

OFFICIAL STATEMENT DATED JULY 17, 2024

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

The Bonds are NOT "qualified tax-exempt obligations" for financial institutions

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 932445

RATING: Insured "AA" (stable outlook) S&P
See "MUNICIPAL BOND RATING" and "BOND INSURANCE" herein
\$15,000,000

WALLER COUNTY IMPROVEMENT DISTRICT NO. 2
(A political subdivision of the State of Texas, located in Waller County, Texas)
UNLIMITED TAX BONDS
SERIES 2024

Dated: August 1, 2024

Due: March 1 (as shown below)

Interest on the \$15,000,000 Unlimited Tax Bonds, Series 2024 (the "Bonds") will accrue from August 1, 2024, and will be payable on March 1 and September 1 of each year, commencing March 1, 2025. 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 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 BOKF, 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 an insurance policy to be issued concurrently with the delivery of the Bonds by Assured Guaranty Municipal Corp. or its successor ASSURED GUARANTY INC. See "BOND INSURANCE – Bond Insurance Policy" herein.



MATURITIES, AMOUNTS, INTEREST RATES AND PRICES

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>
\$310,000	2026	7.000%	3.500%	\$510,000	2036(b)	4.000%	3.750%
\$325,000	2027	7.000%	3.500%	\$535,000	2037(b)	4.000%	3.850%
\$340,000	2028	7.000%	3.500%	***	***	***	***
\$360,000	2029	7.000%	3.500%	\$620,000	2040(b)	4.000%	4.050%
\$375,000	2030(b)	6.500%	3.500%	\$655,000	2041(b)	4.000%	4.090%
\$395,000	2031(b)	4.000%	3.500%	\$685,000	2042(b)	4.000%	4.130%
\$415,000	2032(b)	4.000%	3.500%	\$720,000	2043(b)	4.000%	4.170%
\$440,000	2033(b)	4.000%	3.550%	\$760,000	2044(b)	4.125%	4.210%
\$460,000	2034(b)	4.000%	3.600%	\$800,000	2045(b)	4.125%	4.250%
\$485,000	2035(b)	4.000%	3.650%	***	***	***	***
\$1,155,000 4.000% Term Bond Due March 1, 2039 to Yield 4.000% (a) (b) (c)							
\$1,725,000 4.125% Term Bond Due March 1, 2047 to Yield 4.320% (a) (b) (c)							
\$2,930,000 4.250% Term Bond Due March 1, 2050 to Yield 4.380% (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. Accrued interest is to be added to the price.
- (b) The Bonds maturing on or after March 1, 2030, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on March 1, 2029, 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. 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. If fewer than all of the Bonds within any one maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/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 – Mandatory Redemption."

The proceeds of the Bonds will be used by Waller County Improvement District No. 2 (the "District") to: (1) reimburse the Developers (hereinafter defined) for advancing funds to construct certain water, wastewater, and drainage facilities serving the District and associated land acquisition, engineering, and testing costs; (2) fund certain water and wastewater impact fees to the City of Katy; (3) fund developer interest related to the advancement of funds for certain construction costs; (4) fund 12 months of capitalized interest on the Bonds; and (5) pay administrative costs and issuance expenses associated with the sale and delivery 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, Waller County, the City of Katy, or any entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas, Waller County, or the City of Katy 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 Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. The District will be advised on certain legal matters concerning disclosure by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about August 21, 2024.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT.....	1
SALE AND DISTRIBUTION OF THE BONDS	1
CONTINUING DISCLOSURE OF INFORMATION - SEC RULE 15c2-12.....	2
MUNICIPAL BOND RATING	3
BOND INSURANCE	3
OFFICIAL STATEMENT SUMMARY	6
DEBT SERVICE REQUIREMENTS.....	10
INTRODUCTION.....	11
RISK FACTORS	11
USE OF BOND PROCEEDS	19
THE DISTRICT	20
THE DEVELOPERS	21
UTILITY AGREEMENT WITH THE CITY OF KATY.....	22
THE SYSTEM	23
LOCATION MAP	25
AERIAL PHOTOGRAPH	26
MANAGEMENT OF THE DISTRICT	27
DISTRICT INVESTMENT POLICY	27
DISTRICT DEBT.....	28
DISTRICT TAX DATA	29
TAXING PROCEDURES	31
ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION.....	35
THE BONDS.....	35
BOOK-ENTRY-ONLY SYSTEM	39
LEGAL MATTERS.....	40
TAX MATTERS.....	41
REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS.....	42
OFFICIAL STATEMENT.....	43
MISCELLANEOUS	44
INDEPENDENT AUDITOR’S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT	A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY	B

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 Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of duplication costs.

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

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.

Assured Guaranty Municipal Corp. or its successor Assured Guaranty Inc. (the "Insurer") makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, the Insurer 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 the Insurer supplied by the Insurer and presented under the heading "BOND INSURANCE" and "APPENDIX B – Specimen Municipal Bond Insurance Policy."

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District 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 97.092100% of par plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 4.364590%, 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 resolution adopted by the Board of Directors of the District authorizing the issuance of the Bonds (the "Bond Resolution"), the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the District will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified material events, to the Municipal Securities Rulemaking Board ("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" (Independent Auditor's Report and 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 certain updated information and operating data to the MSRB or any successor to its functions as a repository through its EMMA system.

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 Resolution 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 December 31. Accordingly, it must provide updated information by June 30 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 MRSB, 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 Resolution 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.”

Availability of Information

The District has agreed to provide the foregoing updated information only to the MSRB. Investors will be able to access, without charge from the MSRB, continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

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

During the past five years, the District has complied in all material respects with all of its previous continuing disclosure agreements made in accordance with SEC Rule 15c2-12.

MUNICIPAL BOND RATING

S&P Global Ratings (“S&P”) has assigned its municipal bond insured rating of “AA” (stable outlook) to this issue of Bonds with the understanding that upon issuance and 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 the Insurer. 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, Assured Guaranty Municipal Corp. (“AGM”) will issue its Municipal Bond Insurance Policy for the Bonds (the “Policy”). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as an appendix to this Official Statement. In the event the Bonds are issued after the effectiveness of the Merger (as defined below), the Policy relating to the Bonds will be substantively identical to the form appended to this Official Statement, except that the Policy will be issued by AG (as defined below) in place of AGM. See “– Assured Guaranty Municipal Corp. – Planned Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.”.

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its subsidiaries, provides credit enhancement products to the U.S. and non-U.S. public finance (including infrastructure) and structured finance markets and participates in the asset management business through ownership

interests in Sound Point Capital Management, LP and certain of its investment management affiliates. Only AGM is obligated to pay claims under the insurance policies AGM has issued, and not AGL or any of its shareholders or other affiliates.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A1" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Planned Merger of Assured Guaranty Municipal Corp. Into Assured Guaranty Inc.

On July 8, 2024, AGL (together with its subsidiaries, "Assured Guaranty") announced that AGM will merge with and into its affiliate, Assured Guaranty Inc. ("AG"), with AG as the surviving company (such transaction, the "Merger"). AG, a Maryland domiciled financial guaranty insurance company and an indirect subsidiary of AGL, was formerly known as Assured Guaranty Corp. The effective date of the Merger is expected to be on or about August 1, 2024.

The Merger is expected to expand the pool of capital available to support each new and existing insurance policy, result in a further diversification of the combined company's insured portfolio's credit profile, and strengthen Assured Guaranty's ability to continue successfully executing its strategies to achieve its business objectives. Upon the effectiveness of the Merger, the combined company, compared with either AGM or AG before the Merger, will have:

- a larger, highly diversified insured portfolio,
- a larger investment portfolio and a larger capital base, and
- more total claims-paying resources.

Currently, AGM and AG have the same financial strength ratings from S&P (AA/Stable), Moody's (A1/Stable) and KBRA (AA+/Stable). AG's insurance financial strength ratings are expected to be unaffected by the Merger.

On July 10, 2024, Moody's, following Assured Guaranty's announcement of the Merger, affirmed the insurance financial strength ratings of AGM and AG of "A1" (stable outlook). On July 9, 2024, S&P stated that the Merger will not change its assessment of the Assured Guaranty group's business risk or financial risk positions. On July 8, 2024, KBRA commented that, upon the expected August 1, 2024 closing of the Merger, AG's insurance financial strength rating of "AA+" (stable outlook) will remain unchanged.

Current Financial Strength Ratings

On July 10, 2024, Moody's announced it had affirmed AGM's insurance financial strength rating of "A1" (stable outlook).

On May 28, 2024, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook).

On October 20, 2023, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook).

AGM can give no assurance as to any further ratings action that S&P, Moody's and/or KBRA may take. For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2023.

Capitalization of AGM and Pro Forma Combined AG

As of March 31, 2024
(dollars in millions)

	AGM (Actual)	AG (Pro Forma Combined)
Policyholders' surplus	\$2,665	\$4,013
Contingency reserve	\$892	\$1,312
Net unearned premium reserves and net deferred ceding commission income ⁽¹⁾	\$2,036	\$2,385

(1) Such amount includes (i) 100% of the net unearned premium reserve and net deferred ceding commission income of AGM or pro forma combined AG, as applicable, and (ii) the net unearned premium reserves and net deferred ceding commissions of Assured Guaranty UK Limited ("AGUK") and its 99.9999% owned subsidiary Assured Guaranty (Europe) SA ("AGE").

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2023 (filed by AGL with the SEC on February 28, 2024); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2024 (filed by AGL with the SEC on May 8, 2024).

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

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

Miscellaneous Matters

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

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 \$15,000,000 Unlimited Tax Bonds, Series 2024 (the "Bonds"), are dated and will bear interest from August 1, 2024. The Bonds represent the second series of bonds to be issued by Waller County Improvement District No. 2 (the "District"). The Bonds mature on March 1 in the years as shown in the table on the cover page of this Official Statement. The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended; Senate Bill 1821, 83rd Texas Legislative Session (codified as Chapter 3914, Texas Special District Local Laws Code); a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District; an approving order of the Texas Commission on Environmental Quality (the "TCEQ"); and an election held within 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, Waller County, the City of Katy, or any other political subdivision or agency. See "THE BONDS – Source of and Security for Payment."
- Redemption Provisions:** The Bonds maturing on or after March 1, 2030, are subject to early redemption, in whole or from time to time in part, on March 1, 2029, or on any date thereafter at the option of the District at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. See "THE BONDS – Optional Redemption." The Bonds maturing on March 1 in the years 2039, 2047, and 2050 are Term Bonds and are subject to annual mandatory sinking fund redemption beginning on March 1 in the years 2038, 2046, and 2048, 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, 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."
- 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 water, wastewater, and drainage facilities serving the District and associated land acquisition, engineering, and testing costs; (2) fund certain water and wastewater impact fees to the City of Katy; (3) fund developer interest related to the advancement of funds for certain construction costs; (4) fund 12 months of capitalized interest on the Bonds; and (5) pay administrative costs and issuance expenses associated with the sale and delivery of the Bonds. See "USE OF BOND PROCEEDS."
- Payment Record:** The District has previously issued one (1) series of unlimited tax road bonds, of which \$2,575,000 principal amount was outstanding as of June 1, 2024 (the "Outstanding Bonds"). The District has never defaulted in the payment of principal of or interest on the Outstanding Bonds. See "DISTRICT DEBT."
- 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" and "LEGAL MATTERS."
- NOT Qualified Tax Exempt Obligations:** The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.
- 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 issuance and 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 the Insurer. See "MUNICIPAL BOND RATING," "BOND INSURANCE," and "APPENDIX B – Specimen Municipal Bond Insurance Policy."
- Legal Opinion:** Allen Boone Humphries Robinson LLP, Bond Counsel, Houston, Texas. See "LEGAL MATTERS" and "TAX MATTERS."
- Paying Agent/Registrar:** BOKF, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."

