

**OFFICIAL STATEMENT DATED NOVEMBER 14, 2023**

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

The Bonds are NOT designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – NOT Qualified Tax-Exempt Obligations.”

**NEW ISSUE—BOOK-ENTRY ONLY**  
CUSIP No. 35986M

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

**\$4,800,000**

**FULSHEAR MUNICIPAL UTILITY DISTRICT NO. 2**  
(A political subdivision of the State of Texas, located in Fort Bend County, Texas)  
**UNLIMITED TAX ROAD BONDS**  
**SERIES 2023A**

**Dated: December 1, 2023**

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

Interest on the \$4,800,000 Unlimited Tax Road Bonds, Series 2023A (the “Bonds”) will accrue from December 1, 2023, and will be payable on April 1 and October 1 of each year, commencing April 1, 2024. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”) pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.”

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



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

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield to Maturity(a)</u>
\$100,000	2026	7.000%	4.05%	\$175,000	2036(b)	4.500%	4.65%
\$105,000	2027	7.000%	4.05%	***	***	***	***
\$110,000	2028	7.000%	4.10%	\$205,000	2039(b)	4.625%	4.80%
***	***	***	***	\$215,000	2040(b)	4.750%	4.85%
\$130,000	2031(b)	7.000%	4.20%	\$225,000	2041(b)	4.750%	4.88%
\$140,000	2032(b)	6.125%	4.25%	\$240,000	2042(b)	4.750%	4.90%
\$145,000	2033(b)	4.500%	4.50%	\$250,000	2043(b)	4.750%	4.92%
\$155,000	2034(b)	4.500%	4.55%	***	***	***	***
\$165,000	2035(b)	4.500%	4.60%	\$295,000	2046(b)	4.875%	4.98%
		\$245,000 7.00%	Term Bond Due April 1, 2030 to Yield 4.15%	(a) (b) (c)			
		\$370,000 4.50%	Term Bond Due April 1, 2038 to Yield 4.75%	(a) (b) (c)			
		\$545,000 4.75%	Term Bond Due April 1, 2045 to Yield 4.95%	(a) (b) (c)			
		\$985,000 5.00%	Term Bond Due April 1, 2049 to Yield 5.00%	(a) (b) (c)			

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed.
- (b) The Bonds maturing on or after April 1, 2029, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on April 1, 2028, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. If fewer than all of the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar, in its capacity as Registrar, by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS – Optional Redemption.”
- (c) Subject to mandatory sinking fund redemption as described herein. See “THE BONDS – Optional Redemption.”

The proceeds of the Bonds will be used by Fulshear Municipal Utility District No. 2 (the “District”) to: (1) reimburse the Developers (hereinafter defined) for advancing funds to construct certain road improvements serving the District and associated land acquisition, engineering, and testing costs; (2) fund developer interest related to the advancement of funds for certain construction costs; and (3) pay certain administrative costs and costs related to the issuance of the Bonds. See “USE OF BOND PROCEEDS.”

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

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Coats Rose, P.C., Houston, Texas, Bond Counsel. Certain other matters will be passed upon on behalf of the District by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about December 14, 2023.

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## **USE OF INFORMATION IN OFFICIAL STATEMENT**

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

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

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

All of the summaries of the statutes, resolutions, contracts, audited financial statements, engineering, and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046, upon payment of duplication costs.

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

References to website 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 websites and the information or links contained therein are not incorporated into, and are not part of this Official Statement for any purpose.

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

## **SALE AND DISTRIBUTION OF THE BONDS**

### **Award of the Bonds**

After requesting competitive bids for the Bonds, the District has accepted the bid producing the lowest net interest cost to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Underwriter"), to purchase the Bonds bearing the rates shown on the cover page of this Official Statement at a price of 97.007326% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 5.095718%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

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

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

### **Prices and Marketability**

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

**THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO**

MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

The District has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bids 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.

### **Securities Laws**

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

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

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

### **Annual Reports**

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes the quantitative financial information and operating data of the general type included in "DISTRICT DEBT" (except for "Estimated Overlapping Debt"), "DISTRICT TAX DATA," and "APPENDIX A" (Audited Financial Statements of the District) of this Official Statement. The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2024. The District will provide the updated information to the MSRB via EMMA.

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

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

### **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect beneficial owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms "obligated person" and "financial obligation" when used in this paragraph shall have the meanings ascribed to them under the Rule. The term "material" when used in this paragraph shall have the meaning ascribed

to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provisions for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

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

### **Compliance with Prior Undertakings**

The District entered into its first continuing disclosure agreement in connection with the issuance of outstanding bonds in 2019. Due to an administrative oversight, the District failed to timely file its fiscal year end audit for 2023. The audit has since been filed. Other than previously mentioned, the District has complied in all material respects with all continuing disclosure agreements made in accordance with the Rule.

### **MUNICIPAL BOND RATING**

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

### **BOND INSURANCE**

#### **Bond Insurance Policy**

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

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

#### **Build America Mutual Assurance Company**

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: [www.buildamerica.com](http://www.buildamerica.com).

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Bonds on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

#### *Capitalization of BAM*

BAM's total admitted assets, total liabilities, and total capital and surplus, as of September 30, 2023 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$502.8 million, \$217.0 million and \$285.8 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at [www.buildamerica.com](http://www.buildamerica.com), is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

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

#### *Additional Information Available from BAM*

**Credit Insights Videos.** For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at [www.buildamerica.com/videos](http://www.buildamerica.com/videos). (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Credit Profiles.** Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at [www.buildamerica.com/credit-profiles](http://www.buildamerica.com/credit-profiles). BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

**Disclaimers.** The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer of or the underwriter for the Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

## OFFICIAL STATEMENT SUMMARY

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

### THE BONDS

- Description:** The \$4,800,000 Unlimited Tax Road Bonds, Series 2023A (the "Bonds"), are dated December 1, 2023. The Bonds represent the third series of bonds to be issued by Fulshear Municipal Utility District No. 2 (the "District") and the second of such bonds to be issued for the purpose of constructing or acquiring a road system to serve the District. The Bonds mature on April 1 in the years as shown in the table on the cover page of this Official Statement. The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, Chapter 8480, Texas Special District Local Laws Code, general laws of the State of Texas, specifically, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, and an order authorizing the issuance of the Bonds (the "Bond Order") to be adopted by the Board of Directors of the District. See "THE BONDS."
- Source of Payment:** The Bonds are payable from a continuing direct annual ad valorem tax levied against all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Fort Bend County, the City of Fulshear, or any other political subdivision or agency. See "THE BONDS – Source of and Security for Payment."
- Redemption Provisions:** The Bonds maturing on or after April 1, 2029, are subject to early redemption, in whole or from time to time in part, on April 1, 2028, or on any date thereafter at the option of the District at a price of par plus accrued interest to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on April 1 in the years 2030, 2038, 2045, and 2049 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on April 1 in the years 2029, 2037, 2044, and 2047, respectively. See "THE BONDS – Mandatory Redemption."
- Book-Entry-Only System:** The Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
- Payment Record:** The District has previously issued one (1) series of unlimited tax bonds for the purpose of constructing or acquiring a water, sewer, and drainage system to serve the District, and one (1) series of unlimited tax road bonds for the purpose of constructing or acquiring a road system to serve the District, of which \$12,820,000 principal amount is outstanding as of October 26, 2023 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of or interest on the Outstanding Bonds. See "DISTRICT DEBT."
- Use of Proceeds:** Proceeds from the sale of the Bonds will be used by the District to: (1) reimburse the Developers (hereinafter defined) for advancing funds to construct certain road improvements serving the District and associated land acquisition, engineering, and testing costs; (2) fund developer interest related to the advancement of funds for certain construction costs; and (3) pay certain administrative costs and costs related to the issuance of the Bonds. See "USE OF BOND PROCEEDS."
- NOT Qualified Tax Exempt Obligations:** The Bonds are NOT designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – NOT Qualified Tax-Exempt Obligations."
- Municipal Bond Insurance and Rating:** S&P has assigned its municipal bond insured rating of "AA" (stable outlook) to this issue of Bonds with the understanding that upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by BAM. See "MUNICIPAL BOND RATING," "BOND INSURANCE," and "APPENDIX C – Specimen Municipal Bond Insurance Policy."
- Legal Opinion:** Coats Rose, P.C., Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/Registrar:** The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."
- Risk Factors:** The Bonds are subject to certain investment considerations, as set forth in this Official Statement. Prospective purchasers should carefully examine this Official Statement with respect to the investment security of the Bonds particularly the sections captioned "RISK FACTORS."



## THE DISTRICT

- Authority:** The District is a municipal utility district created by an Act of the 83<sup>rd</sup> Texas Legislature, Regular Session, effective on September 1, 2013, codified at Chapter 8480, Texas Special District Local Laws Code. The District was created pursuant to the authority of Article XVI, Section 59 and Article III, Section 52, of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality (the "TCEQ"). The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District was created with certain road powers. See "THE DISTRICT – Authority."
- Description:** The District is located entirely within Fort Bend County, Texas, within the corporate limits of the City of Fulshear, Texas (the "City"), and within the boundaries of Lamar Consolidated Independent School District. The District is located approximately 34 miles west of the central business district of the City of Houston, Texas and approximately one (1) mile east of the central business district of the City. The District lies immediately south of F.M. 1093, approximately one (1) mile west of Texas Heritage Parkway, and immediately west and adjacent to Bois D'Arc Lane. Access to the District is provided by way of F.M. 1093, Bois D'Arc Lane, and Fulshear Run Trace, which bisects the District.
- The District, as it was originally created, included approximately 55 acres. Since its creation, the District has annexed certain tracts of land totaling approximately 197 acres, including an approximately 47-acre tract in April 2015, an approximately 17-acre tract in August 2015, an approximately 22-acre tract in October 2020, and an approximately 111-acre tract in August 2021. There have been no exclusions of property within the District. The District currently includes approximately 252 acres, all within the corporate limits of the City. See "THE DISTRICT – Description and Location" and "– Vicinity Map."
- Development of the District:** The District is being developed for predominantly single-family residential purposes in the subdivision known as Fulshear Run. Homebuilding in the District has taken place in Fulshear Run, Sections 1 – 6. As of October 1, 2023, the District included approximately 187 completed homes (approximately 184 of which were owner-occupied), approximately 8 homes under construction, and approximately 2 vacant developed lots. See "THE DISTRICT – Status of Residential Development" and "APPENDIX B – Photographs Taken in the District."
- Summary of Land Uses:** As of October 1, 2023, the District included approximately 195 developed and improved acres, no acres under development, approximately 21 additional developable acres, and approximately 36 undevelopable acres, which includes road rights-of-way, drainage easements, pipeline easements, open spaces, and park and recreational facilities. See "THE DISTRICT – Land Uses and Status of Land Development."
- The Developers:** The developer of approximately 79 acres within the District located in Fulshear Run, Sections 1 and 2 is DHK Fulshear LP ("DHK Fulshear"), a Texas limited partnership, whose sole general partner is DHK Development, Inc., a Texas corporation. DHK Fulshear was established for the sole purpose of developing the land and lots located within Fulshear Run, Sections 1 and 2, as well as approximately 25 acres of undeveloped land within the District, which is planned for commercial purposes based on current land plans. The general partner of DHK Fulshear is DHK Development, Inc., which is wholly owned by Mr. Douglas H. Konopka and was founded in 1991. Mr. Konopka is President of DHK Development, Inc., and has over 42 years of development experience. DHK Development, Inc. manages undeveloped properties owned by a few select Houston families, provides real estate consulting services to various clients, and develops both residential communities and commercial projects for its own account. Mr. Konopka has developed residential communities in metropolitan Houston, Atlanta, New Orleans, and Mobile.
- The developers of approximately 148 acres within the District located in Fulshear Run, Sections 3 – 6 are DHK Circle S, LLC ("DHK Circle S"), a Texas limited liability company, and Tri Pointe Homes Texas, Inc. ("Tri Pointe"), a Texas corporation. DHK Circle S is a special purpose entity that is wholly owned and controlled by DHK Development, Inc. and was established for the sole purpose of developing the land and lots located within Fulshear Run, Sections 3 – 6. Effective June 27, 2019, DHK Fulshear, DHK Circle S, and Tri Pointe entered into a Development Agreement (the "Development Agreement") pertaining to the land, lots, and construction costs associated with the development of Fulshear Run, Sections 3 – 6 and the commercial tract. The Development Agreement provides that DHK Circle S and Tri Pointe will each have a certain interest in the acreage in the District being developed and platted as Fulshear Run, Sections 3 – 6. Additionally, the Development Agreement provides that DHK Circle S and Tri Pointe each contribute ratably to the development costs, pursuant to their respective interests in the acreage, and in turn each receive a prorated number of the total developed lots in Fulshear Run, Sections 3 – 6. Pursuant to the terms of the Development Agreement, DHK Circle S is entitled to 30 developed lots and Tri Pointe is entitled to 94 developed lots of the 124 total lots in Fulshear Run, Sections 3 – 6.



DHK Fulshear and DHK Circle S have each entered into separate management agreements (the "Management Agreements") with DHK Development, Inc. to provide for management of the day-to-day land development activities associated with the initiation and completion of the land development projects within Fulshear Run, Sections 1 and 2 and Fulshear Run, Sections 3 – 6, respectively. These management activities include, but are not limited to, pre-development coordination and supervision of the consultants and professionals of DHK Fulshear and DHK Circle S, execution of the approved project plans and specifications, and supervising lot marketing and sales. The Management Agreements provide for DHK Development, Inc. to receive reimbursement for direct expenses, a monthly management fee, a developer override fee based on a percentage of gross lot sale prices, and provides for certain additional compensation based on the profitability of the projects. DHK Fulshear and DHK Circle S report that DHK Development, Inc. has performed in accordance with the terms of the Management Agreements to date and that there has been no default under the terms of the Management Agreements. DHK Development, Inc. is comprised of individuals who have worked on real estate investments together over the last several years, including Mr. Douglas H. Konopka and Mr. Noah Worley.

DHK Fulshear, DHK Circle S, and Tri Pointe are collectively referred to herein as the "Developers." See "THE DEVELOPERS."

**Homebuilders:**

The homebuilders in the District include Tri Pointe, Partners in Building, and Fairmont Custom Homes. The homes in Fulshear Run, Section 1 were constructed on half-acre lots by Tri Pointe and were marketed with an average sales price of approximately \$650,000. The homes in Fulshear Run, Section 2 were constructed on one-acre lots by Partners in Building and Fairmont Custom Homes and were sold in the \$1,075,000 to \$1,800,000 price range. The homes in Fulshear Run, Sections 3 – 6 are being constructed on half-acre lots and one-acre lots by Tri Pointe and Partners in Building and are currently being marketed in the \$700,000 - \$2,500,000 price range. See "THE DEVELOPERS – Homebuilders."

**The System:**

The District's water supply and wastewater treatment capacity is provided by the City pursuant to the terms of the Development Agreement dated May 6, 2014 (the "Agreement"), between the City and DHK Fulshear, which the District ratified and agreed to be bound by (except for the financing obligations of DHK Fulshear). The District does not operate any water supply and distribution or wastewater collection and treatment facilities. In the Agreement, the City agrees to provide the District with its ultimate requirements for water supply and wastewater treatment capacity. See "DEVELOPMENT AGREEMENT BETWEEN THE CITY OF FULSHEAR AND THE DEVELOPERS."

