

OFFICIAL STATEMENT DATED JULY 11, 2023

IN THE OPINION OF BOND COUNSEL, INTEREST ON THE BONDS WILL BE EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES UNDER EXISTING LAW, AND INTEREST ON BONDS IS NOT INCLUDABLE IN THE ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS OR CORPORATIONS EXCEPT FOR CERTAIN ALTERNATIVE MINIMUM TAX CONSEQUENCES FOR CORPORATIONS. SEE "TAX MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

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

NEW ISSUE - Book-Entry-Only

S&P Global Ratings (AGM Insured) "AA"
Moody's Investors Service, Inc. (AGM Insured)..... "A1"
Moody's Investors Service, Inc. (Underlying) "A2"
See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATINGS"

\$19,000,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

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

UNLIMITED TAX BONDS, SERIES 2023

Dated Date: August 1, 2023

Interest Accrues From: Date of Delivery

Due: September 1, as shown below

The \$19,000,000 Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2023 (the "Bonds") are obligations of Harris County Municipal Utility District No. 1 (the "District") and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable at maturity or earlier redemption by the paying agent/registrars, initially Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). See "THE BONDS – Method of Payment of Principal and Interest." Interest accrues from the initial date of delivery (on or about August 9, 2023) (the "Date of Delivery"), and is payable on March 1, 2024, and on each September 1 and March 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption, and will be calculated on the basis a 360-day year consisting of twelve 30-day months. The Bonds are fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

The Bonds will be registered and delivered only 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 (as defined herein under "THE BONDS--Book-Entry-Only System") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC Participants. 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. See "THE BONDS - Book-Entry-Only System."

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

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



The Bonds, when issued, will constitute valid and binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. Investment in the Bonds is subject to special investment considerations as described herein. See "INVESTMENT CONSIDERATIONS."

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Smith, Murdaugh, Little & Bonham, L.L.P., Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about August 9, 2023.

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

\$19,000,000 Unlimited Tax Bonds, Series 2023

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 414199 (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP No. 414199 (b)
2024	\$ 555,000	4.000%	3.550%	TM1	2034 (c)	\$ 945,000	4.000%	3.700%	TX7
2025	635,000	4.000%	3.450%	TN9	2035 (c)	985,000	4.000%	3.850%	TY5
2026	665,000	4.000%	3.350%	TP4	2036 (c)	1,030,000	4.000%	4.000%	TZ2
2027	695,000	4.000%	3.250%	TQ2	2037 (c)	1,075,000	4.000%	4.050%	UA5
2028	725,000	4.000%	3.250%	TR0	2038 (c)	1,125,000	4.000%	4.100%	UB3
2029 (c)	755,000	4.000%	3.300%	TS8	2039 (c)	1,175,000	4.000%	4.200%	UC1
2030 (c)	790,000	4.000%	3.350%	TT6	2040 (c)	1,230,000	4.000%	4.250%	UD9
2031 (c)	825,000	4.000%	3.400%	TU3	2041 (c)	1,285,000	4.000%	4.300%	UE7
2032 (c)	865,000	4.000%	3.500%	TV1	2042 (c)	1,340,000	4.125%	4.350%	UF4
2033 (c)	900,000	4.000%	3.600%	TW9	2043 (c)	1,400,000	4.250%	4.375%	UG2

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- (a) The initial reoffering yield has been provided by the Initial Purchaser and represents the initial offering price to the public of a substantial amount of the Bonds for each maturity. Such initial reoffering yield may subsequently be changed. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2029, and thereafter, shall be subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 1, 2028, or any date thereafter at a price equal to the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption Provisions."

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any 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, contracts, audits, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District c/o Smith, Murdaugh, Little & Bonham, L.L.P., 2727 Allen Parkway, Suite 1100, Houston, Texas 77019 upon payment of the costs for duplication thereof.

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

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

References to web site addresses presented herein are for informational purposes only and may be in the form of a hyperlink solely for the reader's convenience. Unless specified otherwise, such web sites and the information or links contained therein are not incorporated into, and are not part of, this Official Statement for any purpose.

TABLE OF CONTENTS

	<u>Page</u>		<u>Page</u>
USE OF INFORMATION IN OFFICIAL STATEMENT.....	1	Registered Owners' Remedies.....	13
SALE AND DISTRIBUTION OF THE BONDS	3	Outstanding Bonds.....	14
Award and Marketing of the Bonds.....	3	Payment Record	14
Prices and Marketability	3	Funds 14	
Securities Laws.....	3	Record Date.....	14
MUNICIPAL BOND INSURANCE.....	3	Redemption Provisions.....	14
Bond Insurance Policy	3	Method of Payment of Principal and Interest.....	14
Assured Guaranty Municipal Corp.....	3	Registration.....	14
MUNICIPAL BOND RATINGS	4	Replacement of Paying Agent/Registrar	15
OFFICIAL STATEMENT SUMMARY.....	6	Book-Entry-Only System	15
SUMMARY OF SELECTED FINANCIAL INFORMATION.....	9	Use of Certain Terms in Other Sections of this	
THE BONDS	10	Official Statement.....	16
General.....	10	Use and Distribution of Bond Proceeds	17
Description	10	THE DISTRICT	18
Source of Payment.....	10	General.....	18
Authority for Issuance.....	10	Consolidation with Harris County Municipal	
Issuance of Additional Debt.....	11	Utility District No. 35.....	18
Defeasance.....	11	Description	18
No Arbitrage	12	Management of the District.....	18
Annexation.....	12	DEVELOPMENT OF THE DISTRICT	19
Consolidation	12	Status of Development.....	19
Strategic Partnership Agreement.....	13	Developers and Homebuilders.....	19
Legal Investment and Eligibility to Secure Public		Future Development.....	19
Funds in Texas	13	THE SYSTEM	19
Amendments	13	Regulation.....	19

Water Supply	20	Bankruptcy Limitation to Registered Owners' Rights.....	34
Wastewater Treatment	20	Future Debt	34
100-Year Flood Plain	20	Future and Proposed Legislation.....	34
Harris/Galveston Subsidence District	20	Marketability of the Bonds	34
General Fund Operating Statement.....	22	Environmental Regulations	35
SELECTED FINANCIAL INFORMATION.....	23	Potential Effects of Oil Price Fluctuations on the Houston Area	37
TAX DATA.....	23	Specific Flood Type Risks	37
Outstanding Bonds.....	23	Potential Impact of Natural Disaster	37
Cash and Investment Balances.....	24	Hurricane Harvey	37
Authority for Issuance.....	24	Continuing Compliance with Certain Covenants	38
Estimated Overlapping Debt.....	24	Approval of the Bonds.....	38
Estimated Overlapping Taxes	25	2023 Legislative Session.....	38
Classification of Assessed Valuation	25	Bond Insurance	38
Tax Collections	25	LEGAL MATTERS.....	39
District Tax Rates	25	Legal Opinions	39
Tax Rate Limitation	26	Legal Review.....	39
Maintenance Tax.....	26	Tax Exemption.....	39
Principal Taxpayers.....	26	NOT Qualified Tax-Exempt Obligations	40
Tax Adequacy for Debt Service	26	Collateral Federal Income Tax Consequences.....	40
Debt Service Fund Management Index.....	26	State, Local and Foreign Taxes.....	40
DEBT SERVICE REQUIREMENTS	27	Tax Accounting Treatment of Original Issue Discount and Premium Bonds	40
TAXING PROCEDURES	28	NO MATERIAL ADVERSE CHANGE.....	41
Property Tax Code and County-Wide Appraisal	28	NO-LITIGATION CERTIFICATE	41
District	28	PREPARATION OF OFFICIAL STATEMENT.....	42
Property Subject to Taxation by the District.....	28	Sources and Compilation of Information	42
General Residential Homestead Exemptions.....	29	Financial Advisor	42
Valuation of Property for Taxation.....	29	Consultants.....	42
Disaster Exemption	29	Updating of Official Statement.....	42
District and Taxpayer Remedies.....	29	Certification as to Official Statement	42
Agricultural, Open Space, Timberland and Inventory Deferment.....	30	CONTINUING DISCLOSURE OF INFORMATION	43
Tax Abatement	30	Annual Reports	43
Delinquent Tax Payments for Disaster Areas.....	30	Event Notices.....	43
Levy and Collection of Taxes	30	Availability of Information from MSRB.....	43
Rollback of Operation and Maintenance Tax Rate.....	31	Limitations and Amendments	44
District's Rights in the Event of Tax Delinquencies	32	Compliance with Prior Undertakings.....	44
INVESTMENT CONSIDERATIONS.....	32	MISCELLANEOUS	44
General.....	32	APPENDIX A – FINANCIAL STATEMENTS OF THE DISTRICT	
Factors Affecting Taxable Values and Tax Payments.....	32	APPENDIX B – SPECIMEN MUNICIPAL BOND INSURANCE POLICY	
Tax Collections and Foreclosure Remedies	33		
Registered Owners' Remedies.....	33		

SALE AND DISTRIBUTION OF THE BONDS

Award and Marketing of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost, which was tendered by SAMCO Capital Markets, Inc. (referred to herein as the "Initial Purchaser"). The Initial Purchaser has agreed to purchase the Bonds, bearing the interest rates on the cover page of this Official Statement, at a price of 98.394223% of the principal amount thereof, which resulted in a net effective interest rate of 4.178097%, calculated pursuant to Chapter 1204, Texas Government Code, as amended.

Prices and Marketability

Except as described in the Official Notice of Sale, the District has no control over the reoffering yields or prices of the Bonds or over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked prices of the Bonds may be greater than the difference between the bid and asked prices of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Except as described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial reoffering prices, including sales to dealers who may sell the Bonds into investment accounts. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE INITIAL PURCHASER MAY OVER -ALLOT OR EFFECT TRANSACTIONS WHICH STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

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

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and non-U.S. 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 July 13, 2023, 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 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 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 March 31, 2023:

- The policyholders' surplus of AGM was approximately \$2,742 million.
- The contingency reserve of AGM was approximately \$874 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,092 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 the following documents filed by AGL with the Securities and Exchange Commission (the "SEC") that relate to AGM are incorporated by reference into this Official Statement and shall be deemed to be a part hereof:

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2022 (filed by AGL with the SEC on March 1, 2023); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2023 (filed by AGL with the SEC on May 10, 2023).

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

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

Miscellaneous Matters

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

MUNICIPAL BOND RATINGS

The Bonds have received an insured rating of "AA" (stable outlook) from S&P solely in reliance upon the issuance and delivery of the Policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols "AAA" (the highest rating) through "D" (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold

securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds have received an insured rating of "A1" (stable outlook) from Moody's solely in reliance upon the issuance and delivery of the Policy by AGM at the time of delivery of the Bonds. Moody's has assigned an underlying rating of "A2" to the Bonds. An explanation of the ratings may be obtained from Moody's, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in their judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the ratings of S&P and Moody's.

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OFFICIAL STATEMENT SUMMARY

The following material is a summary of certain information contained herein and is qualified in its entirety by the more detailed information and financial statements appearing elsewhere in this Official Statement.

THE DISTRICT

- The Issuer Harris County Municipal Utility District No. 1 (the “District”), a political subdivision of the State of Texas operating pursuant to Chapters 49 and 54 of the Texas Water Code, as amended, was created on May 31, 1972, and is located approximately 28 miles northwest of the central business district of Houston and lies approximately four miles northeast of Tomball, Texas. The District is bisected north to south by Kuykendahl Road. The District lies entirely within the extraterritorial jurisdiction of the City of Houston. See “THE DISTRICT.”

- Status of Development The District currently encompasses approximately 1,305 acres, of which approximately 1,058 acres (approximately 3,314 lots) have been developed as the residential subdivisions of Londonderry, Wimbledon Country, Traditions, The Preserve, Oakmont Village, Klein Meadows, Princeton Place, Wimbledon Falls, Saddlebrook Ranch, Saddlebrook Village, Preserve at Northampton, and Lakes at Creekside Sections 1-11 and Section 13. In addition, approximately 60 acres of commercial reserves have been developed within those subdivisions and the commercial subdivision of Saddlebrook Commons which includes two apartment complexes with 264 and 380 units, six retail buildings, a storage facility, two gas stations, a coffee shop, two fast food restaurants, two banks, a credit union, an office park, a day care, a fitness center, an auto body shop, and a car wash. As of June 13, 2023, development in the District included 3,288 occupied single-family connections, 111 vacant single-family connections, 308 multi-family connections, 0 builder connections, 204 commercial connections, and 433 miscellaneous connections. The District contains approximately 28 acres currently under development as residential, approximately 69 undevelopable acres and approximately 90 remaining developable acres. See “DEVELOPMENT OF THE DISTRICT.”

- Developers/Homebuilders within the District The Lakes at Creekside, LLC has developed Lakes at Creekside, Section 1 (100 lots), Section 2 (45 lots), Section 3 (57 lots), Section 4 (56 lots), Section 5 (94 lots), and Section 6 (75 lots). The Lakes at Creekside, LLC sold 70 acres in the District to TOLL SOUTHWEST LLC, a Delaware limited liability company and TRI POINTE HOMES TEXAS, INC., a Texas corporation in 2019 and another 27 acres in 2021. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. are developing the 97 acres. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. are developing the 97 acres under the partnership name TMTL Creekside LP. The 97 acres are currently being developed as residential single-family housing as part of Lakes at Creekside. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. have developed Section 7 (76 lots), Section 8 (7 lots), Section 9 (60 lots), Section 10 (74 lots), Section 11 (48 lots), and Section 13 (101 lots). Currently, Toll Brothers and Tri Pointe Homes are building homes in The Lakes at Creekside. Approximately 240 homes have been completed in The Lakes at Creekside Sections 7-11 and Section 13. Homes within Lakes at Creekside are priced from approximately \$400,000 to \$650,000. The Lakes at Creekside, LLC, TOLL SOUTHWEST LLC, and TRI POINTE HOMES TEXAS, INC. are herein collectively referred to as the “Developers.” See “DEVELOPMENT OF THE DISTRICT – Developers and Homebuilders.”

- Payment Record The District has never defaulted in the payment of principal and interest on its bonded indebtedness.

- Legal Opinion Smith, Murdaugh, Little & Bonham, L.L.P., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”

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

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

THE BONDS

The Issue	\$19,000,000 Unlimited Tax Bonds, Series 2023 (the “Bonds”), issued pursuant to an order of the District’s Board of Directors authorizing the issuance of the Bonds (the “Bond Order”).
Description.....	The Bonds mature on September 1 in the years and in the principal amounts set forth on the cover page hereof. The Bond are dated August 1, 2023. Interest accrues from the initial date of delivery (on or about August 9, 2023) (the “Date of Delivery”), and is payable March 1, 2024, and on each September 1 and March 1 thereafter until maturity or prior redemption. Bonds maturing on or after September 1, 2029, are subject to redemption prior to maturity at the option of the District, in whole or from time to time in part, on August 1, 2028, or on any date thereafter, at the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS – General” and “– Redemption Provisions.”
Use of Proceeds.....	Proceeds from the sale of the Bonds will be used to reimburse the Developers for the improvements and related engineering and land costs and to pay the construction costs related to the District’s System as shown herein under “THE BONDS – Use and Distribution of Bond Proceeds.” Additionally, a portion of the proceeds of the Bonds will be used to pay developer interest and certain costs associated with the issuance of the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds.”
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar (hereinafter defined) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “THE BONDS – Book-Entry-Only System.”
Authority for Issuance.....	At an election held on November 3, 2015, the District voters authorized the issuance of \$36,000,000 in unlimited tax bonds. After the issuance of the Bonds, the District will have \$16,175,000 of unlimited tax bonds authorized but unissued. See “THE BONDS – Authority for Issuance” and “TAX DATA – Authority for Issuance.” The Bonds are issued pursuant to the Bond Order adopted by the Board of Directors of the District on the date of sale of the Bonds, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, particularly Texas Water Code, Chapters 49 and 54, as amended, an order of the Texas Commission on Environmental Quality (the “TCEQ” or the “Commission”), and various elections held within the District and passed by a majority of the participating voters.
Source of Payment.....	The Bonds are payable from a continuing direct annual ad valorem tax levied upon all taxable property within the District, which under Texas law is not limited as to rate or amount. See “TAXING PROCEDURES.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, the City of Houston or any entity other than the District. See “THE BONDS – Source of Payment.”
Outstanding Bonds.....	The District has previously issued twenty-four series of unlimited tax bonds, of which \$52,570,000 remains outstanding as of the Date of Delivery (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”
NOT Qualified Tax-Exempt Obligations....	The Bonds are <u>NOT</u> designated “qualified tax-exempt obligations” for financial institutions. See “LEGAL MATTERS – NOT Qualified Tax-Exempt Obligations.”
Municipal Bond Insurance.....	Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”
Municipal Bond Ratings.....	S&P Global Ratings (AGM Insured): “AA.” Moody’s Investors Service, Inc. (“Moody’s”) (AGM Insured): “A1.” Moody’s (Underlying): “A2.” See “MUNICIPAL BOND RATINGS.”