THE DISTRICT

- Description:** The District is a special district created on June 14, 2013, with the passage of Senate Bill 1821 in the 83rd Texas Legislative Session (codified as Chapter 3914, 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, and Chapter 375, Texas Local Government 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, and Chapter 375, Texas Local Government 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. The District is also empowered to purchase, construct, operate, and maintain roads and parks and recreational facilities. Additionally, the District was created with certain parking facility powers and railroad powers. See "THE DISTRICT – Authority."
- Location:** The District, as it was originally created, included approximately 176 acres. Since its creation, the District has annexed certain tracts of land and presently includes within its boundaries approximately 325 acres. The District is located in southeastern Waller County, Texas and is situated entirely within the extraterritorial jurisdiction of the City of Katy, Texas (the "City"). The District is comprised of three (3) noncontiguous tracts of land that are generally known as the Pederson Road Tract (approximately 178 acres comprised of the Pederson Road Business Park), the Stonegate Tract (approximately 40 acres comprised of the Stonegate Business Park), and the Pederson Road West Tract (approximately 107 acres comprised of the Pederson Road West Business Park). The District is generally located approximately 32 miles west of the central business district of the City of Houston, Texas and approximately three (3) miles west of the central business district of the City. The District is bounded on the east by Snake Creek, on the north by Morton Road and State Highway 90, on the west by Buffalo Bayou, and on the south by Interstate Highway 10. The District is adjacent and has immediate access to Interstate Highway 10 and State Highway 90. See "THE DISTRICT – Description and Location."
- Development of the District:** The District is being developed for commercial and light industrial purposes in the business parks known as the Pederson Road Business Park, the Stonegate Business Park, and the Pederson Road West Business Park. The District contains light industrial and manufacturing buildings and warehouse distribution centers. As of June 1, 2024, the District, in the aggregate, included approximately 18 commercial and light industrial buildings totaling approximately 2,309,400 square feet. See "THE DISTRICT – Status of Commercial and Industrial Building Development," "AERIAL PHOTOGRAPH."
- Summary of Land Uses:** As of June 1, 2024, the District included approximately 197 acres that have been developed and improved for commercial and light industrial purposes, no acreage presently under development, approximately 72 acres available for future development, and approximately 56 undevelopable acres, which includes road rights-of-way, detention ponds, drainage easements, District plant sites, open spaces, and other undevelopable acreage. See "THE DISTRICT – Land Uses and Status of Land Development."
- The Developers:** C-2 Pederson Road, LLC ("Pederson Road"), C-2 Stonegate, LLC ("Stonegate"), and C-2 Pederson West, LLC ("Pederson West") are the entities that have developed land within the District. All three of the above-mentioned entities are special purpose entities that were established specifically for the purpose of developing and marketing specific tracts of land in the District. Pederson Road, Stonegate, and Pederson West are all wholly-owned by C-2 Real Estate Holdings, Ltd., the general partner of which is Clay Real Estate Management Corp., whose shareholders are Albert W. Clay, III and Robert H. Clay. Pederson Road, Stonegate, Pederson West, and C-2 Real Estate Holdings, Ltd. are collectively referred to herein as (the "Developers"). Pederson Road, Stonegate, and Pederson West are all thinly capitalized entities whose primary assets are their respective land holdings. Pederson Road, Stonegate, and Pederson West do not have any debt that is owed to a non-related party of the Developers.
- Albert W. Clay, III, founded Clay Development and Construction, Inc. ("Clay") with his son Robert H. Clay in July 1998 and has over 40 years of experience in financing, development, construction, and investment of commercial real estate. Mr. Albert Clay graduated from Texas A&M University with an accounting degree and went on to receive a Master of Business Administration from The University of Texas at Austin, and later, his CPA designation. Mr. Albert Clay worked for Sonnenblick-Goldman for four years as a mortgage loan broker before starting his own company, C-3 Realty Services, to focus on commercial real estate finance and brokerage. Before starting Clay, he had brokered over \$130 million in commercial loans and participated in 28 separate real estate sales totaling over \$110 million. Mr. Clay's key role at Clay is to oversee all financial matters pertaining to the organization.
- Robert H. Clay founded Clay with his father in July 1998 and has been in real estate since his graduation from Texas A&M University in 1989. Mr. Robert Clay began his career with United Equities, Inc., a medium-sized industrial and retail firm located in Houston, focusing on construction supervision, property management and leasing. After four years at United Equities, he moved on to Moody Rambin Interests,

Inc. where his attentions were directed to project leasing and construction supervision. Mr. Robert Clay's key role at Clay is business development, project negotiation, and project building.

Clay has been responsible for the development of approximately 300 industrial buildings and office buildings representing in excess of 17,000,000 sq. ft. of building space with cost in excess of \$1 billion. Additionally, Clay has developed approximately 27 industrial/business parks totaling over 1,700 acres and has also developed several smaller tracts and constructed buildings on those tracts of land. Clay-related companies currently own and manage in excess of 3,500,000 sq. ft. of company-developed space in approximately 80 buildings.

MRE Propco, LP, a Delaware limited partnership ("Medline"), as successor in interest to Medline Industries Holdings, L.P., a Delaware limited partnership, is the current developer of approximately 60 acres within the District. The General Partner of Medline is MRE GP, LLC, whose Managing Member is Mozart Real Estate, LP, whose General Partner is Mozart GP, LLC. Medline currently has operations in an approximately 1,300,000 sq. ft. building and is a principal taxpayer in the District.

The District expects to enter into a reimbursement agreement with IU Heritage LP, a Texas limited partnership ("IU Heritage"). IU Heritage is a special purpose entity established specifically for the purpose of developing an approximately 72-acre tract within the District. According to IU Heritage, the tract is expected to be developed for commercial and light-industrial purposes. Based on current land plans, the tract is expected to contain multiple buildings totaling approximately 900,000 sq. ft. at ultimate development. See "THE DEVELOPERS."

Principal Taxpayers: According to the District's 2023 certified tax rolls as provided by the Waller County Appraisal District (the "Appraisal District"), the top 10 taxpayers represent \$247,520,625 of taxable assessed valuation, or approximately 84.31% of the District's 2023 Certified Taxable Value of \$293,373,302. See "RISK FACTORS – Dependence on Principal Taxpayers" and "DISTRICT TAX DATA – Principal Taxpayers."

The System: The District's water supply and wastewater treatment capacity for the Stonegate Tract and the Pederson Road West Tract is provided by the City pursuant to the terms of the Utility Agreement (defined herein). The Utility Agreement provides that the City will provide the District with sufficient equivalent single-family connections ("ESFCs") of water supply and wastewater treatment capacity to serve the ultimate build out of such tracts. Proceeds of the Bonds, and any future bonds that may be issued by the District for water, wastewater, and drainage purposes, will be used to reimburse the Developers for additional ESFCs of water supply and wastewater treatment capacity previously paid to the City.

The District owns and operates an on-site water plant with ground water wells that provide water supply for the Pederson Road Tract. Similar to the Stonegate Tract and the Pederson Road West Tract, wastewater treatment capacity for the Pederson Road Tract is also provided by the City.

The District's separate tracts each have a separate drainage system. Generally, storm water runoff for the Pederson Road Tract, Stonegate Tract, and Pederson Road West Tract drains into inlets connected to an underground piped drainage system, which flows to detention ponds. The detention ponds ultimately drain to ditches owned and operated by the Brookshire-Katy Drainage District or the Texas Department of Transportation.

According to the District's Engineer, the Flood Hazard Boundary Map, currently in effect, published by the Federal Emergency Management Agency (FEMA), which covers land located in the District, indicates that none of the land in the District is located within the 100-year floodplain (other than land that is designated as drainage channels or detention ponds). However, none of the developed and improved land or none of the undeveloped land that is planned for future building development is located in the 100-year flood plain. See "THE SYSTEM" and "UTILITY AGREEMENT WITH THE CITY OF KATY."

SELECTED FINANCIAL INFORMATION
(Unaudited)

2023 Certified Taxable Value	\$293,373,302 (a)
Direct Debt:	
Outstanding Bonds (as of June 1, 2024)	\$2,575,000
The Bonds	<u>\$15,000,000</u>
Total Direct Debt	<u>\$17,575,000</u>
See "DISTRICT DEBT"	
Estimated Overlapping Debt	<u>\$12,772,476 (b)</u>
Direct and Estimated Overlapping Debt	\$30,347,476
Percentage of Direct Debt to:	
2023 Certified Taxable Value	5.99%
See "DISTRICT DEBT"	
Percentage of Direct and Estimated Overlapping Debt to:	
2023 Certified Taxable Value	10.34%
See "DISTRICT DEBT"	
2023 Tax Rate Per \$100 of Assessed Value:	
Debt Service Tax	\$0.00 (c)
Road Debt Service Tax	\$0.07
Maintenance and Operations Tax	<u>\$0.73</u>
Total 2023 Tax Rate	\$0.80
Cash and Temporary Investment Balances as of June 19, 2024:	
General Fund	\$4,494,701 (d)
Debt Service Fund	\$660,856 (e) (f)
Road Debt Service Fund	\$237,509 (e)

- (a) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by the Waller County Appraisal District (the "Appraisal District"). See "DISTRICT TAX DATA" and "TAXING PROCEDURES." The District has received information from the Appraisal District regarding the District's January 1, 2024 Preliminary Taxable Value of \$295,701,703. The preliminary value includes real property only and assigns no value to personal property. The preliminary values are not binding on the Appraisal District; such values are subject to protest by the property owners and review by the Waller County Appraisal Review Board. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."
- (b) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (c) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of water, wastewater, and drainage facilities. The District intends to levy a debt service tax beginning with its 2024 tax rate.
- (d) Unaudited figure per the District's records. See "THE SYSTEM – General Fund Operating History."
- (e) Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund or the Road Debt Service Fund. The cash and investment balances in the Road Debt Service Fund are not available to make debt service payments on the Bonds, and any funds in the Debt Service Fund are not available to make debt service payments on the District's outstanding road bonds. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."
- (f) The cash and investment balance in the Debt Service Fund represents 12 months of capitalized interest to be funded with proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. See "USE OF BOND PROCEEDS."