The underground storm sewer facilities serving developed portions of the District are complete. The drainage system improvements serving the District include curb and gutter road drainage connected to underground storm sewers. The District's storm sewer system discharges directly into internal amenity lakes at various locations and into natural and improved drainage channels, which discharge into Bessie's Creek and ultimately outfall into the Brazos River.

According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) Panel Nos. 48157C0085M and 48157C0095M, both dated January 29, 2021, none of the land within the District's boundaries is located within the 100-year flood plain. See "THE SYSTEM."

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

10/1/2023 Estimated Taxable Value	\$173,976,477	(a)
2023 Certified Taxable Value	\$158,895,675	(b)
Direct Debt:		
Outstanding Bonds (as of October 26, 2023)	\$12,820,000	(c)
The Bonds	<u>\$4,800,000</u>	
Total Direct Debt	\$17,620,000	
See "DISTRICT DEBT"		
Estimated Overlapping Debt	<u>\$19,190,798</u>	(d)
Direct and Estimated Overlapping Debt	\$36,810,798	
Percentage of Direct Debt to:		
10/1/2023 Estimated Taxable Value	10.13%	
2023 Certified Taxable Value	11.09%	
See "DISTRICT DEBT"		
Percentage of Direct and Estimated Overlapping Debt to:		
10/1/2023 Estimated Taxable Value	21.16%	
2023 Certified Taxable Value	23.17%	
See "DISTRICT DEBT"		
2023 Tax Rate Per \$100 of Assessed Value:		
Debt Service Tax	\$0.21	
Road Debt Service Tax	\$0.35	
Maintenance Tax	<u>\$0.61</u>	
Total 2023 Tax Rate	\$1.17	
Cash and Temporary Investment Balances as of October 25, 2023:		
General Fund	\$1,234,302	(e)
Debt Service Fund	\$471,472	(f) (g)
Road Debt Service Fund	\$310,674	(f)

- (a) Reflects data supplied by the Fort Bend Central Appraisal District ("FBCAD" or the "Appraisal District"). The Estimated Taxable Value as of October 1, 2023, was prepared by FBCAD and provided to the District. Such values are not binding on FBCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by FBCAD. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (c) Includes the District's \$8,590,000 Unlimited Tax Bonds, Series 2023, which closed on October 26, 2023.
- (d) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (e) Unaudited figure per the District's records. See "RISK FACTORS – Operating Funds" and "THE SYSTEM – General Fund Operating History."
- (f) Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Road Debt Service Fund or the Debt Service Fund. The cash and investment balances in the Debt Service Fund are not available to make debt service payments on the Bonds. Likewise, the cash and investment balances in the Road Debt Service Fund will not be available to make debt service payments on the District's bonds sold for water, sewer, and drainage purposes. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."
- (g) The cash and investment balance for the Debt Service Fund reflected above represents capitalized interest and accrued interest funded with proceeds of the District's \$8,590,000 Unlimited Tax Bonds, Series 2023. Such amount was deposited into the District's Debt Service Fund on October 26, 2023.

**DEBT SERVICE REQUIREMENTS**

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

<u>Year</u>	<u>Outstanding Debt Service Requirements</u>	<u>Plus: Debt Service Requirements on the Bonds</u>		<u>Total Debt Service Requirements</u>
		<u>Principal</u>	<u>Interest</u>	
2024	\$739,243	-	\$204,583	\$943,826
2025	\$736,243	-	\$245,500	\$981,743
2026	\$940,743	\$100,000	\$242,000	\$1,282,743
2027	\$932,368	\$105,000	\$234,825	\$1,272,193
2028	\$923,087	\$110,000	\$227,300	\$1,260,387
2029	\$912,821	\$120,000	\$219,250	\$1,252,071
2030	\$926,212	\$125,000	\$210,675	\$1,261,887
2031	\$918,056	\$130,000	\$201,750	\$1,249,806
2032	\$903,775	\$140,000	\$192,913	\$1,236,687
2033	\$893,462	\$145,000	\$185,363	\$1,223,825
2034	\$907,268	\$155,000	\$178,613	\$1,240,881
2035	\$898,121	\$165,000	\$171,413	\$1,234,534
2036	\$890,965	\$175,000	\$163,763	\$1,229,728
2037	\$907,450	\$180,000	\$155,775	\$1,243,225
2038	\$897,575	\$190,000	\$147,450	\$1,235,025
2039	\$891,825	\$205,000	\$138,434	\$1,235,259
2040	\$904,700	\$215,000	\$128,588	\$1,248,288
2041	\$896,200	\$225,000	\$118,138	\$1,239,338
2042	\$911,200	\$240,000	\$107,094	\$1,258,294
2043	\$904,575	\$250,000	\$95,456	\$1,250,031
2044	\$916,325	\$265,000	\$83,225	\$1,264,550
2045	\$906,450	\$280,000	\$70,281	\$1,256,731
2046	\$924,725	\$295,000	\$56,441	\$1,276,166
2047	\$617,125	\$310,000	\$41,500	\$968,625
2048	\$614,250	\$330,000	\$25,500	\$969,750
2049	<u>\$615,000</u>	<u>\$345,000</u>	<u>\$8,625</u>	<u>\$968,625</u>
<b>TOTALS</b>	<b>\$22,429,763</b>	<b>\$4,800,000</b>	<b>\$3,854,452</b>	<b>\$31,084,215</b>

Maximum Annual Debt Service Requirements (2026)..... \$1,282,743 (a)

Requires a \$0.78 debt service tax rate on the October 1, 2023 Estimated Taxable Value of \$173,976,477  
at 95% collections..... \$1,289,166 (a)

Requires a \$0.85 debt service tax rate on the 2023 Certified Taxable Value of \$158,895,675  
at 95% collections..... \$1,283,083 (a)

(a) A certain portion of the maximum annual debt service requirement will be paid for with the District's road debt service tax rate and a certain portion will be paid for with the District's debt service tax rate (for water, sewer, and drainage purposes). See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

**OFFICIAL STATEMENT**

relating to

**\$4,800,000**

**FULSHEAR MUNICIPAL UTILITY DISTRICT NO. 2**  
**(A political subdivision of the State of Texas located within Fort Bend County, Texas)**

**UNLIMITED TAX ROAD BONDS**  
**SERIES 2023A**

**INTRODUCTION**

This Official Statement provides certain information in connection with the issuance of the \$4,800,000 Fulshear Municipal Utility District No. 2 Unlimited Tax Road Bonds, Series 2023A (the "Bonds").

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, Chapter 8480, Texas Special District Local Laws Code, general laws of the State of Texas, specifically, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District, and an order authorizing the issuance of the Bonds (the "Bond Order") to be adopted by the Board of Directors (the "Board") of Fulshear Municipal Utility District No. 2 (the "District").

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

**RISK FACTORS**

**General**

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

**Marketability**

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

**Tax Collections**

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

**Registered Owners' Remedies**

If the District defaults in the payment of principal of, interest on, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond 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 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. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of, and interest on, the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

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

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

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

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

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

A district cannot be placed into bankruptcy involuntarily.

### **Approval of the Bonds**

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

### **Economic Factors**

The continued growth of taxable values in the District is directly related to the housing and building industry. The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for new homes, hence reducing demand by homebuilders for lots within the District.

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

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

The housing industry in the Houston area is competitive and the District can give no assurance that current home building programs will be completed. The competitive position of the developer in the sale of its developed lots or, respectively, that of present and prospective builders in the construction of single-family residential houses, is affected by most of the factors discussed herein. Such a competitive position is directly related to tax revenues to be received by the District and the growth and maintenance of taxable values in the District.

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

### **Competition**

The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. Many of the other developments are generally accessible by the same commuter routes and served by the same employment centers and school districts causing the developments to compete with one another for the same pool of buyers at similar price points and amenity levels.

The competitive position of the Developers in the sale of land and the sale or leasing of residences is affected by most of the factors discussed in this section. Such a competitive position is directly related to the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developers will be implemented or, if implemented, will be successful.

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

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

### **Dependence on the Energy Industry**

The economy of the Houston metropolitan area, which has sometimes been referred to as the energy capital of the world, is, in part, dependent upon the oil and gas and petrochemical industries. During the height of the COVID-19 pandemic in 2020, worldwide consumption of energy decreased dramatically and led to the lowest oil prices in three decades. This led to layoffs of workers, business failures and reduced capital and operating expenditures by energy companies. While there has been some rebound, Houston area jobs in the energy industry have not fully recovered. In 2021, the United States rejoined the 2015 Paris Climate Accords, under which many countries have agreed to move away from fossil fuels to alleviate climate change. Although major energy companies expect that fossil fuels will be vital to the global economy for many years to come, they have recognized the need to direct more investment toward various clean energy projects. The pace and success of these efforts could significantly affect the Houston economy in the future.

### **Dependence on Future Development and Potential Impact on District Tax Rates**

Assuming no further construction of single-family residential or other improvements within the District other than those that have been constructed, the value of such land and improvements currently located and under construction within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the District's Maximum Annual Debt Service Requirement will be \$1,282,743 (2026). Assuming no increase or decrease from the October 1, 2023 Estimated Taxable Value of \$173,976,477, and no use of other District funds, a combined road debt service tax rate and debt service tax rate of \$0.78 per \$100 of assessed valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. Assuming no increase or decrease from the 2023 Certified Taxable Value of \$158,895,675, and no use of other District funds, a combined road debt service tax rate and debt service tax rate of \$0.85 per \$100 of assessed valuation at 95% collection would be necessary to pay the Maximum Annual Debt Service Requirement. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

### **Operating Funds**

As noted elsewhere in this Official Statement, residents within the District receive water and sewer service from the City. The District does not operate the water and wastewater system and, therefore, does not receive payments from customers for water and wastewater service. The District set a 2023 maintenance tax rate in the amount of \$0.61 per \$100 of assessed valuation. The revenue produced from the maintenance tax must be sufficient to offset the operating expenses of the District. The District's 2023 operations and maintenance tax levy amount is approximately \$969,264; such amount will be deposited into the District's General Fund upon receipt. Additionally, for the fiscal year ending February 29, 2024, the District is currently budgeting expenditures of approximately \$150,319. Maintenance of a positive General Fund balance will depend upon continued development and increased amounts of maintenance tax revenue. If its General Fund balance is depleted, then the District will be required to levy a maintenance tax at a rate sufficient to fund its operating expenses. Such a tax, when added to the District's debt service tax and road debt service tax, may result

in a total District tax which could adversely affect continued development of the District, as well as the willingness of taxpayers to pay taxes on their property. The District expects that it will be able to maintain a total tax rate of \$1.17 per \$100 of assessed valuation or less subsequent to the sale of the Bonds. See “THE SYSTEM – General Fund Operating History” and “DISTRICT TAX DATA – Tax Rate and Collections.”

**Overlapping City of Fulshear Tax Rate**

The City set a total tax rate of \$0.168767 per \$100 of assessed valuation for the 2023 tax year. The District’s 2023 tax rate of \$1.17 per \$100 of assessed valuation when combined with the overlapping tax rate of the City totals \$1.338767 per \$100 of assessed valuation; such combined tax rate of the City and the District is slightly higher than the tax rate that is common among many other similar utility districts providing water, sanitary sewer, and storm drainage services in the Fort Bend County area. However, it should be noted that the residents of the District also receive additional services from the City that are not provided to residents of utility districts located in the unincorporated areas of the county. An increase in the District’s tax rate or the City’s tax rate substantially above the current level could have an adverse impact on future development in the District and on the District’s ability to collect such tax. See “DISTRICT TAX DATA – Estimated Overlapping Taxes.”

The District has no control over the City’s tax rate as in effect from time to time, and can make no assurances that any particular rate will be maintained by it or by the City.

**Landowners/Developers Under No Obligation to the District**

The Developers have informed the District of its current plans to continue to develop land in the District for residential purposes. However, neither the Developers nor any other landowner within the District have any commitments or obligations to proceed at any particular rate or according to any specified plan with the development of land or the construction of homes in the District. Currently, there is no restriction on any landowner’s right (including the Developers’) to sell its land. Failure to construct taxable improvements on developed lots (currently existing lots or lots anticipated to be created by the Developers) and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District. The District is also dependent upon certain principal taxpayers, including the Developers, for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of the Developers will be or what effect, if any, such conditions may have on its ability to pay taxes. See “DISTRICT TAX DATA – Principal Taxpayers.”

**Principal Landowners’ Obligations to the District**

The District’s tax base is, to a certain extent, concentrated in a small number of taxpayers. Based on the District’s 2023 certified tax roll, the District’s ten (10) largest taxpayers, which includes the Developers and certain of the homebuilders, represent approximately \$26,820,392 of taxable value or approximately 16.88% of the District’s 2023 certified tax roll. See “DISTRICT TAX DATA – Principal Taxpayers.” The District cannot represent that its tax base will in the future be: (i) distributed among a significantly larger number of taxpayers, or (ii) less concentrated in property owned by a relatively small number of property owners, than it is currently. Failure by one or more of the District’s principal property owners to make full and timely payments of taxes due may have an adverse effect on the investment quality or security of the Bonds. If any one or more of the principal taxpayers did not pay taxes due, the District might need to increase its debt service tax rate to meet its debt service requirements.

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.

**Future Debt**

The District’s voters have authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<b><u>Amount</u></b>	<b><u>Purpose</u></b>
\$132,000,000	For certain water, sanitary sewer, and storm water facilities and for refunding
\$85,000,000	For certain road facilities and for refunding
\$43,000,000	For certain parks and recreational facilities and for refunding

After the issuance of the Bonds, the District will have \$123,410,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$75,870,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$43,000,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

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

The District is also authorized by statute to engage in fire-fighting activities, including the issuance of bonds payable from taxes for such purpose. Before the District could issue bonds payable from taxes for said purpose, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) amendment of the existing City ordinance specifying the purposes for which the District may issue bonds; (c) voter approval of the



master plan and issuance of bonds by the TCEQ; and (d) approval of bonds by the Attorney General of Texas. The Board is not considering issuing any fire-fighting unlimited tax bonds at this time. The District has no information concerning any determination by the City to modify its consent ordinance. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

Generally, the Board of Directors has indicated that, in the future, new money bonds will be issued in amounts and in timeframes depending upon: (i) the rate of growth of taxable improvements in the District, and (ii) the District's ability to maintain a total tax rate of \$1.17 per \$100 of assessed valuation or less. See "THE BONDS – Issuance of Additional Debt."

### **Financing Road Facilities**

The District is authorized to develop road facilities, including the issuing of bonds payable from taxes for such purpose. Before the District can issue road bonds payable from taxes, approval of the bonds by the Attorney General of Texas is required. When the District does issue road bonds, the outstanding principal amount of such bonds may not exceed an amount equal to twenty-five percent of the assessed value of real property in the District. The District conducted a road bond election that authorized \$85,000,000 of road bonds at an election held on May 9, 2015, of which \$75,870,000 will remain authorized but unissued after the issuance of the Bonds.