INVESTMENT CONSIDERATIONS

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

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SUMMARY OF SELECTED FINANCIAL INFORMATION

(UNAUDITED)

2022 Certified Assessed Valuation.....	\$ 1,144,342,500	(a)
2023 Preliminary Valuation	\$ 1,385,345,069	(b)
 Direct Debt:		
The Outstanding Bonds (as of delivery of the Bonds)	\$ 52,570,000	
The Bonds.....	<u>19,000,000</u>	
Total	\$ 71,570,000	
Estimated Overlapping Debt	\$ <u>55,220,328</u>	(c)
Total Direct and Estimated Overlapping Debt.....	\$ <u>126,790,328</u>	
 Direct Debt Ratios:		
As a percentage of the 2022 Certified Assessed Valuation.....	6.25	%
As a percentage of the 2023 Preliminary Valuation	5.17	%
 Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2022 Certified Assessed Valuation.....	11.08	%
As a percentage of the 2023 Preliminary Valuation	9.15	%
Bond Fund (as of June 13, 2023).....	\$ 8,898,133	(d)
Operating Fund (as of June 13, 2023).....	\$ 6,017,869	
Capital Projects Fund (as of June 13, 2023).....	\$ 7,756,503	
 2022 Tax Rate		
Debt Service.....	\$0.510	
Maintenance & Operation.....	<u>\$0.160</u>	
Total	\$0.670	
Average Annual Debt Service Requirements (2023-2043).....	\$ 4,374,704	(e)
Maximum Annual Debt Service Requirements (2024).....	\$ 7,132,998	(e)
 Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2023-2043) at 95% Tax Collections		
Based on the 2022 Certified Assessed Valuation	\$0.41	
Based on the 2023 Preliminary Valuation.....	\$0.34	
 Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2024) at 95% Tax Collections		
Based on the 2022 Certified Assessed Valuation	\$0.66	
Based on the 2023 Preliminary Valuation.....	\$0.55	

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- (a) As of January 1, 2022. As certified by the Harris Central Appraisal District ("HCAD"). See "TAXING PROCEDURES."
- (b) Provided by HCAD as the preliminary value as of January 1, 2023. This value represents the preliminary determination of the taxable value in the District as of January 1, 2023, provided by HCAD. No taxes will be levied on this preliminary value, which is subject to protest by landowners. See "TAX DATA" and "TAXING PROCEDURES".
- (c) See "TAX DATA - Estimated Overlapping Debt."
- (d) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund.
- (e) Debt service on the Bonds. See "DEBT SERVICE REQUIREMENTS."

\$19,000,000
HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

UNLIMITED TAX BONDS
SERIES 2023

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 1 (the "District") of its \$19,000,000 Unlimited Tax Bonds, Series 2023 (the "Bonds").

The Bonds are issued pursuant to an order authorizing the issuance of the Bonds (the "Bond Order") adopted by the Board of Directors of the District on the date of sale of the Bonds, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, particularly Texas Water Code, Chapters 49 and 54, as amended, an order of the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission") and various elections held within the District and passed by a majority of the participating voters.

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

This Official Statement includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report or instrument.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

Description

The Bonds will be dated August 1, 2023. Interest on the Bonds accrues from the initial date of delivery (on or about August 9, 2023) (the "Date of Delivery"), and is payable on March 1, 2024, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds mature on September 1 of the years and in the amounts shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, INITIAL REOFFERING YIELDS AND CUSIPS" on the inside cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York ("DTC"), in its nominee name of Cede & Co., pursuant to the book-entry system described herein ("Registered Owners"). No physical delivery of the Bonds will be made to the purchasers thereof. See "THE BONDS--Book-Entry-Only System." Interest calculations are based upon a 360-day year comprised of twelve 30-day months.

Source of Payment

The Bonds are payable from the proceeds of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. In the Bond Order, the District covenants to levy a tax sufficient in amount to pay principal of and interest on the Bonds when due, full allowance being made for anticipated delinquencies and costs of collection, and undertakes to collect such tax. The net proceeds from taxes levied for debt service purposes will then be deposited in the District's Debt Service Fund and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes which the District may hereafter issue.

The Bonds are obligations solely of the District and are not obligations of the State of Texas; Harris County, Texas; the City of Houston, Texas; nor any entity other than the District.

Authority for Issuance

At an election held on November 3, 2015, the District voters authorized the issuance of \$36,000,000 in unlimited tax bonds. After the issuance of the Bonds, the District will have \$16,175,000 of unlimited tax bonds authorized but unissued.

The Bonds are issued pursuant to the Bond Order, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, particularly Texas Water Code, Chapters 49 and 54, as amended, an order of the TCEQ and various elections held within the District and passed by a majority of the participating voters.

Issuance of Additional Debt

The District may issue additional bonds to provide and maintain improvements and facilities for which the District was created, with approval of the TCEQ and, in the case of bonds payable from taxes, the District's voters. Following the issuance of the Bonds, \$16,175,000 principal amount of unlimited tax bonds authorized by the District's voters will remain unissued. Additional unlimited tax bonds may be voted in the future. The Board is further empowered to borrow money for any lawful purpose and to issue bond anticipation notes, tax anticipation notes, and revenue bonds and notes.

The Bond Order imposes no limitation on the amount of additional bonds which may be issued by the District (if authorized by the District's voters and approved by the TCEQ). Any additional bonds issued by the District may be on a parity with the Bonds.

Issues of additional unlimited tax bonds or unlimited tax and revenue bonds will be required to provide water, sanitary sewer and drainage facilities and services to the remaining undeveloped land within the District's boundaries. See "INVESTMENT CONSIDERATIONS – Future Debt."

The District also is authorized by law to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for fire-fighting activities, the following actions would be required: (i) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (ii) amendment of the existing City of Houston ordinance specifying the purposes for which the District may issue bonds; (iii) approval of the master plan and bonds by the TCEQ; and (iv) approval of bonds by the Attorney General of Texas. The Board has not considered calling an election at this time for such purposes. The District has no information concerning any determination by the City concerning modifications of its ordinance.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bond application for the issuance of bonds by the Commission; and (b) approval of the bonds by the Attorney General of Texas. The District has not considered the preparation of a parks bond application at this time. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District. The principal amount of park bonds sold by the District is limited to one percent (1%) of the District's certified taxable assessed valuation, unless 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 District expressly reserves the right to issue in one or more installments the following: (1) bonds payable solely from net revenues of the District's water and wastewater system (the "System") for the purpose of completing, repairing, improving, extending, enlarging or replacing the System, and such bonds may be payable from and equally secured by a lien on and pledge of said net revenues on a parity with the pledge on any previously issued bonds secured by net revenues to the extent net revenues are used to pay the principal of and interest on such bonds; (2) inferior lien bonds and to pledge the net revenues of the System to the payment thereof, such pledge to be subordinate in all respects to the lien of previously issued revenue bonds and any previously issued or subsequently issued bonds which are on a parity with the Bonds; (3) special project bonds for the purchase, construction, improvement, extension, replacement, enlargement or repair of water, sewer and/or drainage facilities necessary under a contract or contracts with persons, corporations, municipal corporations, political subdivisions or other entities, such special project bonds to be payable from and secured by the proceeds of such contract or contracts; and (4) any other evidence of indebtedness authorized by law.

Issuance of additional bonds of other subsequently authorized bonds could affect the investment quality or security of the Bonds. See "INVESTMENT CONSIDERATIONS – Future Debt."

Defeasance

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

of a state that have been refunded and that, on the date the governing body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent. The foregoing obligations may be in book entry form and shall 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. If any of such Bonds are to be redeemed prior to their respective dates of maturity, provision must have been made for giving notice of redemption as provided in the Bond Order.

Upon such deposit as described above, such Bonds shall no longer be regarded to be 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 a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

No Arbitrage

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

Annexation

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

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

Consolidation

The District has the right to consolidate with other districts. Although the District has previously consolidated with another district, the District has no current plans to exercise its right of consolidation. See "THE DISTRICT – Consolidation with Harris County Municipal Utility District No. 35." No representation is made concerning the ability of the consolidated district to make debt service payments on the Bonds and other outstanding obligations of the consolidated district should consolidation occur.

Strategic Partnership Agreement

Effective December 13, 2010, the District and the City entered into a 30-year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of the Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District may use sales tax revenue generated under the Agreement for lawfully authorized purposes. None of the sales tax revenue is pledged toward the payment of principal and interest on the Bonds.

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is quoted from Section 49.186 of the Texas Water Code, as amended, 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, as amended) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

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

Amendments

The District has reserved the right to amend the Bond Order without the consent of the Registered Owners as may be required (a) by the provisions of the Bond Order, (b) for the purpose of curing any ambiguity, inconsistency, or formal defect or omission in the Bond Order, or (c) in connection with any other change not to the prejudice of the Registered Owners, but may not otherwise amend the terms of the Bonds or of the Bond Order without the consent of the Registered Owners.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the registered owners of the Bonds (the "Registered Owners") have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the

Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Outstanding Bonds

The District has previously issued twenty-four series of unlimited tax bonds, of which \$52,570,000 will remain outstanding as of the Date of Delivery (the "Outstanding Bonds").

Payment Record

The District has never defaulted in the payment of principal and interest on its bonded indebtedness.

Funds

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

Record Date

The record date for payment of the interest on any regularly scheduled Interest Payment Date is defined as the 15th day of the month (whether or not a business day) preceding such Interest Payment Date.

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on and after September 1, 2029, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on August 1, 2028, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See "THE BONDS – Book-Entry-Only System." Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the redemption date, in the manner specified in the Bond Order.

By the redemption date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the redemption date. 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.

Method of Payment of Principal and Interest

The Board has appointed Zions Bancorporation, National Association, Houston, Texas, as the initial Paying Agent/Registrar for the Bonds (the "Paying Agent/Registrar"). The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See "THE BONDS – Book-Entry-Only System."

Registration

Section 149(a) of the Code, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of the Bonds and will be deposited with DTC. See "THE BONDS – Book-Entry-Only System." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining the Register on behalf of the District.

Replacement of Paying Agent/Registrar

Provision is made in the Bond Order for replacement of the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the District, the new paying agent/registrar shall be required to accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any paying agent/registrar selected by the District shall be a duly qualified and competent trust or banking corporation or organization organized and doing business under the laws of the United States of America or of any State thereof, with a combined capital and surplus of at least \$25,000,000, which is subject to supervision of or examination by federal or state banking authorities, and which is a transfer agent duly registered with the United States Securities and Exchange Commission.

Book-Entry-Only System

This section describes how ownership of the Bonds is to be transferred and how the principal of and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee's name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District believes the source of such information to be reliable, but takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

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

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

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

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

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

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

Use of Certain Terms in Other Sections of this Official Statement

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

[Remainder of this page intentionally left blank.]

Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will be used to reimburse the Developers (herein defined) for the improvements and related engineering and land costs and to pay the construction costs related to the District’s System as shown below. Additionally, a portion of the proceeds of the Bonds will be used to pay developer interest and certain costs associated with the issuance of the Bonds.

	District’s Share
CONSTRUCTION COSTS	
Developer Contribution Items	
1. Lakes at Creekside, Section 13 – Clearing and Grubbing	\$ 148,539
2. Lakes at Creekside, Section 13 – Detention	536,072
3. Lakes at Creekside, Section 13 – W, WW, & D	1,746,553
4. SWPPP (Items No. 1-3)	82,759
5. Contingencies (0.47% of Item No. 2 & Associated SWPPP & 0.41% of Item No. 3 and Associated SWPPP)	9,970
6. Engineering, Surveying, and Materials Testing (Items No. 1-3)	372,793
7. Land Acquisition for Lakes at Creekside, Section 13 Detention	<u>839,836</u>
Total Developer Contribution Items	\$ 3,736,522
District Items	
1. Water Plant No. 2 Ground Storage Tank No. 2	\$ 900,000
2. Water Plant No. 2 Electrical Upgrades	400,000
3. Water Plant No. 3 Ground Storage Tank No. 2	875,000
4. Water Plant No. 4 Generator	450,000
5. Water Line Interconnect	250,000
6. Wastewater Treatment Plant No. 1 Expansion	5,999,546
7. Lakes at Creekside, Section 4 Storm Sewer Upgrades	2,135,000
8. Contingencies (10% of Items No. 1-5 & 7 & 5% of Item No. 6)	800,977
9. Engineering (15% of Items 1-8)	<u>1,771,579</u>
Total District Items	\$ 13,582,102
TOTAL CONSTRUCTION COSTS (91.15% of Bond Issue)	\$ 17,318,624
NONCONSTRUCTION COSTS	
A. Legal Fees	\$ 475,000
B. Fiscal Agent Fees	305,000
C. Developer Interest	169,134
D. Bond Discount	305,098
E. Bond Issuance Expenses	45,242
F. Bond Application Report Costs	60,000
G. Attorney General Fee (0.10% or \$9,500 Max)	9,500
H. TCEQ Bond Issuance Fee (0.25%)	47,500
I. Contingency (a)	<u>264,902</u>
TOTAL NONCONSTRUCTION COSTS	\$ 1,681,376
TOTAL BOND ISSUE REQUIREMENT	<u>\$ 19,000,000</u>

(a) Represents the difference between the estimated and actual amounts of Bond Discount.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved by the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. The Engineer has advised the District that proceeds of the sale of the Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

General

The District is a political subdivision of the State of Texas operating as a municipal utility district pursuant to Article XVI, Section 59 of the Texas Constitution and Chapters 49 and 54 of the Texas Water Code, as amended. The District was created by an Order of the Texas Water Rights Commission, a predecessor to the TCEQ on May 31, 1972. The District is vested with all of the rights, privileges, authority and functions conferred by the general laws of the State of Texas applicable to municipal utility districts, including without limitation those conferred by Chapters 49 and 54, Texas Water Code, as amended. The District is empowered, among other things, to purchase, construct, operate, acquire, own, and maintain water and wastewater facilities and improvements, to provide for the control and diversion of storm water, and to provide parks and recreational facilities and equipment.

The District is additionally empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to issue bonds for such purposes, after approval by the TCEQ and the District's voters. The District is also empowered to provide for solid waste disposal services. The District is subject to the continuing supervision of the TCEQ.

Consolidation with Harris County Municipal Utility District No. 35

At an election held on August 13, 1994, and effective November 1, 1994, voters in the District (as it existed prior to consolidation) and the voters in Harris County Municipal Utility District No. 35 ("MUD No. 35") authorized by separate elections consolidation of the District with MUD No. 35. The District acquired all assets and liabilities of MUD No. 35, and the geographic boundary of the District includes all the land previously included in the District and MUD No. 35.

Description

The District originally contained 296.36 acres and presently encompasses approximately 1,305 acres due to an annexation on January 24, 1979 of 100.65 acres, the consolidation with MUD No. 35 of 271.25 acres on November 1, 1994, an annexation on August 12, 2003 of 68.09 acres, an annexation on March 8, 2005 of 102.69 acres, an annexation on December 13, 2005 of 61.53 acres, an annexation on January 9, 2007 of 100.55 acres, an annexation on January 13, 2015 of 93.60 acres, an annexation on October 11, 2016 of 181.75 acres, an annexation of 1.0 acre on April 9, 2019, and an annexation of 27.73 acres on June 8, 2021. The District is located approximately 28 miles northwest of the central business district of the City of Houston, Texas, and approximately four miles northeast of Tomball, Texas. Access to the District from the downtown Houston business area is provided via Interstate Highway 45 and Kuykendahl Road. The District is located entirely within Harris County and the exclusive extraterritorial jurisdiction of the City of Houston. Approximately 1,035 of the District's acreage lies within Klein Independent School District and approximately 270 acres lies within Tomball Independent School District.

Management of the District

The District is governed by a board of directors (the "Board"), consisting of five directors, which has control over and management and supervision of all affairs of the District. All directors serve four-year staggered terms and all elections are held the first Saturday in May in even-numbered years. All of the directors are qualified to serve.

<u>Name</u>	<u>Position</u>	<u>Term Expires May</u>
Doug Caldwell, Jr.	President	2026
Craig C. Young	Vice President	2024
James E. Roberson	Secretary	2026
Ralph Mead	Director	2024
Janet Stallings	Director	2026

The District employs the following companies and individuals to operate its utilities and recreational facilities:

Tax Assessor/Collector – Land and improvements in the District are appraised for taxation by the Harris Central Appraisal District. The District has engaged the Harris County Tax Office as the District's Tax Assessor/Collector.

Utility System Operator – The District's operator is Municipal Operations & Consulting, Inc. (the "Operator").

Bookkeeper – Municipal Accounts & Consulting, L.P. serves as bookkeeper for the District.

Auditor – The District engaged Mark C. Eyring, CPA PLLC to audit its financial statements for the fiscal year ended September 30, 2022, which audit is attached hereto as "APPENDIX A."

Engineer – The consulting engineer retained by the District in connection with the design and construction of the District's facilities is Vogler & Spencer Engineering, Inc. (the "Engineer").