DEBT SERVICE REQUIREMENTS

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

<u>Year</u>	<u>Outstanding Debt Service Requirements</u>	<u>Debt Service Requirements on the Bonds</u>		<u>Total Debt Service Requirements</u>
		<u>Principal</u>	<u>Interest</u>	
2024	\$196,338	-	-	\$196,338
2025	\$217,963	-	\$715,928	\$933,890
2026	\$214,213	\$310,000	\$650,006	\$1,174,219
2027	\$210,369	\$325,000	\$627,781	\$1,163,150
2028	\$206,338	\$340,000	\$604,506	\$1,150,844
2029	\$202,150	\$360,000	\$580,006	\$1,142,156
2030	\$222,400	\$375,000	\$555,219	\$1,152,619
2031	\$217,075	\$395,000	\$535,131	\$1,147,206
2032	\$211,563	\$415,000	\$518,931	\$1,145,494
2033	\$205,938	\$440,000	\$501,831	\$1,147,769
2034	\$224,844	\$460,000	\$483,831	\$1,168,675
2035	\$218,281	\$485,000	\$464,931	\$1,168,213
2036	\$211,500	\$510,000	\$445,031	\$1,166,531
2037	\$204,500	\$535,000	\$424,131	\$1,163,631
2038	\$222,000	\$565,000	\$402,131	\$1,189,131
2039	\$238,500	\$590,000	\$379,031	\$1,207,531
2040	\$229,500	\$620,000	\$354,831	\$1,204,331
2041	-	\$655,000	\$329,331	\$984,331
2042	-	\$685,000	\$302,531	\$987,531
2043	-	\$720,000	\$274,431	\$994,431
2044	-	\$760,000	\$244,356	\$1,004,356
2045	-	\$800,000	\$212,181	\$1,012,181
2046	-	\$840,000	\$178,356	\$1,018,356
2047	-	\$885,000	\$142,778	\$1,027,778
2048	-	\$930,000	\$104,763	\$1,034,763
2049	-	\$975,000	\$64,281	\$1,039,281
2050	-	<u>\$1,025,000</u>	<u>\$21,781</u>	<u>\$1,046,781</u>
TOTALS	\$3,653,469	\$15,000,000	\$10,118,049	\$28,771,518

Maximum Annual Debt Service Requirements (2039)..... \$1,207,531 (a)

Requires a \$0.44 debt service tax rate on the 2023 Certified Taxable Value of \$293,373,302
at 95% collections \$1,226,300 (a)

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

OFFICIAL STATEMENT

relating to

\$15,000,000

WALLER COUNTY IMPROVEMENT DISTRICT NO. 2
(A political subdivision of the State of Texas located within Waller County, Texas)

UNLIMITED TAX BONDS
SERIES 2024

INTRODUCTION

This Official Statement provides certain information in connection with the issuance of the \$15,000,000 Waller County Improvement District No. 2 Unlimited Tax Bonds, Series 2024 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended; Senate Bill 1821, 83rd Texas Legislative Session (codified as Chapter 3914, Texas Special District Local Laws Code); a resolution authorizing the issuance of the Bonds (the "Bond Resolution") to be adopted by the Board of Directors of Waller County Improvement District No. 2 (the "District"); an approving order of the Texas Commission on Environmental Quality (the "TCEQ"); and an election held within the District.

This Official Statement includes descriptions of the Bonds, the Bond Resolution, certain information about the District and its financial condition, and the Developers in the District. 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, Waller County, the City of Katy, 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 generate property taxes to pay debt service at current levels.

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 enforced by foreclosure. The District's ability to collect ad valorem taxes through foreclosure may be impaired by: (a) repetitive, annual expensive collections 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.

A substantial portion of the District's certified assessed valuation for the 2023 tax year is comprised of personal property. See "DISTRICT TAX DATA – Analysis of Tax Base." The amount of personal property value in the District is greater than that found in most Houston area districts where the taxable value generally reflects residential property, land, and improvement values. Collection of delinquent personal property taxes may represent special issues including a shorter "four-year" statute of limitations relative to the collection of such taxes. See "– Personal Property Tax Collection" herein. During the past five years (i.e., the 2019 tax year through and including the 2023 tax year), the District has collected 100% of its tax levy, including taxes levied against personal property. See "DISTRICT TAX DATA – Tax Rate and Collections." The District makes no representation that such tax collection percentage will continue in the future.

According to the District's 2023 certified tax roll, the District includes approximately \$173,067,812 of assessed personal property value, or approximately 48.29% of the District's gross valuation for the 2023 tax year. While the value of taxable real property is subject to fluctuation, taxable personal property is mobile and capable of being removed entirely from the District and its tax rolls. The personal property on the District's 2023 certified tax roll was primarily owned by several businesses that have operations within the District. To the extent that, for any reason, any of such businesses with large personal property holdings reduce the size of their operations in the District or cease to operate in the District altogether, and are not replaced by a similar business, the impact on the taxable valuation of the District would be significant. In addition, should any of such businesses vacate its facilities, there may be a limited market for such facility. The District makes no representation regarding the likelihood that personal property currently listed on the District's tax rolls will remain in the District, or regarding the portion of future District tax rolls that will be represented by personal property. See "– Dependence on Principal Taxpayers" herein, "DISTRICT TAX DATA – Principal Taxpayers," and "– Analysis of Tax Base."

Personal Property Tax Collection

Unlike real property, there is no certainty that personal property will remain in the District from year to year. Personal property is portable and could be removed from the District at any time. Personal property removed from the District as of January 1 of any year is not subject to taxation by the District for that year.

If personal property is subject to a lien for unpaid District taxes for any year, the District's lien is lost if the property is sold in the ordinary course of business. While a lien in the amount of the personal property taxes owed by a taxpayer attaches not only to personal property owned by the taxpayer as of January 1 with a tax situs in the District, but to any personal property located outside the District. Furthermore, locating and foreclosing on property held outside the District may be costly, inefficient, and difficult.

The statute of limitations for collection of personal property taxes is four years from the date of delinquency, which is shorter than the 20-year statute of limitations for real property and improvements. As with real property taxes, ad valorem taxes levied on personal property are the personal obligation of the taxpayer. No representation can be made by the District regarding future tax collections. See "TAXING PROCEDURES."

Dependence on Principal Taxpayers

Major property owners in the District include commercial and industrial building owners and tenants of such buildings. According to the District's 2023 certified tax roll, the ten (10) principal taxpayers represent approximately \$247,520,625 of taxable assessed valuation, or approximately 84.31% of the District's 2023 Certified Taxable Value of \$293,373,302. The ability of the principal taxpayers to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, the principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to use other funds available for debt service purposes to the extent available. Further, if any of the principal taxpayers cease to operate its facility within the District, a substantial decrease in the District's value may result (because of the loss of personal property value); the District has no understanding with any of the principal taxpayers regarding their future level of operations in the District. The District has not covenanted in the Bond Resolution, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund, Road Debt Service Fund, or any other funds. Therefore, failure by the principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds and the Outstanding Bonds on a current basis. See "THE DEVELOPERS" and "DISTRICT TAX DATA – Principal Taxpayers."

Dependence on Future Development and Potential Impact on District Tax Rates

Assuming no further construction of commercial or industrial projects within the District other than those that have heretofore 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 Maximum Annual Debt Service Requirement will be \$1,207,531 (2039). Assuming no increase or decrease from the 2023 Certified Taxable Value of \$293,373,302 and no use of other District funds, a combined debt service tax rate and road debt service tax rate of \$0.44 per \$100 of assessed valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue."

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 Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. 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

A substantial percentage of the taxable values of the District are derived from the current market value of industrial improvements, tracts developed for commercial and industrial purposes, and undeveloped tracts planned for commercial and industrial development. The market value of such tracts is related to general economic conditions affecting the demand for commercial and industrial space. Demand for tracts of this type and the construction of commercial or industrial projects thereon can be significantly affected by factors such as interest rates, credit availability, construction costs, energy availability, and the prosperity and demographic characteristics of the urban center toward which the marketing of such tracts is directed. Decreased levels of construction activity or reduced resale value of such tracts could restrict the growth of property values in the District or could adversely impact such values.

The growth of taxable values in the District is, in part, related to the vitality of the commercial and industrial development and commercial and industrial building industry in the Houston metropolitan area. The commercial and industrial development and building industry has historically been a cyclical industry, affected by short-term and long-term interest rates, consumer demand, foreclosure rates, availability of mortgage and development funds, labor conditions, and general economic conditions. The Houston economy is still dependent on energy prices and the continuation of relatively low oil and natural gas prices could result in additional adverse effects on the Houston area economy. High commercial and industrial property foreclosure rates may also affect commercial and industrial mortgage lenders' willingness to accept risks and potential borrowers' ability to qualify for loans. The ability to qualify for commercial and industrial mortgage loans may negatively affect the commercial and industrial development and building industry and the growth of taxable values in the District.

The commercial and industrial real estate and housing industries in the Houston area are competitive, and the District can give no assurance that development programs will be implemented or completed. The sale of developed commercial and industrial tracts and the competitive position of prospective builders in the construction of commercial and industrial establishments is affected by most of the factors discussed herein. The District's ability to pay debt service payments on the Bonds and the Outstanding Bonds is directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

Potential Effects of Oil Price Fluctuation on the Houston Area

Fluctuations in oil prices in the U.S. and globally 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 construction 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.

Landowners/Developer Under No Obligation to the District

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 buildings 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 (anticipated to be created by the Developers or IU Heritage) or commercial tracts and failure of landowners to develop their land would restrict the rate of growth of taxable value in the District as it has in the past. The District is also dependent upon certain principal taxpayers (see "DISTRICT TAX DATA – Principal Taxpayers") for the timely payment of ad valorem taxes, and the District cannot predict what the future financial condition of either will be or what effect, if any, such conditions may have on their ability to pay taxes.

