,540	136,643	1,494,897
Lakewood Pines, Section 12 and 13 - paving	1,119,653		1,119,653
Lakewood Pines, Section 14 - utilities	1,750,682		1,750,682
Lakewood Pines, Section 14 - paving	1,067,384		1,067,384
Balmoral East - clearing and grubbing	632,875	558,135	74,740
Balmoral East - detention and mass grading	1,459,492	902,097	557,395
Balmoral East, Section 1 - utilities	1,533,812	41,028	1,492,784
Balmoral East, Section 1 - paving	1,226,499		1,226,499
Balmoral East, Section 2 - utilities	950,000		950,000
Balmoral East, Section 2 - paving	783,987		783,987
Balmoral East, Section 3 - utilities	1,338,111		1,338,111
Balmoral East, Section 3 - paving	960,530		960,530
Water Plant No. 1, Phase 2	842,000		842,000
	<u>\$ 23,444,289</u>	<u>\$ 7,995,465</u>	<u>\$ 15,448,824</u>

**Note 7 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	<u>\$ 10,215,000</u>
Due within one year	<u>\$ 205,000</u>

**Harris County Municipal Utility District No. 422**  
**Notes to Financial Statements**  
**March 31, 2022**

**Note 7 – Long-Term Debt (continued)**

The District’s bonds payable at March 31, 2022, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2019	\$ 2,645,000	\$ 2,800,000	2.30% - 4.00%	September 1, 2020/2043	September 1, March 1	September 1, 2024
2019 Road	3,285,000	3,375,000	2.00% - 3.25%	September 1, 2021/2044	September 1, March 1	September 1, 2024
2020 Road	1,575,000	1,575,000	2.00% - 4.50%	September 1, 2022/2045	September 1, March 1	September 1, 2025
2021 Road	2,710,000	2,710,000	2.00% - 4.50%	September 1, 2023/2046	September 1, March 1	September 1, 2027
	<u>\$ 10,215,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At March 31, 2022, the District had authorized but unissued bonds in the amount of \$231,200,000 for water, sewer and drainage facilities and the refunding of such bonds; \$32,500,000 for park and recreational facilities and the refunding of such bonds; and \$57,340,000 for road facilities and the refunding of such bonds.

On September 9, 2021, the District issued its \$2,710,000 Series 2021 Unlimited Tax Road Bonds at a net effective interest rate of 2.503495%. Proceeds of the bonds were used to (1) to reimburse developers for the construction of capital assets within the District; engineering, clearing and grubbing, and other costs associated with the construction of capital assets; and the acquisition of land for certain District facilities; (2) to pay developer interest at the net effective interest rate of the bonds and (3) to pay capitalized interest into the Debt Service Fund.

The change in the District’s long-term debt during the year is as follows:

Bonds payable, beginning of year	\$ 7,665,000
Bonds issued	2,710,000
Bonds retired	(160,000)
Bonds payable, end of year	<u>\$ 10,215,000</u>

*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

**Note 7 – Long-Term Debt (continued)**

As of March 31, 2022, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2023	\$ 205,000	\$ 300,981	\$ 505,981
2024	330,000	292,668	622,668
2025	345,000	281,300	626,300
2026	355,000	269,499	624,499
2027	355,000	257,970	612,970
2028	365,000	246,642	611,642
2029	380,000	236,263	616,263
2030	390,000	226,756	616,756
2031	400,000	216,712	616,712
2032	415,000	206,057	621,057
2033	425,000	194,774	619,774
2034	440,000	182,912	622,912
2035	450,000	170,518	620,518
2036	460,000	157,712	617,712
2037	475,000	144,421	619,421
2038	480,000	130,345	610,345
2039	495,000	115,375	610,375
2040	515,000	99,540	614,540
2041	530,000	82,907	612,907
2042	540,000	65,669	605,669
2043	565,000	47,744	612,744
2044	580,000	29,101	609,101
2045	405,000	13,719	418,719
2046	205,000	5,138	210,138
2047	110,000	1,238	111,238
	\$ 10,215,000	\$ 3,975,960	\$ 14,190,960

**Note 8 – Property Taxes**

On May 10, 2014, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value and an operation and maintenance tax for road facilities limited to \$0.25 per \$100 as assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.