Bond Counsel and General Counsel – Smith, Murdaugh, Little & Bonham, L.L.P. (“Bond Counsel”) serves as bond counsel to the District. In addition, Smith, Murdaugh, Little & Bonham, L.L.P. serves as general counsel to the District on matters other than the issuance of the Bonds.

Disclosure Counsel – McCall, Parkhurst & Horton L.L.P., Houston, Texas (“Disclosure Counsel”), serves as disclosure counsel to the District. The fee to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds is contingent on the issuance, sale and delivery of the Bonds.

Financial Advisor – Robert W. Baird & Co., Inc. serves as the District’s financial advisor (the “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. See “PREPARATION OF OFFICIAL STATEMENT – Consultants.”

DEVELOPMENT OF THE DISTRICT

Status of Development

The District currently encompasses approximately 1,305 acres, of which approximately 1,058 acres (approximately 3,314 lots) have been developed as the residential subdivisions of Londonderry, Wimbledon Country, Traditions, The Preserve, Oakmont Village, Klein Meadows, Princeton Place, Wimbledon Falls, Saddlebrook Ranch, Saddlebrook Village, Preserve at Northampton, and Lakes at Creekside Sections 1-11 and Section 13. In addition, approximately 60 acres of commercial reserves have been developed within those subdivisions and the commercial subdivision of Saddlebrook Commons which includes two apartment complexes with 264 and 380 units, six retail buildings, a storage facility, two gas stations, a coffee shop, two fast food restaurants, two banks, a credit union, an office park, a day care, a fitness center, an auto body shop, and a car wash. As of June 13, 2023, development in the District included 3,288 occupied single-family connections, 111 vacant single-family connections, 308 multi-family connections, 0 builder connections, 204 commercial connections, and 433 miscellaneous connections. The District contains approximately 28 acres currently under development as residential, approximately 69 undevelopable acres and approximately 90 remaining developable acres.

Developers and Homebuilders

The Lakes at Creekside, LLC has developed Lakes at Creekside, Section 1 (100 lots), Section 2 (45 lots), Section 3 (57 lots), Section 4 (56 lots), Section 5 (94 lots), and Section 6 (75 lots). The Lakes at Creekside, LLC sold 70 acres in the District to TOLL SOUTHWEST LLC, a Delaware limited liability company and TRI POINTE HOMES TEXAS, INC., a Texas corporation in 2019 and another 27 acres in 2021. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. are developing the 97 acres. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. are developing the 97 acres under the partnership name TMTL Creekside LP. The 97 acres are currently being developed as residential single-family housing as part of Lakes at Creekside. TOLL SOUTHWEST LLC and TRI POINTE HOMES TEXAS, INC. have developed Section 7 (76 lots), Section 8 (7 lots), Section 9 (60 lots), Section 10 (74 lots), Section 11 (48 lots), and Section 13 (101 lots). Currently, Toll Brothers and Tri Pointe Homes are building homes in The Lakes at Creekside. Approximately 240 homes have been completed in The Lakes at Creekside Sections 7-11 and Section 13. Homes within Lakes at Creekside are priced from approximately \$400,000 to \$650,000. The Lakes at Creekside, LLC, TOLL SOUTHWEST LLC, and TRI POINTE HOMES TEXAS, INC. are herein collectively referred to as the “Developers.”

Future Development

The District contains approximately 28 acres currently under development as residential, approximately 69 undevelopable acres and approximately 90 remaining developable acres. The District makes no representation as to when or if such acreage will be developed or if any future development will be consistent with the type of development the District presently contains.

THE SYSTEM

Regulation

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

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

Water Supply

The District owns three water plants. An earlier plant, Water Plant No. 1, has been demolished. Water Plant No. 2 consists of a 1,239 gallon-per minute ("gpm") well, 40,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. Water Plant No. 3 consists of a 1,074 gpm well, 30,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. Water Plant No. 4 consists of a 516 gpm well, 30,000 gallons of hydropneumatic tank capacity, a 420,000 gallon ground storage tank and 4,000 gpm of booster pump capacity. According to the District's Engineer, water plants 2, 3, and 4 are capable of serving 4,715 equivalent single-family connections ("esfc") in the District.

Wastewater Treatment

The District owns and operates a 950,000 gallon-per day ("gpd") wastewater treatment facility ("Wastewater Treatment Facility No. 1") and a 110,000 gallon-per day ("gpd") wastewater treatment facility ("Wastewater Treatment Facility No. 2"). A portion of the proceeds from the Bonds will be used to expand Wastewater Treatment Facility No. 1 from 950,000 gpd to 1,500,000 gpd. According to the Engineer, the two facilities are currently adequate to serve 3,533 esfc. After the expansion of Wastewater Treatment Facility No. 1, the two facilities will be adequate to serve 5,366 esfc.

100-Year Flood Plain

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

According to the FEMA Map Panel No. 48201 C0235M dated October 16, 2013, approximately 9 acres within the District are located in the 100-year flood plain and are not considered to be developable.

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 Service Area 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 Service Area. 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.

Harris/Galveston Subsidence District

The District is located within Area 3 of the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District"), the entity which regulates groundwater withdrawal in Harris and Galveston Counties. The District's ability to pump groundwater from its wells is subject to annual permits issued by the Subsidence District. On April 14, 1999, the Subsidence District adopted a Regulatory Plan, which was subsequently amended on May 8, 2013 (the "Regulatory Plan"), to reduce groundwater withdrawal through conversion to surface water consumption by the areas within the Subsidence District's boundaries. Under the Regulatory Plan, areas within Area 3 of the Subsidence District's boundaries must have been converted to 30% surface water currently, 60% surface water by 2025 and 80% surface water by 2035. Water permittees, including the District, are required to adopt and implement a groundwater reduction plan to meet the schedule for surface water conversion.

The District is also located within the boundaries of the North Harris County Regional Water Authority (the "Water Authority"). The Water Authority was created to accomplish the conversion to surface water by entities within the Subsidence District's Area 3 in accordance with the Subsidence District's Regulatory Plan. To implement the required conversion to surface water in accordance with the Subsidence District's Regulatory Plan, the Water Authority has adopted a groundwater reduction plan providing for the design, construction and operation of a network of surface water transmission lines, storage tanks, and pumping stations to transport and distribute surface water to the areas within the Water Authority's boundaries (the "Surface Water Facilities"). The Water Authority has also contracted with the City of Houston to secure a long-term supply of surface water. To obtain funding to accomplish its purposes, the Water Authority assesses a groundwater pumpage fee per 1,000 gallons of water, which applies to certain water well permittees in its boundaries, including the District. The Water Authority has issued its Revenue Bonds to finance costs related to the design, acquisition and construction of Phase I of the Surface Water Facilities. The Water Authority bonds are secured by revenues of the Water Authority, including the groundwater pumpage fee. The groundwater pumpage fee may increase in the future.

The District is required to pay for its share of the cost to acquire, design, construct and operate the Surface Water Facilities. The District's share of the cost of Phase I of the Surface Water Facilities is being paid through the pumpage fee. For future phases of the Surface Water Facilities, current rules of the Water Authority allow the District to elect to pay for its share of the costs of the Surface Water Facilities through upfront capital contributions, which may be financed by the District through the issuance of bonds.

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

No representation is made that the Water Authority will continue in existence or will build the Surface Water Facilities to meet the Subsidence District's Regulatory Plan. If such event occurs, the District would be subject to the Subsidence District's disincentive fee and would be required to proceed with preparing and implementing its own groundwater reduction plan.

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General Fund Operating Statement

The following is a summary of the District's Operating Fund. The figures for the fiscal years ending September 30 in the years 2018 through 2022, were obtained from the District's annual financial report, reference to which is hereby made. See "APPENDIX A." The figures for the period ended 9/30/2023 are unaudited and were obtained from the June 13, 2023, Bookkeepers report. The District is required by statute to have a certified public accountant prepare and file an annual audit of its financial records with the TCEQ.

	Fiscal Year Ended				
	9/30/23 (a)	09/30/22	09/30/21	09/30/20	09/30/19
REVENUES					
Property taxes	\$ 1,815,794	\$ 1,148,681	\$ 1,255,043	\$ 1,706,799	\$ 1,074,730
Water Service	416,309	1,021,921	911,218	907,504	858,006
Sewer Service	461,209	1,138,906	1,075,502	1,003,193	990,229
Surface Water Fees	777,854	2,115,509	1,615,297	1,547,462	1,272,093
Penalty	28,178	75,698	56,437	37,150	53,887
Tap Connection and Inspection Fees	35,985	265,225	139,660	182,255	167,887
Sales and Use Taxes	71,250	123,020	112,171	87,216	84,715
Interest on Deposits and Investments	123,915	38,663	35,868	114,537	134,955
Other Revenues	<u>33,159</u>	<u>58,049</u>	<u>71,102</u>	<u>40,616</u>	<u>49,523</u>
TOTAL REVENUES	\$ 3,763,653	\$ 5,985,672	\$ 5,272,298	\$ 5,626,732	\$ 4,685,425
EXPENDITURES					
Professional fees	\$ 136,749	\$ 216,823	\$ 203,981	\$ 206,579	\$ 198,628
Contracted services	217,732	296,568	285,830	268,038	255,425
Utilities	147,789	246,262	216,153	214,098	212,621
Surface Water Fees	956,292	2,132,174	1,637,176	1,577,737	1,324,300
Repairs and Maintenance	494,639	821,057	929,663	677,798	564,123
Other Operating Expenditures	320,943	360,726	194,238	223,942	207,899
Security Service	181,069	299,003	294,447	284,563	276,660
Garbage Disposal	469,359	688,331	574,831	538,581	514,591
Administrative Expenditures	139,169	207,815	176,889	160,157	169,117
Capital Outlay	<u>783,872</u>	<u>1,258,438</u>	<u>1,058,744</u>	<u>539,776</u>	<u>461,925</u>
TOTAL EXPENDITURES	\$ 3,847,613	\$ 6,527,197	\$ 5,571,952	\$ 4,691,269	\$ 4,185,289
Excess Revenues (Expenditures)	\$ (83,960)	\$ (541,525)	\$ (299,654)	\$ 935,463	\$ 500,136
Other Sources (Uses)	\$ -	\$ 119,827	\$ 2,517	\$ -	\$ -
Balance, Beg of Year	<u>\$ 6,131,585</u>	<u>\$ 6,553,283</u>	<u>\$ 6,850,420</u>	<u>\$ 5,914,957</u>	<u>\$ 5,414,821</u>
Balance, End of Year	<u>\$ 6,047,625</u>	<u>\$ 6,131,585</u>	<u>\$ 6,553,283</u>	<u>\$ 6,850,420</u>	<u>\$ 5,914,957</u>

(a) Unaudited; as of September 30, 2023.

SELECTED FINANCIAL INFORMATION

2022 Certified Assessed Valuation.....	\$ 1,144,342,500 (a)
2023 Preliminary Valuation	\$ 1,385,345,069 (b)
Direct Debt:	
The Outstanding Bonds (as of delivery of the Bonds)	\$ 52,570,000
The Bonds.....	<u>19,000,000</u>
Total	\$ 71,570,000
Estimated Overlapping Debt.....	<u>\$ 55,220,328 (c)</u>
Total Direct and Estimated Overlapping Debt.....	<u>\$ 126,790,328</u>

Area of District: 1,305 acres

Estimated 2023 Population: 12,278 (d)

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- (a) As of January 1, 2022. As certified by HCAD. See "TAXING PROCEDURES."
 - (b) Provided by HCAD as the preliminary value as of January 1, 2023. This value represents the preliminary determination of the taxable value in the District as of January 1, 2023, provided by HCAD. No taxes will be levied on this preliminary value, which is subject to protest by landowners. See "TAX DATA" and "TAXING PROCEDURES".
 - (c) See "TAX DATA – Estimated Overlapping Debt."
 - (d) Based on 3.5 residents per single family occupied connection and 2.5 residents per multi-family unit. There were 3,288 occupied single-family connections and 308 multi-family units as of June 13, 2023.

TAX DATA

Outstanding Bonds

The District has previously issued twenty-three series of bonds. As of the delivery of the Bonds, \$52,570,000 principal amount of the previously issued bonds will remain outstanding (the "Outstanding Bonds").

<u>Date of Issue</u>	<u>Series</u>	<u>Purpose</u>	<u>Original Amount</u>	<u>Amount Outstanding After Issuance of the Bonds</u>
A. New Money Issues				
09/01/14	2014	Water & Sewer	\$ 5,370,000	\$ 3,965,000
06/01/16	2016	Water & Sewer	9,575,000	7,375,000
12/01/17	2017	Water & Sewer	9,690,000	7,585,000
10/01/19	2019	Water & Sewer	2,340,000	2,080,000
09/01/20	2020	Water & Sewer	5,355,000	4,990,000
05/01/22	2022	Water & Sewer	11,700,000	11,700,000
08/01/23	2023 (a)	Water & Sewer	<u>19,000,000</u>	<u>19,000,000</u>
			<u>\$63,030,000</u>	<u>\$56,695,000</u>
B. Refunding				
10/01/14	2014	Refunding	\$ 7,025,000	\$ 2,045,000
02/01/16	2016	Refunding	4,010,000	1,905,000
08/01/17	2017	Refunding	4,870,000	4,190,000
06/01/21	2021	Refunding	<u>7,235,000</u>	<u>6,735,000</u>
			<u>\$23,140,000</u>	<u>\$14,875,000</u>
TOTAL			<u>\$86,170,000</u>	<u>\$71,570,000</u>

(a) The Bonds.

Cash and Investment Balances

Operating Fund (as of June 13, 2023)	Cash and Temporary Investments	\$ 6,017,869
Capital Projects Fund (as of June 13, 2023)	Cash and Temporary Investments	\$ 7,756,503
Bond Fund (as of June 13, 2023)	Cash and Temporary Investments	\$ 8,898,133 (a)

(a) Neither Texas law nor the Bond Order requires that the District maintain any particular sum in the Bond Fund.

Authority for Issuance

<u>Election Date</u>	<u>Purpose</u>	<u>Amount Authorized</u>	<u>Amount Issued</u>	<u>Remaining Authorized But Unissued</u>
November 5, 2013	Water, Sewer, Drainage & Refunding	\$ 36,000,000	\$ 36,000,000 (a)	\$ -
November 3, 2015	Water, Sewer, Drainage & Refunding	\$ 36,000,000	\$ 19,825,000 (b)	\$ 16,175,000

(a) Includes \$10,875,000 in principal amount from the Bonds.

(b) Includes \$8,125,000 in principal amount from the Bonds.

Estimated Overlapping Debt

The following table indicates the indebtedness, defined as outstanding bonds payable from ad valorem taxes, of governmental entities overlapping the District and the estimated percentages and amounts of such indebtedness attributable to property within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports prepared by the Municipal Advisory Council of Texas. Such figures do not indicate the tax burden levied by the applicable taxing jurisdictions for operation and maintenance or for other purposes.

<u>Taxing Jurisdiction</u>	<u>Debt as of May 31, 2023</u>	<u>Percent</u>	<u>Overlapping Amount</u>
Harris County	\$ 1,770,442,125	0.20%	\$ 3,477,161
Harris County Department of Education	13,865,000	0.20%	27,226
Harris County Hospital District	70,970,000	0.20%	142,261
Harris County Flood Control	797,615,000	0.20%	1,599,121
Port of Houston Authority	445,749,000	0.20%	893,731
Lone Star College System	602,965,000	0.41%	2,460,896
Klein Independent School District (a)	1,119,885,000	3.15%	35,319,757
Tomball Independent School District (b)	889,775,000	1.27%	<u>11,300,176</u>
Total Estimated Overlapping Debt			\$ 55,220,328
The District			<u>\$ 71,570,000 (c)</u>
Total Direct & Estimated Overlapping			<u>\$ 126,790,328</u>
Ratio of Estimated Direct and Overlapping Debt to 2022 Certified Assessed Valuation			11.08 %
Ratio of Estimated Direct and Overlapping Debt per Capita (d)			\$ 12,278

(a) Approximately 1,035 acres within the District lie within Klein Independent School District.

(b) Approximately 270 acres within the District lie within Tomball Independent School District.

(c) Includes the Bonds.

(d) Based on 3.5 residents per single family occupied connection and 2.5 residents per multi-family unit. There were 3,288 occupied single-family connections and 308 multi-family units as of June 13, 2023.

Estimated Overlapping Taxes

<u>Taxing Jurisdictions</u>	<u>2022 Tax Rate Per \$100 of A.V.</u>
The District	\$ 0.670000
Harris County and Related Entities (a)	0.535480
Klein Independent School District (b)	1.230000
Lone Star College System District	0.107800
Harris County Emergency Services District No. 7	0.093900
Harris County Emergency Services District No. 11	<u>0.029336</u>
Total	<u>\$ 2.666516</u>

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

(b) Of the 1,305 acres in the District, approximately 270 acres lie within Tomball Independent School District, which levied a 2022 tax rate of \$1.230000 and approximately 1,035 acres lie within Klein Independent School District.