Future Debt

At an election held on November 4, 2014, the District’s voters authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<u>Amount</u>	<u>Purpose</u>
\$139,200,000	For certain water, wastewater, drainage facilities, and refunding
\$20,400,000	For certain road facilities and refunding
\$20,000,000	For certain parks, recreation facilities, and refunding
\$133,000,000	For certain public parking facilities and refunding
\$20,000,000	For certain transportation facilities and refunding
\$100,000,000	For economic development and refunding

After the issuance of the Bonds, the District will have the following amounts that remain authorized but unissued: (i) \$124,200,000 of unlimited tax bonds for water, wastewater, and drainage facilities and refunding water, wastewater, and drainage facilities bonds previously issued; (ii) \$17,275,000 of unlimited tax bonds for road facilities and refunding road facilities bonds previously issued; (iii) \$20,000,000 of unlimited tax bonds for parks and recreational facilities and refunding parks and recreational facilities bonds previously issued; (iv) \$133,000,000 of unlimited tax bonds for public parking facilities and refunding public parking facilities bonds previously issued; (v) \$20,000,000 of unlimited tax bonds for transportation facilities and refunding transportation facilities bonds previously issued; and (vi) \$100,000,000 of unlimited tax bonds for economic development and refunding economic development bonds previously issued.

The District has the right to issue additional new money bonds as may hereafter be approved by both the Board and the voters of the District and may issue refunding bonds without additional elections so long as they do not exceed the principal amount of then outstanding bonds. Such additional new money bonds or refunding bonds would be issued on a parity with the Bonds. Certain of the future new money bonds to be issued by the District (with the exception of unlimited tax bonds issued for road facilities) 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 of Katy ordinance specifying the purposes for which the District may issue bonds; (c) 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 authorizing preparation of a fire plan or calling a fire bond election at this time and 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.

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. 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 the TCEQ rules, in which case the outstanding principal amount of such bonds may not exceed an amount equal to three percent of the value of the taxable property in the District. The District has prepared a park plan and conducted a bond election on November 4, 2014, that authorized \$20,000,000 of park and recreational facilities bonds, all of which remain authorized but unissued.

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.

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 bond election that authorized \$20,400,000 of road bonds at an election held on November 4, 2014, of which \$17,275,000 remain authorized but unissued.

Continuing Compliance with Certain Covenants

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

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under 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. Further, the EPA has established a NPDWR for six (6) Per- and Polyfluoroalkyl Substances (“PFAS”), which requires public water systems to perform certain monitoring and remediation measures. Public water systems may be subject to additional PFAS regulation in the future, which could increase the cost of constructing, operating, and maintaining water production and distribution facilities.

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) (“CGP”), 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. The CGP has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on January 24, 2019. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

In 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. Subsequently, the EPA and USACE issued a final rule amending the definition of “waters of the United States” under the CWA to conform with the Supreme Court’s decision.

While the *Sackett* decision and subsequent regulatory action 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.

Changes in Tax Legislation

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

Severe Weather

The District is located approximately 90 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, but 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.

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.

Tax Payment Installments After Disaster

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

Additionally, the Property Tax Code authorizes a taxing jurisdiction such as the District, solely at the jurisdiction's discretion to adopt a similar installment payment option for taxes imposed on personal property that is located within a designated disaster area or emergency area and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

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 and potentially leaving less developable property within the District. The application of such regulations could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

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 Underwriter has made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "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.

USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used by the District to: (1) reimburse the Developers (defined herein) for advancing funds to construct certain water, wastewater, and drainage facilities serving the District and associated land acquisition, engineering, and testing costs; (2) fund certain water and wastewater impact fees to the City of Katy; (3) fund developer interest related to the advancement of funds for certain construction costs; (4) fund 12 months of capitalized interest on the Bonds; and (5) pay administrative costs and issuance expenses associated with the sale and delivery of the Bonds.

BGE, Inc. (the "Engineer") 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>
<i>Developer Items</i>	
None	-
<i>District Items</i>	
PRBP Water Plant No. 1	\$579,056
PRBP Remote Water Well and Supply Line	\$24,061
PRBP Detention Pond, Pump Station and Utilities	\$1,287,868
Stonegate Water and Wastewater Lines	\$284,256
Stonegate Detention Pond and Pump Station	\$1,112,994
Lift Station No. 1	\$33,534
Water and Sanitary Sewer Extension	\$98,406
Lift Station No. 2	\$48,359
Forcemain Extension	\$17,915
Land Acquisition PRBP Water Plant No. 1	\$49,412
Land Acquisition PRBP Pump Station	\$20,687
Land Acquisition PRBP Lift Station No. 2	\$1,097
Land Acquisition PRBP Utility Corridor	\$41,340
Land Acquisition PRBP Detention Pond	\$124,477
Land Acquisition Stonegate Detention Pond	\$461,412
Land Acquisition Pederson Road W. Detention Pond	\$8,249,256
City Water and Wastewater Capital Recovery Fees	\$217,800
Engineering	\$44,952
Material Testing	\$4,399
<i>Total District Items</i>	<u>\$12,701,281</u>
TOTAL CONSTRUCTION COSTS	<u>\$12,701,281</u> (a)
<u>NON-CONSTRUCTION COSTS</u>	
Legal Fees	\$340,000
Fiscal Agent Fees	\$250,000
Interest Costs:	
Capitalized Interest (12 months)	\$660,856
Developer Interest	\$126,678
Bond Discount	\$436,185
Bond Issuance Expenses	\$33,412
Bond Application Report Costs	\$50,000
Operating Advances	\$125,000
Creation Expense	\$89,129
TCEQ Bond Issuance Fee	\$37,500
Attorney General Fee	\$9,500
Contingency	\$140,459
TOTAL NON-CONSTRUCTION COSTS	<u>\$2,298,719</u> (b)
TOTAL BOND ISSUE REQUIREMENT	<u><u>\$15,000,000</u></u>

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. None of the facilities being financed with proceeds of the Bonds are subject to such rules.

(b) Represents the difference between the estimated and actual amounts of capitalized interest and Bond discount. Such funds will be used by the District to fund costs only after approval by the TCEQ.

THE DISTRICT

Authority

The District is a special district created on June 14, 2013, with the passage of Senate Bill 1821 in the 83rd Texas Legislative Session (codified as Chapter 3914, 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, and Chapter 375, Texas Local Government 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, and Chapter 375, Texas Local Government 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, parking facility powers, and railroad facility powers.

Under certain limited circumstances, the District is authorized to construct, develop, maintain, and finance park and recreational facilities, and to construct, develop, maintain, and finance 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. See "RISK FACTORS – Financing Road Facilities," "– Financing Parks and Recreational Facilities," and "THE BONDS – Issuance of Additional Debt."

In order to obtain the consent of the City, within whose extraterritorial jurisdiction 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, public parking facilities, rail facilities, and to issue refunding bonds; 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 176 acres. Since its creation, the District has annexed certain tracts of land and presently includes within its boundaries approximately 325 acres. The District is located in southeastern Waller County, Texas and is situated entirely within the extraterritorial jurisdiction of the City of Katy, Texas (the "City"). The District is comprised of three (3) noncontiguous tracts of land that are generally known as the Pederson Road Tract (approximately 178 acres comprised of the Pederson Road Business Park), the Stonegate Tract (approximately 40 acres comprised of the Stonegate Business Park), and the Pederson Road West Tract (approximately 107 acres comprised of the Pederson Road West Business Park). The District is generally located approximately 32 miles west of the central business district of the City of Houston, Texas and approximately three (3) miles west of the central business district of the City. The District is bounded on the east by Snake Creek, on the north by Morton Road and State Highway 90, on the west by Buffalo Bayou, and on the south by Interstate Highway 10. The District is adjacent and has immediate access to Interstate Highway 10 and State Highway 90.

Land Uses and Status of Land Development

A summary of the approximate land use in the District as of June 1, 2024, appears in the following table:

<u>Type of Land Use</u>	<u>Approximate Acres</u>
Developed and Improved Acres (a)	197
Acres Under Development	0
Remaining Developable Acreage (b)	72
Undevelopable Acreage (c)	<u>56</u>
Total Approximate Acres	325

- (a) Represents land that has been developed and improved for commercial and light industrial purposes in the Pederson Road Business Park, Stonegate Business Park, and Pederson Road West Business Park.
- (b) Represents land available for future commercial or light industrial development in the Pederson Road West Business Park. 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, detention ponds, drainage easements, District plant sites, open spaces, and other undevelopable acreage.

Status of Commercial and Industrial Building Development

The District is being developed for commercial and light industrial purposes in the business parks known as the Pederson Road Business Park, the Stonegate Business Park, and the Pederson Road West Business Park. The District contains light industrial and manufacturing buildings and warehouse distribution centers. The following table indicates the approximate status of commercial and light industrial development as of June 1, 2024.

<u>Owner and/or Tenant</u>	<u>Size (sq. ft.)</u>	<u>Building Purpose/Type of Business</u>
LaserWeld Inc.	216,000	Fabrication, manufacturing, engineering
IS58 RBW LLC (a)	97,000	Multi-tenant building
IS58 RBW LLC (a)	65,000	Multi-tenant building
LB Pipe & Coupling Products	22,500	Oilfield supply
Composites One LLC	40,000	Polymers and plastics manufacturing
Penske Trucks	20,000	Truck leasing
Century Air Conditioning	39,000	Air conditioning supplies
TDG Energy Services	20,000	Oil and gas industry
Bernard Controls	14,000	Electrical and nuclear engineering
HYDAC	25,000	Oilfield Service
AMVT LLC	20,000	Engineering
Donper USA	20,000	Oilfield Service
Lone Star Nut & Candy Inc	12,000	Food and catering services
Medline	1,300,000	Medical Distribution
Exeter (b)	205,200	Distribution
Mayekawa USA Inc	72,000	Oilfield Services
MPS LLC	31,700	Oilfield Services
TE Connectivity	90,000	Engineering

- (a) Occupants presently include The Katy Gardens, AQ Media Service, YAIPAK Outreach Texas, DEL – Katy, and Houston Home Buyers.
(b) Exeter 29789 Highway 90, LP is the owner of the building and the building is presently occupied by American Wire Group pursuant to a lease agreement. See "DISTRICT TAX DATA – Principal Taxpayers."

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 certain water, wastewater, and drainage facilities in the utility district exclusive of water and sewage treatment plants unless a waiver from this requirement is requested and obtained from the TCEQ by the District, pursuant to the rules of the TCEQ. In addition, a developer is ordinarily the major taxpayer within a utility district during the property development phase and the 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 the 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.

Description of the Developers

C-2 Pederson Road, LLC ("Pederson Road"), C-2 Stonegate, LLC ("Stonegate"), and C-2 Pederson West, LLC ("Pederson West") are the primary entities that have developed land within the District. All three of the above-mentioned entities are special purpose entities that were established specifically for the purpose of developing and marketing specific tracts of land in the District. Pederson Road, Stonegate, and Pederson West are all wholly-owned by C-2 Real Estate Holdings, Ltd., the general partner of which is Clay Real Estate Management Corp., whose shareholders are Albert W. Clay, III and Robert H. Clay. Pederson Road, Stonegate, Pederson West, and C-2 Real Estate Holdings, Ltd. are collectively referred to herein as (the "Developers"). Pederson Road, Stonegate, and Pederson West are all thinly capitalized entities whose primary assets are their respective land holdings. Pederson Road, Stonegate, and Pederson West do not have any debt that is owed to a non-related party of the Developers.