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

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park project and bonds by the TCEQ; and (b) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District, unless the District meets certain financial feasibility requirements under Chapter 49 of the Texas Water Code and the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent but not more than three percent of the value of the taxable property in the District. The District conducted a parks and recreational facilities bond election that authorized \$43,000,000 of parks and recreational facilities bonds at an election held on May 9, 2015.

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

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

Failure of the District to comply with certain covenants contained in the Bond 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 "TAX MATTERS."

### **Environmental Regulations**

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

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

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

***Air Quality Issues.*** Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the 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 two separate federal ozone standards: the 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.

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. 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 “moderate” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. 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, 2023, 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.

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of “waters of the United States” and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, “waters of the United States” includes only geographical features that are described in ordinary parlance as “streams, oceans, rivers, and lakes” and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

While the *Sackett* decision removed a great deal of uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements, in the future.

## **Bond Insurance Risk Factors**

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

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

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

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

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

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

## **Changes in Tax Legislation**

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

## **Severe Weather**

The District is located approximately 70 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

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

## **Winter Storm Uri**

From February 12-19, 2021, the State of Texas experienced a severe winter storm ("Winter Storm Uri") which included prolonged freezing temperatures, heavy snow and freezing rains statewide. Winter Storm Uri led to power outages and potable and non-potable water shortages in many areas of the State, including the District. The federal government issued a Major Disaster Declaration for the State of Texas and has included federal funding for emergency protective measures. The District did not sustain material damage to its infrastructure during Winter Storm Uri. As noted elsewhere in this Official Statement, the District does not

own or operate any water supply or wastewater treatment facilities. The District cannot predict the impact of future winter weather events.

### **Specific Flood Type Risks**

The District may be subject to the following flood risks:

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

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

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

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

### **Tax Payment Installments**

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

### **Atlas 14**

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area. 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. None of the land within the District’s boundaries is located within the 100-year flood plain. See “THE SYSTEM – 100-Year Flood Plain.”

## USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to: (1) reimburse the Developers (hereinafter defined) for advancing funds to construct certain road improvements serving the District and associated land acquisition, engineering, and testing costs; (2) fund developer interest related to the advancement of funds for certain construction costs; and (3) pay certain administrative costs and costs related to the issuance of the Bonds.

The Engineer (hereinafter defined) has advised the District that the proceeds listed below should be sufficient for the acquisition of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

<u>CONSTRUCTION COSTS</u>	<u>Total Amount</u>
<b><i>Developer Contribution Items</i></b>	
Fulshear Run Section 3 – Paving	\$642,987
Fulshear Run Section 4 – Paving	\$479,480
Fulshear Run Sections 5 & 6 – Paving	\$1,126,521
Engineering	\$331,842
Testing and SWPPP	\$3,307
<b><i>Total Developer Contribution Items</i></b>	<b>\$2,584,137</b> (a)
<b><i>District Items</i></b>	
Land Acquisition & Carrying Costs	\$1,383,049
<b><i>Total District Items</i></b>	<b>\$1,383,049</b>
<b>TOTAL CONSTRUCTION COSTS</b>	<b>\$3,967,186</b>
<b><u>NON-CONSTRUCTION COSTS</u></b>	
Legal Fees	\$121,000
Fiscal Agent Fees	\$96,000
Developer Interest	\$383,636
Bond Discount	\$143,648
Bond Issuance Expenses	\$43,378
Bond Engineering Report Costs	\$40,000
Attorney General's Fee	\$4,800
Contingency	\$352 (b)
<b>TOTAL NON-CONSTRUCTION COSTS</b>	<b>\$832,814</b>
<b>TOTAL BOND ISSUE REQUIREMENT</b>	<b>\$4,800,000</b>

(a) Reimbursement of eligible road improvement costs is made pursuant to Chapter 8480, Texas Special District Local Laws Code, and Chapter 49, Texas Water Code. The TCEQ has not established rules regarding district reimbursement of road costs to developers. The District has engaged its independent auditor to perform certain agreed upon procedures on the Developers' documentation of the payments of eligible road improvement costs.

(b) Represents the difference between the estimated and actual amount of Bond discount. Such funds will be used by the District for eligible road-related costs only after approval by the Board of Directors.

## THE DISTRICT

### Authority

The District is a municipal utility district created by an Act of the 83<sup>rd</sup> Texas Legislature, Regular Session, effective on September 1, 2013, codified at Chapter 8480, Texas Special District Local Laws Code. The District was created pursuant to the authority of Article XVI, Section 59 and Article III, Section 52, of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. Additionally, the District was created with certain road powers.

Under certain limited circumstances, the District is authorized to construct, develop, and maintain park and recreational facilities, and to construct roads. In addition, the District is authorized to establish, operate, and maintain a fire department, independently or with one or more other conservation and reclamation districts, and to provide such facilities and services to the customers of the District.

The TCEQ exercises continuing supervisory jurisdiction over the District. In order to obtain the consent of the City, within whose corporate limits the District lies, to the District's creation, the District has agreed to observe certain City requirements. These requirements limit the purposes for which the District may sell bonds for the acquisition and improvement of waterworks, wastewater, and drainage facilities, road facilities, and park and recreational facilities; limit the net effective interest rate on such

bonds and other terms of such bonds; and require the City's approval of certain of the District's construction plans and specifications.

**Description and Location**

The District, as it was originally created, included approximately 55 acres. Since its creation, the District has annexed certain tracts of land totaling approximately 197 acres, including an approximately 47-acre tract in April 2015, an approximately 17-acre tract in August 2015, an approximately 22-acre tract in October 2020, and an approximately 111-acre tract in August 2021. There have been no exclusions of property within the District. The District currently includes approximately 252 acres, all within the corporate limits of the City. The District is located entirely within Fort Bend County, Texas, within the corporate limits of the City, and within the boundaries of Lamar Consolidated Independent School District. The District is located approximately 34 miles west of the central business district of the City of Houston, Texas and approximately one (1) mile east of the central business district of the City. The District lies immediately south of F.M. 1093, approximately one (1) mile west of Texas Heritage Parkway, and immediately west and adjacent to Bois D'Arc Lane. Access to the District is provided by way of F.M. 1093, Bois D'Arc Lane, and Fulshear Run Trace, which bisects the District. The District is being developed for predominantly single-family residential purposes in the subdivision known as Fulshear Run.

**Land Uses and Status of Land Development**

A summary of the approximate land use in the District as of October 1, 2023, appears in the following table:

<u>Type of Land Use</u>	<u>Approximate Acres</u>
Developed and Improved Acres (a)	195
Acres Under Development	0
Additional Developable Acreage (b)	21
Undevelopable Acreage (c)	<u>36</u>
<b>Total Approximate Acres</b>	<b>252</b>

- (a) Represents the land located in Fulshear Run, Sections 1 – 6. See “– Status of Residential Development” herein.
- (b) Represents land available for future development within the District. Based on current land plans, such acreage is currently planned for commercial purposes. The District makes no representation that the development of such acreage will ever be undertaken or that taxable improvements will ever be constructed thereon. See “THE DEVELOPERS – Future Development.”
- (c) Includes road rights-of-way, drainage easements, pipeline easements, open spaces, and park and recreational facilities.

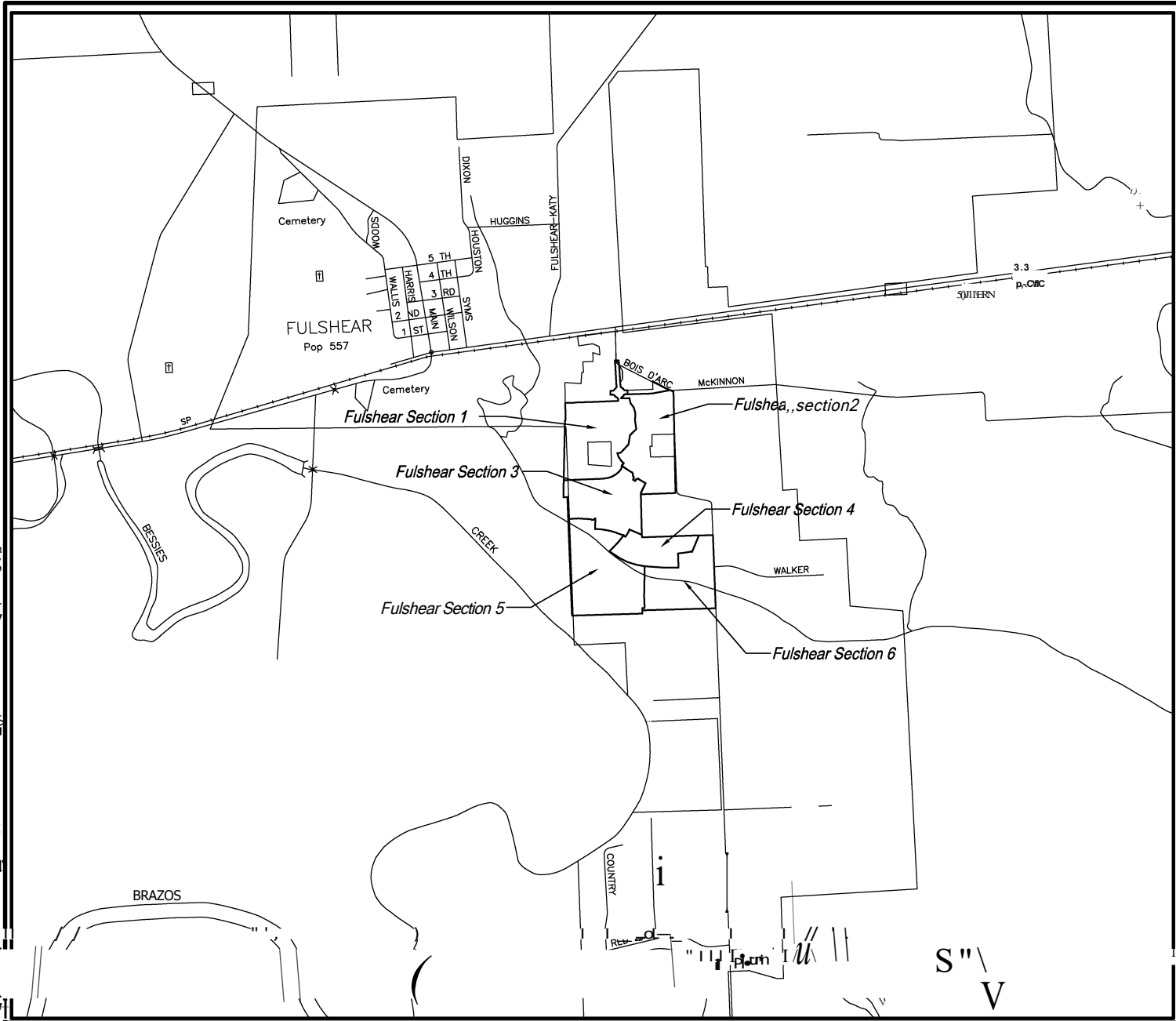
**Status of Residential Development**

Land within the District is being developed as the single-family residential subdivision known as Fulshear Run. The following table indicates the approximate status of single-family residential development as of October 1, 2023. See “APPENDIX B – PHOTOGRAPHS TAKEN IN THE DISTRICT” for further illustration of the various homes being constructed in the District.

<u>Subdivision/Section</u>	<u>Total Lots</u>	<u>Homes</u>		<u>Vacant Lots</u>
		<u>Complete</u>	<u>Under Construction</u>	
Fulshear Run, Section 1 (a)	54	54	0	0
Fulshear Run, Section 2 (b)	19	19	0	0
Fulshear Run, Section 3 (c)	38	37	1	0
Fulshear Run, Section 4 (c)	17	12	4	1
Fulshear Run, Section 5 (c)	47	47	0	0
Fulshear Run, Section 6 (c)	22	18	3	1
<b>TOTALS</b>	<u>197</u>	<u>187</u> (d)	<u>8</u>	<u>2</u>

- (a) Homes in Fulshear Run, Section 1 were constructed on half-acre lots by Tri Pointe. According to Tri Pointe, homes were marketed with an average sales price of \$650,000.
- (b) Homes in Fulshear Run, Section 2 were constructed on one-acre lots by Partners in Building and Fairmont Custom Homes. According to the builders, homes were sold in the \$1,075,000 to \$1,800,000 price range.
- (c) Homes in Fulshear Run, Section 3 – 6 are being constructed on half-acre lots and one-acre lots by Tri Pointe and Partners in Building. According to the builders, homes are being marketed in the \$700,000 to \$2,500,000 price range.
- (d) As of October 1, 2023, approximately 184 homes were owner-occupied.

**Vicinity Map**



**CITY OF FULSHEAR  
VICINITY MAP  
FORT BEND COUNTY  
FULSHEAR MUNICIPAL  
DISTRICT NO. 2**

MARCH 23, 2023      JOB NO. 2145-2151

3600 W Sam Houston Pwky S      Phone 713.953.5200  
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FULSHEAR MUNICIPAL  
UTILITY DISTRICT NO. 2

OUT  
TRACT

BOISD AVE

FM 1093



## **DEVELOPMENT AGREEMENT BETWEEN THE CITY OF FULSHEAR AND THE DEVELOPERS**

The District operates pursuant to a Development Agreement dated May 6, 2014 (the "Agreement"), between the City and DHK Fulshear, which the District ratified and agreed to be bound by (except for the financing obligations of Developers). Pursuant to the Agreement, the City agreed to provide the District with its ultimate capacity needs for water and wastewater service.

**The Facilities:** The Agreement provides that the water, wastewater, drainage, road, and park and recreation facilities to serve development occurring within the boundaries of the District (the "Facilities") shall be designed and constructed in accordance with the City's requirements and criteria. The City agrees to provide the District with its ultimate requirements for water supply and wastewater treatment subject to a connection fee per equivalent single-family connection ("ESFC"). The connection fee for water supply and wastewater treatment plant capacity is \$3,641.00 per ESFC, which is paid to the City by the Developers at the time a lot is platted.

**Authority of District to Issue Bonds:** The District has the authority to issue, sell, and deliver unlimited tax bonds as permitted by law. Bonds issued by the District are obligations solely of the District and shall not be construed to be obligations or indebtedness of the City.

**Ownership, Operation, and Maintenance of the Facilities:** Upon completion of construction of the Facilities, the District agrees to convey the Facilities to the City. The accepted Facilities shall be operated and maintained by the City at its sole cost and expense. Prior to accepting such Facilities, if the City determines that the Facilities, or any portion thereof, have not been constructed in accordance with approved plans and specifications, the City agrees to notify the District and the District shall correct any deficiency noted by the City.

**Rates for Service:** The City agrees to bill and collect from customers of the District such rates and charges for such customers as the City, in its sole discretion determines are necessary, provided that the rates and charges will be equal and uniform to those charged to other similar users inside the City.

**Fire and Police Protection Services:** The City agrees to provide the area inside of the District with fire protection and police protection services.