Classification of Assessed Valuation

<u>Type of Property</u>	<u>2022 Assessed Valuation</u>	<u>2021 Assessed Valuation</u>	<u>2020 Assessed Valuation</u>	<u>2019 Assessed Valuation</u>	<u>2018 Assessed Valuation</u>
Real: Single-Family Residential	\$ 946,623,013	\$ 788,009,235	\$ 703,509,481	\$ 641,365,706	\$ 590,529,660
Real: Multi-Family Residential	76,360,943	68,922,169	70,290,553	65,809,123	66,493,391
Real: Commercial	78,480,826	67,003,502	61,327,827	60,478,099	55,238,638
Vacant Lots/Land	11,313,351	12,125,307	12,046,376	10,631,681	11,618,472
Personal Property	<u>31,564,369</u>	<u>20,482,433</u>	<u>17,695,683</u>	<u>20,554,942</u>	<u>20,661,356</u>
Total	<u>\$ 1,144,342,500</u>	<u>\$ 956,542,646</u>	<u>\$ 864,869,920</u>	<u>\$ 798,839,551</u>	<u>\$ 744,541,517</u>

Tax Collections

The following statement of tax collections set forth in condensed form is the historical tax collection experience of the District. Such summary has been prepared by the Financial Advisor for inclusion herein based upon information from District audits and records of the District tax assessor/collector. Reference is made to such audits and records for further and more complete information.

<u>Tax Year</u>	<u>Assessed Valuation (a)</u>	<u>Tax Rate</u>	<u>Adjusted Tax Levy (a)</u>	<u>Current Collections (b)</u>		<u>Total Collections (c)</u>		<u>Fiscal Year End</u>
				<u>Amount</u>	<u>%</u>	<u>Amount</u>	<u>%</u>	
2018	\$744,541,517	0.745	5,546,834	5,534,912	99.79%	5,520,875	99.70%	9/30/2019
2019	798,839,551	0.745	5,951,355	5,933,301	99.70%	5,950,692	99.60%	9/30/2020
2020	864,869,920	0.735	6,356,794	6,333,587	99.63%	5,950,692	99.10%	9/30/2021
2021	956,542,646	0.710	6,791,453	6,768,315	99.66%	6,499,746	95.51%	9/30/2022
2022	1,144,342,500	0.670	7,667,095	7,549,667	98.47%	7,549,667	98.47%	9/30/2023

(a) Values and levy figures as shown within the District's audited financial statements for the fiscal year ended September 30, 2022. Such values and tax levy may be subsequently adjusted.

(b) Represents collections from October 1 of each respective tax year to September 30 of the year thereafter. Collections amounts and percentages for each tax year were obtained from the District's audited financial statements for the fiscal year ended September 30 of the year following each tax year.

(c) With the exception of tax year 2022, represents collections from October 1 of each respective tax year to September 30, 2022. Collections amounts and percentages for each tax year were obtained from the District's audited financial statements for the fiscal year ended September 30, 2022.

District Tax Rates

	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Debt Service	\$ 0.510	\$ 0.590	\$ 0.590	\$ 0.530	\$ 0.600
Maintenance	<u>0.160</u>	<u>0.120</u>	<u>0.145</u>	<u>0.215</u>	<u>0.145</u>
	<u>\$ 0.670</u>	<u>\$ 0.710</u>	<u>\$ 0.735</u>	<u>\$ 0.745</u>	<u>\$ 0.745</u>

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
 Maintenance: \$1.00/\$100 Assessed Valuation.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem maintenance tax for planning, maintaining, repairing and operating the District’s improvements, if such maintenance tax is authorized by a vote of the District’s electors. On August 13, 1994, voters authorized the District to levy a maintenance tax in an amount not to exceed \$1.00 per \$100 assessed valuation. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Outstanding Bonds, the Bonds, and any tax bonds which may be issued in the future.

Principal Taxpayers

The following list of top ten principal taxpayers was provided by the District’s Tax Assessor/Collector based on the 2022 tax roll of the District, which reflect ownership as of January 1, 2022. Ownership changes subsequent to January 1, 2022, are not known to the District.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>2022 Assessed Valuation</u>	<u>% of Assessed Valuation</u>
Corteen Spring Creek LLC, et al	Land & Improvements	\$ 54,827,416	4.79%
Raamco Augusta Meadows LLC	Land & Improvements	26,360,943	2.30%
Tri Pointe Homes Texas, Inc.	Land & Improvements	7,984,452	0.70%
TMTL Creekside LP	Land & Improvements	7,662,472	0.67%
Toll Southwest LLC	Land & Improvements	7,489,659	0.65%
RPC Storage 6R Portfolio LLC	Utility	7,405,397	0.65%
SCG Saddlebrook Plaza LLC	Land & Improvements	6,653,849	0.58%
Centerpoint Energy, Inc.	Land & Improvements	4,756,070	0.42%
US Employees Credit Union	Land & Improvements	3,972,609	0.35%
Bufis LLC	Land & Improvements	<u>3,593,863</u>	<u>0.31%</u>
Total		<u>\$ 130,706,730</u>	<u>11.42%</u>

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Taxable Assessed Valuation that would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2022 Assessed Valuation (\$1,144,342,500) and the 2023 Preliminary Valuation (\$1,385,345,069). The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds:

Average Annual Debt Service Requirements (2023-2048).....	\$ 4,374,704
Tax Rate of \$0.41 on the 2022 Certified Assessed Valuation produces.....	\$ 4,457,214
Tax Rate of \$0.34 on the 2023 Preliminary Valuation produces.....	\$ 4,474,665
Maximum Annual Debt Service Requirement (2024).....	\$ 7,132,998
Tax Rate of \$0.66 on the 2022 Certified Assessed Valuation produces.....	\$ 7,175,027
Tax Rate of \$0.55 on the 2023 Preliminary Valuation produces.....	\$ 7,238,428

Debt Service Fund Management Index

Debt Service Requirements for the calendar year ending December 31, 2023 (a).....	\$ 3,916,289
Debt Service Fund Balance on June 13, 2023.....	\$ 8,898,133
Less: Debt Service Payments due September 1, 2023.....	<u>(3,916,289)</u>
	\$ 4,981,845
2022 Debt Service Fund Tax Levy @ 95% collections produces (b).....	\$ 6,711,197
Sum of Debt Service Fund Balance and Estimated Debt Service Tax Levy.....	<u>\$ 11,693,042</u>

(a) Reflects the projected debt service requirements after the issuance of the Bonds.

(b) Utilizing the 2023 Preliminary Valuation and the 2022 debt service tax rate of \$0.51 per \$100/A.V.

DEBT SERVICE REQUIREMENTS

The following schedules set forth the current total debt service requirements of the District, plus the principal and interest requirements on the Bonds.

Year Ending December 31	Outstanding Debt Service (a)	The Bonds		Total Debt Service
		Principal	Interest	
2023	\$ 3,916,289	\$ -	\$ -	\$ 3,916,289
2024	5,766,062	555,000	811,936	7,132,998
2025	5,313,737	635,000	742,975	6,691,712
2026	5,358,643	665,000	717,575	6,741,218
2027	4,783,486	695,000	690,975	6,169,461
2028	4,306,136	725,000	663,175	5,694,311
2029	4,361,169	755,000	634,175	5,750,344
2030	3,677,759	790,000	603,975	5,071,734
2031	3,718,919	825,000	572,375	5,116,294
2032	3,275,811	865,000	539,375	4,680,186
2033	3,298,030	900,000	504,775	4,702,805
2034	3,071,805	945,000	468,775	4,485,580
2035	2,641,684	985,000	430,975	4,057,659
2036	2,653,456	1,030,000	391,575	4,075,031
2037	1,997,269	1,075,000	350,375	3,422,644
2038	1,324,813	1,125,000	307,375	2,757,188
2039	1,331,175	1,175,000	262,375	2,768,550
2040	1,176,363	1,230,000	215,375	2,621,738
2041	824,775	1,285,000	166,175	2,275,950
2042	822,825	1,340,000	114,775	2,277,600
2043	-	1,400,000	59,500	1,459,500
Total (b)	\$ 63,620,205	\$19,000,000	\$ 9,248,586	\$ 91,868,791

- (a) Outstanding as of delivery of the Bonds.
- (b) Totals may not sum due to rounding.

Average Annual Requirements: (2023-2043) \$4,374,704
 Maximum Requirement: (2024) \$7,132,998

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TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (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 a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly 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"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a 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. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property are subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately owned utilities. Principal categories of exempt property include 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; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2022 tax year, the District granted a \$15,000 exemption for residential homesteads of persons sixty-five (65) years or older or under a disability. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence 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 in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural 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 certain tangible personal property, as defined by the Property Tax Code, acquired in or imported into Texas for storage purposes and which 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. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it 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. 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. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has not exercised its option to tax goods-in-transit personal property but may choose to do so in the future. Currently, the District has no intention of taxing goods-in-transit personal property.

General Residential Homestead Exemptions

Texas law 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, but not less than \$5,000 if any exemption is granted, from ad valorem taxation. The law provides, however, that 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 District has never granted a general residential homestead exemption.

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. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by 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.

Disaster Exemption

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 disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the level of appraisal of a certain category of property, the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption. The District may not, however, protest a valuation of any individual property.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, Texas law provides for an additional notice and, upon petition by qualified voters, an election which could result in the repeal of certain tax rate increases on residential homesteads. The Property Tax Code also establishes a

procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland and Inventory Deferral

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land.

Tax Abatement

The City of Houston, Harris County, or the District may designate all or part of the District as a reinvestment zone, and the District, Harris County, and (if it were to annex the area) the City of Houston may thereafter enter into tax abatement agreements with the owners of property within the zone. The tax abatement agreements may exempt from ad valorem tax, by the applicable taxing jurisdictions, and/or by the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. According to the District's Tax Assessor/Collector, to date, none of the area within the District has been designated as a reinvestment zone.

Delinquent Tax Payments for Disaster Areas

Taxpayers for homesteads and small businesses damaged as a direct result of a disaster may pay property taxes on the property in four equal quarterly installments by notice to the District before the delinquency date without penalty or interest. Installments must be completed within six months of the delinquency date, which normally is February 1 but could be delayed because of delayed valuations. Quarterly payments by a substantial number of owners could adversely affect a District's collection of taxes for debt services in the year following a disaster.

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty 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. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only if (i) an error or omission of a representative of the District, including the Appraisal District, caused the failure of the taxpayer to pay taxes, (ii) the delinquent taxes are paid on or before the one-hundred and eightieth (180th) day after the taxpayer received proper notice of such delinquency and the delinquent taxes relate to a property for which the appraisal roll lists one or more certain specified inaccuracies, or (iii) the taxpayer submits evidence sufficient to show that the tax payment was delivered before the delinquency, date to the United States Postal Service or other delivery service, but an act or omission of the postal or delivery service resulted in the tax payment being considered delinquent. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances 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.

Rollback of Operation and Maintenance Tax Rate

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

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis. For the 2022 tax year, the Board of Directors determined that the District's classification is that of a Developing District. The District cannot give any assurances as to what its classification will be at any point in

time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property against which the tax is levied. In addition, on January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of each taxing unit, including the District, having power to tax the property. The District's tax lien is on a parity with tax liens of other such taxing units. See "TAX DATA — Estimated Overlapping Taxes." A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien. Further, personal property under certain circumstances is subject to seizure and sale for the payment of delinquent taxes, penalties, and interest.

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

INVESTMENT CONSIDERATIONS

General

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

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is primarily related to the vitality of the residential housing industry in the Greater Houston Metropolitan Area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, oil prices, energy availability, gasoline prices, credit availability and consumer demand. Decreased levels of home construction activity tend to restrict the growth of property values in the District. See "DEVELOPMENT OF THE DISTRICT."

Interest rates have a direct impact on the level of housing construction activity. Long-term rates affect a home purchaser's ability to qualify for and to afford the total financing costs of a new home. High long-term interest rates may negatively affect home sales and the rate of growth of taxable property values in the District. Further, the short-term interest rates at which developers and builders are able to obtain financing for development and building costs may affect the developers' or builders' ability or willingness to complete development or building plans.

Maximum Impact on District Tax Rate: Assuming no further development or construction of taxable improvements, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners within the District to pay their taxes. The 2022 Certified Assessed Valuation of the District is \$1,144,342,500 and the 2023 Preliminary Valuation of the District is \$1,385,345,069 (see "SELECTED FINANCIAL

INFORMATION”). After issuance of the Bonds, the Maximum Annual Debt Service Requirement for the Bonds is to be \$7,132,998 (2024) and the Average Annual Debt Service Requirement for the Bonds is to be \$4,374,704 (2023 through 2043, inclusive). Based on the 2022 Certified Assessed Valuation and no use of funds on hand, a tax rate of \$0.66 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement for the Bonds and a tax rate of \$0.41 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement for the Bonds. Based on the 2023 Preliminary Valuation and no use of funds on hand, a tax rate of \$0.55 per \$100 assessed valuation, at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement for the Bonds, and a tax rate of \$0.34 per \$100 assessed valuation at a 95% collection rate would be necessary to pay the Average Annual Debt Service Requirement for the Bonds. See “DEBT SERVICE REQUIREMENTS” and “TAX DATA - Tax Adequacy for Debt Service.”

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

Increases in the District’s tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of property within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District.

Tax Collections and Foreclosure Remedies

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

Registered Owners’ Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of Registered Owners may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Texas law requires a district, such as the District, to obtain the approval of the TCEQ as a condition to seeking relief under the Federal Bankruptcy Code.

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

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

The District may not be placed into bankruptcy involuntarily.

Future Debt

The District reserves in the Bond Order the right to issue the remaining \$16,175,000 authorized but unissued unlimited tax bonds (see "TAX DATA – Authority for Issuance"), and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District has also reserved the right to issue certain other additional bonds, special project bonds, refunding bonds, and other obligations described in the Bond Order. All of the remaining bonds which have heretofore been authorized by the voters of the District may be issued by the District, with the approval of the TCEQ in certain instances, from time to time as improvement needs arise. If the District does issue future bonds or other debt obligations, such issuance could increase gross debt/property valuation ratios and might adversely affect the investment security of the Bonds. See "THE BONDS – Issuance of Additional Debt."

According to the Engineer, following the issuance of the Bonds, the District will not owe TMTL Creekside LP, any reimbursement for funds advanced to date.

Future and Proposed Legislation

From time to time, there are Presidential proposals, proposals of various federal committees, and legislative proposals in the Congress and in the states that, if enacted, could alter or amend the federal and state tax matters referred to herein or adversely affect the marketability or market value of the Bonds or otherwise prevent holders of the Bonds from realizing the full benefit of the tax exemption of interest on the Bonds. Further, such proposals may impact the marketability or market value of the Bonds simply by being proposed. It cannot be predicted whether or in what form any such proposal might be enacted or whether if enacted it would apply to bonds issued prior to enactment. In addition, regulatory actions are from time to time announced or proposed and litigation is threatened or commenced which, if implemented or concluded in a particular manner, could adversely affect the market value, marketability or tax status of the Bonds. It cannot be predicted whether any such regulatory action will be implemented, how any particular litigation or judicial action will be resolved, or whether the Bonds would be impacted thereby.

Purchasers of the Bonds should consult their tax advisors regarding any pending or proposed legislation, regulatory initiatives or litigation. The disclosures and opinions expressed herein are based upon existing legislation and regulations as interpreted by relevant judicial and regulatory authorities as of the date of issuance and delivery of the Bonds, and no opinion is expressed as of any date subsequent thereto or with respect to any proposed or pending legislation, regulatory initiatives or litigation.

Marketability of the Bonds

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

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the 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 TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") 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. While the District is currently not subject to the MS4 Permit, if the District's inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

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

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

filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On June 9, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice Proposed Rulemaking to put back into place the pre-2015 definition of “waters of the United States.” The rule was published in the Federal Register on January 18, 2023, and became effective on March 20, 2023. The adoption of the new rule is currently the subject of ongoing 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.

Potential Effects of Oil Price Fluctuations on the Houston Area

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

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Potential Impact of Natural Disaster

The District is located approximately 60 miles from the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value in the District or an increase in the District’s tax rates. See “TAXING PROCEDURES – Valuation of Property for Taxation.”

There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District are adversely affected.

Hurricane Harvey

The Houston area, including Harris County, sustained widespread flooding as a result of Hurricane Harvey’s landfall along the Texas Gulf Coast on August 25, 2017, and historic levels of rainfall during the succeeding four days. The District is located approximately 75 miles from the Texas Gulf Coast. Accordingly, like other coastal areas, land located in the District is susceptible to hurricanes, tropical storms, and other tropical disturbances.

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

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

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

2023 Legislative Session

The 88th Regular Legislative Session convened on January 10, 2023, and concluded on May 29, 2023. The 88th Legislative 1st Special Session convened on May 29, 2023 and concluded on June 27, 2023. The 88th Legislative 2nd Special Session convened on June 27, 2023. The Governor of Texas may call additional special sessions, at the Governor’s discretion each lasting no more than 30 days, and for which the Governor sets the agenda. The Texas Legislature could enact laws that materially change current laws affecting ad valorem tax matters, election measures, and other matters which could adversely affect the marketability or market value of the Bonds. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

Bond Insurance

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

Under most circumstances, default of payment of principal and interest does not obligate acceleration of the obligations of the bond insurer without appropriate consent. The bond insurer may direct and must consent to any remedies and the bond insurer’s consent may be required in connection with amendments to any applicable bond documents.