***Harris County Municipal Utility District No. 422***  
***Notes to Financial Statements***  
***March 31, 2022***

**Note 8 – Property Taxes (continued)**

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2022 fiscal year was financed through the 2021 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, of which \$0.73 was allocated to maintenance and operations, \$0.24 was allocated to debt service, and \$0.53 was allocated to road debt service. The resulting tax levy was \$1,051,482 on the adjusted taxable value of \$70,098,755.

Property taxes receivable, at March 31, 2022, consisted of the following:

Current year taxes receivable	\$ 19,433
Prior years taxes receivable	5,853
	<u>25,286</u>
Penalty and interest receivable	3,146
Property taxes receivable	<u><u>\$ 28,432</u></u>

**Note 9 – Transfers to Other Governments**

Harris County assumes responsibility for the maintenance of public roads, including storm sewer conveyance facilities, constructed within the county limits. Accordingly, these facilities are considered to be capital assets of Harris County, not the District. The estimated cost of each project is recorded as a transfer to other government upon completion of construction. This cost is trued-up when the developer is subsequently reimbursed. For the year ended March 31, 2022, the District reported transfers to other governments in the amount of \$293,890 for road facilities constructed by a developer within the District.

**Note 10 – Water Supply Contract with the City of Houston**

On October 9, 2015, the District entered into a water supply contract with the City of Houston (the “City”) for purchase of treated water from the City. The City will calculate the District’s billing statements in accordance with the formula, rates, and fees established in Subsection 47-61(f) of the City of Houston Code of Ordinances. The term of the agreement is 40 years.

Water and sewer rates charged by the District to the customers within its boundaries are adopted within the District’s rate order. All revenues derived by these charges belong to the District. During the current year, the District has paid \$95,531 to the City for the acquisition of treated water.

**Note 11 – Regional Wastewater Treatment Plant Agreement**

The District and Harris County Municipal Utility District No. 400 (“MUD 400”), Harris County Municipal Utility District No. 499 (“MUD 499”), Harris County Municipal Utility District No. 423 and Harris County Fresh Water Supply District No. 48 (the “Parties”) entered into a Regional Wastewater Treatment Plan Agreement (the “WWTP Agreement”), which was effective July 1, 2008, as amended July 1, 2013 and November 1, 2021, to provide regional wastewater treatment services for the Parties ongoing development. The Parties have constructed an interim wastewater treatment plant (the “Interim Plant”) to treat approximately 200,000 gallons per day (gpd) which was expanded to 600,000 gpd (the “Expansion”). MUD 400 has been designated project manager for the Interim Plant.

The District is billed monthly based on its pro-rata share of fixed expenses and variable costs. The District’s proportionate share of the Existing Plant is 16.15%. During the current year, the District paid \$174,685 for purchased sewer services. Additionally, the District has paid \$42,043 for an operating reserve.

On November 1, 2021, the District entered into a Second Amended and Restated Wastewater Treatment Plant Agreement to expand the facilities to treat approximately 850,000 gpd. Each districts’ proportionate share of cost is based on the number of equivalent single-family connections reserved for the district. The District’s proportionate share of the 850,000 gpd expansion is 17.81%. Each participating district is responsible for its proportionate share of costs to construct the expansion. The District’s proportionate share of estimated construction costs is \$2,651,909, which was partially financed with an up-front payment of \$1,093,879 made during the current year. The District’s remaining obligation is financed through the District’s allocated share of debt issued by MUD 400.

**MUD 400 Debt**

On April 25, 2022, Harris County MUD 400 (“MUD 400”) issued its \$16,930,000 Series 2022 Unlimited Tax Bonds as part of a plan to finance the design and construction of the 850,000 gpd expansion. The District shall be obligated to contribute annually to the payment of MUD 400’s debt service requirements based on its allocated share of debt. Each annual payment shall be made on the June 30<sup>th</sup> in each of the years through 2042.

*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

**Note 11 – Regional Wastewater Treatment Plant Agreement (continued)**

**MUD 400 Debt (continued)**

The District’s future annual obligation to MUD 400 for the debt service requirements (principal and interest) for each of the next five years and in five-year increments thereafter is as follows:

<u>Year</u>	<u>Total</u>
2023	\$ 73,981
2024	96,848
2025	169,766
2026	165,604
2027	166,303
2028 - 2032	778,663
2033 - 2037	711,424
2038 - 2042	624,062
2043	113,053
	<u>\$ 2,899,704</u>

**Note 12 – Wastewater Treatment Plant Agreement**

The District and Harris County Municipal Utility District No. 400 (“MUD 400”), Harris County Municipal Utility District No. 422 (“MUD 422”) and Harris County Municipal Utility District No. 423 (“MUD 423”) entered into a Wastewater Treatment Plant Agreement (the “WWTP Agreement”), which was effective December 18, 2017, as amended January 1, 2019, to expand the capacity of the Interim Plant (as referenced in Note 11) by 700,000 gpd for their benefit only and not for the benefit of the other parties to the Regional WWTP Agreement (the “Expansion”). The term of this agreement is 40 years.