**Dissolution of the District:** The City has the right to abolish and dissolve the District and to acquire the District's assets and assume the District's obligations in accordance with state law. In the Agreement, the City agrees that it will not abolish and dissolve the District until: (1) the Developers have installed the Facilities required to serve 90% of the developable acreage within the District, and (2) the Developers have been fully reimbursed by the District to the maximum extent permitted by the rules of the TCEQ for all of the Developers' eligible development and construction costs. If the City annexes the District prior to the Developers' full development in and reimbursement by the District, then the City assumes the obligation to reimburse the Developers.

**Termination:** The Agreement states that if the development of 25% of the single-family homes within the District has not occurred within five years of the date of the Agreement (May 6, 2019), then the City may elect to terminate the Agreement. The Developers believe such requirement has been achieved and, therefore, the City has no right to terminate the Agreement.

## **THE SYSTEM**

### **Regulation and Description of the System**

According to the District's engineer, Deden Services, L.L.C. (the "Engineer"), all of the Facilities have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such Facilities, including, as applicable among others, the TCEQ, Fort Bend County, and the City. According to the Engineer, all of the Facilities constructed to date have been approved by all required governmental agencies. During construction, such Facilities are subject to inspection by the foregoing governmental agencies having jurisdiction.

The District has previously financed certain of its costs of construction or acquisition of components of the water supply and distribution, wastewater collection and treatment, and storm drainage and detention facilities (the "System"), among other facilities that have been and will be constructed to serve the land within the District, with portions of the proceeds of the sale of certain of the Outstanding Bonds. In addition to the components of the System that the District has previously financed, the District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE BONDS – Issuance of Additional Debt" and "RISK FACTORS – Future Debt."

### **Water Supply and Wastewater Treatment System**

The District's water supply and wastewater treatment capacity is provided by the City pursuant to the terms of the Agreement. The District does not operate any water supply and distribution or wastewater collection and treatment facilities. The Agreement provides that the City will provide the District with water supply and wastewater treatment capacity adequate to serve the ultimate buildout of the District. See "DEVELOPMENT AGREEMENT BETWEEN THE CITY OF FULSHEAR AND THE DEVELOPERS."

## Drainage and Detention System

The underground storm sewer facilities serving developed portions of the District are complete. The drainage system improvements serving the District include curb and gutter road drainage connected to underground storm sewers. The District's storm sewer system discharges directly into internal amenity lakes at various locations and into natural and improved drainage channels, which discharge into Bessie's Creek and ultimately outfall into the Brazos River.

## 100-Year Flood Plain

According to the Federal Emergency Management Agency (FEMA) Flood Insurance Rate Map (FIRM) Panel Nos. 48157C0085M and 48157C0095M, both dated January 29, 2021, none of the land within the District's boundaries is located within the 100-year flood plain.

The National Weather Service recently completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States ("Atlas 14"). Floodplain boundaries within the District may be redrawn based on the Atlas 14 study based on a higher statistical rainfall amount, resulting in the application of more stringent floodplain regulations applying to a larger area. 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. As noted above, none of the land within the District's boundaries is located within the 100-year flood plain. See "RISK FACTORS – Atlas 14."

## General Fund Operating History

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

	<u>Fiscal Year Ended February 28 (a)</u>				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
<b>REVENUES</b>					
Property taxes	\$525,218	\$408,423	\$314,668	\$255,672	\$321,884
Penalty and interest	-	-	-	-	\$1,173
Investment earnings	\$4,580	\$52	\$488	\$595	\$342
<b>TOTAL REVENUES</b>	<b>\$529,798</b>	<b>\$408,475</b>	<b>\$315,156</b>	<b>\$256,267</b>	<b>\$323,399</b>
<b>EXPENDITURES</b>					
Operating and administrative:					
Professional fees	\$44,858	\$43,658	\$47,104	\$108,171	\$21,817
Contracted services	\$11,941	\$13,320	\$11,212	\$11,097	\$19,899
Repairs and maintenance	\$64,951	\$26,436	\$10,088	\$27,390	\$11,000
Utilities	\$13,033	\$12,864	-	-	-
Administrative	\$6,651	\$12,083	\$6,236	\$5,880	\$13,702
Other	-	-	\$31	-	\$33
Capital outlay	\$60,000	-	-	\$50,000	-
Debt service:					
Interest and fees	-	-	-	-	\$63,060
Developer interest	-	-	-	\$36,694	-
Debt issuance costs	-	-	-	\$7,836	\$2,922
<b>TOTAL EXPENDITURES</b>	<b>\$201,434</b>	<b>\$108,361</b>	<b>\$74,671</b>	<b>\$247,068</b>	<b>\$132,433</b>
<b>REVENUES OVER EXPENDITURES (b)</b>	<b>\$328,364</b>	<b>\$300,114</b>	<b>\$240,485</b>	<b>\$9,199</b>	<b>\$190,966</b>

(a) Data is taken from District's financial statements. See "APPENDIX A." The information for the fiscal year ended 2020 represents data as of February 29, 2020, and for the year then ended.

(b) As of October 25, 2023, the District's General Fund had an unaudited cash and investment balance of \$1,234,302. For the fiscal year ending February 29, 2024, the District's General Fund is currently budgeting revenues of \$555,000 and expenditures of \$150,319.

## THE ROADS

The District is financing and has financed certain of its costs of construction or acquisition of components of the road system (the "Roads"), which serves the property in the District. The Roads serve the residents of the District by providing access to the major thoroughfares and collector roads within the Fulshear Run subdivision and the surrounding area. The portion of the Roads to be financed from the proceeds of the Bonds are comprised of those roads and related facilities described under "USE OF BOND PROCEEDS." Fulshear Run Trace serves as a major thoroughfare by conveying travelers to F.M. 1093. The Roads consist of additional collector roads, local roads, and improvements in aid thereof.

The Roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, wastewater and drainage facilities are located within the right-of-way or easement dedicated to the District. The right-of-way is also shared by streetlights, sidewalks, and franchise utilities, including power, gas, telephone, and cable utilities. The Roads have been designed and constructed in accordance with standards, rules, and regulations of the City. Upon completion, the Roads are conveyed to the City for ownership, operation and maintenance pursuant to the terms of the Agreement. See "DEVELOPMENT

AGREEMENT BETWEEN THE CITY OF FULSHEAR AND THE DEVELOPERS.” As of October 2023, all of the Roads that have been constructed and the associated rights-of-way have been conveyed to and accepted by the City.

### **MANAGEMENT OF THE DISTRICT**

The District is governed by a board of directors (the "Board"), which has control over and management supervision of all affairs of the District. Two of the directors reside within the District and each of the other directors owns a parcel of land in the District subject to a note and deed of trust. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<b><u>Name</u></b>	<b><u>Title</u></b>	<b><u>Term Expires</u></b>
McCay Dickson	President	2024
Mary Alford	Vice President	2024
Connie McMaken	Secretary	2026
Jeff Hogan	Assistant Secretary	2026
David A. Little	Assistant Secretary	2026

The District does not employ a general manager or any other full-time employees. The District has contracted for bookkeeping, tax assessing/collecting services, engineering, legal, financial advisory and annual auditing of its books as follows:

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

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

Auditor – The financial statements of the District as of February 28, 2023, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, Certified Public Accountants, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's February 28, 2023, audited financial statements.

Utility System Operator – The Utilities Department of the City of Fulshear is the operator of the System.

Engineer – The consulting engineer for the District is Deden Services, L.L.C. (the "Engineer").

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

General Counsel and Bond Counsel – Coats Rose, P.C. serves as Bond Counsel to the District and as General Counsel for the District on matters other than the issuance of bonds. Payment for General Counsel services is based on an hourly fee charge. Bond Counsel is paid a fee from the proceeds of the Bonds; such fee is contingent upon the sale and delivery of the Bonds.

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

### **DISTRICT INVESTMENT POLICY**

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

### **THE DEVELOPERS**

#### **Role of a Developer**

In general, the activities of developers in a municipal utility district such as the District include purchasing the land within a district, designing the streets in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities, and selling improved lots and commercial reserves to builders, other developers, or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing the water, wastewater, and drainage facilities (the "Facilities") in the utility district. In addition, a developer is ordinarily a major taxpayer within a utility district during the development phase of property, and a developer's inability to pay the taxes assessed on its property within a district

would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by a district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land that the developer owns within a district.

### **Descriptions of the Developers**

The developer of approximately 79 acres within the District located in Fulshear Run, Sections 1 and 2 is DHK Fulshear LP ("DHK Fulshear"), a Texas limited partnership, whose sole general partner is DHK Development, Inc., a Texas corporation. DHK Fulshear was established for the sole purpose of developing the land and lots located within Fulshear Run, Sections 1 and 2, as well as approximately 25 acres of undeveloped land within the District, which is planned for commercial purposes based on current land plans. See "Future Development" herein. The general partner of DHK Fulshear is DHK Development, Inc., which is wholly owned by Mr. Douglas H. Konopka and was founded in 1991. Mr. Konopka is President of DHK Development, Inc., and has over 42 years of development experience. DHK Development, Inc. manages undeveloped properties owned by a few select Houston families, provides real estate consulting services to various clients, and develops both residential communities and commercial projects for its own account. Mr. Konopka has developed residential communities in metropolitan Houston, Atlanta, New Orleans, and Mobile.

The developers of approximately 148 acres within the District located in Fulshear Run, Sections 3 – 6 are DHK Circle S, LLC ("DHK Circle S"), a Texas limited liability company, and Tri Pointe Homes Texas, Inc. ("Tri Pointe"), a Texas corporation. DHK Circle S is a special purpose entity that is wholly owned and controlled by DHK Development, Inc. and was established for the sole purpose of developing the land and lots located within Fulshear Run, Sections 3 – 6. Effective June 27, 2019, DHK Fulshear, DHK Circle S, and Tri Pointe entered into a Development Agreement (the "Development Agreement") pertaining to the land, lots, and construction costs associated with the development of Fulshear Run, Sections 3 – 6 and the commercial tract. The Development Agreement provides that DHK Circle S and Tri Pointe will each have a certain interest in the acreage in the District being developed and platted as Fulshear Run, Sections 3 – 6. Additionally, the Development Agreement provides that DHK Circle S and Tri Pointe each contribute ratably to the development costs, pursuant to their respective interests in the acreage, and in turn each receive a prorated number of the total developed lots in Fulshear Run, Sections 3 – 6. Pursuant to the terms of the Development Agreement, DHK Circle S is entitled to 30 developed lots and Tri Pointe is entitled to 94 developed lots of the 124 total lots in Fulshear Run, Sections 3 – 6.

DHK Fulshear and DHK Circle S have each entered into separate management agreements (the "Management Agreements") with DHK Development, Inc. to provide for management of the day-to-day land development activities associated with the initiation and completion of the land development projects within Fulshear Run, Sections 1 and 2 and Fulshear Run, Sections 3 – 6, respectively. These management activities include, but are not limited to, pre-development coordination and supervision of the consultants and professionals of DHK Fulshear and DHK Circle S, execution of the approved project plans and specifications, and supervising lot marketing and sales. The Management Agreements provide for DHK Development, Inc. to receive reimbursement for direct expenses, a monthly management fee, a developer override fee based on a percentage of gross lot sale prices, and provides for certain additional compensation based on the profitability of the projects. DHK Fulshear and DHK Circle S report that DHK Development, Inc. has performed in accordance with the terms of the Management Agreements to date and that there has been no default under the terms of the Management Agreements. DHK Development, Inc. is comprised of individuals who have worked on real estate investments together over the last several years, including Mr. Douglas H. Konopka and Mr. Noah Worley.

DHK Fulshear, DHK Circle S, and Tri Pointe are collectively referred to herein as the "Developers."

### **Developer Financing**

DHK Fulshear currently has a land acquisition loan, a development loan, and a land acquisition and working capital loan (collectively, the "Loans") with a family-owned investment trust. As of October 1, 2023, the land acquisition loan had a balance of \$3,587,436.48, the development loan had a balance of \$1,386,965.07, and the land acquisition and working capital loan had a balance of \$904,118.59. The Loans are all variable-rate loans and provide for a specified release price for each lot sold, and have a final maturity of December 31, 2023. The Loans are secured by a note and deed of trust in favor of the lender and include, among other terms, a lien on any undeveloped land, and the assignment of the right to future developer reimbursements from the District. Additionally, the Loans are secured by the personal guarantee of Mr. Douglas H. Konopka. According to DHK Fulshear, the Loans are current and have never been in default.

DHK Circle S currently has no outstanding loans, or other debt financing, attributable to its development project within the District.

Tri Pointe is a wholly owned subsidiary of its publicly traded parent company, Tri Pointe Homes, Inc., a Delaware corporation, whose stock is listed on the New York Stock Exchange under the ticker symbol "TPH." As a publicly traded company, Tri Pointe Homes, Inc. is subject to the information requirements of the Securities Exchange Act of 1934, as amended, and in accordance therewith files annual reports, quarterly reports, proxy statements, and periodic statements with the United States Securities and Exchange Commission ("SEC"). Reports, proxy statements, and other information filed by Tri Pointe Homes, Inc. can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the

New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a website at <http://www.sec.gov> that contains reports, proxy information statements, and other information regarding registrants that file electronically with the SEC.

While Tri Pointe Homes, Inc. may provide internal financing to its subsidiaries, including Tri Pointe, it is not in any way responsible for the payment of taxes to the District or for the payment of interest and principal on the Bonds.

### **Homebuilders**

The homebuilders in the District include Tri Pointe, Partners in Building, and Fairmont Custom Homes. The homes in Fulshear Run, Section 1 were constructed on half-acre lots by Tri Pointe and were marketed with an average sales price of approximately \$650,000. The homes in Fulshear Run, Section 2 were constructed on one-acre lots by Partners in Building and Fairmont Custom Homes and were sold in the \$1,075,000 to \$1,800,000 price range. The homes in Fulshear Run, Sections 3 – 6 are being constructed on half-acre lots and one-acre lots by Tri Pointe and Partners in Building and are currently being marketed in the \$700,000 - \$2,500,000 price range. See “THE DISTRICT – Status of Residential Development.”

### **Future Development**

DHK Fulshear owns approximately 25 acres of additional land within the District that is currently undeveloped. According to DHK Fulshear, the approximately 25 acres is planned to be developed for commercial purposes based on current land plans. However, no specific development plans exist at this time. As stated elsewhere in this Official Statement, the Developers, including DHK Fulshear, have no commitment or obligation to proceed at any particular rate or according to any specified plan with the development of land or the construction commercial improvements in the District. Future development depends, in part, upon short-term and long-term interest rates, availability of development funds, labor conditions, and general economic conditions. Neither the District nor DHK Fulshear represent that the development of the approximately 25 acres of commercial reserves will ever be undertaken nor that any taxable improvements will ever be constructed thereon. See “RISK FACTORS – Economic Factors,” “– Competition,” and “– Landowners/Developers Under No Obligation to the District.”