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

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

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

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

LEGAL MATTERS

Legal Opinions

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

In addition to serving as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P., also serves as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based upon a percentage of bonds actually issued, sold and delivered, and, therefore, such fees are contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, as Disclosure Counsel.

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

Legal Review

In its capacity as Bond Counsel, Smith, Murdaugh, Little & Bonham, L.L.P. has reviewed the information appearing in this Official Statement under the captions "THE BONDS," "THE DISTRICT - General," "TAXING PROCEDURES," "LEGAL MATTERS," and "CONTINUING DISCLOSURE OF INFORMATION" to determine whether such information fairly summarizes the procedures, law and documents referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of 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 of the information contained herein. The legal fees to be paid 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. Bond Counsel acts as general counsel for the District on matters other than the issuance of bonds.

Tax Exemption

On the date of initial delivery of the Bonds, Bond Counsel will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), (1) interest on the Bonds for federal income tax purposes will be excludable from the "gross income" of the holders thereof, and (2) the Bonds will not be treated as "specified private activity bonds" the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds may be excludable in certain corporations "adjusted financial statement income" determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code. Except as stated above, Bond Counsel will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds.

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

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds. Bond Counsel's opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel's opinion is not a guarantee of a result. Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds. A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

NOT Qualified Tax-Exempt Obligations

The District has NOT designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code.

Collateral Federal Income Tax Consequences

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

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, including financial institutions, life insurance and property and casualty insurance companies, owners of interests in a FASIT, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, certain S corporations with accumulated earnings and profits and excess passive investment income, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and individuals allowed an earned income credit. THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIFIC PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Interest on the Bonds will be included as an adjustment for "adjusted current earnings" of a corporation for purposes of computing its alternative minimum tax under Section 55 of the Code.

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

The initial public offering price to be paid for one or more maturities of the Bonds is less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrued period or be in excess of one year (the "Original Issue Discount Bonds"). The difference between (i) the "stated redemption price at maturity" of each

Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. See “Tax Exemption” herein for a discussion of certain collateral federal tax consequences.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

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

The federal income tax consequences of the purchase, ownership, redemption, sale or other disposition of Original Issue Discount Bonds which are not purchased in the initial offering at the initial offering price may be determined according to rules which differ from those described above. ALL OWNERS OF ORIGINAL ISSUE DISCOUNT BONDS SHOULD CONSULT THEIR OWN TAX ADVISORS WITH RESPECT TO THE DETERMINATION FOR FEDERAL, STATE AND LOCAL INCOME TAX PURPOSES OF INTEREST ACCRUED UPON REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS AND WITH RESPECT TO THE FEDERAL, STATE, LOCAL AND FOREIGN TAX CONSEQUENCES OF THE PURCHASE, OWNERSHIP, REDEMPTION, SALE OR OTHER DISPOSITION OF SUCH ORIGINAL ISSUE DISCOUNT BONDS.

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

NO MATERIAL ADVERSE CHANGE

The obligations of the Initial Purchaser to take and pay for the Bonds, and of the District to deliver the Bonds, are subject to the condition that, up to the time of delivery of and receipt of payment for the Bonds, there shall have been no material adverse change in the condition (financial or otherwise) of the District subsequent to the date of sale from that set forth or contemplated in the Preliminary Official Statement, as it may have been supplemented or amended through the date of sale.

NO-LITIGATION CERTIFICATE

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

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

Robert W. Baird & Co., Inc. 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, Robert W. Baird & Co., Inc. 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 "SELECTED FINANCIAL INFORMATION" and "TAXING PROCEDURES" has been provided by Harris County, 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 System and, in particular that information included in the sections entitled "THE DISTRICT" and "THE SYSTEM" has been provided by Vogler & Spencer Engineering, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. A copy of the District's audit prepared by Mark Eyring, CPA PLLC for the fiscal year ended September 30, 2022, is included as "APPENDIX A" to this Official Statement.

Updating of Official Statement

For the period beginning on the date of the award of the sale of the Bonds to the Initial Purchaser and ending on the ninety-first (91st) day after the "end of the underwriting period," (as defined in Rule 15c(2)-12(f)(2) of the United States Securities and Exchange Commission (the "SEC")), if any event shall occur of which the District has knowledge and as a result of which it is necessary to amend or supplement this Official Statement in order to make the statements herein, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, not materially misleading, the District will promptly notify the Initial Purchaser of the occurrence of such event and will cooperate in the preparation of a revised Official Statement, or amendments or supplements hereto, so that the statements in this Official Statement, as revised, amended or supplemented, will not, in light of the circumstances when this Official Statement is delivered to a prospective purchaser, be materially misleading. The District assumes no responsibility for supplementing this Official Statement thereafter.

Certification as to Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide certain financial information and operating data to the MSRB annually. The financial information and operating data which will be provided is found in the section titled "SELECTED FINANCIAL INFORMATION" and in APPENDIX A.

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

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

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of the United States Securities and Exchange Commission Rule 15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provision for debt service reserves or liquidity enhancement. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws including meaning a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the Municipal Securities Rulemaking Board consistent with the Rule. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from MSRB

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

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of such Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such Rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

On August 8, 2017, the District advance refunded a portion of the District’s Unlimited Tax Bonds, Series 2009, with the proceeds of the District’s Unlimited Tax Refunding Bonds, Series 2017. While the notice of redemption was filed in a timely manner, the notice of defeasance was not filed until August 1, 2018, and was thus deemed a late filing. To date, all required information has been filed.

The District is not aware of any other failure to comply, in the last five years, with any other continuing disclosure agreements made by them 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/ Doug Caldwell, Jr.
President, Board of Directors
Harris County Municipal Utility District No. 1

ATTEST:

/s/ James E. Roberson
Secretary, Board of Directors
Harris County Municipal Utility District No. 1

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

HARRIS COUNTY
MUNICIPAL UTILITY DISTRICT NO. 1
HARRIS COUNTY, TEXAS
ANNUAL AUDIT REPORT
SEPTEMBER 30, 2022

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-9
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	10
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	11
NOTES TO THE FINANCIAL STATEMENTS	12-22
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	23
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	24
SCHEDULE OF SERVICES AND RATES	25-26
EXPENDITURES FOR THE YEAR ENDED SEPTEMBER 30, 2022	27-28
ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS, ALL GOVERNMENTAL FUND TYPES	29
SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS	30-31
TAXES LEVIED AND RECEIVABLE	32-33
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	34-41
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	42-45
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	46
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	47
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	48-49

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January 10, 2023

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal
Utility District No. 1
Harris County, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Harris County Municipal Utility District No. 1 as of and for the year ended September 30, 2022, and the related notes to the financial statements, which collectively comprise Harris County Municipal Utility District No. 1's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Harris County Municipal Utility District No. 1, as of September 30, 2022, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

I conducted my audit in accordance with auditing standards generally accepted in the United States of America. My responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Financial Statements section of my report. I am required to be independent of Harris County Municipal Utility District No. 1, and to meet my other ethical responsibilities, in accordance with the relevant ethical requirements relating to my audit. I believe that the audit evidence I have obtained is sufficient and appropriate to provide a basis for my 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 Harris County Municipal Utility District No. 1'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.

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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. I 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 Harris County Municipal Utility District No. 1's internal control. Accordingly, no such opinion is expressed. I 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. I conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Harris County Municipal Utility District No. 1's ability to continue as a going concern for a reasonable period of time.

I am 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 I 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. I have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (Continued)**Supplementary Information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Harris County Municipal Utility District No. 1's basic financial statements. The supplementary information on Pages 24 to 49 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. G. J.", is located in the lower right quadrant of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Harris County Municipal Utility District No. 1 (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended September 30, 2022.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position* and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focus of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Current and other assets	\$ 20,469,906	\$ 13,075,462	\$ 7,394,444
Capital assets	<u>50,786,105</u>	<u>48,796,437</u>	<u>1,989,668</u>
Total assets	<u>71,256,011</u>	<u>61,871,899</u>	<u>9,384,112</u>
Long-term liabilities	51,998,412	44,706,824	7,291,588
Other liabilities	<u>5,824,901</u>	<u>5,392,603</u>	<u>432,298</u>
Total liabilities	<u>57,823,313</u>	<u>50,099,427</u>	<u>7,723,886</u>
Net position:			
Invested in capital assets, net of related debt	(5,477,328)	28,163	(5,505,491)
Restricted	12,747,479	5,159,838	7,587,641
Unrestricted	<u>6,162,547</u>	<u>6,584,471</u>	<u>(421,924)</u>
Total net position	<u>\$ 13,432,698</u>	<u>\$ 11,772,472</u>	<u>\$ 1,660,226</u>

Summary of Changes in Net Position

	<u>2022</u>	<u>2021</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 6,837,173	\$ 6,389,939	\$ 447,234
Charges for services	4,675,308	3,869,216	806,092
Other revenues	<u>268,402</u>	<u>178,765</u>	<u>89,637</u>
Total revenues	<u>11,780,883</u>	<u>10,437,920</u>	<u>1,342,963</u>
Expenses:			
Service operations	8,125,535	5,613,280	2,512,255
Debt service	<u>1,995,122</u>	<u>1,617,481</u>	<u>377,641</u>
Total expenses	<u>10,120,657</u>	<u>7,230,761</u>	<u>2,889,896</u>
Change in net position	1,660,226	3,207,159	(1,546,933)
Net position, beginning of year	<u>11,772,472</u>	<u>8,565,313</u>	<u>3,207,159</u>
Net position, end of year	<u>\$ 13,432,698</u>	<u>\$ 11,772,472</u>	<u>\$ 1,660,226</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended September 30, 2022, were \$18,756,061, an increase of \$7,164,854 from the prior year.

The General Fund balance decreased by \$421,698 for planned improvements to District facilities.

The Debt Service Fund balance increased by \$285,978, in accordance with the District's financial plan.

The Capital Projects Fund balance increased by \$7,300,574, as proceeds from the Series 2022 bonds and interest earnings on deposits and investments exceeded authorized expenditures and the reimbursement to the General Fund of \$119,827.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 23 of this report. The budgetary fund balance as of September 30, 2022, was expected to be \$5,235,167 and the actual end of year fund balance was \$6,131,585.

Capital Asset and Debt Administration

Capital Assets

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

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2022</u>	<u>2021</u>	<u>Change</u>
Land and detention ponds	\$ 19,270,290	\$ 19,016,878	\$ 253,412
Construction in progress	3,556,419	3,135,671	420,748
Parks and recreational facilities	786,484	398,932	387,552
Water facilities	12,944,429	12,581,730	362,699
Sewer facilities	14,228,483	13,663,226	565,257
Totals	<u>\$ 50,786,105</u>	<u>\$ 48,796,437</u>	<u>\$ 1,989,668</u>

Changes to capital assets during the fiscal year ended September 30, 2022, are summarized as follows:

Additions:

Construction by developers	\$ 3,216,747
Park and recreational facilities	330,983
Detention pond improvements	253,412
Water system improvements	51,084
Sewer system improvements	520,956
Total additions to capital assets	<u>4,373,182</u>

Decreases:

Transfer of subdivision drainage system to Harris County	(1,321,392)
Depreciation	<u>(1,062,122)</u>
Net change to capital assets	<u>\$ 1,989,668</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended September 30, 2022, are summarized as follows:

Bonded debt payable, beginning of year	\$ 46,120,000
Bonds sold	11,700,000
Bonds paid	<u>(4,140,000)</u>
Bonded debt payable, end of year	<u>\$ 53,680,000</u>

At September 30, 2022, the District had \$35,175,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds have an underlying rating of A2 by Moody's. The Series 2016 and 2017 refunding bonds are not insured and not rated. The Series 2016, 2017 and 2021 bonds are insured by Assured Guaranty Municipal Corp. The Series 2013, 2014 refunding, 2019, 2020 and 2022 bonds are insured by Build America Mutual Assurance Company. The Series 2014 bonds are insured by Municipal Assurance Corp. Because of the insurance, the Series 2014, 2014 refunding, 2016, 2017, 2019, 2020, 2021 and 2022 bonds are rated AA by Standard & Poor's. There was no change in the bond ratings during the fiscal year ended September 30, 2022.

As further described in Note 5 of the notes to the financial statements, developers within the District are constructing water, sewer and drainage facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Texas Commission on Environmental Quality. At September 30, 2022, the estimated amount due to developers was \$2,822,870.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$92,800,000 for the 2021 tax year (approximately 11%) due to the increase in assessed valuation on existing property and the addition of new houses within the District.

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

Utilizing a provision of Texas law, the City of Houston ("City") and the District entered into a Strategic Partnership Agreement ("SPA") effective as of December 13, 2010. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District by the City. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City, and the City provides only limited services (primarily police). Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA and received by the City from the Comptroller of Public Accounts of the State of Texas. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes.

Water Supply Issues

The District is located within the boundaries of the Harris-Galveston Subsidence District ("Subsidence District") and the North Harris County Regional Water Authority ("NHCRWA"). The NHCRWA was created to provide for conversion of the area within its boundaries from groundwater usage to alternative sources of water supply (e.g., surface water) as required by regulations of the Subsidence District. The NHCRWA covers an area located in northern Harris County and adjacent to the City of Houston. Pursuant to an order of the Subsidence District and the NHCRWA's Groundwater Reduction Plan (as approved by the Subsidence District), the area within the boundaries of the NHCRWA must be converted to at least 30% alternate source (e.g., surface) water use by 2010, 60% alternate source water use by 2025, and 80% alternate source water use by 2035. To implement the required conversion to alternate source water use in accordance with such schedule, the NHCRWA is in the process of designing and constructing and will operate a network of transmission and distribution lines, storage tanks, and pumping stations to transport and distribute water within the NHCRWA (the "NHCRWA System"). In addition, the NHCRWA has entered into a water supply contract to secure a long-term supply of treated surface water from the City of Houston.

The District is subject to the NHCRWA's Groundwater Reduction Plan. The NHCRWA, as part of the plan of financing the NHCRWA System, has elected to allow districts, such as the District, to participate in a pro-rata share of the costs associated with the acquisition and construction of the NHCRWA System (including the costs associated with the acquisition of alternate sources of water supply) by issuing its own debt or using cash on hand, entitling the District to a future credit against pumpage fees due to the NHCRWA. The District has not elected this financing option. As a result, the District has elected to pay its share in the NHCRWA System costs over time through payment of levied pumpage fees to the NHCRWA. The District may be required by the NHCRWA to participate in the groundwater conversion project by converting to surface water some time after January 1, 2010. Noncompliance with the NHCRWA's Groundwater Reduction Plan or nonparticipation in the NHCRWA's surface water conversion project could result in the District's exclusion from the NHCRWA's Groundwater Reduction Plan and assessment of the Subsidence District's disincentive fee against groundwater pumped from wells located within the District.