MUD 400 has been designated project manager for the Expansion. Each party will be responsible for its share of the design and construction cost of the Expansion based on its pro rata share of the proposed equivalent single-family connections (“ESFCs”) to be served by the Expansion. The District has agreed that MUD 400 shall hold legal title to the facilities, with the District having an undivided, equitable interest. The District’s proportionate share of the Expansion is 19.29%.

MUD 400 is responsible for the operation and maintenance of the wastewater treatment plant. Each party will be billed monthly for its share of fixed costs based on its pro rata share of the total number of ESFCs to be served by the Expansion. Each party will be billed for variable expenses based on its pro rata share of the total number of active ESFCs during the calendar month.

*Harris County Municipal Utility District No. 422*  
*Notes to Financial Statements*  
*March 31, 2022*

**Note 13 – Agreement for Lease of Interim Water Supply Capacity**

On June 29, 2020, the District entered into an agreement for the lease of interim water supply capacity with Harris County Municipal Utility District No. 406 (“MUD 406”) and Harris County Municipal Utility District No. 321 (“MUD 321”) to obtain an additional 76,725 gallons per day of excess water supply capacity. The term of this agreement is 18 months. In the current year, the District has agreed to paid MUD 406 a one-time fee of \$5,000 for the duration of the extended additional four month term.

**Note 14 – Construction Advances**

During the current year, the District received \$1,750,000 in construction advances from its developers to provide funds for the construction of Water Plant No.1. The District has incurred costs related to the project in the amount of \$74,646. As of March 31, 2022, the District had \$1,675,354 in construction advances remaining.

**Note 15 – Risk Management**

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

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## **Required Supplementary Information**

*Harris County Municipal Utility District No. 422  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Year Ended March 31, 2022*

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>				
Water service	\$ 95,856	\$ 97,391	\$ 93,479	\$ (3,912)
Sewer service	120,960	139,318	152,123	12,805
Property taxes	499,268	508,578	500,511	(8,067)
Penalties and interest		1,622	4,363	2,741
Tap connection and inspection	129,600	73,102	80,565	7,463
Investment earnings	540	323	273	(50)
Miscellaneous		1,250	3,367	2,117
<b>Total Revenues</b>	<b>846,224</b>	<b>821,584</b>	<b>834,681</b>	<b>13,097</b>
<b>Expenditures</b>				
Current service operations				
Purchased Services	220,680	231,864	270,216	(38,352)
Professional fees	130,000	149,728	150,825	(1,097)
Contracted services	171,383	164,503	129,625	34,878
Repairs and maintenance	69,280	79,460	81,364	(1,904)
Administrative	32,033	29,818	28,854	964
Other	13,570	16,032	15,447	585
<b>Total Expenditures</b>	<b>636,946</b>	<b>671,405</b>	<b>676,331</b>	<b>(4,926)</b>
<b>Revenues Over Expenditures</b>	<b>209,278</b>	<b>150,179</b>	<b>158,350</b>	<b>8,171</b>
<b>Fund Balance</b>				
Beginning of the year	700,796	700,796	700,796	
<b>End of the year</b>	<b>\$ 910,074</b>	<b>\$ 850,975</b>	<b>\$ 859,146</b>	<b>\$ 8,171</b>

*Harris County Municipal Utility District No. 422*  
*Notes to Required Supplementary Information*  
*March 31, 2022*

**Budgets and Budgetary Accounting**

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.