**DISTRICT DEBT**

10/1/2023 Estimated Taxable Value	\$173,976,477	(a)
2023 Certified Taxable Value	\$158,895,675	(b)
Direct Debt:		
Outstanding Bonds (as of October 26, 2023)	\$12,820,000	(c)
The Bonds	<u>\$4,800,000</u>	
Total Direct Debt	\$17,620,000	
Estimated Overlapping Debt	<u>\$19,190,798</u>	(d)
Direct and Estimated Overlapping Debt	\$36,810,798	
Percentage of Direct Debt to:		
10/1/2023 Estimated Taxable Value	10.13%	
2023 Certified Taxable Value	11.09%	
Percentage of Direct and Estimated Overlapping Debt to:		
10/1/2023 Estimated Taxable Value	21.16%	
2023 Certified Taxable Value	23.17%	
2023 Tax Rate Per \$100 of Assessed Value:		
Debt Service Tax	\$0.21	
Road Debt Service Tax	\$0.35	
Maintenance Tax	<u>\$0.61</u>	
Total 2023 Tax Rate	\$1.17	

Cash and Temporary Investment Balances as of October 25, 2023:

General Fund	\$1,234,302	(e)
Debt Service Fund	\$471,472	(f) (g)
Road Debt Service Fund	\$310,674	(f)

- (a) Reflects data supplied by FBCAD. The Estimated Taxable Value as of October 1, 2023, was prepared by FBCAD and provided to the District. Such values are not binding on FBCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by FBCAD. See "DISTRICT TAX DATA" and "TAXING PROCEDURES."
- (c) Includes the District's \$8,590,000 Unlimited Tax Bonds, Series 2023, which closed on October 26, 2023.
- (d) See "Estimated Overlapping Debt" herein.
- (e) Unaudited figure per the District's records. See "RISK FACTORS – Operating Funds" and "THE SYSTEM – General Fund Operating History."
- (f) Neither Texas law nor the District's Bond Order requires that the District maintain any particular balance in the Road Debt Service Fund or the Debt Service Fund. The cash and investment balances in the Debt Service Fund are not available to make debt service payments on the Bonds. Likewise, the cash and investment balances in the Road Debt Service Fund will not be available to make debt service payments on the District's bonds sold for water, sewer, and drainage purposes. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."
- (g) The cash and investment balance for the Debt Service Fund reflected above represents capitalized interest and accrued interest funded with proceeds of the District's \$8,590,000 Unlimited Tax Bonds, Series 2023. Such amount was deposited into the District's Debt Service Fund on October 26, 2023.



**Estimated Overlapping Debt**

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

<b><u>Taxing Jurisdiction</u></b>	<b><u>Outstanding Debt</u></b>	<b><u>Overlapping Debt</u></b>	
		<b><u>Percent</u></b>	<b><u>Amount</u></b>
Lamar Consolidated Independent School District	\$2,834,465,000	0.59%	\$16,590,608
Fort Bend County	\$785,403,703	0.14%	\$1,112,779
Fort Bend County Drainage District	\$23,615,000	0.14%	\$33,777
City of Fulshear	\$36,530,000	3.98%	\$1,453,634
<b>Total Estimated Overlapping Debt</b>			<b>\$19,190,798</b>
<b>The District (a)</b>			<b>\$17,620,000</b>
<b>Total Direct and Estimated Overlapping Debt</b>			<b>\$36,810,798</b>

(a) Includes the Bonds.

**DISTRICT TAX DATA**

**Tax Rate and Collections**

The following table sets forth the historical tax information collection experience of the District for the years 2018 through 2022, and includes certain information relative to the 2023 tax year. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<b><u>Tax Year</u></b>	<b><u>Taxable Valuation (a)</u></b>	<b><u>Tax Rate (b)</u></b>	<b><u>Tax Levy</u></b>	<b><u>Cumulative Tax Collections (c)</u></b>	<b><u>Tax Year Ended September 30</u></b>
2023	\$158,895,675	\$1.17	\$1,859,079	(d)	(d)
2022	\$82,030,298	\$1.20	\$984,364	97%	2023
2021	\$53,005,000	\$1.20	\$636,060	100%	2022
2020	\$44,928,497	\$1.20	\$539,142	100%	2021
2019	\$35,947,336	\$1.20	\$431,368	100%	2020
2018	\$27,586,220	\$1.20	\$331,035	100%	2019

(a) See "Analysis of Tax Base" herein.

(b) See "Tax Rate Distribution" herein.

(c) Represents cumulative collections as of September 30, 2023.

(d) The District's 2023 taxes are in the process of levy and collection; such taxes become delinquent if not paid before February 1, 2024. See "TAXING PROCEDURES."

**Maintenance Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of the District and its facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds, and any tax bonds that may be issued in the future. The District's voters have authorized a maintenance tax of up to \$1.50 per \$100.00 of assessed valuation at an election held on May 9, 2015. See "Tax Rate Distribution" herein.

**Debt Service Tax**

The District covenants in the Bond Order to levy and assess, for each year that all of or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds. See "Tax Rate Distribution" herein.

**Road Facilities Tax**

The Board has the statutory authority to levy and collect an annual ad valorem tax for maintenance and operation of road facilities. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds,

and any tax bonds that may be issued in the future. The District's voters have authorized a road facilities tax of up to \$1.50 per \$100.00 of assessed valuation at an election held on May 9, 2015. The Board has never levied a road facilities tax and the Board currently has no plans to levy such tax. See "Tax Rate Distribution" herein.

### Additional Penalties

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

### Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2018 through 2023.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>	<u>2018</u>
Debt Service	\$0.21	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Road Debt Service	\$0.35	\$0.49	\$0.41	\$0.50	\$0.50	\$0.00
Maintenance/Operation	<u>\$0.61</u>	<u>\$0.71</u>	<u>\$0.79</u>	<u>\$0.70</u>	<u>\$0.70</u>	<u>\$1.20</u>
<b>Total</b>	<b>\$1.17</b>	<b>\$1.20</b>	<b>\$1.20</b>	<b>\$1.20</b>	<b>\$1.20</b>	<b>\$1.20</b>

### Principal Taxpayers

The list of principal taxpayers for 2023 and the other information provided by this table were provided by FBCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of FBCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
DHK Fulshear LP (a)	Land and Improvements	\$6,868,717	4.32%
Trendmaker Homes Inc (a) (b)	Land and Improvements	\$3,487,796	2.20%
Partners in Building LP (c)	Land and Improvements	\$2,333,965	1.47%
Homeowner	Land and Improvements	\$2,210,653	1.39%
Homeowner	Land and Improvements	\$2,160,565	1.36%
Homeowner	Land and Improvements	\$2,062,574	1.30%
Homeowner	Land and Improvements	\$2,043,602	1.29%
Homeowner	Land and Improvements	\$1,895,110	1.19%
Homeowner	Land and Improvements	\$1,886,648	1.19%
Homeowner	Land and Improvements	\$1,870,762	1.18%
<b>TOTALS</b>		<b>\$26,820,392</b>	<b>16.88%</b>

(a) See "THE DEVELOPERS" and "RISK FACTORS – Principal Landowners' Obligations to the District."

(b) Represents an entity owned and controlled by Tri Pointe.

(c) See "THE DEVELOPERS – Homebuilders."

### Analysis of Tax Base

Based on information provided to the District by its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2018 through 2023, and includes the October 1, 2023 Estimated Taxable Value.

<u>Tax Roll Year</u>	<u>Type of Property</u>			<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>			
10/1/2023						
2023	\$38,426,789	\$134,762,591	\$167,510	\$173,356,890	\$14,461,215	\$173,976,477 (a)
2022	\$24,527,807	\$65,860,732	\$132,060	\$90,520,599	\$8,490,301	\$82,030,298
2021	\$20,314,797	\$33,047,846	\$129,470	\$53,492,113	\$487,113	\$53,005,000
2020	\$18,781,759	\$26,112,730	\$110,390	\$45,004,879	\$76,382	\$44,928,497
2019	\$18,157,449	\$17,862,212	\$33,620	\$36,053,281	\$105,945	\$35,947,336
2018	\$18,953,917	\$8,661,373	\$21,670	\$27,636,960	\$50,740	\$27,586,220

(a) Reflects data supplied by FBCAD. The Estimated Taxable Value as of October 1, 2023, was prepared by FBCAD and provided to the District. Such values are not binding on FBCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

**Estimated Overlapping Taxes**

The following table sets forth all 2023 taxes levied by overlapping taxing jurisdictions. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<b><u>Taxing Jurisdictions</u></b>	<b><u>2023 Tax Rate</u></b>
Lamar Consolidated Independent School District	\$1.149200
Fort Bend County	\$0.426500
Fort Bend County Drainage District	\$0.012400
Fort Bend County Emergency Services District No. 4	\$0.095673
City of Fulshear	<u>\$0.168767</u>
<b>Overlapping Taxes</b>	<b>\$1.852540</b>
 The District	 <u>\$1.170000</u>
<b>Total Direct &amp; Overlapping Taxes</b>	<b>\$3.022540</b>

**Tax Adequacy of Tax Revenue**

The calculations shown below are solely for the purpose of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund to the Road Debt Service Fund or Debt Service Fund, and no increase or decrease in assessed valuation over the October 1, 2023 Estimated Taxable Value and the 2023 Certified Taxable Value and utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2026).....	\$1,282,743 (a)
Requires a \$0.78 debt service tax rate on the October 1, 2023 Estimated Taxable Value of \$173,976,477 at 95% collections .....	\$1,289,166 (a)
Requires a \$0.85 debt service tax rate on the 2023 Certified Taxable Value of \$158,895,675 at 95% collections .....	\$1,283,083 (a)

(a) A certain portion of the maximum annual debt service requirement will be paid for with the District's road debt service tax rate and a certain portion will be paid for with the District's debt service tax rate (for water, sewer, and drainage purposes).

**TAXING PROCEDURES**

**Authority to Levy Taxes**

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

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

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. FBCAD has the responsibility for appraising property for all taxing units within Fort Bend County, including the District. Such appraisal values are subject to review and change by the Fort Bend County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

The Property Tax Code requires the appraisal district, by May 15 of each year, or as soon thereafter as practicable, to prepare appraisal records of property as of January 1 of each year based upon market value. The chief appraiser must give written notice before May 15, or as soon thereafter as practicable, to each property owner whose property value is appraised higher than the value in the prior tax year or the value rendered by the property owner, or whose property was not on the appraisal roll the preceding year, or whose property was reappraised in the current tax year. Notice must also be given if ownership of the property changed during the preceding year. The appraisal review board has the ultimate responsibility for determining the value of all taxable property within the District; however, any property owner who has timely filed notice with the appraisal review board may appeal a final determination by the appraisal review board by filing suit in a Texas district court. Prior to such appeal or any tax delinquency date, however, the property owner must pay the tax due on the value of that portion of the property involved that is not

in dispute or the amount of tax imposed in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In such event, the value of the property in question will be determined by the court, or by a jury, if requested by any party. In addition, taxing units, such as the District, are entitled to challenge certain matters before the appraisal review board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records of the granting in whole or in part of certain exemptions.

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

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

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District has never adopted an order granting an exemption for persons age 65 and older and disabled persons. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending on the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full assessed value of the veteran's residential homestead.

Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization at no cost to the veteran. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, 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. Such exemption would be transferrable to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

***Residential Homestead Exemptions.*** The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has never adopted an order granting a general residential homestead exemption.

***Freeport Goods and Goods-in-Transit Exemptions.*** A "Freeport Exemption" applies to goods, wares, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas that are destined to be forwarded outside of Texas and that are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property that are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property

owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

### **Tax Abatement**

Either Fort Bend County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, Fort Bend County, the City, Lamar Consolidated Independent School District, or the District at the option and discretion of each entity, may enter into tax abatement agreements with property owners within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement agreements, which each entity will follow in granting tax abatement agreements to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction, including the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

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

Generally, property in the District must be appraised by FBCAD at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on 100% of market value, as such is defined in the Property Tax Code. A residence homestead is required to be appraised solely on the basis of its value as a residence homestead regardless of whether residential use is considered to be the highest and best use of the property. Increases in the appraised value of residence homesteads are limited by the Texas Constitution to a cumulative 10% annual increase regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business are valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use, open space land and timberland. Developers in the District have waived their rights to agricultural use, open space, or timber land exemptions.

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

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

### **District and Taxpayer Remedies**

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal orders of the Appraisal Review Board by filing a timely petition for review in state district court. In such event, the value of the property in question will be

determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against FBCAD to compel compliance with the Property Tax Code.

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

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 1% for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of 12% regardless of the number of months the tax has been delinquent and incurs an additional penalty of up to 20% if imposed by the District for collection costs. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, 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) 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 tax rate election held within any of the districts described below.

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

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

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

**The District.** A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District is made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for purposes of setting the 2023 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

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

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." 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 cost of suit and sale, by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six months for commercial property, within two years for residence homesteads and land designated for agricultural use, and six months for all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings that restrict the collection of taxpayer debts. See "RISK FACTORS – Tax Collections."

## **CONSOLIDATION AND DISSOLUTION**

### **Consolidation**

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

### **Dissolution**

Under Texas law, the territory within the District may be dissolved by the City without the consent of the District or its residents. If dissolution by the City does occur, the District would be abolished. When the District is dissolved, the City must assume the assets, functions, and obligations of the District, including the obligation to pay interest and principal on the Bonds. No representation is made concerning the likelihood of dissolution or the ability of the City to make debt service payments on the Bonds should dissolution occur.

## **THE BONDS**

### **General**

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

The Bonds will be dated and will bear interest from December 1, 2023, at the per annum rates shown on the cover page hereof. The Bonds are fully registered serial bonds maturing on April 1 in the years 2026 through 2049, inclusive, in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable April 1, 2024, and each October 1 and April 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

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

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



### **Optional Redemption**

The Bonds scheduled to mature on or after April 1, 2029, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on April 1, 2028, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method, in integral multiples of \$5,000 in any one maturity, as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

### **Mandatory Redemption**

The Bonds maturing on April 1 in the years 2030, 2038, 2045, and 2049 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown in the tables below.

#### **\$245,000 Term Bonds, due April 1, 2030**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2029	\$120,000
April 1, 2030 (maturity)	\$125,000

#### **\$370,000 Term Bonds, due April 1, 2038**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2037	\$180,000
April 1, 2038 (maturity)	\$190,000

#### **\$545,000 Term Bonds, due April 1, 2045**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2044	\$265,000
April 1, 2045 (maturity)	\$280,000

#### **\$985,000 Term Bonds, due April 1, 2049**

<b><u>Mandatory Redemption Date</u></b>	<b><u>Principal Amount</u></b>
April 1, 2047	\$310,000
April 1, 2048	\$330,000
April 1, 2049 (maturity)	\$345,000

### **Notice of Redemption; Partial Redemption**

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

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

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

### **Authority for Issuance**

The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution, Chapter 8480, Texas Special District Local Laws Code, general laws of the State of Texas, specifically, Chapters 49 and 54 of the Texas Water Code, as amended, an election held within the District on May 9, 2015, and pursuant to the terms and provisions of the Bond Order to be adopted by the Board.

## **Source of and Security for Payment**

In the Bond Order the District covenants to levy a tax sufficient in rate and amount to pay principal of and interest on the Bonds when due, full allowance being made for delinquencies and costs of collection, and the District undertakes to collect such tax. The net proceeds from taxes levied for debt service purposes will be deposited in the District's Debt Service Fund and will be used to pay principal of and interest on the Bonds and on any additional bonds payable from taxes which the District may hereafter issue.