Groundwater pumped from wells located within the District is not currently subject to the Subsidence District's groundwater disincentive fee. However, groundwater pumped from wells located within the District is subject to a per 1,000 gallon pumpage fee that is assessed and collected by the NHCRWA pursuant to the NHCRWA's Pumpage Fee Order. At September 30, 2022, the pumpage fee was equal to \$4.60 per 1,000 gallons pumped, and is expected to increase in the future. At September 30, 2022, the Authority's surface water usage fee was equal to \$5.05 per 1,000 gallons, and is expected to increase in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future to finance the acquisition and construction of surface water infrastructure (whether such costs are incurred directly by the District or through projects undertaken by the NHCRWA). The NHCRWA has sold bonds to finance a portion of the costs related to the design, acquisition and construction of the NHCRWA System. The NHCRWA bonds are secured by revenues of the NHCRWA, including the pumpage fee.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

SEPTEMBER 30, 2022

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$2,437,984	\$ 21,357	\$ 510	\$ 2,459,851	\$	\$ 2,459,851
Certificates of deposit, at cost, Note 7	1,945,000	2,180,000		4,125,000		4,125,000
Temporary investments, at cost, Note 7	2,573,090	2,558,520	8,016,977	13,148,587		13,148,587
Receivables:						
Property taxes	30,962	137,249		168,211		168,211
Service accounts	463,682			463,682		463,682
Sales and Use taxes, Note 10	31,546			31,546		31,546
Accrued interest	9,412	8,829		18,241		18,241
Other	9,041			9,041		9,041
Due from other funds	147,477	2,000	5,004	154,481	(154,481)	0
Prepaid expenditures	45,747			45,747		45,747
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	22,826,709	22,826,709
Depreciable capital assets				0	27,959,396	27,959,396
Total assets	<u>\$7,693,941</u>	<u>\$4,907,955</u>	<u>\$ 8,022,491</u>	<u>\$20,624,387</u>	<u>50,631,624</u>	<u>71,256,011</u>
LIABILITIES						
Accounts payable	\$ 572,509	\$	\$ 21,244	\$ 593,753		593,753
Construction contracts payable	277,136			277,136		277,136
Accrued interest payable				0	14,246	14,246
Customer and builder deposits	674,745			674,745		674,745
Due to other funds	7,004		147,477	154,481	(154,481)	0
Long-term liabilities, Note 5:						
Due within one year				0	4,265,021	4,265,021
Due in more than one year				0	51,998,412	51,998,412
Total liabilities	<u>1,531,394</u>	<u>0</u>	<u>168,721</u>	<u>1,700,115</u>	<u>56,123,198</u>	<u>57,823,313</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>30,962</u>	<u>137,249</u>	<u>0</u>	<u>168,211</u>	<u>(168,211)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Committed to construction contracts in progress	514,372			514,372	(514,372)	0
Assigned to:						
Debt service		4,770,706		4,770,706	(4,770,706)	0
Capital projects			7,853,770	7,853,770	(7,853,770)	0
Unassigned	<u>5,617,213</u>			<u>5,617,213</u>	<u>(5,617,213)</u>	<u>0</u>
Total fund balances	<u>6,131,585</u>	<u>4,770,706</u>	<u>7,853,770</u>	<u>18,756,061</u>	<u>(18,756,061)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$7,693,941</u>	<u>\$4,907,955</u>	<u>\$ 8,022,491</u>	<u>\$20,624,387</u>		
Net position:						
Invested in capital assets, net of related debt, Note 4					(5,477,328)	(5,477,328)
Restricted for debt service					4,893,709	4,893,709
Restricted for capital projects					7,853,770	7,853,770
Unrestricted					<u>6,162,547</u>	<u>6,162,547</u>
Total net position					<u>\$ 13,432,698</u>	<u>\$ 13,432,698</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 1,148,681	\$ 5,640,039	\$	\$ 6,788,720	\$ (174)	\$ 6,788,546
Water service	1,021,921			1,021,921		1,021,921
Sewer service	1,138,906			1,138,906		1,138,906
Surface water fees, Note 9	2,115,509			2,115,509		2,115,509
Penalty and interest	75,698	48,627		124,325		124,325
Tap connection and inspection fees	265,225			265,225		265,225
Sales and Use Taxes, Note 10	123,020			123,020		123,020
Interest on deposits and investments	38,663	50,367	56,352	145,382		145,382
Other revenues	58,049			58,049		58,049
Total revenues	5,985,672	5,739,033	56,352	11,781,057	(174)	11,780,883
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	216,823	15,753		232,576		232,576
Contracted services	296,568	6,121	1,789	304,478		304,478
Utilities	246,262			246,262		246,262
Surface water pumpage fees, Note 9	2,132,174			2,132,174		2,132,174
Repairs and maintenance	821,057			821,057		821,057
Other operating expenditures	360,726			360,726		360,726
Security service	299,003			299,003		299,003
Garbage disposal	688,331			688,331		688,331
Administrative expenditures	207,815			207,815		207,815
Depreciation				0	1,062,122	1,062,122
Capital outlay / non-capital outlay	1,258,438		3,250,948	4,509,386	(2,838,210)	1,671,176
Developer construction interest			99,815	99,815		99,815
Debt service:						
Principal retirement		4,140,000		4,140,000	(4,140,000)	0
Bond issuance expenditures			633,086	633,086		633,086
Interest and fees		1,291,181		1,291,181	70,855	1,362,036
Total expenditures / expenses	6,527,197	5,453,055	3,985,638	15,965,890	(5,845,233)	10,120,657
Excess (deficiency) of revenues over expenditures	(541,525)	285,978	(3,929,286)	(4,184,833)	5,845,059	1,660,226
OTHER FINANCING SOURCES (USES)						
Bonds issued, Note 5		350,313	11,349,687	11,700,000	(11,700,000)	0
Bond issuance discount, Note 5		(350,313)		(350,313)	350,313	0
Reimbursement to (from) other fund, Note 7	119,827		(119,827)	0	0	0
Total other financing sources (uses)	119,827	0	11,229,860	11,349,687	(11,349,687)	0
Net change in fund balances / net position	(421,698)	285,978	7,300,574	7,164,854	(5,504,628)	1,660,226
Beginning of year, restated	6,553,283	4,484,728	553,196	11,591,207	181,265	11,772,472
End of year	<u>\$ 6,131,585</u>	<u>\$ 4,770,706</u>	<u>\$ 7,853,770</u>	<u>\$ 18,756,061</u>	<u>\$ (5,323,363)</u>	<u>\$ 13,432,698</u>

The accompanying notes are an integral part of the financial statements.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1NOTES TO THE FINANCIAL STATEMENTSSEPTEMBER 30, 2022

NOTE 1: REPORTING ENTITY

Harris County Municipal Utility District No. 1 (the "District") was created by an order of the Texas Water Rights Commission (now the Texas Commission on Environmental Quality) effective May 31, 1972, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water, and to provide parks and recreational facilities and equipment. The District may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitutional provisions, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues.

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 18,756,061
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		50,786,105
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (53,680,000)	
Deferred charge on refunding (to be amortized as interest expense)	290,176	
Issuance premium, net of discounts (to be amortized as interest expense)	(50,739)	
Due to developers	<u>(2,822,870)</u>	(56,263,433)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Uncollected property taxes		168,211
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(14,246)</u>
Net position, end of year		<u>\$ 13,432,698</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 7,164,854
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 2,838,210	
Depreciation	<u>(1,062,122)</u>	1,776,088
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Bonds issued	(11,700,000)	
Principal reduction	<u>4,140,000</u>	(7,560,000)
<p>The funds report the effect of bond issuance costs, premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. The net effect of these differences in the treatment of these items:</p>		
Refunding charges	(74,030)	
Issuance discount, net of premium	<u>352,451</u>	278,421
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Uncollected property taxes		(174)
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>1,037</u>
Change in net position		<u>\$ 1,660,226</u>

NOTE 4: CAPITAL ASSETS

At September 30, 2022, "Invested in capital assets, net of related debt" was \$(5,477,328). This amount was negative primarily because not all expenditures from bond proceeds (such as bond issuance costs) were for the acquisition of capital assets. Within Harris County, the county government assumes the maintenance and other incidents of ownership of most storm sewer facilities constructed by the District. Accordingly, these assets are not recorded in the financial statements of the District. In addition, some expenditures from bond proceeds were for the acquisition of capital assets beneath the capitalization threshold of \$5,000 (see Note 2) and some authorized expenditures were not for capital assets.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Capital asset activity for the fiscal year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land and detention ponds	\$ 19,016,878	\$ 253,412	\$	\$ 19,270,290
Construction in progress	<u>3,135,671</u>	<u>4,081,078</u>	<u>3,660,330</u>	<u>3,556,419</u>
Total capital assets not being depreciated	<u>22,152,549</u>	<u>4,334,490</u>	<u>3,660,330</u>	<u>22,826,709</u>
Depreciable capital assets:				
Parks and recreational facilities	407,999	405,633		813,632
Water system	18,370,093	880,992		19,251,085
Sewer system	<u>20,735,296</u>	<u>1,091,005</u>		<u>21,826,301</u>
Total depreciable capital assets	<u>39,513,388</u>	<u>2,377,630</u>	<u>0</u>	<u>41,891,018</u>
Less accumulated depreciation for:				
Parks and recreational facilities	(9,067)	(18,081)		(27,148)
Water system	(5,788,363)	(518,293)		(6,306,656)
Sewer system	<u>(7,072,070)</u>	<u>(525,748)</u>		<u>(7,597,818)</u>
Total accumulated depreciation	<u>(12,869,500)</u>	<u>(1,062,122)</u>	<u>0</u>	<u>(13,931,622)</u>
Total depreciable capital assets, net	<u>26,643,888</u>	<u>1,315,508</u>	<u>0</u>	<u>27,959,396</u>
Total capital assets, net	<u>\$ 48,796,437</u>	<u>\$ 5,649,998</u>	<u>\$ 3,660,330</u>	<u>\$ 50,786,105</u>
Changes to capital assets:				
Capital outlay		\$ 2,838,210	\$	
Assets transferred to non-depreciable assets		253,412	253,412	
Assets transferred to depreciable assets		2,085,526	2,085,526	
Capital outlay paid (decrease in liability) to developer		(3,003,167)		
Increase in liability to developers		3,216,747		
Transfer of subdivision drainage system to Harris County		1,321,392	1,321,392	
Less depreciation expense for the fiscal year		<u>(1,062,122)</u>		
Net increases / decreases to capital assets		<u>\$ 5,649,998</u>	<u>\$ 3,660,330</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended September 30, 2022, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	\$ 46,120,000	\$ 11,700,000	\$ 4,140,000	\$ 53,680,000	\$ 4,315,000
Deferred amounts:					
For issuance (discounts) premiums	403,190	(350,313)	2,138	50,739	17,698
For refunding	<u>(364,206)</u>		<u>(74,030)</u>	<u>(290,176)</u>	<u>(67,677)</u>
Total bonds payable	<u>46,158,984</u>	<u>11,349,687</u>	<u>4,068,108</u>	<u>53,440,563</u>	<u>4,265,021</u>
Due to developers (see below)	<u>2,609,290</u>	<u>3,216,747</u>	<u>3,003,167</u>	<u>2,822,870</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 48,768,274</u>	<u>\$ 14,566,434</u>	<u>\$ 7,071,275</u>	<u>\$ 56,263,433</u>	<u>\$ 4,265,021</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2022, the debt service requirements on the bonds outstanding were follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2023	\$ 4,315,000	\$ 1,438,161	\$ 5,753,161
2024	4,445,000	1,321,061	5,766,061
2025	4,120,000	1,193,738	5,313,738
2026	4,275,000	1,083,644	5,358,644
2027	3,805,000	978,486	4,783,486
2028 - 2032	15,740,000	3,599,795	19,339,795
2033 - 2037	11,945,000	1,717,245	13,662,245
2038 - 2042	<u>5,035,000</u>	<u>444,949</u>	<u>5,479,949</u>
	<u>\$ 53,680,000</u>	<u>\$ 11,777,079</u>	<u>\$ 65,457,079</u>

Bonds voted	\$ 118,500,000
Bonds approved for sale and sold	83,325,000
Bonds voted and not issued	35,175,000

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The Series 2014 and 2016 bonds are further payable from and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The bond issues payable at September 30, 2022, were as follows:

	<u>Series 2014</u>	<u>Refunding Series 2014</u>	<u>Refunding Series 2016</u>
Amounts outstanding, September 30, 2022	\$3,965,000	\$2,720,000	\$2,340,000
Interest rates	2.50% to 3.75%	3.00% to 3.50%	2.51%
Maturity dates, serially beginning/ending	September 1, 2023/2034	April 1, 2023/2026	April 1, 2023/2027
Interest payment dates	March 1/September 1	April 1/October 1	April 1/October 1
Callable dates	September 1, 2022*	April 1, 2023*	April 1, 2024*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

	<u>Series 2016</u>	<u>Refunding Series 2017</u>	<u>Series 2017</u>
Amounts outstanding, September 30, 2022	\$7,375,000	\$4,190,000	\$7,585,000
Interest rates	2.00% to 2.50%	2.62%	3.00% to 3.35%
Maturity dates, serially beginning/ending	September 1, 2023/2036	September 1, 2023/2029	September 1, 2023/2037
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	September 1, 2024*	Any date*	September 1, 2025*
	<u>Series 2019</u>	<u>Series 2020</u>	<u>Refunding Series 2021</u>
Amounts outstanding, September 30, 2022	\$2,080,000	\$4,990,000	\$6,735,000
Interest rates	2.00% to 2.75%	1.00% to 1.625%	2.00% to 3.00%
Maturity dates, serially beginning/ending	September 1, 2023/2039	September 1, 2023/2040	September 1, 2023/2033
Interest payment dates	March 1/September 1	March 1/September 1	March 1/September 1
Callable dates	September 1, 2024*	September 1, 2025*	September 1, 2026*
	<u>Series 2022</u>		
Amounts outstanding, September 30, 2022	\$11,700,000		
Interest rates	3.00% to 4.00%		
Maturity dates, serially beginning/ending	September 1, 2023/2042		
Interest payment dates	March 1/September 1		
Callable dates	May 1, 2027*		

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

Developer Construction Commitments and Liabilities

Developers within the District are constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developers for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at September 30, 2022, was \$2,822,870. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Orders requires that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes.

At an election held August 13, 1994, the voters within the District authorized a maintenance tax not to exceed \$1.00 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On September 14, 2021, the District levied the following ad valorem taxes for the 2021 tax year on the adjusted taxable valuation of \$957,663,466:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.5900	\$ 5,650,221
Maintenance	<u>0.1200</u>	<u>1,149,197</u>
	<u>\$ 0.7100</u>	<u>\$ 6,799,418</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2021 tax year total property tax levy	\$ 6,799,418
Appraisal district adjustments to prior year taxes	<u>(10,872)</u>
Statement of Activities property tax revenues	<u>\$ 6,788,546</u>

NOTE 7: DEPOSITS AND TEMPORARY INVESTMENTS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and an authorized private sector investment pool. The private sector investment pool is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the carrying amount of the District's deposits was \$6,584,851 and the bank balance was \$6,128,770. Of the bank balance, \$4,375,000 was covered by federal insurance, \$1,753,770 was covered by letters of credit in favor of the District issued by the Federal Home Loan Bank of Dallas.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

At the balance sheet date the carrying value and market value of the investments in the authorized private sector investment pool was \$13,148,587.

Deposits restricted by state statutes and the Bond Orders:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash	\$ 21,357
Certificates of deposit	2,180,000
Temporary investments	<u>2,558,520</u>
	<u>\$ 4,759,877</u>

Capital Projects Fund

For construction of capital assets:

Cash	\$ 510
Temporary investments	<u>8,016,977</u>
	<u>\$ 8,017,487</u>

During the fiscal year ended September 30, 2022, the District reimbursed \$119,827 from the Capital Projects Fund to the General Fund in accordance with the rules of the Texas Commission on Environmental Quality.

NOTE 8: 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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At September 30, 2022, the District had physical damage and boiler and machinery coverage of \$20,038,173, comprehensive general liability coverage with a per occurrence limit of \$1,000,000 and \$3,000,000 general aggregate, pollution coverage of \$1,000,000 and consultant's crime coverage of \$100,000.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 9: REGIONAL WATER AUTHORITY

The North Harris County Regional Water Authority (the "Authority") was created by House Bill 2965, Acts of the 76th Legislature, Regular Session 1999, and was confirmed by an election held on January 15, 2001. The Authority is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Authority is empowered to, among other powers, "acquire or develop surface water and groundwater supplies from sources inside of or outside of the boundaries of the authority and may conserve, store, transport, treat, purify, distribute, sell and deliver water to persons, corporations, municipal corporations, political subdivisions of the state, and others, inside of and outside of the boundaries of the authority." The Authority is also empowered to "establish fees and charges as necessary to enable the authority to fulfill the authority's regulatory obligations." In accordance with this provision, as of September 30, 2022, the Authority had established a well pumpage fee of \$4.60 per 1,000 gallons of water pumped from each regulated well. The District's well pumpage fees payable to the Authority for the fiscal year ended September 30, 2022, were \$2,132,174. The District billed its customers \$2,115,509 during the fiscal year to pay for the fees charged by the Authority.

NOTE 10: STRATEGIC PARTNERSHIP AGREEMENT

Effective December 13, 2010, the District and the City of Houston (the "City") entered into a 30 year Strategic Partnership Agreement (the "Agreement"). Under the terms of the Agreement, the City annexed a portion of the District (the "Partial District") for the limited purposes of applying the City's Planning, Zoning, Health, and Safety Ordinances within the Partial District. The Agreement states that the District and all taxable property within the District shall not be liable for any present or future debts of the City and current and future taxes levied by the City shall not be levied on taxable property with the District. The City agreed that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this Agreement.