Albert W. Clay, III, founded Clay Development and Construction, Inc. ("Clay") with his son Robert H. Clay in July 1998 and has over 40 years of experience in financing, development, construction, and investment of commercial real estate. Mr. Albert Clay graduated from Texas A&M University with an accounting degree and went on to receive a Master of Business Administration from The University of Texas at Austin, and later, his CPA designation. Mr. Albert Clay worked for Sonnenblick-Goldman for four years as a mortgage loan broker before starting his own company, C-3 Realty Services, to focus on commercial real estate finance and

brokerage. Before starting Clay, he had brokered over \$130 million in commercial loans and participated in 28 separate real estate sales totaling over \$110 million. Mr. Clay's key role at Clay is to oversee all financial matters pertaining to the organization.

Robert H. Clay founded Clay with his father in July 1998 and has been in real estate since his graduation from Texas A&M University in 1989. Mr. Robert Clay began his career with United Equities, Inc., a medium-sized industrial and retail firm located in Houston, focusing on construction supervision, property management and leasing. After four years at United Equities, he moved on to Moody Rambin Interests, Inc. where his attentions were directed to project leasing and construction supervision. Mr. Robert Clay's key role at Clay is business development, project negotiation, and project building.

Clay has been responsible for the development of approximately 300 industrial buildings and office buildings representing in excess of 17,000,000 sq. ft. of building space with cost in excess of \$1 billion. Additionally, Clay has developed approximately 27 industrial/business parks totaling over 1,700 acres and has also developed several smaller tracts and constructed buildings on those tracts of land. Clay-related companies currently own and manage in excess of 3,500,000 sq. ft. of company-developed space in approximately 80 buildings.

MRE Propco, LP, a Delaware limited partnership ("Medline"), as successor in interest to Medline Industries Holdings, L.P., a Delaware limited partnership, is the current developer of approximately 60 acres within the District. The General Partner of Medline is MRE GP, LLC, whose Managing Member is Mozart Real Estate, LP, whose General Partner is Mozart GP, LLC. Medline currently has operations in an approximately 1,300,000 sq. ft. building and is a principal taxpayer in the District. See "THE DISTRICT – Status of Commercial and Industrial Building Development" and "DISTRICT TAX DATA – Principal Taxpayers."

Future Development

The District expects to enter into a reimbursement agreement with IU Heritage LP, a Texas limited partnership ("IU Heritage"). IU Heritage is a special purpose entity established specifically for the purpose of developing an approximately 72-acre tract within the District. According to IU Heritage, the tract is expected to be developed for commercial and light-industrial purposes. Based on current land plans, the tract is expected to contain multiple buildings totaling approximately 900,000 sq. ft. at ultimate development. As stated elsewhere in this Official Statement, the Developers, including IU Heritage, 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 of taxable improvements in the District. Future development and construction depend, in part, upon short-term and long-term interest rates, availability of mortgage and development funds, labor conditions, and general economic conditions. Neither the District nor IU Heritage represent that the development of the 72-acre tract will ever be undertaken nor that any taxable improvements will ever be constructed thereon. See "RISK FACTORS – Economic Factors" and "– Landowners/Developer Under No Obligation to the District."

UTILITY AGREEMENT WITH THE CITY OF KATY

The District operates pursuant to a Utility Agreement between the City of Katy (the "City"), the District, and the Developers (the "Utility Agreement"). Pursuant to the Utility Agreement, the District assumed responsibility for acquiring and constructing for the benefit of, and for ultimate conveyance to, the City, the water distribution and wastewater collection facilities to serve development occurring within the boundaries of the District (the "Facilities") and the City agreed to provide the District with its ultimate capacity needs for water and wastewater service.

The Facilities: The Utility Agreement provides that 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 subject to a per-connection capital recovery fee. The Utility Agreement authorizes the District to purchase capacity in the City's Sewage Treatment Plant based on the City's capital recovery fee. The capital recovery fee for water supply is \$1,800.00 per equivalent single-family connection and for wastewater treatment plant capacity is \$1,800.00 per equivalent single-family connection. The District agrees to limit the quantity of wastewater delivered to the amount of wastewater treatment plant capacity purchased through one point of discharge, which is metered. The City agrees to acknowledge any purchase by the District and agrees to hold such capacity for the sole benefit of the District. The District has the right to assign all or any part of its capacity to subsequent purchasers, landowners and developers within the District's boundaries. Prior to making any connection to the District's sanitary sewer system, the District agrees to issue an assignment of capacity and ensure that all required inspections are conducted by the City.

Authority of District to Issue Bonds: The District has the authority to issue, sell and deliver unlimited tax bonds as permitted by law and the City's consent ordinance. 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, reserving for itself a security interest in the Facilities for the purpose of securing the performance of the City under the Utility Agreement. When all bonds issued by the District to acquire and construct the Facilities have been issued and subsequently paid or redeemed and discharged in full, the District agrees to execute a release of the security interest retained by the District and the City shall own the Facilities without encumbrance. As each phase of the Facilities is completed, the City agrees to inspect the same and upon approval, will accept the Facilities for operation and maintenance. 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 District pays the City for water and wastewater services monthly based upon metered water consumption within the District at the rates and charges for customers within the City, which the City, in its sole discretion, determines are necessary. The District is responsible for billing and collecting from customers of the District.

Dissolution of the District: The City has the right to abolish and dissolve the District by annexation and to acquire the District's assets and assume the District's obligations in accordance with state law. In the Utility Agreement, the City agrees that it will not abolish and dissolve the District until: (1) the Facilities required to serve the District have been completed, (2) bonds have been issued to finance the Facilities, and (3) the Developers developing Facilities have been reimbursed by the District to the maximum extent permitted by the rules of the TCEQ or the City assumes the obligation to reimburse the Developers.

THE SYSTEM

Description of the System and Regulation

All 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, Waller County, and the City of Katy, Texas (the "City"). Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Water Plant, Wastewater Treatment Plant, and Drainage System

The District's water supply and wastewater treatment capacity for the Stonegate Tract and the Pederson Road West Tract is provided by the City pursuant to the terms of the Utility Agreement. The Utility Agreement provides that the City will provide the District with sufficient equivalent single-family connections ("ESFCs") of water supply and wastewater treatment capacity to serve the ultimate build out of the such tracts. Proceeds of the Bonds, and any future bonds that may be issued by the District for water, wastewater, and drainage purposes, will be used to reimburse the Developers for additional ESFCs of water supply and wastewater treatment capacity previously paid to the City.

The District owns and operates an on-site water plant with ground water wells that provide water supply for the Pederson Road Tract. Similar to the Stonegate Tract and the Pederson Road West Tract, wastewater treatment capacity for the Pederson Road Tract is also provided by the City.

The District's separate tracts each have a separate drainage system. Generally, storm water runoff for the Pederson Road Tract, Stonegate Tract, and Pederson Road West Tract drains into inlets connected to an underground piped drainage system, which flows to detention ponds. The detention ponds ultimately drain to ditches owned and operated by the Brookshire-Katy Drainage District or the Texas Department of Transportation.

According to the District's Engineer, the Flood Hazard Boundary Map, currently in effect, published by the Federal Emergency Management Agency (FEMA), which covers land located in the District, indicates that none of the land in the District is located within the 100-year floodplain (other than land that is designated as drainage channels or detention ponds). However, none of the developed and improved land or none of the undeveloped land that is planned for future building development is located in the 100-year flood plain.

General Fund Operating History

The Bonds are payable from the levy of an ad valorem tax, without legal limitation as to rate or amount, upon 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.