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

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

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

## **Funds**

In the Bond Order, the Debt Service Fund is created, and the proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized in the Bond Order shall be deposited, as collected, in such fund.

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

Accrued interest on the Bonds and 12 months of capitalized interest, funded with proceeds of the Bonds, shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose reimbursing the Developers for certain construction and land acquisition costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Order.

## **No Arbitrage**

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

**Paying Agent/Registrar**

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

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

**Registration and Transfer**

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

**Lost, Stolen or Destroyed Bonds**

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

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

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

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

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

**Issuance of Additional Debt**

The District's voters have authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<u>Amount</u>	<u>Purpose</u>
\$132,000,000	For certain water, sanitary sewer, and storm water facilities and for refunding
\$85,000,000	For certain road facilities and for refunding
\$43,000,000	For certain parks and recreational facilities and for refunding

After the issuance of the Bonds, the District will have \$123,410,000 of unlimited tax water, sanitary sewer, and storm water facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued, \$75,870,000 of unlimited tax road facilities bonds (and for refunding such bonds previously issued) that will remain authorized but unissued, and \$43,000,000 of unlimited tax parks and recreational facilities bonds (and for refunding such bonds previously issued) that remain authorized but unissued.

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

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

Depending upon the District's future issuance of tax-supported debt and the development of the District's tax base, increases in the District's annual ad valorem tax rate may be required to provide for the payment of principal of and interest on the District's current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Order imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ, if applicable). The District anticipates issuing additional bonds in the future to reimburse the Developers for funds advanced to construct facilities for the District. See "THE DEVELOPERS" herein.

Generally, the Board of Directors has indicated that, in the future, new money bonds will be issued in amounts and in timeframes depending upon: (i) the rate of growth of taxable improvements in the District, and (ii) the District's ability to maintain a total tax rate of \$1.17 per \$100 of assessed valuation or less. See "RISK FACTORS – Future Debt."

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

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

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

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

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

Purchases of the Bonds under the DTC system must be made by or through Direct Participants, who will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Certificate ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the 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 securities representing their ownership interests in the 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, tenders, defaults, and proposed amendments to the Certificate 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 fewer than all of the Bonds within a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

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

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

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

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

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

## **LEGAL MATTERS**

### **Legal Opinions**

Issuance of the Bonds is subject to the approving legal opinion of the Attorney General of Texas to the effect that the Bonds are valid and binding obligations of the District payable from an annual ad valorem tax levied without limit as to rate or amount upon all taxable property within the District. Issuance of the Bonds is also subject to the legal opinion of Bond Counsel that, based upon examination of the transcript of the proceedings incident to authorization and issuance of the Bonds, the Bonds are valid and legally binding obligations of the District payable from the sources and enforceable in accordance with the terms and conditions described therein, except to the extent that the enforceability thereof may be affected by bankruptcy, insolvency, reorganization, moratorium, or other similar laws affecting creditors' rights or the exercise of judicial discretion in accordance with general principles of equity, and are payable from annual ad valorem taxes, which are not limited by applicable law in rate or amount, levied against all property within the District which is not exempt from taxation by or under applicable law. The legal opinion will further state that the interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions as described below under "TAX MATTERS – Tax Exemption." The legal opinion of Bond Counsel will be printed on the Bonds, if certificated Bonds are issued. Such opinions will express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

In addition to serving as Bond Counsel, Coats Rose, P.C., also acts as counsel to the District on matters not related to the issuance of bonds. The legal fees to be paid 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.

## **No-Litigation Certificate**

The District will furnish the Underwriter a certificate, dated as of the date of delivery of the Bonds, executed by both the President and Secretary of the Board, to the effect that no litigation of any nature is then pending against or, to the best knowledge and belief of the certifying officers, threatened against the District contesting or attacking the Bonds; restraining or enjoining the issuance, execution or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority of 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 titles of the then present officers of the Board.

## **No Material Adverse Change**

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

## **TAX MATTERS**

### **Tax Exemption**

In the opinion of Coats Rose, P.C., Bond Counsel, under existing law, (i) interest on the Bonds for federal income tax purposes is excludable from the gross income of the holders thereof, except that such interest is taken into account in determining the annual adjusted financial statement of income of applicable corporations (as defined in Section 59(k) of the Internal Revenue Code of 1986 (the "Code")) for the purpose of determining the alternative minimum tax imposed on corporations, and (ii) 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 Code, as amended. The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Order that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Order pertaining to those sections of the Code which affect the exclusion from gross income of interest on the Bonds for federal income tax purpose, and in addition, will rely on representations by the District and the Underwriter with respect to matters solely within the knowledge of the District and the Underwriter, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Order or if the foregoing representations or report should be determined to be inaccurate or incomplete, interest on the Bonds could become taxable from the date of delivery of the Bonds, regardless of the date on which the event causing such taxability occurs. Under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received, or accrued during the year. Payments of interest on tax-exempt obligations such as the Bonds are in many cases required to be reported to the Service. Additionally, backup withholding may apply to any such payments to any owner who is not an "exempt recipient" and who fails to provide certain identifying information. Individuals generally are not exempt recipients, whereas corporations and certain other entities generally are exempt recipients.

Except as stated above, Bond Counsel will express no opinion as to any federal, state, or local tax consequences resulting from the ownership of, receipt of interest on, or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, taxpayers owning an interest in a FASIT that holds tax-exempt obligations, and individuals otherwise qualifying for the earned income credit. In addition, certain foreign corporations doing business in the United States may be subject to the "branch profits tax" on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds. These categories of prospective purchasers should consult their own tax advisors as to the applicability of these consequences.

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

## **Federal Income Tax Accounting Treatment of Original Issue Discount 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 accrual period or be in excess of one year (the "Original Issue Discount Bonds"). In such event, 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 would constitute original issue discount. 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, any owner who has purchased such Original Issue Discount Bond in the initial public offering 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 accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below. 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 the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (b) the amounts payable as current interest during such accrual period on such Original Issue Discount 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 the treatment 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.

## **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. The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, 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 taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL 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 may be included in certain corporations' "adjusted financial statement income" determined under Section 56(a) of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code.

Under Section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to include 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.

## **NOT Qualified Tax-Exempt Obligations**

The District did NOT designate the Bonds as “qualified tax-exempt obligations” for financial institutions.

## **OFFICIAL STATEMENT**

### **Sources of Information**

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

### **Financial Advisor**

The GMS Group, L.L.C. is employed as the Financial Advisor to the District to render certain professional services, including advising the District on a plan of financing and preparing the Official Statement, the Official Notice of Sale and the Official Bid Form for the sale of the Bonds. In its capacity as Financial Advisor, The GMS Group, L.L.C. has compiled and edited this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

### **Consultants**

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

*Engineer* – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM" and certain engineering matters included in "USE OF BOND PROCEEDS," "THE DISTRICT – Description and Location," "– Land Uses and Status of Land Development," "– Status of Residential Development" (except for house count data which has been provided by the Developers), and "THE ROADS" have been provided by Deden Services, L.L.C., and have been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

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

*Auditor* – The financial statements of the District as of February 28, 2023, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, Certified Public Accountants, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's February 28, 2023, audited financial statements.

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

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

The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

### **Updating of Official Statement**

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

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

The Board of the District, acting in its official capacity and in reliance upon the consultants listed above, and certain certificates of representation to be provided to the Board, hereby certifies, as of the date hereof, that to the best of its knowledge and belief, the information, statements and descriptions pertaining to the District and its affairs herein contain no untrue statements of a material fact and do not omit to state any material fact necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading. The information, descriptions and statements concerning entities



other than the District, including particularly other governmental entities, have been obtained from sources believed to be reliable, but the District has made no independent investigation of such matters and makes no representation as to the accuracy or completeness thereof.

#### **MISCELLANEOUS**

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

This Official Statement was approved by the Board of Directors of Fulshear Municipal Utility District No. 2 as of the date shown on the cover page.

**APPENDIX A**  
**AUDITED FINANCIAL STATEMENTS OF THE DISTRICT**  
**FOR THE FISCAL YEAR ENDED FEBRUARY 28, 2023**

**FULSHEAR MUNICIPAL  
UTILITY DISTRICT NO. 2  
FORT BEND COUNTY, TEXAS  
FINANCIAL REPORT  
February 28, 2023**



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# McGRATH & CO., PLLC

*Certified Public Accountants*

2900 North Loop West, Suite 880

Houston, Texas 77092

## Independent Auditor's Report

Board of Directors  
Fulshear Municipal Utility District No. 2  
Fort Bend County, Texas

### Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Fulshear Municipal Utility District No. 2 (the "District"), as of and for the year ended February 28, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Fulshear Municipal Utility District No. 2, as of February 28, 2023, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

### Basis for Opinions

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

### Responsibilities of Management for the Financial Statements

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

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

***Board of Directors  
Fulshear Municipal Utility District No. 2  
Fort Bend County, Texas***

**Auditor's Responsibilities for the Audit of the Financial Statements**

Our objectives are to obtain reasonable assurance about whether the financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinions. Reasonable assurance is a high level of assurance but is not absolute assurance and therefore is not a guarantee that an audit conducted in accordance with generally accepted auditing standards will always detect a material misstatement when it exists. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control. Misstatements are considered material if there is a substantial likelihood that, individually or in the aggregate, they would influence the judgment made by a reasonable user based on the financial statements.

In performing an audit in accordance with generally accepted auditing standards, we:

- Exercise professional judgment and maintain professional skepticism throughout the audit.
- Identify and assess the risks of material misstatement of the financial statements, whether due to fraud or error, and design and perform audit procedures responsive to those risks. Such procedures include examining, on a test basis, evidence regarding the amounts and disclosures in the financial statements.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the District's internal control. Accordingly, no such opinion is expressed.
- Evaluate the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluate the overall presentation of the financial statements.
- Conclude whether, in our judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about the District's ability to continue as a going concern for a reasonable period of time.

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

**Required Supplementary Information**

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied



***Board of Directors  
Fulshear Municipal Utility District No. 2  
Fort Bend County, Texas***

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

**Supplementary Information**

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

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

Houston, Texas  
June 28, 2023

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

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***Fulshear Municipal Utility District No. 2  
Management's Discussion and Analysis  
February 28, 2023***

## **Using this Annual Report**

Within this section of the financial report of Fulshear Municipal Utility District No. 2 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended February 28, 2023. This analysis should be read in conjunction with the independent auditor's report and the basic financial statements that follow this section.

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

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

## **Overview of the Financial Statements**

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

## **Government-Wide Financial Statements**

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

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

***Fulshear Municipal Utility District No. 2  
Management's Discussion and Analysis  
February 28, 2023***

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

**Fund Financial Statements**

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

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

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

The District's net position at February 28, 2023, was negative \$12,725,573. The District's net position is negative because the District incurs debt to construct water, sewer, and drainage facilities and road improvements which it conveys to the City of Fulshear. A comparative summary of the District's overall financial position, as of February 28, 2023 and 2022, is as follows:

	2023	2022
Current and other assets	\$ 1,964,084	\$ 1,344,066
Capital assets	2,203,610	2,288,165
Total assets	<u>4,167,694</u>	<u>3,632,231</u>
Current liabilities	178,627	75,410
Long-term liabilities	16,714,640	16,814,640
Total liabilities	<u>16,893,267</u>	<u>16,890,050</u>
Net position		
Net investment in capital assets	(4,457,770)	(4,335,100)
Restricted	555,542	329,731
Unrestricted	(8,823,345)	(9,252,450)
Total net position	<u>\$ (12,725,573)</u>	<u>\$ (13,257,819)</u>

***Fulshear Municipal Utility District No. 2  
Management's Discussion and Analysis  
February 28, 2023***

The total net position of the District increased during the current fiscal year by \$532,246. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2023	2022
Revenues		
Property taxes, penalties and interest	\$ 992,700	\$ 629,949
Other	9,593	65
Total revenues	<u>1,002,293</u>	<u>630,014</u>
Expenses		
Operating and administrative	162,448	124,196
Debt interest and fees	163,044	163,044
Depreciation	144,555	144,555
Total expenses	<u>470,047</u>	<u>431,795</u>
Change in net position before other item	532,246	198,219
Other item		
Transfers to other governments	<u>                    </u>	<u>(4,622,488)</u>
Change in net position	532,246	(4,424,269)
Net position, beginning of year	(13,257,819)	(8,833,550)
Net position, end of year	<u>\$ (12,725,573)</u>	<u>\$ (13,257,819)</u>

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

The District's combined fund balances, as of February 28, 2023, were \$1,862,225, which consists of \$1,306,683 in the General Fund and \$555,542 in the Debt Service Fund.

*General Fund*

A comparative summary of the General Fund's financial position as of February 28, 2023 and 2022 is as follows:

	2023	2022
Total assets	<u>\$ 1,366,977</u>	<u>\$ 1,003,304</u>
Total liabilities	\$ 9,881	\$ 7,475
Total deferred inflows	50,413	17,510
Total fund balance	1,306,683	978,319
Total liabilities, deferred inflows and fund balance	<u>\$ 1,366,977</u>	<u>\$ 1,003,304</u>

***Fulshear Municipal Utility District No. 2  
Management's Discussion and Analysis  
February 28, 2023***

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 529,798	\$ 408,475
Total expenditures	(201,434)	(108,361)
Revenues over expenditures	<u>\$ 328,364</u>	<u>\$ 300,114</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, which is dependent upon assessed values in the District and the maintenance tax rate set by the district. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year.

*Debt Service Fund*

A comparative summary of the Debt Service Fund's financial position as of February 28, 2023 and 2022 is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 597,107</u>	<u>\$ 340,680</u>
Total liabilities	\$ 811	\$ -
Total deferred inflows	40,754	10,949
Total fund balance	555,542	329,731
Total liabilities, deferred inflows and fund balance	<u>\$ 597,107</u>	<u>\$ 340,680</u>

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

	<u>2023</u>	<u>2022</u>
Total revenues	\$ 409,787	\$ 220,060
Total expenditures	(183,976)	(178,679)
Revenues over expenditures	<u>\$ 225,811</u>	<u>\$ 41,381</u>

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



***Fulshear Municipal Utility District No. 2  
 Management’s Discussion and Analysis  
 February 28, 2023***

*Capital Projects Fund*

A comparative summary of the Capital Projects Fund’s financial position as of February 28, 2023 and 2022 is as follows:

	2023	2022
Total assets	<u>\$ -</u>	<u>\$ 82</u>
Total fund balance	<u>\$ -</u>	<u>\$ 82</u>

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

	2023	2022
Total revenues	\$ -	\$ -
Total expenditures	<u>(82)</u>	<u>(200)</u>
Revenues under expenditures	<u>\$ (82)</u>	<u>\$ (200)</u>

During the current fiscal year, the District used its remaining surplus bond proceeds for current year expenditures. As of February 28, 2023, the District has expended all of its financial resources in the Capital Projects Fund.

**General Fund Budgetary Highlights**

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

Since the District’s budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$59,956 greater than budgeted. The *Budgetary Comparison Schedule* on page 34 of this report provides variance information per financial statement line item.