The City imposed a Sales and Use Tax within the boundaries of the Partial District at the time of the limited-purpose annexation of the Partial District. The Agreement provides that the City shall pay to the District one half of all Sales and Use Tax revenues generated within the boundaries of the Partial District and received by the City from the Comptroller of Public Accounts of the State of Texas. The District accrued Sales and Use Tax revenues of \$123,020 from the City for the fiscal year ended September 30, 2022, of which \$31,546 was receivable at that date.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 1,096,731	\$ 1,096,731	\$ 1,148,681	\$ 51,950
Water service	947,000	947,000	1,021,921	74,921
Sewer service	1,078,680	1,078,680	1,138,906	60,226
Surface water fees	1,862,000	1,862,000	2,115,509	253,509
Penalty	53,192	53,192	75,698	22,506
Tap connection and inspection fees	100,000	100,000	265,225	165,225
Sales and Use Taxes	148,380	148,380	123,020	(25,360)
Interest on deposits and investments	14,018	14,018	38,663	24,645
Other revenues	52,549	52,549	58,049	5,500
TOTAL REVENUES	5,352,550	5,352,550	5,985,672	633,122
EXPENDITURES				
Service operations:				
Professional fees	256,950	256,950	216,823	(40,127)
Contracted services	279,038	279,038	296,568	17,530
Utilities	215,938	215,938	246,262	30,324
Surface water pumpage fees	1,878,000	1,878,000	2,132,174	254,174
Repairs and maintenance	785,137	785,137	821,057	35,920
Other operating expenditures	192,794	192,794	360,726	167,932
Security service	306,392	306,392	299,003	(7,389)
Garbage disposal	606,000	606,000	688,331	82,331
Administrative expenditures	190,094	190,094	207,815	17,721
Capital outlay	1,960,323	1,960,323	1,258,438	(701,885)
TOTAL EXPENDITURES	6,670,666	6,670,666	6,527,197	(143,469)
EXCESS REVENUES (EXPENDITURES)	(1,318,116)	(1,318,116)	(541,525)	776,591
OTHER FINANCING SOURCES (USES)				
Reimbursement (to) from other fund	0	0	119,827	119,827
TOTAL OTHER FINANCIAL SOURCES (USES)	0	0	119,827	119,827
EXCESS SOURCES (USES)	(1,318,116)	(1,318,116)	(421,698)	896,418
FUND BALANCE, BEGINNING OF YEAR	6,553,283	6,553,283	6,553,283	0
FUND BALANCE, END OF YEAR	\$ 5,235,167	\$ 5,235,167	\$ 6,131,585	\$ 896,418

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY
SEPTEMBER 30, 2022

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Certificates of Deposit
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES

SEPTEMBER 30, 2022

1. Services Provided by the District during the Fiscal Year:

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

2. Retail Service Providers

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

	<u>Minimum Charge</u>	<u>Minimum Usage</u>	<u>Flat Rate Y/N</u>	<u>Rate per 1000 Gallons Over Minimum</u>	<u>Usage Levels</u>
WATER:	\$16.00	5,000	N	\$1.25 1.50 2.00 2.50	5,001 to 10,000 10,001 to 15,000 15,001 to 20,000 Over 20,000
WASTEWATER:	\$23.50	50,000	N	\$0.50	Over 50,000
SURCHARGE:	\$5.06 per 1,000 gallons of water used. – NHCRWA surface water fees.				

District employs winter averaging for wastewater usage: Yes No

Total charges per 10,000 gallons usage: Water: \$22.25 Wastewater: \$23.50 Surcharge: \$50.60

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF SERVICES AND RATES (Continued)

SEPTEMBER 30, 2022

b. Water and Wastewater Retail Connections (unaudited):

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC* Factor</u>	<u>Active ESFCs</u>
Unmetered	0	0	1.0	0
< or = 3/4"	2,946	2,926	1.0	2,926
1"	398	396	2.5	990
1-1/2"	15	15	5.0	75
2"	52	52	8.0	416
3"	1	1	15.0	15
4"	0	0	25.0	0
6"	6	6	50.0	300
8"	3	3	80.0	240
10"	0	0	115.0	0
Total Water	<u>3,421</u>	<u>3,399</u>		<u>4,962</u>
Total Wastewater	<u>3,345</u>	<u>3,323</u>	1.0	<u>3,323</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 437,993
 Gallons billed to customers (unaudited): 410,829

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 94%

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: _____

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CURRENT				
Professional fees:				
Auditing	\$ 10,950	\$	\$	\$ 10,950
Legal	135,727	15,753		151,480
Engineering	70,146			70,146
	<u>216,823</u>	<u>15,753</u>	<u>0</u>	<u>232,576</u>
Contracted services:				
Bookkeeping	47,772		1,789	49,561
Operation and billing	198,694			198,694
Tax assessor-collector		6,121		6,121
Central appraisal district	50,102			50,102
	<u>296,568</u>	<u>6,121</u>	<u>1,789</u>	<u>304,478</u>
Utilities	<u>246,262</u>	<u>0</u>	<u>0</u>	<u>246,262</u>
Surface water pumpage fees	<u>2,132,174</u>	<u>0</u>	<u>0</u>	<u>2,132,174</u>
Repairs and maintenance	<u>821,057</u>	<u>0</u>	<u>0</u>	<u>821,057</u>
Other operating expenditures:				
Sludge hauling	114,691			114,691
Chemicals	68,039			68,039
Laboratory costs	79,619			79,619
Inspection costs	28,743			28,743
Reconnection costs	42,534			42,534
Security	7,810			7,810
TCEQ assessment	10,431			10,431
Other	8,859			8,859
	<u>360,726</u>	<u>0</u>	<u>0</u>	<u>360,726</u>
Security service	<u>299,003</u>	<u>0</u>	<u>0</u>	<u>299,003</u>
Garbage disposal	<u>688,331</u>	<u>0</u>	<u>0</u>	<u>688,331</u>
Administrative expenditures:				
Director's fees	20,100			20,100
Office supplies and postage	83,839			83,839
Insurance	38,706			38,706
Permit fees	14,779			14,779
Other	50,391			50,391
	<u>207,815</u>	<u>0</u>	<u>0</u>	<u>207,815</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

EXPENDITURES (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 1,115,220	\$	\$ 3,250,948	\$ 4,366,168
Tap connection costs	143,218			143,218
	<u>1,258,438</u>	<u>0</u>	<u>3,250,948</u>	<u>4,509,386</u>
Developer construction interest	<u>0</u>	<u>0</u>	<u>99,815</u>	<u>99,815</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>4,140,000</u>	<u>0</u>	<u>4,140,000</u>
Bond issuance expenditures	<u>0</u>	<u>0</u>	<u>633,086</u>	<u>633,086</u>
Interest and fees:				
Interest		1,285,616		1,285,616
Paying agent fees		5,565		5,565
	<u>0</u>	<u>1,291,181</u>	<u>0</u>	<u>1,291,181</u>
TOTAL EXPENDITURES	<u>\$ 6,527,197</u>	<u>\$ 5,453,055</u>	<u>\$ 3,985,638</u>	<u>\$ 15,965,890</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN DEPOSITS AND TEMPORARY INVESTMENTS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash receipts from revenues excluding maintenance taxes	\$ 4,726,686	\$ 5,735,138	\$ 56,352	\$ 10,518,176
Maintenance tax receipts		1,148,681		1,148,681
Transfer of maintenance taxes	1,148,681			1,148,681
Proceeds from sale of bonds			11,349,687	11,349,687
Increase in customer and builder deposits	19,715			19,715
Reimbursement from other fund	<u>129,835</u>			<u>129,835</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS PROVIDED	<u>6,024,917</u>	<u>6,883,819</u>	<u>11,406,039</u>	<u>24,314,775</u>
APPLICATIONS OF DEPOSITS AND TEMPORARY INVESTMENTS				
Cash disbursements for:				
Current expenditures	5,106,542	16,890	1,789	5,125,221
Capital outlay	1,193,353		3,182,042	4,375,395
Debt service		5,431,181	633,086	6,064,267
Prepaid expenses	45,747			45,747
Other fund	147,477			147,477
Transfer of maintenance taxes		1,148,681		1,148,681
Reimbursement to other fund			<u>129,835</u>	<u>129,835</u>
TOTAL DEPOSITS AND TEMPORARY INVESTMENTS APPLIED	<u>6,493,119</u>	<u>6,596,752</u>	<u>3,946,752</u>	<u>17,036,623</u>
INCREASE (DECREASE) IN DEPOSITS AND TEMPORARY INVESTMENTS	(468,202)	287,067	7,459,287	7,278,152
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, BEGINNING OF YEAR	<u>7,424,276</u>	<u>4,472,810</u>	<u>558,200</u>	<u>12,455,286</u>
DEPOSITS AND TEMPORARY INVESTMENTS BALANCES, END OF YEAR	<u>\$ 6,956,074</u>	<u>\$ 4,759,877</u>	<u>\$ 8,017,487</u>	<u>\$ 19,733,438</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS

SEPTEMBER 30, 2022

GENERAL FUND	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
Certificates of Deposit				
No. 5000020049	0.20%	10/16/22	\$ 245,000	\$ 219
No. 91300011982751	0.35%	10/17/22	245,000	512
No. 12073	1.94%	6/06/23	245,000	1,510
No. 4189343	0.25%	10/19/22	240,000	468
No. 13793	0.25%	10/17/22	240,000	421
No. 2000000015	0.15%	10/19/22	245,000	222
No. 312371	0.13%	10/19/22	245,000	168
No. 6000022811	3.50%	1/17/23	<u>240,000</u>	<u>5,892</u>
			<u>\$ 1,945,000</u>	<u>\$ 9,412</u>
Texas CLASS				
No. TX-01-0583-0001	Market	On demand	<u>\$ 2,573,090</u>	<u>\$ 0</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

SCHEDULE OF CERTIFICATES OF DEPOSIT AND TEMPORARY INVESTMENTS (Continued)

SEPTEMBER 30, 2022

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
DEBT SERVICE FUND				
Certificates of Deposit				
No. 12262	0.50%	10/19/22	\$ 245,000	\$ 658
No. 440005289	0.10%	10/18/22	240,000	155
No. 4190309	0.25%	10/19/22	240,000	380
No. 14398	0.25%	10/17/22	240,000	388
No. 2000000038	0.15%	10/19/22	240,000	226
No. 80003367	0.19%	10/16/22	245,000	250
No. 324129	0.13%	10/19/22	245,000	179
No. 2004799	0.85%	10/17/22	245,000	964
No. 6002400367	3.69%	2/10/23	<u>240,000</u>	<u>5,629</u>
			<u>\$ 2,180,000</u>	<u>\$ 8,829</u>
Texas CLASS				
No. TX-01-0583-0002	Market	On demand	<u>\$ 2,558,520</u>	<u>\$ 0</u>
CAPITAL PROJECTS FUND				
Texas CLASS				
No. TX-01-0583-0006	Market	On demand	\$ 1,486	\$ 0
No. TX-01-0583-0007	Market	On demand	<u>8,015,491</u>	<u>0</u>
			<u>\$ 8,016,977</u>	<u>\$ 0</u>
Total – All Funds			<u>\$ 17,273,587</u>	<u>\$ 18,241</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

TAXES LEVIED AND RECEIVABLE

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 31,188	\$ 137,197
Additions and corrections to prior year taxes	<u>(742)</u>	<u>(10,130)</u>
Adjusted receivable, beginning of year	30,446	127,067
2021 ADJUSTED TAX ROLL	<u>1,149,197</u>	<u>5,650,221</u>
Total to be accounted for	1,179,643	5,777,288
Tax collections: Current tax year	(1,141,968)	(5,614,676)
Prior tax years	<u>(6,713)</u>	<u>(25,363)</u>
RECEIVABLE, END OF YEAR	<u>\$ 30,962</u>	<u>\$ 137,249</u>
RECEIVABLE, BY TAX YEAR		
2011 and prior	\$ 732	\$ 14,648
2012	407	7,982
2013	397	5,384
2014	1,461	6,414
2015	1,698	5,402
2016	2,591	6,420
2017	2,682	8,698
2018	2,658	10,998
2019	5,882	14,500
2020	5,225	21,258
2021	<u>7,229</u>	<u>35,545</u>
RECEIVABLE, END OF YEAR	<u>\$ 30,962</u>	<u>\$ 137,249</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

TAXES LEVIED AND RECEIVABLE (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

ADJUSTED PROPERTY VALUATIONS AS OF JANUARY 1 OF TAX YEAR	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 957,663,466</u>	<u>\$ 864,862,258</u>	<u>\$ 798,864,477</u>	<u>\$ 744,567,116</u>
 TAX RATES PER \$100 VALUATION				
Debt service tax rates	\$ 0.59000	\$ 0.59000	\$ 0.53000	\$ 0.60000
Maintenance tax rates*	<u>0.12000</u>	<u>0.14500</u>	<u>0.21500</u>	<u>0.14500</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.71000</u>	<u>\$ 0.73500</u>	<u>\$ 0.74500</u>	<u>\$ 0.74500</u>
 TAX ROLLS				
	<u>\$ 6,799,418</u>	<u>\$ 6,360,198</u>	<u>\$ 5,953,045</u>	<u>\$ 5,554,932</u>
 PERCENT OF TAXES COLLECTED TO TAXES LEVIED				
	<u>99.4 %</u>	<u>99.6 %</u>	<u>99.7 %</u>	<u>99.8 %</u>

*Maximum tax rate approved by voters on August 13, 1994: \$1.00

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
SEPTEMBER 30, 2022

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2022, the debt service requirements on the bonds outstanding were follows:

<u>Series 2014</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 245,000	\$ 130,150	\$ 375,150
2024	260,000	124,025	384,025
2025	270,000	116,875	386,875
2026	285,000	109,450	394,450
2027	300,000	101,612	401,612
2028	320,000	92,613	412,613
2029	335,000	82,212	417,212
2030	350,000	71,325	421,325
2031	370,000	59,075	429,075
2032	390,000	46,125	436,125
2033	410,000	31,500	441,500
2034	430,000	16,125	446,125
TOTALS	<u>\$ 3,965,000</u>	<u>\$ 981,087</u>	<u>\$ 4,946,087</u>

<u>Series 2014 Refunding</u>			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2023	\$ 675,000	\$ 81,700	\$ 756,700
2024	705,000	59,237	764,237
2025	735,000	34,038	769,038
2026	605,000	10,588	615,588
TOTALS	<u>\$ 2,720,000</u>	<u>\$ 185,563</u>	<u>\$ 2,905,563</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2022

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2022, the debt service requirements on the bonds outstanding were follows:

Series 2016 Refunding			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due April 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2023	\$ 435,000	\$ 53,274	\$ 488,274
2024	450,000	42,168	492,168
2025	470,000	30,622	500,622
2026	485,000	18,637	503,637
2027	<u>500,000</u>	<u>6,275</u>	<u>506,275</u>
TOTALS	<u>\$ 2,340,000</u>	<u>\$ 150,976</u>	<u>\$ 2,490,976</u>

Series 2016			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 415,000	\$ 167,975	\$ 582,975
2024	430,000	159,675	589,675
2025	445,000	151,075	596,075
2026	460,000	142,175	602,175
2027	480,000	132,975	612,975
2028	495,000	123,375	618,375
2029	515,000	112,237	627,237
2030	530,000	100,650	630,650
2031	550,000	88,725	638,725
2032	570,000	75,663	645,663
2033	590,000	62,125	652,125
2034	610,000	47,375	657,375
2035	630,000	32,125	662,125
2036	<u>655,000</u>	<u>16,375</u>	<u>671,375</u>
TOTALS	<u>\$ 7,375,000</u>	<u>\$ 1,412,525</u>	<u>\$ 8,787,525</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2022

Series 2017 Refunding			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 525,000	\$ 109,778	\$ 634,778
2024	545,000	96,023	641,023
2025	570,000	81,744	651,744
2026	600,000	66,810	666,810
2027	625,000	51,090	676,090
2028	650,000	34,715	684,715
2029	675,000	17,685	692,685
TOTALS	\$ 4,190,000	\$ 457,845	\$ 4,647,845

Series 2017			
<u>Due During Fiscal Years Ending September 30</u>	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 375,000	\$ 233,206	\$ 608,206
2024	345,000	221,955	566,955
2025	305,000	211,605	516,605
2026	455,000	202,455	657,455
2027	470,000	188,805	658,805
2028	485,000	174,705	659,705
2029	500,000	160,155	660,155
2030	520,000	145,155	665,155
2031	535,000	129,555	664,555
2032	550,000	113,505	663,505
2033	570,000	97,005	667,005
2034	590,000	79,905	669,905
2035	610,000	61,615	671,615
2036	625,000	42,400	667,400
2037	650,000	21,775	671,775
TOTALS	\$ 7,585,000	\$ 2,083,801	\$ 9,668,801

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2022

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2019</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 95,000	\$ 47,828	\$ 142,828
2024	100,000	45,928	145,928
2025	100,000	43,929	143,929
2026	105,000	41,929	146,929
2027	110,000	39,829	149,829
2028	110,000	37,629	147,629
2029	115,000	35,429	150,429
2030	115,000	33,129	148,129
2031	120,000	30,714	150,714
2032	125,000	28,194	153,194
2033	130,000	25,225	155,225
2034	130,000	22,138	152,138
2035	135,000	18,888	153,888
2036	140,000	15,512	155,512
2037	145,000	12,012	157,012
2038	150,000	8,388	158,388
2039	155,000	4,262	159,262
TOTALS	<u>\$ 2,080,000</u>	<u>\$ 490,963</u>	<u>\$ 2,570,963</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2022

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2020</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2023	\$ 215,000	\$ 64,600	\$ 279,600
2024	220,000	62,450	282,450
2025	225,000	60,250	285,250
2026	235,000	58,000	293,000
2027	240,000	55,650	295,650
2028	245,000	53,250	298,250
2029	255,000	50,800	305,800
2030	260,000	48,250	308,250
2031	270,000	45,650	315,650
2032	280,000	42,275	322,275
2033	285,000	38,775	323,775
2034	295,000	35,213	330,213
2035	305,000	31,156	336,156
2036	315,000	26,582	341,582
2037	325,000	21,856	346,856
2038	330,000	16,574	346,574
2039	340,000	11,212	351,212
2040	350,000	5,688	355,688
TOTALS	<u>\$ 4,990,000</u>	<u>\$ 728,231</u>	<u>\$ 5,718,231</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2022