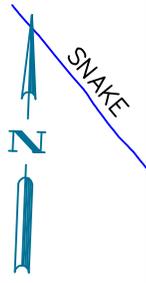
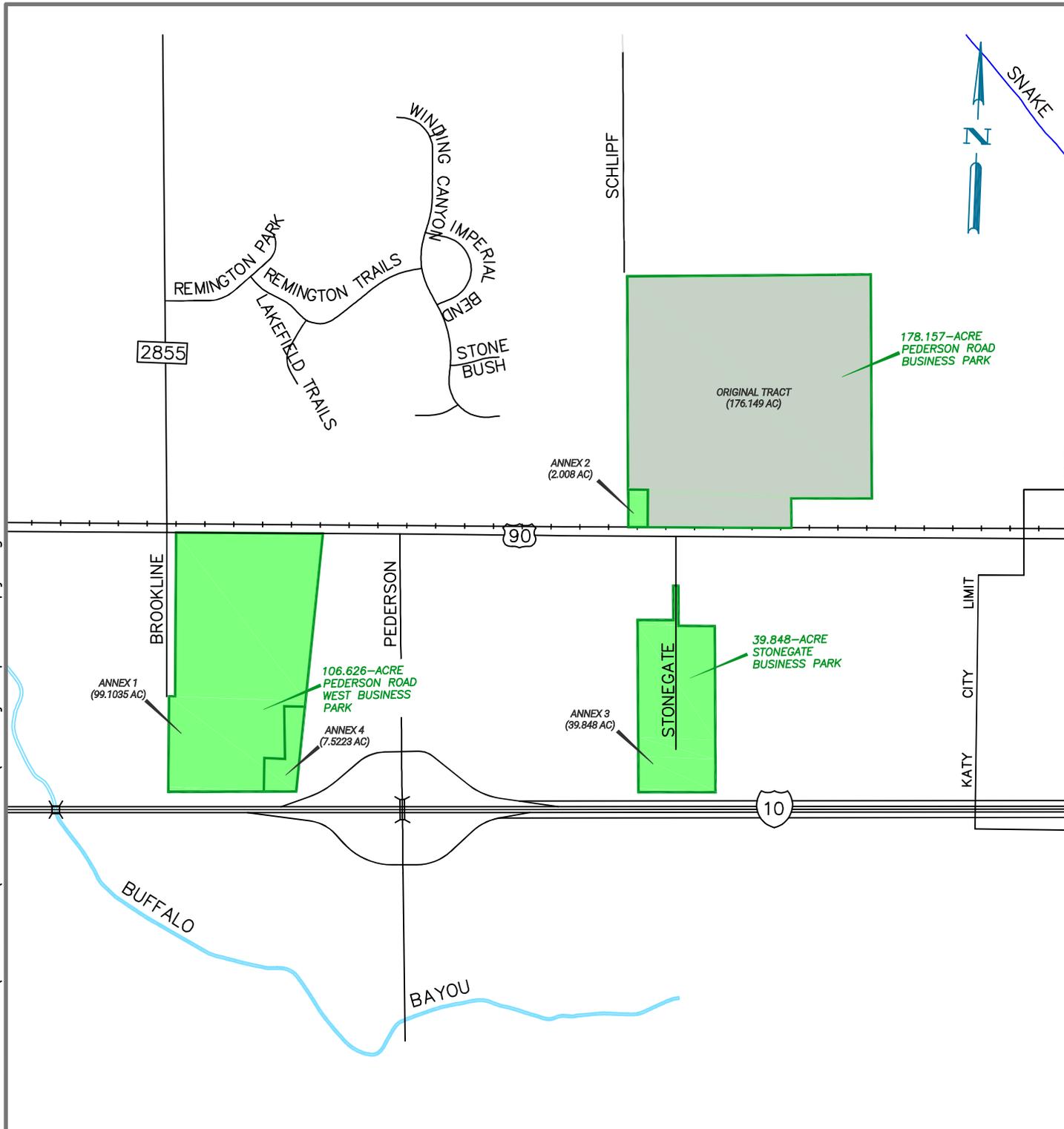
	<u>Fiscal Year Ended December 31 (a)</u>				
	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
REVENUES					
Charges for water services	\$136,388	\$119,358	\$94,830	\$42,898	\$47,074
Property taxes	\$1,713,597	\$1,167,466	\$952,430	\$608,972	\$544,565
Penalties and interest	\$1,426	\$634	\$2,631	\$112	\$368
Tap connection and inspection fees	\$4,860	\$4,925	\$28,403	\$37,411	\$241,750
Other revenues	-	-	\$133,100	-	-
Investment earnings	\$109,011	\$12,839	\$104	\$977	\$7,961
TOTAL REVENUES	<u>\$1,965,282</u>	<u>\$1,305,222</u>	<u>\$1,211,498</u>	<u>\$690,370</u>	<u>\$841,718</u>
EXPENDITURES					
Current service operations:					
Purchased services	\$56,146	\$43,582	\$85,893	-	-
Professional fees	\$129,908	\$173,153	\$104,517	\$143,554	\$264,427
Contracted services	\$82,663	\$104,911	\$173,310	\$155,765	\$380,146
Repairs and maintenance	\$301,700	\$234,087	\$164,908	\$171,078	\$246,421
Utilities	\$46,432	\$51,400	\$27,120	\$86,720	\$43,005
Administrative	\$47,428	\$39,852	\$39,888	\$30,842	\$30,472
Miscellaneous	8,308	\$3,692	\$3,554	\$11,818	\$4,190
Capital outlay	-	-	\$133,100	-	-
TOTAL EXPENDITURES	<u>\$672,585</u>	<u>\$650,677</u>	<u>\$732,290</u>	<u>\$599,777</u>	<u>\$968,661</u>
EXCESS REVENUES (EXPENDITURES) (b)	<u>\$1,292,697</u>	<u>\$654,545</u>	<u>\$479,208</u>	<u>\$90,593</u>	<u>(\$126,943)</u>

(a) Per data provided in the District's audited financial statements. See "APPENDIX A."

(b) As of June 19, 2024, the District's General Fund had an unaudited cash and investment balance of \$4,494,701. For the fiscal year ending December 31, 2024, the District's General Fund is currently budgeting revenues of \$2,206,400, and expenditures of \$659,600.

LOCATION MAP

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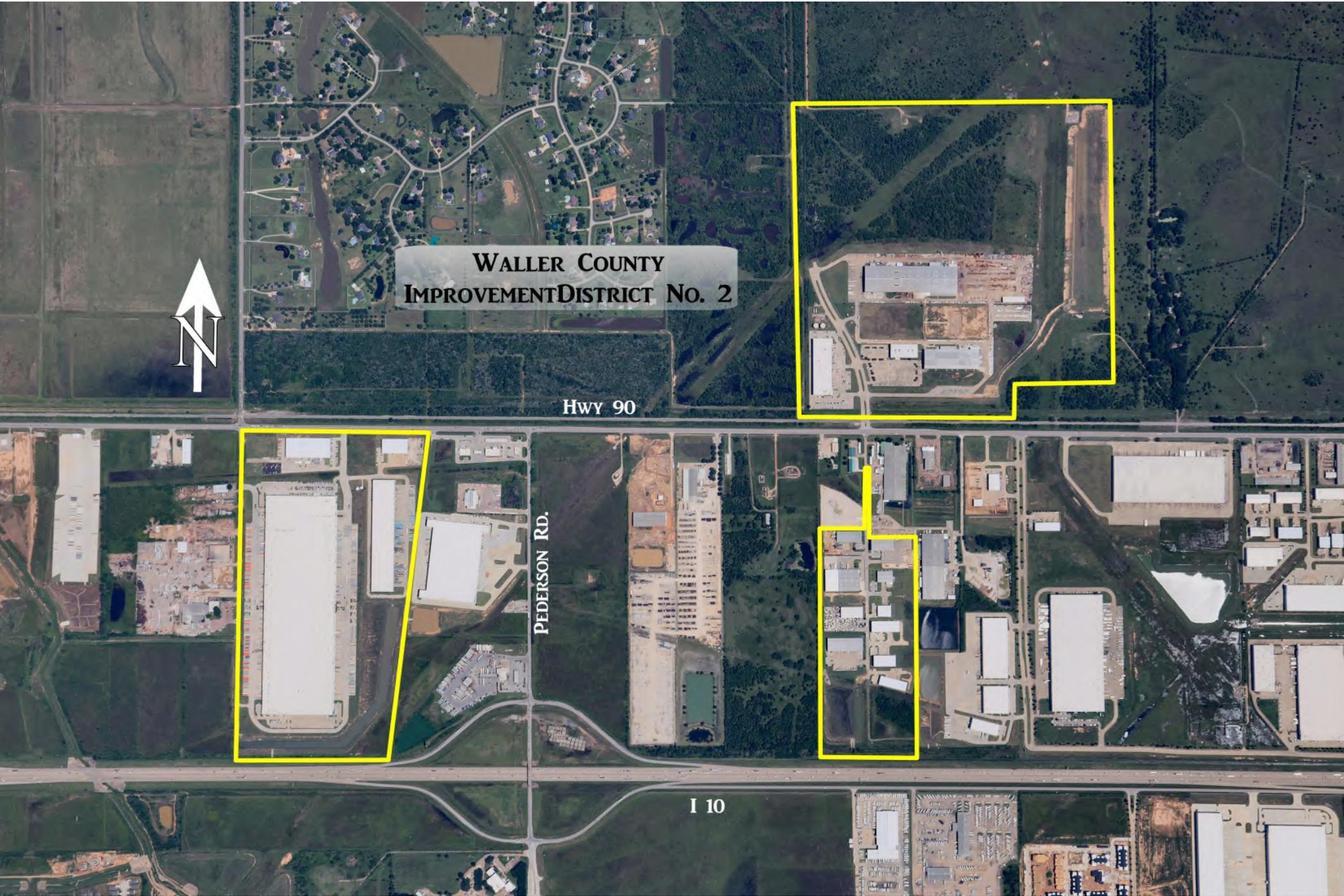


- Legend
- Annexation Tracts
 - District Boundary

BGE, Inc.
 10777 Westheimer, Suite 400, Houston, TX 77042
 Tel: 281-558-8700 • www.bgeinc.com
 TBPE Registration No. F-1046

WALLER COUNTY
 IMPROVEMENT DISTRICT
 NO. 2
 LOCATION MAP

Scale:	Job No.:	Date:	Exhibit:
N.T.S.	3398-00	AUG 2022	1



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. Each of the directors owns a parcel of land within the District that is subject to a note and deed of trust. The Board petitions the TCEQ to appoint, or reappoint, directors to the Board in odd-numbered years. Directors are appointed to serve four-year staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Expires June</u>
George Griggs Huntoon III	President	2027
Lonnie Lee	Vice President	2025
Neil Andrew Williams	Secretary	2025
Sara J. Burson	Assistant Vice President	2027
E. Kay Shepard	Assistant Secretary	2027

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

Tax Assessor/Collector – The District's Tax Assessor/Collector is Assessments of the Southwest, 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 December 31, 2023, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's December 31, 2023, audited financial statements.

Utility System Operator – The operator of the District's water supply and distribution system is Municipal District Services, LLC.

Engineer – The consulting engineer for the District is BGE, Inc. (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 the bonds, if and when such bonds are delivered. See "OFFICIAL STATEMENT – Financial Advisor."

Bond Counsel – Allen Boone Humphries Robinson LLP serves as Bond Counsel to the District and as general counsel for the District on matters other than the issuance of bonds. Fees paid for the Bond Counsel services will be paid from proceeds of the Bonds; such fees are contingent upon the sale and delivery of such Bonds.

Disclosure Counsel – McCall, Parkhurst & Horton L.L.P., 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. The fees to be paid to Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale, and delivery of the 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 are invested in short-term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral, evidenced by perfected safekeeping receipts held by a third-party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate the inclusion of long-term securities or derivative products in the District portfolio.

DISTRICT DEBT

2023 Certified Taxable Value	\$293,373,302 (a)
Direct Debt:	
Outstanding Bonds (as of June 1, 2024)	\$2,575,000
The Bonds	<u>\$15,000,000</u>
Total Direct Debt	\$17,575,000
Estimated Overlapping Debt	<u>\$12,772,476 (b)</u>
Direct and Estimated Overlapping Debt	\$30,347,476
Percentage of Direct Debt to:	
2023 Certified Taxable Value	5.99%
Percentage of Direct and Estimated Overlapping Debt to:	
2023 Certified Taxable Value	10.34%
2023 Tax Rate Per \$100 of Assessed Value:	
Debt Service Tax	\$0.00 (c)
Road Debt Service Tax	\$0.07
Maintenance and Operations Tax	<u>\$0.73</u>
Total 2023 Tax Rate	\$0.80
Cash and Temporary Investment Balances as of June 19, 2024:	
General Fund	\$4,494,701 (d)
Debt Service Fund	\$660,856 (e) (f)
Road Debt Service Fund	\$237,509 (e)

- (a) Reflects the January 1, 2023 Certified Taxable Value according to data supplied to the District by the Appraisal District. See "DISTRICT TAX DATA" and "TAXING PROCEDURES." The District has received information from the Appraisal District regarding the District's January 1, 2024 Preliminary Taxable Value of \$295,701,703. The preliminary value includes real property only and assigns no value to personal property. The preliminary values are not binding on the Appraisal District; such values are subject to protest by the property owners and review by the Waller County Appraisal Review Board. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."
- (b) See "– Estimated Overlapping Debt" herein.
- (c) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of water, wastewater, and drainage facilities. The District intends to levy a debt service tax beginning with its 2024 tax rate.
- (d) Unaudited figure per the District's records. See "THE SYSTEM – General Fund Operating History."
- (e) Neither Texas law nor the District's Bond Resolution requires that the District maintain any particular balance in the Debt Service Fund or the Road Debt Service Fund. The cash and investment balances in the Road Debt Service Fund are not available to make debt service payments on the Bonds, and any funds in the Debt Service Fund are not available to make debt service payments on the District's outstanding road bonds. See "DISTRICT TAX DATA – Tax Adequacy of Tax Revenue" and "THE BONDS – Funds."
- (f) The cash and investment balance in the Debt Service Fund represents 12 months of capitalized interest to be funded with proceeds of the Bonds to be deposited into such fund on the date of delivery of the Bonds. See "USE OF BOND PROCEEDS."