**Capital Assets**

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

***Fulshear Municipal Utility District No. 2  
Management’s Discussion and Analysis  
February 28, 2023***

Capital assets held by the District at February 28, 2023 and 2022 are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets not being depreciated		
Land and improvements	\$ 110,000	\$ 50,000
Capital assets being depreciated		
Landscaping improvements	2,891,100	2,891,100
Less accumulated depreciation	<u>(797,490)</u>	<u>(652,935)</u>
Depreciable capital assets, net	<u>2,093,610</u>	<u>2,238,165</u>
Capital assets, net	<u>\$ 2,203,610</u>	<u>\$ 2,288,165</u>

The developer and the City of Fulshear (the “City”) have entered into an agreement which obligates the developer to construct water, sewer and drainage facilities, and road improvements to serve the District and, when completed, to convey title to the facilities to the City. The values of these assets are recorded as transfers to other governments upon completion of construction and trued-up when the developer is reimbursed. Detention facilities and certain other capital assets are retained by the District. See Note 9 for additional information.

**Long-Term Debt and Related Liabilities**

As of February 28, 2023, the District owes approximately \$12,484,640 to its developer for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District’s financial statements upon completion of construction. District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

At February 28, 2023 and 2022, the District had total bonded debt outstanding as shown below:

<u>Series</u>	<u>2023</u>	<u>2022</u>
2019 Road	\$ 4,330,000	\$ 4,330,000

At February 28, 2023, the District had \$132,000,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District, and the refunding of such bonds; \$43,000,000 for parks and recreational facilities and for the refunding of such bonds; and \$80,670,000 for road improvements and for the refunding of such bonds.

*Fulshear Municipal Utility District No. 2  
Management's Discussion and Analysis  
February 28, 2023*

**Next Year's Budget**

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

	<u>2023 Actual</u>	<u>2024 Budget</u>
Total revenues	\$ 529,798	\$ 555,000
Total expenditures	<u>(201,434)</u>	<u>(150,319)</u>
Revenues over expenditures	328,364	404,681
Beginning fund balance	978,319	1,306,683
Ending fund balance	<u>\$ 1,306,683</u>	<u>\$ 1,711,364</u>

**Property Taxes**

The District's property tax base increased approximately \$87,360,000 for the 2023 tax year from \$81,143,982 to \$168,503,934, based on preliminary values. This increase was primarily due to new construction in the District.

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## **Basic Financial Statements**

**Fulshear Municipal Utility District No. 2**  
**Statement of Net Position and Governmental Funds Balance Sheet**  
**February 28, 2023**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
<b>Assets</b>						
Cash	\$ 779,240	\$ 129,546	\$ -	\$ 908,786	\$ -	\$ 908,786
Investments	484,387	476,841		961,228		961,228
Taxes receivable	50,413	40,754		91,167		91,167
Internal balances	50,034	(50,034)				
Prepaid items	2,903			2,903		2,903
Capital assets not being depreciated					110,000	110,000
Capital assets, net					2,093,610	2,093,610
<b>Total Assets</b>	<b>\$ 1,366,977</b>	<b>\$ 597,107</b>	<b>\$ -</b>	<b>\$ 1,964,084</b>	<b>\$ 2,203,610</b>	<b>\$ 4,167,694</b>
<b>Liabilities</b>						
Accounts payable	\$ 9,881	\$ -	\$ -	\$ 9,881		9,881
Other payables		811		811		811
Accrued interest payable					67,935	67,935
Due to developer					12,484,640	12,484,640
Long-term debt						
Due within one year					100,000	100,000
Due after one year					4,230,000	4,230,000
<b>Total Liabilities</b>	<b>9,881</b>	<b>811</b>		<b>10,692</b>	<b>16,882,575</b>	<b>16,893,267</b>
<b>Deferred Inflows of Resources</b>						
Deferred property taxes	50,413	40,754		91,167	(91,167)	
<b>Fund Balances/Net Position</b>						
<b>Fund Balances</b>						
Nonspendable	2,903			2,903	(2,903)	
Restricted		555,542		555,542	(555,542)	
Unassigned	1,303,780			1,303,780	(1,303,780)	
<b>Total Fund Balances</b>	<b>1,306,683</b>	<b>555,542</b>		<b>1,862,225</b>	<b>(1,862,225)</b>	
<b>Total Liabilities, Deferred Inflows of Resources and Fund Balances</b>	<b>\$ 1,366,977</b>	<b>\$ 597,107</b>	<b>\$ -</b>	<b>\$ 1,964,084</b>		
<b>Net Position</b>						
Net investment in capital assets					(4,457,770)	(4,457,770)
Restricted for debt service					555,542	555,542
Unrestricted					(8,823,345)	(8,823,345)
<b>Total Net Position</b>					<b>\$ (12,725,573)</b>	<b>\$ (12,725,573)</b>

See notes to basic financial statements.

*Fulshear Municipal Utility District No. 2*  
*Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*  
*For the Year Ended February 28, 2023*

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
<b>Revenues</b>						
Property taxes	\$ 525,218	\$ 399,840	\$ -	\$ 925,058	\$ 58,214	\$ 983,272
Penalties and interest		4,934		4,934	4,494	9,428
Investment earnings	4,580	5,013		9,593		9,593
<b>Total Revenues</b>	<b>529,798</b>	<b>409,787</b>		<b>939,585</b>	<b>62,708</b>	<b>1,002,293</b>
<b>Expenditures/Expenses</b>						
Operating and administrative						
Professional fees	44,858	750		45,608		45,608
Contracted services	11,941	14,963		26,904		26,904
Repairs and maintenance	64,951			64,951		64,951
Utilities	13,033			13,033		13,033
Administrative	6,651	4,814		11,465		11,465
Other		405	82	487		487
Capital outlay	60,000			60,000	(60,000)	
Debt service						
Interest and fees		163,044		163,044		163,044
Depreciation					144,555	144,555
<b>Total Expenditures/Expenses</b>	<b>201,434</b>	<b>183,976</b>	<b>82</b>	<b>385,492</b>	<b>84,555</b>	<b>470,047</b>
<b>Revenues Over/(Under)</b>						
<b>Expenditures</b>	328,364	225,811	(82)	554,093	(554,093)	
<b>Change in Net Position</b>						
					532,246	532,246
Fund Balance/Net Position						
Beginning of the year	978,319	329,731	82	1,308,132	(14,565,951)	(13,257,819)
<b>End of the year</b>	<b>\$ 1,306,683</b>	<b>\$ 555,542</b>	<b>\$ -</b>	<b>\$ 1,862,225</b>	<b>\$ (14,587,798)</b>	<b>\$ (12,725,573)</b>

See notes to basic financial statements.

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

The accounting policies of Fulshear Municipal Utility District No. 2 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

### **Creation**

The District was created by an act by the Texas Legislature under Section 52, Article III and Section 59, Article XVI, as passed by the eighty-third (83rd) Texas Legislature on June 14, 2013, and operates in accordance with the Special District Local Laws Code, Chapter 8480 and the Texas Water Code, Chapter 49 and 54. The Board of Directors held its first meeting on January 29, 2015 and the first bonds were issued on March 28, 2019.

The District was created for the purpose of providing water, sewer and drainage facilities, parks, roads and other public infrastructure to facilitate the development of land within its boundaries. As further discussed in Note 9, the District transfers the water, sewer and drainage facilities, and road improvements to the City of Fulshear for operation and maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll, or pension costs.

### **Reporting Entity**

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

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

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

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

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

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

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

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

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

**Measurement Focus and Basis of Accounting**

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

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

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

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

### **Use of Restricted Resources**

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

### **Prepaid Items**

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

### **Receivables**

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At February 28, 2023, an allowance for uncollectible accounts was not considered necessary.

### **Interfund Activity**

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

### **Capital Assets**

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

Depreciable capital assets, which consist of landscape improvements, are depreciated using the straight-line method over an estimated useful life of 20 years. The District's drainage channels are considered improvements to land are non-depreciable.

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

**Deferred Inflows and Outflows of Financial Resources**

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

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

**Net Position – Governmental Activities**

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

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

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

Unrestricted – resources not included in the other components.

**Fund Balances – Governmental Funds**

Governmental accounting standards establish the following fund balance classifications:

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

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

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

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

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

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

Unassigned - all other spendable amounts in the General Fund.

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

**Use of Estimates**

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

*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

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

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

Total fund balance, governmental funds		\$ 1,862,225
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$ 3,001,100	
Less accumulated depreciation	<u>(797,490)</u>	
Change due to capital assets		2,203,610
Long-term liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. The difference consists of:		
Bonds payable	(4,330,000)	
Interest payable on bonds	<u>(67,935)</u>	
Change due to long-term debt		(4,397,935)
Amounts due to the District's developer for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .		
		(12,484,640)
Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
		91,167
Total net position - governmental activities		<u><u>\$ (12,725,573)</u></u>

*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

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

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

Net change in fund balances - total governmental funds	\$	554,093
Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the <i>Statement of Activities</i> when earned. The difference is for property taxes and penalties and interest.		62,708
Governmental funds report capital outlays as expenditures in the funds; however, in the <i>Statement of Activities</i> , the cost of capital assets is charged to expense over the estimated useful life of the asset.		
Capital outlays	\$	60,000
Depreciation expense		(144,555)
		(84,555)
Change in net position of governmental activities	\$	<u>532,246</u>

**Note 3 – Deposits and Investments**

**Deposit Custodial Credit Risk**

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

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

#### **Investments**

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

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

#### **TexSTAR**

The District participates in Texas Short Term Asset Reserve fund (TexSTAR) which is managed by Hilltop Securities, Inc., and J.P. Morgan Investment Management, Inc. Hilltop Securities provides participant and marketing services while J.P. Morgan provides investment management services. Custodial and depository services are provided by J.P. Morgan Chase Bank N.A. or its subsidiary.

The District's investment in TexSTAR is reported at fair value because TexSTAR uses fair value to report investments. Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in TexSTAR is measured using published fair value per share (level 1 inputs).

Investments in TexSTAR may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.



*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

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

**Investment Credit and Interest Rate Risk**

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

**Note 4 – Interfund Balances and Transactions**

Amounts due to/from other funds at February 28, 2023, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 50,034	Maintenance tax collections not remitted as of year end

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

**Note 5 – Capital Assets**

A summary of changes in capital assets, for the year ended February 28, 2023, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 50,000	\$ 60,000	\$ 110,000
Capital assets being depreciated			
Landscaping improvements	2,891,100		2,891,100
Less accumulated depreciation	(652,935)	(144,555)	(797,490)
Subtotal depreciable capital assets, net	2,238,165	(144,555)	2,093,610
Capital assets, net	\$ 2,288,165	\$ (84,555)	\$ 2,203,610

Depreciation expense for the current year was \$144,555.

**Fulshear Municipal Utility District No. 2**  
**Notes to Financial Statements**  
**February 28, 2023**

**Note 6 – Due to Developer**

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

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

The amount due to developer at February 28, 2023 is approximately \$12,484,640. There was no change in this liability from the prior year.

**Note 7 – Long-Term Debt**

Long-term debt is comprised of the following:

Bonds payable	\$ 4,330,000
Due within one year	\$ 100,000

The District’s bonds payable at February 28, 2023, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Dates
2019 Road	\$ 4,330,000	\$ 4,330,000	3.00% - 4.00%	April 1, 2023/2046	April 1, October 1	April 1, 2024

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

At February 28, 2023, the District had authorized but unissued bonds in the amount of \$132,000,000 for the purpose of acquisition, constructing and improving the water, sewer, and drainage facilities and for the refunding of such bonds; \$43,000,000 for park and recreational facilities and for the refunding of such bonds; \$80,670,000 for road improvements and for the refunding of such bonds.

The District’s outstanding bonds payable as of February 28, 2023 is \$4,330,000. There was no change in this liability from the prior year.

*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

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

As of February 28, 2023, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2024	\$ 100,000	\$ 161,544	\$ 261,544
2025	100,000	158,544	258,544
2026	100,000	155,544	255,544
2027	125,000	152,169	277,169
2028	125,000	148,419	273,419
2029	125,000	144,512	269,512
2030	125,000	140,372	265,372
2031	150,000	135,637	285,637
2032	150,000	130,294	280,294
2033	150,000	124,762	274,762
2034	150,000	119,137	269,137
2035	175,000	113,044	288,044
2036	175,000	106,372	281,372
2037	175,000	99,590	274,590
2038	200,000	92,200	292,200
2039	200,000	84,200	284,200
2040	200,000	76,200	276,200
2041	225,000	67,700	292,700
2042	225,000	58,700	283,700
2043	250,000	49,200	299,200
2044	250,000	39,200	289,200
2045	275,000	28,700	303,700
2046	275,000	17,700	292,700
2047	305,000	6,100	311,100
	<u>\$ 4,330,000</u>	<u>\$ 2,409,840</u>	<u>\$ 6,739,840</u>

**Note 8 – Property Taxes**

On January 29, 2015, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value, and \$1.50 per \$100 of assessed value for use in financing the maintenance of road improvements, and \$0.10 per \$100 of assessed value for use in financing the maintenance of parks and recreational facilities. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

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

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2023 fiscal year was financed through the 2022 tax levy, pursuant to which the District levied property taxes of \$1.20 per \$100 of assessed value, of which \$0.71 was allocated to maintenance and operations and \$0.49 was allocated to road debt service. The resulting tax levy was \$973,728 on the adjusted taxable value of \$81,143,982.

Property taxes receivable, at February 28, 2023, consisted of the following:

Current year taxes receivable	\$	81,306
Prior years taxes receivable		3,504
		84,810
Penalty and interest receivable		6,357
Property taxes receivable	\$	91,167

**Note 9 – Development Agreement with the City of Fulshear**

On May 6, 2014, the District’s developer, DHK Fulshear LP (the “Developer”), and the City of Fulshear (the “City”) entered into a Developmental Agreement to establish the City’s regulatory authority over the development of the District, certain restrictions and commitments related to the development of the District, and to set forth detailed design and construction standards and stipulations regarding the conveyance of ownership of the District facilities to the City.

The Developer intends to make provisions for public water supply and distribution, wastewater collection and treatment, and drainage services through public utility facilities to be provided by the District and water supply and sanitary sewer treatment capacity provided by the City. The District is responsible for the design and construction of the water, sanitary sewer, and drainage facilities to serve the land within the District. All final plans must be approved by the City before construction. As the facilities are constructed and inspected by the City, the District shall transfer these facilities to the City (excluding detention ponds or drainage channels, which are owned and operated by the District) for ownership and operation. Additionally, the District constructs roadways to serve the District, which are accepted by the City for operation and maintenance.

Pursuant to the agreement, the District agree to pays the City a capacity charge of \$3,641 per equivalent single-family connection for water supply and distribution and sanity sewer treatment capacity.