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2021</u>		
	<u>Principal Due September 1</u>	<u>Interest Due March 1 September 1</u>	<u>Total</u>
2023	\$ 920,000	\$ 170,950	\$ 1,090,950
2024	960,000	143,350	1,103,350
2025	555,000	114,550	669,550
2026	585,000	97,900	682,900
2027	605,000	80,350	685,350
2028	625,000	62,200	687,200
2029	655,000	49,700	704,700
2030	665,000	36,600	701,600
2031	690,000	23,300	713,300
2032	235,000	9,500	244,500
2033	240,000	4,800	244,800
TOTALS	<u>\$ 6,735,000</u>	<u>\$ 793,200</u>	<u>\$ 7,528,200</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)
SEPTEMBER 30, 2022

<u>Due During Fiscal Years Ending September 30</u>	<u>Series 2022</u>		
	<u>Principal Due October 1</u>	<u>Interest Due April 1, October 1</u>	<u>Total</u>
2023	\$ 415,000	\$ 378,700	\$ 793,700
2024	430,000	366,250	796,250
2025	445,000	349,050	794,050
2026	460,000	335,700	795,700
2027	475,000	321,900	796,900
2028	490,000	307,650	797,650
2029	510,000	292,950	802,950
2030	525,000	277,650	802,650
2031	545,000	261,900	806,900
2032	565,000	245,550	810,550
2033	585,000	228,600	813,600
2034	605,000	211,050	816,050
2035	625,000	192,900	817,900
2036	645,000	172,588	817,588
2037	670,000	151,625	821,625
2038	690,000	129,850	819,850
2039	715,000	105,700	820,700
2040	740,000	80,675	820,675
2041	770,000	54,775	824,775
2042	<u>795,000</u>	<u>27,825</u>	<u>822,825</u>
TOTALS	<u>\$ 11,700,000</u>	<u>\$ 4,492,888</u>	<u>\$ 16,192,888</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS (Continued)

SEPTEMBER 30, 2022

The District has been paying the amount due October 1 within the fiscal year preceding this due date. The following schedule has been prepared assuming that this practice will be followed in future years. As of September 30, 2022, the debt service requirements on the bonds outstanding were follows:

<u>Due During Fiscal Years Ending September 30</u>	<u>Annual Requirements for All Series</u>		
	<u>Total Principal Due</u>	<u>Total Interest Due</u>	<u>Total</u>
2023	\$ 4,315,000	\$ 1,438,161	\$ 5,753,161
2024	4,445,000	1,321,061	5,766,061
2025	4,120,000	1,193,738	5,313,738
2026	4,275,000	1,083,644	5,358,644
2027	3,805,000	978,486	4,783,486
2028	3,420,000	886,137	4,306,137
2029	3,560,000	801,168	4,361,168
2030	2,965,000	712,759	3,677,759
2031	3,080,000	638,919	3,718,919
2032	2,715,000	560,812	3,275,812
2033	2,810,000	488,030	3,298,030
2034	2,660,000	411,806	3,071,806
2035	2,305,000	336,684	2,641,684
2036	2,380,000	273,457	2,653,457
2037	1,790,000	207,268	1,997,268
2038	1,170,000	154,812	1,324,812
2039	1,210,000	121,174	1,331,174
2040	1,090,000	86,363	1,176,363
2041	770,000	54,775	824,775
2042	795,000	27,825	822,825
TOTALS	<u>\$ 53,680,000</u>	<u>\$ 11,777,079</u>	<u>\$ 65,457,079</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>(1)</u>	<u>(2)</u>	<u>(3)</u>
Bond Series:	2010 Ref.	2011	2013
Interest Rate:	Not Applicable	Not Applicable	Not Applicable
Dates Interest Payable:	Not Applicable	Not Applicable	Not Applicable
Maturity Dates:	Not Applicable	Not Applicable	Not Applicable
Bonds Outstanding at Beginning of Current Year	\$ 360,000	\$ 280,000	\$ 185,000
Less Retirements	<u>(360,000)</u>	<u>(280,000)</u>	<u>(185,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 0</u>
Current Year Interest Paid:	<u>\$ 7,200</u>	<u>\$ 11,200</u>	<u>\$ 6,198</u>

Bond Descriptions and Original Amount of Issue

- (1) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2010 (\$4,345,000)
- (2) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2011 (\$5,700,000)
- (3) Harris County Municipal Utility District No. 1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2013 (\$4,110,000)

Paying Agent/Registrar

- (1) (2) Wells Fargo Bank, N.A., Dallas, Texas
- (3) The Bank of New York Mellon Trust Company, N.A., Dallas, Texas

<u>Bond Authority</u>	<u>Tax Bonds*</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 118,500,000	\$ 0	\$ 0
Amount Issued:	83,325,000		
Remaining to be Issued:	35,175,000		

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>(4)</u>	<u>(5)</u>	<u>(6)</u>	<u>(7)</u>
Bond Series:	2014	2014 Ref.	2016 Ref.	2016
Interest Rate:	2.50% to 3.75%	3.00% to 3.50%	2.51%	2.00% to 2.50%
Dates Interest Payable:	March 1/ September 1	April 1/ October 1	April 1/ October 1	March 1/ September 1
Maturity Dates:	September 1, 2023/2034	April 1, 2023/2026	April 1, 2023/2027	September 1, 2023/2036
Bonds Outstanding at Beginning of Current Year	\$ 4,200,000	\$ 3,360,000	\$ 2,765,000	\$ 7,780,000
Less Retirements	<u>(235,000)</u>	<u>(640,000)</u>	<u>(425,000)</u>	<u>(405,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 3,965,000</u>	<u>\$ 2,720,000</u>	<u>\$ 2,340,000</u>	<u>\$ 7,375,000</u>
Current Year Interest Paid:	<u>\$ 136,025</u>	<u>\$ 101,425</u>	<u>\$ 64,068</u>	<u>\$ 176,075</u>

Bond Descriptions and Original Amount of Issue

- (4) Harris County Municipal Utility District No. 1 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2014 (\$5,370,000)
- (5) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2014 (\$7,025,000)
- (6) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2016 (\$4,010,000)
- (7) Harris County Municipal Utility District No. 1 Unlimited Tax and Revenue Bonds, Series 2016 (\$9,575,000)

Paying Agent/Registrar

- (4) (5) (7) Amegy Bank, N.A., Houston, Texas
- (6) Branch Banking and Trust Company, Charlotte, North Carolina

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)

FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>(8)</u>	<u>(9)</u>	<u>(10)</u>	<u>(11)</u>
Bond Series:	2017 Ref.	2017	2019	2020
Interest Rate:	2.62%	3.00% to 3.35%	2.00% to 2.75%	1.00% to 1.625%
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	March 1/ September 1	March 1/ September 1
Maturity Dates:	September 1, 2023/2029	September 1, 2023/2037	September 1, 2023/2039	September 1, 2023/2040
Bonds Outstanding at Beginning of Current Year	\$ 4,690,000	\$ 7,980,000	\$ 2,175,000	\$ 5,195,000
Less Retirements	<u>(500,000)</u>	<u>(395,000)</u>	<u>(95,000)</u>	<u>(205,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 4,190,000</u>	<u>\$ 7,585,000</u>	<u>\$ 2,080,000</u>	<u>\$ 4,990,000</u>
Current Year Interest Paid:	<u>\$ 122,878</u>	<u>\$ 245,055</u>	<u>\$ 49,728</u>	<u>\$ 66,650</u>

Bond Descriptions and Original Amount of Issue

(8) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2017 (\$4,870,000)

(9) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2017 (\$9,690,000)

(10) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2019 (\$2,340,000)

(11) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2020 (\$5,355,000)

Paying Agent/Registrar

(8) (9) Amegy Bank, N.A., Houston, Texas

(10) (11) Zions Bancorporation, N.A., Houston, Texas

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT (Continued)
FOR THE YEAR ENDED SEPTEMBER 30, 2022

	<u>(12)</u>	<u>(13)</u>	<u>Totals</u>
Bond Series:	2021 Ref.	2022	
Interest Rate:	2.00% to 3.00%	3.00% to 4.00%	
Dates Interest Payable:	March 1/ September 1	March 1/ September 1	
Maturity Dates:	September 1, 2023/2033	September 1, 2023/2042	
Bonds Outstanding at Beginning of Current Year	\$ 7,150,000	\$	\$ 46,120,000
Add Bonds Sold		11,700,000	11,700,000
Less Retirements	<u>(415,000)</u>	<u>0</u>	<u>(4,140,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 6,735,000</u>	<u>\$ 11,700,000</u>	<u>\$ 53,680,000</u>
Current Year Interest Paid:	<u>\$ 183,400</u>	<u>\$ 115,714</u>	<u>\$ 1,285,616</u>

Bond Descriptions and Original Amount of Issue

(12) Harris County Municipal Utility District No. 1 Unlimited Tax Refunding Bonds, Series 2021 (\$7,235,000)

(13) Harris County Municipal Utility District No. 1 Unlimited Tax Bonds, Series 2022 (\$11,700,000)

Paying Agent/Registrar

(12) (13) Zions Bancorporation, N.A., Houston, Texas

Net Debt Service Fund deposits balances as of September 30, 2022:	\$4,770,706
Average annual debt service payment for remaining term of all debt:	3,272,854

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED SEPTEMBER 30

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2022	2021	2020	2019	2018	2022	2021	2020	2019	2018
REVENUES										
Property taxes	\$ 1,148,681	\$ 1,255,043	\$ 1,706,799	\$ 1,074,730	\$ 1,329,371	19.2 %	23.9 %	30.4 %	22.9 %	27.9 %
Water service	1,021,921	911,218	907,504	858,006	896,425	17.1	17.3	16.1	18.3	18.8
Sewer service	1,138,906	1,075,502	1,003,193	990,229	965,369	19.0	20.4	17.8	21.1	20.2
Surface water fees	2,115,509	1,615,297	1,547,462	1,272,093	1,206,590	35.3	30.6	27.5	27.1	25.3
Penalty	75,698	56,437	37,150	53,887	58,901	1.3	1.1	0.7	1.2	1.2
Tap connection and inspection fees	265,225	139,660	182,255	167,287	127,561	4.4	2.6	3.2	3.6	2.7
Sales and Use Taxes	123,020	112,171	87,216	84,715	82,621	2.1	2.1	1.6	1.8	1.7
Interest on deposits and investments	38,663	35,868	114,537	134,955	74,106	0.6	0.7	2.0	2.9	1.6
Other revenues	58,049	71,102	40,616	49,523	30,036	1.0	1.3	0.7	1.1	0.6
TOTAL REVENUES	5,985,672	5,272,298	5,626,732	4,685,425	4,770,980	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Service operations:										
Professional fees	216,823	203,981	206,579	198,628	199,253	3.6	3.9	3.7	4.2	4.2
Contracted services	296,568	285,830	268,038	255,425	236,291	5.0	5.4	4.8	5.5	5.0
Utilities	246,262	216,153	214,098	212,621	219,837	4.1	4.1	3.8	4.5	4.6
Surface water fees	2,132,174	1,637,176	1,577,737	1,324,300	1,182,064	35.6	31.0	28.0	28.3	24.8
Repairs and maintenance	821,057	929,663	677,798	564,123	815,048	13.7	17.6	12.0	12.0	17.1
Other operating expenditures	360,726	194,238	223,942	207,899	208,349	6.0	3.7	4.0	4.4	4.4
Security service	299,003	294,447	284,563	276,660	278,217	5.0	5.6	5.1	5.9	5.8
Garbage disposal	688,331	574,831	538,581	514,591	497,947	11.5	10.9	9.6	11.0	10.4
Administrative expenditures	207,815	176,889	160,157	169,117	162,968	3.5	3.4	2.8	3.6	3.4
Capital outlay	1,258,438	1,058,744	539,776	461,925	2,096,538	21.0	20.1	9.6	9.9	43.9
TOTAL EXPENDITURES	6,527,197	5,571,952	4,691,269	4,185,289	5,896,512	109.0	105.7	83.4	89.3	123.6
EXCESS REVENUES (EXPENDITURES)	\$ (541,525)	\$ (299,654)	\$ 935,463	\$ 500,136	\$ (1,125,532)	(9.0) %	(5.7) %	16.6 %	10.7 %	(23.6) %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>3,399</u>	<u>3,227</u>	<u>3,108</u>	<u>2,980</u>	<u>2,876</u>					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>3,323</u>	<u>3,155</u>	<u>3,037</u>	<u>2,917</u>	<u>2,826</u>					

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND
FOR YEARS ENDED SEPTEMBER 30

	<u>AMOUNT</u>					<u>PERCENT OF TOTAL REVENUES</u>				
	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
REVENUES										
Property taxes	\$ 5,640,039	\$ 5,090,754	\$ 4,214,964	\$ 4,446,145	\$ 4,321,842	98.3 %	98.7 %	96.6 %	96.4 %	97.3 %
Penalty, interest and other	48,627	37,248	41,340	12,548	27,352	0.8	0.7	0.9	0.3	0.6
Accrued interest on bonds received at date of sale	0	1,033	2,852	0	10,084	0.0	0.0	0.1	0.0	0.2
Interest on deposits and investments	50,367	29,952	102,874	152,554	84,319	0.9	0.6	2.4	3.3	1.9
TOTAL REVENUES	<u>5,739,033</u>	<u>5,158,987</u>	<u>4,362,030</u>	<u>4,611,247</u>	<u>4,443,597</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>	<u>100.0</u>
EXPENDITURES										
Current:										
Contracted services	15,753	5,840	5,469	2,928	3,736	0.3	0.1	0.1	0.1	0.1
Other expenditures	6,121	9,638	13,736	0	0	0.1	0.2	0.3	0.0	0.0
Debt service:										
Principal retirement	4,140,000	3,655,000	3,300,000	3,135,000	2,855,000	72.1	70.8	75.7	67.9	64.3
Interest and fees	1,291,181	1,289,060	1,413,688	1,447,202	1,458,458	22.5	25.0	32.4	31.4	32.8
TOTAL EXPENDITURES	<u>5,453,055</u>	<u>4,959,538</u>	<u>4,732,893</u>	<u>4,585,130</u>	<u>4,317,194</u>	<u>95.0</u>	<u>96.1</u>	<u>108.5</u>	<u>99.4</u>	<u>97.2</u>
EXCESS REVENUES (EXPENDITURES)	<u>\$ 285,978</u>	<u>\$ 199,449</u>	<u>\$ (370,863)</u>	<u>\$ 26,117</u>	<u>\$ 126,403</u>	<u>5.0 %</u>	<u>3.9 %</u>	<u>(8.5) %</u>	<u>0.6 %</u>	<u>2.8 %</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTSSEPTEMBER 30, 2022

Complete District Mailing Address: Harris County Municipal Utility District No. 1
c/o Smith, Murdaugh, Little & Bonham, L.L.P.
2727 Allen Parkway, Suite 1100
Houston, Texas 77019

District Business Telephone No.: 713-652-6500

Submission date of the most recent District Registration Form: July 14, 2022

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
Doug Caldwell, Jr. c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/22- 5/02/26	\$ 5,100	\$ 1,982	President
Craig C. Young c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/02/20- 5/04/24	2,550	1,676	Vice President
James E. Roberson c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/22- 5/02/26	4,650	2,190	Secretary
Ralph Mead c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Appointed 8/11/20- 5/04/24	5,100	2,630	Director
Janet Stallings c/o Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	Elected 5/07/22- 5/02/26	2,700	510	Director

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 1BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)SEPTEMBER 30, 2022CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Smith, Murdaugh, Little & Bonham, L.L.P. 2727 Allen Parkway, Suite 1100 Houston, Texas 77019	6/07/72	\$ 164,143 296,335 Bonds	Attorney
Municipal Accounts & Consulting, L.P. 1281 Brittmoore Road Houston, Texas 77043	12/31/15	58,832 3,250 Bonds	Bookkeeper
Mark Burton, Ghia Lewis 1281 Brittmoore Road Houston, Texas 77043	12/31/15	0	Investment Officer
H2O Innovation P.O. Box 1209 Spring, Texas 77383	6/23/76	866,733	Operator
Vogler & Spencer Engineering, Inc. 777 North Eldridge Parkway, Suite 500 Houston, Texas 77079	4/09/02	462,651 45,261 Bonds	Engineer
Harris County Tax Office P.O. Box 4663 Houston, Texas 77210	9/01/12	6,121	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	50,102	Central Appraisal District
R. W. Baird & Co. 1331 Lamar, Suite 1360 Houston, Texas 77010	3/10/15	197,884 Bonds	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	10/14/08	11,052 5,700 Bonds	Independent Auditor

See accompanying independent 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