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## **Texas Supplementary Information**

**Harris County Municipal Utility District No. 422**  
**TSI-1. Services and Rates**  
**March 31, 2022**

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

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

2. Retail Service Providers

a. Retail Rates for a 3/4" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels	
Water:	\$ 18.00	10,000	N	\$ 1.00	10,001	to 15,000
				\$ 2.00	15,001	to 20,000
				\$ 3.00	20,001	to 25,000
				\$ 4.00	25,001	to no limit
Wastewater:	\$ 40.85	N	Y			to

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \$ 18.00 Wastewater \$ 40.85

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
3/4" or less	317	318	x 1.0	318
1"	1	1	x 2.5	3
1.5"	1	1	x 5.0	5
2"	5	5	x 8.0	40
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"	1	1	x 80.0	80
10"			x 115.0	
Total Water	325	326		446
Total Wastewater	312	313	x 1.0	313

See accompanying auditor's report.

**Harris County Municipal Utility District No. 422**  
**TSI-1. Services and Rates**  
**March 31, 2022**

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

Gallons purchased from the City of Houston:	<u>22,380,000</u>	Water Accountability Ratio: (Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>27,090,000</u>	<u>121.05%</u>

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

Does the District have Debt Service standby fees? Yes  No

If yes, Date of the most recent commission Order: \_\_\_\_\_

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

If yes, Date of the most recent commission Order: \_\_\_\_\_

5. Location of District

Is the District located entirely within one county? Yes  No

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

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

City(ies) in which the District is located: \_\_\_\_\_

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

Entirely  Partly  Not at all

ETJs in which the District is located: City of Houston

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

If Yes, by whom? \_\_\_\_\_

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422  
TSI-2 General Fund Expenditures  
For the Year Ended March 31, 2022*

Purchased services		<u>\$ 270,216</u>
Professional fees		
Legal	84,531	
Audit	10,000	
Engineering	56,294	
		<u>150,825</u>
Contracted services		
Bookkeeping	28,710	
Operator	8,199	
Garbage collection	78,753	
Tap connection and inspection	13,963	
		<u>129,625</u>
Repairs and maintenance		<u>81,364</u>
Administrative		
Directors fees	6,900	
Printing and office supplies	7,243	
Insurance	6,185	
Other	8,526	
		<u>28,854</u>
Other		<u>15,447</u>
Total expenditures		<u><u>\$ 676,331</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	N/A	N/A
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422*  
*TSI-3. Investments*  
*March 31, 2022*

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
TexPool	Variable	N/A	<u>\$ 803,484</u>
Debt Service			
TexPool	Variable	N/A	<u>524,215</u>
Capital Projects			
TexPool	Variable	N/A	<u>1,939,692</u>
Total - All Funds			<u><u>\$ 3,267,391</u></u>

See accompanying auditor's report.

**Harris County Municipal Utility District No. 422**  
**TSI-4. Taxes Levied and Receivable**  
**March 31, 2022**

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 4,971	\$ 1,266	\$ 1,147	\$ 7,384
Adjustments to Prior Year Tax Levy	(2,774)	(583)	(804)	(4,161)
Adjusted Receivable	2,197	683	343	3,223
2021 Original Tax Levy	427,463	140,536	310,350	878,349
Adjustments	84,258	27,701	61,174	173,133
Adjusted Tax Levy	511,721	168,237	371,524	1,051,482
Total to be accounted for	513,918	168,920	371,867	1,054,705
Tax collections:				
Current year	502,264	165,127	364,659	1,032,050
Prior years	(1,752)	(359)	(520)	(2,631)
Total Collections	500,512	164,768	364,139	1,029,419
Taxes Receivable, End of Year	\$ 13,406	\$ 4,152	\$ 7,728	\$ 25,286
Taxes Receivable, By Years				
2021	\$ 9,458	\$ 3,109	\$ 6,866	\$ 19,433
2020	2,972	624	862	4,458
2019	976	419		1,395
Taxes Receivable, End of Year	\$ 13,406	\$ 4,152	\$ 7,728	\$ 25,286
	2021	2020	2019	2018
Property Valuations:				
Land	\$ 19,849,692	\$ 18,946,254	\$ 14,055,421	\$ 11,504,781
Improvements	71,014,314	41,715,153	22,059,023	9,036,748
Personal Property	278,608	327,816	211,055	77,451
Exemptions	(21,043,859)	(10,483,094)	(1,378,638)	(834,395)
Total Property Valuations	\$ 70,098,755	\$ 50,506,129	\$ 34,946,861	\$ 19,784,585
Tax Rates per \$100 Valuation:				
Maintenance tax rate*	\$ 0.73	\$ 1.00	\$ 1.05	\$ 1.50
Debt service tax rates	0.24	0.21	0.45	
Road debt service tax rates**	0.53	0.29		
Total Tax Rates per \$100 Valuation	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Adjusted Tax Levy:	\$ 1,051,482	\$ 757,592	\$ 524,203	\$ 296,769
Percentage of Taxes Collected to Taxes Levied ***	98.15%	99.41%	99.73%	100.00%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 10, 2014.