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.

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Overlapping %</u>	<u>Amount</u>
Waller County	\$67,875,000	2.53%	\$1,717,402
Katy Independent School District	\$2,140,560,000	0.52%	\$11,055,074
Total Estimated Overlapping Debt			\$12,772,476
The District (a)			\$17,575,000
Total Direct and Estimated Overlapping Debt			\$30,347,476

(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 year 2019 through 2023. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Year</u>	<u>Taxable Valuation (a)</u>	<u>Tax Rate (b)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections (c)</u>	<u>Year Ended September 30</u>
2023	\$293,373,302	\$0.80	\$2,346,986	100%	2024
2022	\$246,647,822	\$0.80	\$1,973,183	100%	2023
2021	\$171,686,094	\$0.80	\$1,373,489	100%	2022
2020	\$133,182,290	\$0.80	\$1,065,458	100%	2021
2019	\$101,495,238	\$0.80	\$811,962	100%	2020

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

(b) See "Tax Rate Distribution" herein.

(c) Represents cumulative collections as of May 31, 2024.

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 that the District is authorized to levy for paying principal of and interest on the Bonds, the Outstanding Bonds, and any tax bonds that may be issued in the future. The District's voters authorized a maintenance tax of up to \$1.50 per \$100 of assessed valuation at an election held on November 4, 2014. The District's voters also authorized a road maintenance tax of up to \$0.25 per \$100 of assessed valuation at an election held on November 4, 2014. The District has never levied a road maintenance tax and the District currently has no plans to levy such tax. See "Tax Rate Distribution" herein.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2019 through 2023.

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>	<u>2019</u>
Debt Service (a)	\$0.00	\$0.00	\$0.00	\$0.00	\$0.00
Road Debt Service	\$0.07	\$0.11	\$0.12	\$0.20	\$0.20
Maintenance/Operations	\$0.73	\$0.69	\$0.68	\$0.60	\$0.60
Total	\$0.80	\$0.80	\$0.80	\$0.80	\$0.80

(a) The Bonds represent the first series of bonds to be issued by the District to finance the acquisition or construction of water, wastewater, and drainage facilities. The District intends to levy a debt service tax beginning with its 2024 tax rate.

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 twenty percent (20%) of the tax to defray the costs of collection. This 20% penalty applies to taxes that either: (1) become delinquent on or after February 1 of a year, but not later than 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.

Principal Taxpayers

The list of principal taxpayers for 2023 and the other information provided by this table were provided by the Appraisal District 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 the Appraisal District.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
Medline Industries Holdings LP (a)	Personal Property	\$99,743,330	33.99%
MRE Propco LP (a)	Land and Improvement	\$63,371,266	21.60%
IS58 RBW LLC	Land and Improvement	\$17,802,460	6.06%
IS58 Resources LLC	Land and Improvement	\$15,000,000	5.11%
Exeter 29789 Highway 90 LP	Land and Improvement	\$14,900,000	5.07%
Mayekawak USA Inc	Land and Improvement	\$10,000,000	3.40%
1039 High Point LLC	Land and Improvement	\$7,400,000	2.52%
Penske Truck Leasing Co LP	Personal Property	\$7,288,710	2.48%
Composites One	Personal Property	\$6,559,822	2.23%
Impulse Downhole Tools	Personal Property	\$5,455,250	1.85%
TOTALS		\$247,520,625	84.31% (b)

(a) See "THE DEVELOPERS."

(b) See "RISK FACTORS – Personal Property Tax Collection" and "– Dependence on Principal Taxpayers."

Analysis of Tax Base

Based on information provided to the District by the Appraisal District and its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and the deferments for 2019 through 2023.

<u>Year</u>	<u>Land</u>	<u>Improvement</u>	<u>Personal Property</u>	<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
2023	\$45,320,440	\$140,037,130	\$173,067,812	\$358,425,382	\$65,052,080	\$293,373,302 (a)
2022	\$34,587,500	\$128,745,870	\$113,594,030	\$276,927,400	\$30,279,578	\$246,647,822
2021	\$33,091,692	\$115,579,948	\$45,346,447	\$194,018,087	\$22,331,993	\$171,686,094
2020	\$29,658,920	\$74,343,180	\$53,368,811	\$157,370,911	\$24,188,621	\$133,182,290
2019	\$31,611,310	\$29,858,544	\$66,214,704	\$127,684,558	\$26,189,320	\$101,495,238

(a) The District has received information from the Appraisal District regarding the District's January 1, 2024 Preliminary Taxable Value of \$295,701,703. The preliminary value includes real property only and assigns no value to personal property. The preliminary values are not binding on the Appraisal District; such values are subject to protest by the property owners and review by the Waller County Appraisal Review Board. 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.

<u>Taxing Jurisdictions</u>	<u>2023 Tax Rate</u>
Waller County	\$0.498691
Waller County FM	\$0.024252
Katy Independent School District	\$1.119400
Brookshire-Katy Drainage District	\$0.060420
Waller-Harris Counties Emergency Services District No. 200	<u>\$0.086301</u>
Overlapping Taxes	<u>\$1.789064</u>
The District	<u>\$0.800000</u>
Total Direct & Overlapping Taxes	<u>\$2.589064</u>

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 Debt Service Fund or the Road Debt Service Fund, and no increase or decrease in assessed valuation over the 2023 Certified Taxable Value. The calculations utilize a tax rate adequate to service the District’s total debt service requirements after issuance of the Bonds.

Maximum Annual Debt Service Requirements (2039).....	\$1,207,531 (a)
Requires a \$0.44 debt service tax rate on the 2023 Certified Taxable Value at 95% collections	\$1,226,300 (a)

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

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 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 Resolution 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.”

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. The Appraisal District has the responsibility for appraising property for all taxing units within their respective county. Such appraisal values are subject to review and change by the Waller County Appraisal Review Board (the “Appraisal Review Board”). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

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, and travel trailers, 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 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 upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran 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 homesteads in an amount equal to the partially disabled veteran’s disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse. The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse’s residence homestead, and, subject to

certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

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 from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector 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

Waller County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, either the City, Waller County, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt property 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.

Effective July 17, 2019, the District entered into a tax abatement agreement (the "Abatement Agreement") with Medline Industries Holdings, L.P. which continues until December 31, 2026, unless terminated earlier pursuant to the terms of the Abatement Agreement, and which, subject to certain adjustments and conditions, provides a property tax abatement of 30% for the years 2021 through and including 2026 on real property improvements by Medline Industries Holdings, L.P., all as provided in the Abatement Agreement. According to the District's Tax Assessor-Collector, the Abatement Agreement resulted in an abatement exemption value of approximately \$11,551,773 for the 2023 tax year. See "DISTRICT TAX DATA – Principal Taxpayers" and "- Analysis of Tax Base."

Valuation of Property for Taxation

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

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

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (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 the Appraisal District to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 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 for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 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.

Tax Payment Installments After Disaster

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

Additionally, the Property Tax Code authorizes a taxing jurisdiction such as the District, solely at the jurisdiction's discretion to adopt a similar installment payment option for taxes imposed on property that is located within a designated disaster area or

emergency area and is owned or leased by certain qualified business entities, regardless of whether the property has been damaged as a direct result of the disaster or emergency.

Rollback of Operation and Maintenance Tax Rate

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

Special Taxing Units: Special Taxing Units that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, may be 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, may be 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. 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 and land designated for agricultural use and six months for all other property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (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."

ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION

Annexation by the City of Katy

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

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

Strategic Partnership Agreement

The District is authorized to enter into a strategic partnership agreement with the City of Katy to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District were to be annexed for full or limited purposes by the City. The terms of any such agreement would be determined by the City and the District and could provide for the conversion of a limited purpose annexation to a general purpose annexation or the payment of a fee by the District based on the costs of providing municipal services to the District. The agreement could also provide for the collection of the City's sales and use taxes within the District. Although the City has negotiated and entered into such an agreement with many other districts in its extraterritorial jurisdiction, none is currently contemplated with respect to the District although no representation can be made regarding the future likelihood of an agreement or the terms thereof.

Consolidation

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

THE BONDS

General

The Bond Resolution 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 Resolution. Capitalized terms in such summary are used as defined in the Bond Resolution. Such summary is not a complete description of the entire Bond Resolution and is qualified in its entirety by reference to the Bond Resolution, a copy of which is available from the District's Bond Counsel upon request.

The Bonds are dated and will bear interest from August 1, 2024, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on March 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable March 1, 2025, and each September 1 and March 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 15th 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 maturing on and after March 1, 2030, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on March 1, 2029, 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 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 March 1 in the years 2039, 2047, and 2050 (the "Term Bonds") shall be subject to annual mandatory sinking fund redemption as shown in the tables below.

\$1,155,000 Term Bonds, due March 1, 2039

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2038	\$565,000
March 1, 2039 (maturity)	\$590,000

\$1,725,000 Term Bonds, due March 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2046	\$840,000
March 1, 2047 (maturity)	\$885,000

\$2,930,000 Term Bonds, due March 1, 2050

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
March 1, 2048	\$930,000
March 1, 2049	\$975,000
March 1, 2050 (maturity)	\$1,025,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Registrar shall (i) determine the principal amount of such Term Bond that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bond or portions of the Term Bond of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolution. The principal amount of any Term Bond to be mandatorily redeemed on such Mandatory Redemption Date shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence.

Notice of Redemption; Partial Redemption

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.

Source of and Security for Payment

The Bonds are secured by, and payable from, the levy of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property in the District. In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Registrar fees, and Appraisal District fees. The Bonds are obligations of the District and are not the obligations of the State of Texas, Waller County, the City of Katy, or any entity other than the District.