*Fulshear Municipal Utility District No. 2*  
*Notes to Financial Statements*  
*February 28, 2023*

**Note 10 – Risk Management**

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

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## **Required Supplementary Information**

*Fulshear Municipal Utility District No. 2  
 Required Supplementary Information - Budgetary Comparison Schedule - General Fund  
 For the Year Ended February 28, 2023*

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>Revenues</b>			
Property taxes	\$ 395,000	\$ 525,218	\$ 130,218
Investment earnings	100	4,580	4,480
Total Revenues	<u>395,100</u>	<u>529,798</u>	<u>134,698</u>
<b>Expenditures</b>			
Operating and administrative			
Professional fees	32,500	44,858	(12,358)
Contracted services	12,000	11,941	59
Repairs and maintenance	43,000	64,951	(21,951)
Utilities	12,000	13,033	(1,033)
Administrative	25,692	6,651	19,041
Other	1,500		1,500
Capital outlay		60,000	(60,000)
Total Expenditures	<u>126,692</u>	<u>201,434</u>	<u>(74,742)</u>
<b>Revenues Over Expenditures</b>	268,408	328,364	59,956
<b>Fund Balance</b>			
Beginning of the year	978,319	978,319	
<b>End of the year</b>	<u>\$ 1,246,727</u>	<u>\$ 1,306,683</u>	<u>\$ 59,956</u>



*Fulshear Municipal Utility District No. 2*  
*Notes to Required Supplementary Information*  
*February 28, 2023*

**Budgets and Budgetary Accounting**

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

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## **Texas Supplementary Information**

**Fulshear Municipal Utility District No. 2**  
**TSI-1. Services and Rates**  
**February 28, 2023**

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

- |  |   |  |  |
|--|---|--|--|
| <input type="checkbox"/> Retail Water                  | <input type="checkbox"/> Wholesale Water      | <input type="checkbox"/> Solid Waste/Garbage | <input checked="" type="checkbox"/> Drainage |
| <input type="checkbox"/> Retail Wastewater             | <input type="checkbox"/> Wholesale Wastewater | <input type="checkbox"/> Flood Control       | <input type="checkbox"/> Irrigation          |
| <input checked="" type="checkbox"/> Parks / Recreation | <input type="checkbox"/> Fire Protection      | <input checked="" type="checkbox"/> Roads    | <input type="checkbox"/> Security            |
- Participates in joint venture, regional system and/or wastewater service
- Other (Specify): Water, wastewater and drainage facilities accepted by the City of Fulshear

2. Retail Service Providers

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

	Minimum Charge	Minimum Usage	Flat Rate (Y/N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	_____	_____	_____	_____	_____ to _____
Wastewater:	_____	_____	_____	_____	_____ to _____
Surcharge:	_____	_____	_____	_____	_____ to _____

District employs winter averaging for wastewater usage?  Yes  No

Total charges per 10,000 gallons usage: Water \_\_\_\_\_ Wastewater \_\_\_\_\_

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered	_____	_____	x 1.0	_____
less than 3/4"	_____	_____	x 1.0	_____
1"	_____	_____	x 2.5	_____
1.5"	_____	_____	x 5.0	_____
2"	_____	_____	x 8.0	_____
3"	_____	_____	x 15.0	_____
4"	_____	_____	x 25.0	_____
6"	_____	_____	x 50.0	_____
8"	_____	_____	x 80.0	_____
10"	_____	_____	x 115.0	_____
Total Water	_____	_____		_____
Total Wastewater	_____	_____	x 1.0	_____

See accompanying auditor's report.

***Fulshear Municipal Utility District No. 2***  
***TSI-1. Services and Rates***  
***February 28, 2023***

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

Gallons pumped into system:	<u>    N/A    </u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
Gallons billed to customers:	<u>    N/A    </u>	<u>    N/A    </u>

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

Does the District have Debt Service standby fees? Yes  No

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

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

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

5. Location of District:

Is the District located entirely within one county? Yes  No

County(ies) in which the District is located:     Fort Bend County    

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

City(ies) in which the District is located:     City of Fulshear    

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

Entirely  Partly  Not at all

ETJs in which the District is located: \_\_\_\_\_

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

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

See accompanying auditors' report.

*Fulshear Municipal Utility District No. 2  
 TSI-2 General Fund Expenditures  
 For the Year Ended February 28, 2023*

Professional fees	
Legal	\$ 32,558
Audit	11,000
Financial advisor	1,300
	<u>44,858</u>
Contracted services	
Bookkeeping	<u>11,941</u>
Repairs and maintenance	<u>64,951</u>
Utilities	<u>13,033</u>
Administrative	
Directors fees	2,273
Printing and office supplies	857
Insurance	3,011
Other	510
	<u>6,651</u>
Capital outlay	<u>60,000</u>
Total expenditures	<u>\$ 201,434</u>

See accompanying auditors' report.

*Fulshear Municipal Utility District No. 2*  
*TSI-3. Investments*  
*February 28, 2023*

Fund	Interest Rate	Maturity Date	Balance at End of Year
General			
TexSTAR	Variable	N/A	\$ 484,387
Debt Service			
TexSTAR	Variable	N/A	476,841
Total - All Funds			\$ 961,228

See accompanying auditors' report.

**Fulshear Municipal Utility District No. 2**  
**TSI-4. Taxes Levied and Receivable**  
**February 28, 2023**

	Maintenance Taxes	Road Debt Service Taxes	Total	
Taxes Receivable, Beginning of Year	\$ 17,510	\$ 9,087	\$ 26,597	
Adjustments to Prior Year Tax Levy	6,283	3,261	9,544	
Adjusted Receivable	23,793	12,348	36,141	
2022 Original Tax Levy	570,793	393,927	964,720	
Adjustments	5,330	3,678	9,008	
Adjusted Tax Levy	576,123	397,605	973,728	
Total to be accounted for	599,916	409,953	1,009,869	
Tax collections:				
Current year	528,017	364,405	892,422	
Prior years	21,486	11,151	32,637	
Total Collections	549,503	375,556	925,059	
Taxes Receivable, End of Year	\$ 50,413	\$ 34,397	\$ 84,810	
Taxes Receivable, By Years				
2022	\$ 48,106	\$ 33,200	\$ 81,306	
2021	2,307	1,197	3,504	
Taxes Receivable, End of Year	\$ 50,413	\$ 34,397	\$ 84,810	
	2022	2021	2020	2019
Property Valuations:				
Land	\$ 24,383,797	\$ 20,314,797	\$ 18,781,759	\$ 18,157,449
Improvements	65,092,402	33,047,846	26,112,730	17,863,212
Personal Property	132,060	129,470	110,390	33,620
Exemptions	(8,464,277)	(487,113)	(76,382)	(106,945)
Total Property Valuations	\$ 81,143,982	\$ 53,005,000	\$ 44,928,497	\$ 35,947,336
Tax Rates per \$100 Valuation:				
Maintenance tax rates	\$ 0.71	\$ 0.79	\$ 0.70	\$ 0.70
Road debt service tax rates	0.49	0.41	0.50	0.50
Total Tax Rates per \$100 Valuation	\$ 1.20	\$ 1.20	\$ 1.20	\$ 1.20
Adjusted Tax Levy:	\$ 973,728	\$ 636,060	\$ 539,142	\$ 431,368
Percentage of Taxes Collected to Taxes Levied ****	91.65%	99.45%	100.00%	100.00%

\* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 14, 2015

\*\* Maximum Road Maintenance Tax Rate Approved by Voters: \$1.50 on May 14, 2015

\*\*\* Maximum Park and Recreational Facilities Maintenance Tax Rate

Approved by Voters: \$0.10 on May 14, 2015

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

See accompanying auditors' report.



*Fulshear Municipal Utility District No. 2*  
*TSI-5. Long-Term Debt Service Requirements*  
*Series 2019 Road--by Years*  
*February 28, 2023*

Due During Fiscal Years Ending	Principal Due April 1	Interest Due April 1, October 1	Total
2024	\$ 100,000	\$ 161,544	\$ 261,544
2025	100,000	158,544	258,544
2026	100,000	155,544	255,544
2027	125,000	152,169	277,169
2028	125,000	148,419	273,419
2029	125,000	144,512	269,512
2030	125,000	140,372	265,372
2031	150,000	135,637	285,637
2032	150,000	130,294	280,294
2033	150,000	124,762	274,762
2034	150,000	119,137	269,137
2035	175,000	113,044	288,044
2036	175,000	106,372	281,372
2037	175,000	99,590	274,590
2038	200,000	92,200	292,200
2039	200,000	84,200	284,200
2040	200,000	76,200	276,200
2041	225,000	67,700	292,700
2042	225,000	58,700	283,700
2043	250,000	49,200	299,200
2044	250,000	39,200	289,200
2045	275,000	28,700	303,700
2046	275,000	17,700	292,700
2047	305,000	6,100	311,100
	<u>\$ 4,330,000</u>	<u>\$ 2,409,840</u>	<u>\$ 6,739,840</u>

See accompanying auditors' report.

***Fulshear Municipal Utility District No. 2***  
***TSI-6. Change in Long-Term Bonded Debt***  
***February 28, 2023***

	<u>Bond Issue</u> <u>Series 2019</u> <u>Road</u>
Interest rate	3.00% - 4.00%
Dates interest payable	4/1 ; 10/1
Maturity dates	4/1/23 - 4/1/46
Beginning bonds outstanding	\$ 4,330,000
Bonds retired	<u>                    </u>
Ending bonds outstanding	<u>\$ 4,330,000</u>
Interest paid during fiscal year	<u>\$ 163,044</u>
Paying agent's name and city Series 2019 Road	<u>The Bank of New York Mellon Trust Company, N.A., Dallas, Texas</u>

	<u>Water, Sewer and</u> <u>Drainage Bonds</u>	<u>Road Bonds</u>	<u>Park and</u> <u>Recreational</u> <u>Bonds</u>
Bond Authority:			
Amount Authorized by Voters	\$ 132,000,000	\$ 85,000,000	\$ 43,000,000
Amount Issued		(4,330,000)	
Remaining To Be Issued	<u>\$ 132,000,000</u>	<u>\$ 80,670,000</u>	<u>\$ 43,000,000</u>

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

Debt Service Fund cash and investment balances as of February 28, 2023:	<u>\$ 606,387</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 280,827</u>

See accompanying auditors' report.

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***Fulshear Municipal Utility District No. 2***

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

	Amounts				
	2023	2022	2021	2020	2019
Revenues					
Property taxes	\$ 525,218	\$ 408,423	\$ 314,668	\$ 255,672	\$ 321,884
Penalties and interest					1,173
Investment earnings	4,580	52	488	595	342
Total Revenues	<u>529,798</u>	<u>408,475</u>	<u>315,156</u>	<u>256,267</u>	<u>323,399</u>
Expenditures					
Operating and administrative					
Professional fees	44,858	43,658	47,104	108,171	21,817
Contracted services	11,941	13,320	11,212	11,097	19,899
Repairs and maintenance	64,951	26,436	10,088	27,390	11,000
Utilities	13,033	12,864			
Administrative	6,651	12,083	6,236	5,880	13,702
Other			31		33
Capital outlay	60,000			50,000	
Debt service					
Interest and fees					63,060
Developer interest				36,694	
Debt issuance costs				7,836	2,922
Total Expenditures	<u>201,434</u>	<u>108,361</u>	<u>74,671</u>	<u>247,068</u>	<u>132,433</u>
Revenues Over Expenditures	<u>\$ 328,364</u>	<u>\$ 300,114</u>	<u>\$ 240,485</u>	<u>\$ 9,199</u>	<u>\$ 190,966</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
99%	100%	100%	100%	100%
				*
1%	*	*	*	*
100%	100%	100%	100%	100%
8%	11%	15%	42%	7%
2%	3%	4%	4%	6%
12%	6%	3%	11%	3%
2%	3%			
1%	3%	2%	2%	4%
		*		*
11%			20%	
				19%
			14%	
			3%	1%
36%	26%	24%	96%	40%
64%	74%	76%	4%	60%

*Fulshear Municipal Utility District No. 2*

*TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund*

*For the Last Four Fiscal Years*

	Amounts			
	2023	2022	2021	2020
Revenues				
Property taxes	\$ 399,840	\$ 214,598	\$ 219,243	\$ 175,510
Penalties and interest	4,934	5,449	908	1,467
Investment earnings	5,013	13	229	396
Total Revenues	<u>409,787</u>	<u>220,060</u>	<u>220,380</u>	<u>177,373</u>
Expenditures				
Tax collection services	20,527	15,467	14,234	11,945
Other	405	168	161	182
Debt service				
Interest and fees	163,044	163,044	163,044	82,881
Total Expenditures	<u>183,976</u>	<u>178,679</u>	<u>177,439</u>	<u>95,008</u>
Revenues Over Expenditures	<u>\$ 225,811</u>	<u>\$ 41,381</u>	<u>\$ 42,941</u>	<u>\$ 82,365</u>

\*Percentage is negligible

See accompanying auditors' report.

Percent of Fund Total Revenues

2023	2022	2021	2020
98%	98%	100%	99%
1%	2%	*	1%
1%	*	*	*
100%	100%	100%	100%
5%	7%	6%	7%
*	*	*	*
40%	74%	74%	47%
45%	81%	80%	54%
55%	19%	20%	46%

***Fulshear Municipal Utility District No. 2  
TSI-8. Board Members, Key Personnel and Consultants  
For the Year Ended February 28, 2023***

Complete District Mailing Address: 9 Greenway Plaza, Suite 1000, Houston, Texas 77046-3653  
 District Business Telephone Number: (713) 651-0111  
 Submission Date of the most recent District Registration Form  
 (TWC Sections 36.054 and 49.054): May 21, 2020  
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200  
 (Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
<b>Board Members</b>				
McCay Dickson	05/20 - 05/24	\$ 450	\$ -	President
Mary Alford	05/20 - 05/24	600		Vice President
Connie McMaken	05/20 - 05/26	600		Secretary
Jeff Hogan	05/20 - 05/26	600		Assistant Secretary
Joe Goodwin	05/20 - 05/26	450		Assistant Secretary
<b>Consultants</b>				
		Amounts Paid		
Coats Rose, P.C.	2015	\$ 32,793		Attorney
Myrtle Cruz, Inc.	2015	12,358		Bookkeeper
Bob Leared Interests	2015	8,160		Tax Collector
Fort Bend Central Appraisal District	Legislation	6,803		Property Valuation
Robert Deden Services, Inc.	2015			Engineer
McGrath & Co., PLLC	2017	11,000		Auditor
The GMS Group	2015	1,300		Financial Advisor

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



**APPENDIX B**

**PHOTOGRAPHS TAKEN IN THE DISTRICT**





APPENDIX C

SPECIMEN MUNICIPAL BOND INSURANCE POLICY





**BAM**

**MUNICIPAL BOND  
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: \_\_\_\_\_

MEMBER: [NAME OF MEMBER]

BONDS: \$ \_\_\_\_\_ in aggregate principal  
amount of [NAME OF TRANSACTION]  
[and maturing on]

Effective Date: \_\_\_\_\_

Risk Premium: \$ \_\_\_\_\_  
Member Surplus Contribution: \$ \_\_\_\_\_  
Total Insurance Payment: \$ \_\_\_\_\_

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner’s rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. “Business Day” means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer’s Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. “Due for Payment” means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. “Nonpayment” means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. “Nonpayment” shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. “Owner” means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that “Owner” shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

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

SPECIMEN

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

Email:

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

Address:

200 Liberty Street, 27th floor  
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

SPECIMEN