\*\* Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on May 10, 2014.

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

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2019--by Years*  
*March 31, 2022*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2023	\$ 70,000	\$ 93,321	\$ 163,321
2024	75,000	91,471	166,471
2025	80,000	89,416	169,416
2026	85,000	87,146	172,146
2027	85,000	84,681	169,681
2028	90,000	82,056	172,056
2029	95,000	79,222	174,222
2030	100,000	76,113	176,113
2031	105,000	72,716	177,716
2032	110,000	69,019	179,019
2033	115,000	65,081	180,081
2034	120,000	60,894	180,894
2035	125,000	56,375	181,375
2036	130,000	51,594	181,594
2037	135,000	46,625	181,625
2038	140,000	41,469	181,469
2039	145,000	36,125	181,125
2040	155,000	30,403	185,403
2041	160,000	24,200	184,200
2042	165,000	17,700	182,700
2043	175,000	10,900	185,900
2044	185,000	3,700	188,700
	<u>\$ 2,645,000</u>	<u>\$ 1,270,227</u>	<u>\$ 3,915,227</u>

See accompanying auditor's report.



*Harris County Municipal Utility District No. 422*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2019 Road--by Years*  
*March 31, 2022*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2023	\$ 90,000	\$ 94,684	\$ 184,684
2024	95,000	92,834	187,834
2025	100,000	90,834	190,834
2026	105,000	88,603	193,603
2027	105,000	86,214	191,214
2028	110,000	83,686	193,686
2029	115,000	80,929	195,929
2030	120,000	77,931	197,931
2031	125,000	74,684	199,684
2032	130,000	71,176	201,176
2033	135,000	67,331	202,331
2034	140,000	63,206	203,206
2035	145,000	58,931	203,931
2036	150,000	54,506	204,506
2037	155,000	49,834	204,834
2038	160,000	44,913	204,913
2039	165,000	39,731	204,731
2040	175,000	34,206	209,206
2041	180,000	28,438	208,438
2042	185,000	22,506	207,506
2043	195,000	16,331	211,331
2044	200,000	9,913	209,913
2045	205,000	3,331	208,331
	<u>\$ 3,285,000</u>	<u>\$ 1,334,752</u>	<u>\$ 4,619,752</u>

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2020 Road--by Years*  
*March 31, 2022*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2023	\$ 45,000	\$ 42,338	\$ 87,338
2024	45,000	40,313	85,313
2025	50,000	38,175	88,175
2026	50,000	36,050	86,050
2027	50,000	34,550	84,550
2028	50,000	33,550	83,550
2029	55,000	32,500	87,500
2030	55,000	31,400	86,400
2031	55,000	30,300	85,300
2032	60,000	29,150	89,150
2033	60,000	27,950	87,950
2034	65,000	26,700	91,700
2035	65,000	25,400	90,400
2036	65,000	24,100	89,100
2037	70,000	22,750	92,750
2038	70,000	21,000	91,000
2039	75,000	18,825	93,825
2040	75,000	16,575	91,575
2041	80,000	14,250	94,250
2042	80,000	11,850	91,850
2043	85,000	9,375	94,375
2044	85,000	6,825	91,825
2045	90,000	4,200	94,200
2046	95,000	1,425	96,425
	<u>\$ 1,575,000</u>	<u>\$ 579,550</u>	<u>\$ 2,154,550</u>

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2021 Road--by Years*  
*March 31, 2022*

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2023	\$ -	\$ 70,638	\$ 70,638
2024	115,000	68,050	183,050
2025	115,000	62,875	177,875
2026	115,000	57,700	172,700
2027	115,000	52,525	167,525
2028	115,000	47,350	162,350
2029	115,000	43,612	158,612
2030	115,000	41,312	156,312
2031	115,000	39,012	154,012
2032	115,000	36,712	151,712
2033	115,000	34,412	149,412
2034	115,000	32,112	147,112
2035	115,000	29,812	144,812
2036	115,000	27,512	142,512
2037	115,000	25,212	140,212
2038	110,000	22,963	132,963
2039	110,000	20,694	130,694
2040	110,000	18,356	128,356
2041	110,000	16,019	126,019
2042	110,000	13,613	123,613
2043	110,000	11,138	121,138
2044	110,000	8,663	118,663
2045	110,000	6,188	116,188
2046	110,000	3,713	113,713
2047	110,000	1,238	111,238
	<u>\$ 2,710,000</u>	<u>\$ 791,431</u>	<u>\$ 3,501,431</u>

See accompanying auditor's report.

*Harris County Municipal Utility District No. 422  
 TSI-5. Long-Term Debt Service Requirements  
 All Bonded Debt Series--by Years  
 March 31, 2022*

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2023	\$ 205,000	\$ 300,981	\$ 505,981
2024	330,000	292,668	622,668
2025	345,000	281,300	626,300
2026	355,000	269,499	624,499
2027	355,000	257,970	612,970
2028	365,000	246,642	611,642
2029	380,000	236,263	616,263
2030	390,000	226,756	616,756
2031	400,000	216,712	616,712
2032	415,000	206,057	621,057
2033	425,000	194,774	619,774
2034	440,000	182,912	622,912
2035	450,000	170,518	620,518
2036	460,000	157,712	617,712
2037	475,000	144,421	619,421
2038	480,000	130,345	610,345
2039	495,000	115,375	610,375
2040	515,000	99,540	614,540
2041	530,000	82,907	612,907
2042	540,000	65,669	605,669
2043	565,000	47,744	612,744
2044	580,000	29,101	609,101
2045	405,000	13,719	418,719
2046	205,000	5,138	210,138
2047	110,000	1,238	111,238
	<u>\$ 10,215,000</u>	<u>\$ 3,975,960</u>	<u>\$ 14,190,960</u>

See accompanying auditor's report.

**Harris County Municipal Utility District No. 422**  
**TSI-6. Change in Long-Term Bonded Debt**  
**March 31, 2022**

	Bond Issue			
	Series 2019	Series 2019 Road	Series 2020 Road	Series 2021 Road
Interest rate	2.30% - 4.00%	2.00% - 3.25%	2.00% - 4.50%	2.00% - 4.50%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/20 - 9/1/43	9/1/21 - 9/1/44	9/1/22 - 9/1/45	9/1/23 - 9/1/46
Beginning bonds outstanding	\$ 2,715,000	\$ 3,375,000	\$ 1,575,000	\$ -
Bonds issued				2,710,000
Bonds retired	(70,000)	(90,000)		
Ending bonds outstanding	<u>\$ 2,645,000</u>	<u>\$ 3,285,000</u>	<u>\$ 1,575,000</u>	<u>\$ 2,710,000</u>
Interest paid during fiscal year	<u>\$ 95,036</u>	<u>\$ 96,484</u>	<u>\$ 43,350</u>	<u>\$ 33,749</u>
Paying agent's name and city All Series	<u>The Bank of New York Mellon Trust Company, N.A., Dallas Texas</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Park and Recreational Facilities	Road Bonds	
Amount Authorized by Voters	\$ 234,000,000	\$ 32,500,000	\$ 65,000,000	
Amount Issued	(2,800,000)		(7,660,000)	
Remaining To Be Issued	<u>\$ 231,200,000</u>	<u>\$ 32,500,000</u>	<u>\$ 57,340,000</u>	

All bonds are secured with tax revenues. Bonds may also be secured with other revenues in combination with taxes.

Debt Service Fund cash and investment balances as of March 31, 2022: \$ 587,942

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 567,638

See accompanying auditor's report.

Totals

\$ 7,665,000

2,710,000

(160,000)

\$ 10,215,000

\$ 268,619

*Harris County Municipal Utility District No. 422*

*TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund  
For the Last Five Fiscal Years*

	Amounts				
	2022	2021	2020	2019	2018
Revenues					
Water service	\$ 93,479	\$ 83,836	\$ 49,394	\$ 32,137	\$ 13,137
Sewer service	152,123	114,964	81,204	45,622	18,364
Property taxes	500,511	513,929	436,699	404,601	68,167
Penalties and interest	4,363	1,813	1,797	8,838	929
Surface water fees					4,650
Tap connection and inspection	80,565	158,065	129,960	108,425	52,965
Miscellaneous	3,367	1,450	1,514	400	59
Investment earnings	273	652	6,083	163	
Total Revenues	<u>834,681</u>	<u>874,709</u>	<u>706,651</u>	<u>600,186</u>	<u>158,271</u>
Expenditures					
Current service operations					
Purchased services	270,216	245,004	252,266	71,271	49,802
Professional fees	150,825	162,772	205,248	128,237	118,847
Contracted services	129,625	152,735	120,487	93,113	59,197
Repairs and maintenance	81,364	84,065	77,254	39,315	71,667
Administrative	28,854	22,312	24,197	18,869	18,746
Other	15,447	9,123	24,499	3,816	1,719
Total Expenditures	<u>676,331</u>	<u>676,011</u>	<u>703,951</u>	<u>354,621</u>	<u>319,978</u>
Revenues Over/(Under) Expenditures	<u>\$ 158,350</u>	<u>\$ 198,698</u>	<u>\$ 2,700</u>	<u>\$ 245,565</u>	<u>\$ (161,707)</u>
Total Active Retail Water Connections	<u>326</u>	<u>317</u>	<u>217</u>	<u>138</u>	<u>69</u>
Total Active Retail Wastewater Connections	<u>313</u>	<u>304</u>	<u>207</u>	<u>134</u>	<u>67</u>

\*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues

2022	2021	2020	2019	2018
11%	10%	7%	5%	8%
18%	13%	11%	8%	12%
60%	59%	63%	68%	43%
1%	*	*	1%	1%
				3%
10%	18%	18%	18%	33%
*	*	*	*	*
*	*	1%	*	
100%	100%	100%	100%	100%
32%	28%	36%	12%	31%
18%	19%	29%	21%	75%
16%	17%	17%	16%	37%
10%	10%	11%	7%	45%
3%	3%	3%	3%	12%
2%	1%	3%	1%	1%
81%	78%	99%	60%	201%
19%	22%	1%	40%	(101%)



*Harris County Municipal Utility District No. 422*  
*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund*  
*For the Last Three Fiscal Years*

	Amounts		
	2022	2021	2020
Revenues			
Property taxes	\$ 529,597	\$ 256,012	\$ 152,754
Penalties and interest	438	2,660	896
Investment earnings	378	690	4,965
Total Revenues	<u>530,413</u>	<u>259,362</u>	<u>158,615</u>
Expenditures			
Tax collection services	14,473	11,945	9,591
Other	3,796	846	846
Debt service			
Principal	160,000	85,000	
Interest and fees	270,869	208,863	116,176
Total Expenditures	<u>449,138</u>	<u>306,654</u>	<u>126,613</u>
Revenues Over/(Under) Expenditures	<u>\$ 81,275</u>	<u>\$ (47,292)</u>	<u>\$ 32,002</u>

\*Percentage is negligible

See accompanying auditor's report.

Percent of Fund Total Revenues		
2022	2021	2020
100%	99%	96%
*	1%	1%
*	*	3%
100%	100%	100%
3%	5%	6%
1%	*	1%
30%	33%	
51%	81%	73%
85%	119%	80%
15%	(19%)	20%

**Harris County Municipal Utility District No. 422**  
**TSI-8. Board Members, Key Personnel and Consultants**  
**For the Year Ended March 31, 2022**

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027  
District Business Telephone Number: (713) 860-6400  
Submission Date of the most recent District Registration Form  
(TWC Sections 36.054 and 49.054): May 4, 2020  
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
Norm Scholes	05/20 - 05/24	\$ 2,400	\$ 274	President
Matthew Behrmann	05/18 - 05/22	600		Vice President
George Bravenec	05/18 - 05/22	1,650	226	Secretary
Gareth Young	05/18 - 05/22	750	72	Assistant Vice President
Glen Crocker	05/20 - 05/24	1,500	193	Assistant Secretary
<b>Consultants</b>				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP <i>General legal fees</i> <i>Bond counsel</i>	2013	\$ 113,435 81,304		Attorney
Environmental Development Partners, LLC	2014	59,979		Operator
McLennan & Associates, LP	2013	34,808		Bookkeeper
Assessments of the Southwest, Inc.	2013	4,275		Tax Collector
Harris County Appraisal District	Legislation	7,100		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2014	363		Delinquent Tax Attorney
Quiddity Engineering, LLC	2013	193,838		Engineer
McGrath & Co., PLLC	2017	18,000		Auditor
Masterson Advisors, LLC	2013	60,563		Financial Advisor

\* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.  
See accompanying auditor's report.

**APPENDIX B**

**Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By \_\_\_\_\_  
Authorized Officer

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