Defeasance

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current tax 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 that 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 Resolution, the Debt Service Fund is created and the proceeds from all taxes levied, appraised, and collected for and on account of the Bonds authorized by the Bond Resolution, shall be deposited as collected in such fund. Accrued interest on the Bonds and 12 months of capitalized interest 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 of reimbursing the Developers for certain construction costs, 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 Resolution or ultimately transferred to the Debt Service 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.

No Arbitrage

The District will certify as of the date the Bonds are delivered and paid for that, based upon all facts and estimates then known or reasonably expected to be in existence on the date the Bonds are delivered and paid for, the District reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds, or any portion of the Bonds, to be "arbitrage bonds" under the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed thereunder. Furthermore, all officers, employees, and agents of the District have been authorized and directed to provide certifications of facts and estimates that are material to the reasonable expectations of the District as of the date the Bonds are delivered and paid for. In particular, all or any officers of the District are authorized to certify to the facts and circumstances and reasonable expectations of the District on the date the Bonds are delivered and paid for regarding the amount and use of the proceeds of the Bonds. Moreover, the District covenants in the Bond Resolution that it shall make such use of the proceeds of the Bonds, regulate investment of proceeds of the Bonds, and take such other and further actions and follow such procedures, including, without limitation, calculating the yield on the Bonds, as may be 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 Resolution, the initial paying agent and initial registrar with respect to the Bonds is BOKF, 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, any outstanding 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 Resolution 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" herein 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 30 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. No representation is made concerning other laws, rules, regulations, or investment criteria which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

Issuance of Additional Debt

At an election held on November 4, 2014, the District’s voters authorized the issuance of unlimited tax bonds for various purposes as reflected in the table below:

<u>Amount</u>	<u>Purpose</u>
\$139,200,000	For certain water, wastewater, drainage facilities, and refunding
\$20,400,000	For certain road facilities and refunding
\$20,000,000	For certain parks, recreation facilities, and refunding
\$133,000,000	For certain public parking facilities and refunding
\$20,000,000	For certain transportation facilities and refunding
\$100,000,000	For economic development and refunding

After the issuance of the Bonds, the District will have the following amounts that remain authorized but unissued: (i) \$124,200,000 of unlimited tax bonds for water, wastewater, and drainage facilities and refunding water, wastewater, and drainage facilities bonds previously issued; (ii) \$17,275,000 of unlimited tax bonds for road facilities and refunding road facilities bonds previously issued; (iii) \$20,000,000 of unlimited tax bonds for parks and recreational facilities and refunding parks and recreational facilities bonds previously issued; (iv) \$133,000,000 of unlimited tax bonds for public parking facilities and refunding public parking facilities bonds previously issued; (v) \$20,000,000 of unlimited tax bonds for transportation facilities and refunding transportation facilities bonds previously issued; and (vi) \$100,000,000 of unlimited tax bonds for economic development and refunding economic development bonds previously issued.

The District has the right to issue additional new money bonds as may hereafter be approved by both the Board and the voters of the District and may issue refunding bonds without additional elections so long as they do not exceed the principal amount of then outstanding bonds. Such additional new money bonds or refunding bonds would be issued on a parity with the Bonds. Certain of the future new money bonds to be issued by the District (with the exception of unlimited tax bonds for road facilities) must also be approved by the TCEQ.

Further, the principal amount of park bonds issued by the District is limited to one percent of the District’s taxable valuation, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount

of such bonds may not exceed an amount equal to three percent of the value of the taxable property in the District. See “RISK FACTORS – Financing Parks and Recreational Facilities.”

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 of Katy ordinance specifying the purposes for which the District may issue bonds; (c) 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 authorizing preparation of a fire plan or calling a fire bond election at this time and 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.

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.

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 Proceedings

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

Legal Review

In its capacity as Bond Counsel, Allen Boone Humphries Robinson LLP has reviewed the information appearing in this Official Statement under the captions "CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12," "THE DISTRICT – Authority," "TAXING PROCEDURES," "ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION," "THE BONDS," "LEGAL MATTERS – Legal Proceedings" (to the extent such section relates to the opinion of Bond Counsel) and "– Legal Review," "TAX MATTERS," and "REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS" solely to determine whether such information fairly summarizes the documents and legal matters referred to therein. Bond Counsel has not, however, independently verified any of the other factual information contained in this Official Statement, nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of any of the other information contained herein. No person is entitled to rely upon Bond Counsel's limited participation as an assumption of responsibility for, or an expression of opinion of any kind, with regard to the accuracy or completeness of any information contained herein, other than the matters discussed immediately above.

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

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

No-Litigation Certificate

On the date of delivery of the Bonds, the District will execute and deliver a certificate to the effect that there is not pending, and to the knowledge of the District, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

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 from that set forth or contemplated in the Preliminary Official Statement as it may have been supplemented or amended through the date of sale.

TAX MATTERS

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

The 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 District file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

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

The Code also imposes a 20% alternative minimum tax on the "alternative minimum taxable income" of a corporation if the amount of such alternative minimum tax is greater than the amount of the corporation's regular income tax. Generally, the alternative minimum taxable income of a corporation (other than any S corporation, regulated investment company, REIT, REMIC or FASIT), includes 75% of the amount by which its "adjusted current earnings" exceeds its other "alternative minimum taxable income." Because interest on tax exempt obligations, such as the Bonds, is included in a corporation's "adjusted current earnings," ownership of the Bonds could subject a corporation to alternative minimum tax consequences.

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

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

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

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

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

NOT Qualified Tax-Exempt Obligations

The Bonds are NOT "qualified tax-exempt obligations" for financial institutions.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein, and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction. The District assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated, or otherwise transferred. This disclaimer of responsibility for

registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

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, the Developers, 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, 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," "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description and Location," and "THE DISTRICT – Land Uses and Status of Land Development" has been provided by BGE, Inc. and has 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 Assessments of the Southwest, 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 December 31, 2023, and for the year then ended, included in this offering document, have been audited by McGrath & Co., PLLC, independent auditors, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's December 31, 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's 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 audited financial statements 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 Allen Boone Humphries Robinson LLP, Phoenix Tower, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027.

Certification as to Official Statement

The Board of Directors 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.

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.

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 Waller County Improvement District No. 2 as of the date shown on the cover page.

APPENDIX A

INDEPENDENT AUDITOR'S REPORT AND FINANCIAL STATEMENTS OF THE DISTRICT

FOR THE FISCAL YEAR ENDED DECEMBER 31, 2023

**WALLER COUNTY
IMPROVEMENT DISTRICT NO. 2**

WALLER COUNTY, TEXAS

FINANCIAL REPORT

December 31, 2023

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditor’s Report		1
Management’s Discussion and Analysis		7
BASIC FINANCIAL STATEMENTS		
Government-Wide Statements		
Statement of Net Position – Governmental Activities		14
Statement of Activities – Governmental Activities		15
Fund Financial Statements		
Balance Sheet – Governmental Funds		16
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position		17
Statement of Revenues, Expenditures, and Changes in Fund Balance – Governmental Funds		18
Reconciliation of the Statement of Revenues, Expenditures, and Changes in the Fund Balances of the Governmental Funds to the Statement of Activities		19
Notes to Financial Statements		21
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		34
Notes to Required Supplementary Information		35
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	38
General Fund Expenditures	TSI-2	40
Investments	TSI-3	41
Taxes Levied and Receivable	TSI-4	42
Long-Term Debt Service Requirements by Years	TSI-5	43
Change in Long-Term Bonded Debt	TSI-6	44
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	46
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	48
Board Members, Key Personnel and Consultants	TSI-8	50

McGRATH & CO., PLLC

Certified Public Accountants

2900 North Loop West, Suite 880

Houston, Texas 77092

Independent Auditor's Report

Board of Directors
Waller County Improvement District No. 2
Waller County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Waller County Improvement District No. 2 (the "District"), as of and for the year ended December 31, 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 Waller County Improvement District No. 2, as of December 31, 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.

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
Waller County Improvement District No. 2
Waller 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.

WCG & Co, PLLC

Houston, Texas
April 17, 2024

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Management's Discussion and Analysis

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***Waller County Improvement District No. 2
Management's Discussion and Analysis
December 31, 2023***

Using this Annual Report

Within this section of the financial report of Waller County Improvement 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 December 31, 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).

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.

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.

**Waller County Improvement District No. 2
 Management’s Discussion and Analysis
 December 31, 2023**

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 December 31, 2023, was negative \$1,959,072. The District’s net position is negative because the District incurs debt to construct public road facilities which it conveys to Waller County. As discussed in Note 8, the District also incurred debt to construct certain water and sewer facilities which were conveyed to the City of Katy. A comparative summary of the District’s overall financial position, as of December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Current assets	\$ 5,244,774	\$ 3,543,359
Capital assets	<u>14,966,618</u>	<u>15,111,890</u>
Total assets	<u>20,211,392</u>	<u>18,655,249</u>
Current liabilities	232,725	229,889
Long-term liabilities	<u>19,582,361</u>	<u>19,678,611</u>
Total liabilities	<u>19,815,086</u>	<u>19,908,500</u>
 Total deferred inflows of resources	 <u>2,355,378</u>	 <u>1,994,203</u>
Net position		
Net investment in capital assets	(795,122)	(726,927)
Restricted	202,925	158,218
Unrestricted	<u>(1,366,875)</u>	<u>(2,678,745)</u>
Total net assets	<u>\$ (1,959,072)</u>	<u>\$ (3,247,454)</u>

**Waller County Improvement District No. 2
 Management's Discussion and Analysis
 December 31, 2023**

The total net position of the District increased during the current fiscal year by \$1,288,382. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2023</u>	<u>2022</u>
Revenues		
Program revenues	\$ 151,094	\$ 136,144
General revenues	<u>2,108,892</u>	<u>1,390,178</u>
Total revenues	<u>2,259,986</u>	<u>1,526,322</u>
Expenses		
Water operations	404,278	329,069
Administrative	318,591	359,211
Interest and fees	103,463	106,138
Depreciation	<u>145,272</u>	<u>145,272</u>
Total expenses	<u>971,604</u>	<u>939,690</u>
Change in net position	1,288,382	586,632
Net position, beginning of year	<u>(3,247,454)</u>	<u>(3,834,086)</u>
Net position, end of year	<u>\$ (1,959,072)</u>	<u>\$ (3,247,454)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of December 31, 2023, were \$2,791,332, which consists of \$2,553,746 in the General Fund and \$237,586 in the Debt Service Fund.

General Fund

A comparative summary of the General Fund's financial position as of December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 4,797,848</u>	<u>\$ 3,075,498</u>
Total liabilities	\$ 94,801	\$ 94,449
Total deferred inflows	2,149,301	1,720,000
Total fund balance	<u>2,553,746</u>	<u>1,261,049</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 4,797,848</u>	<u>\$ 3,075,498</u>

***Waller County Improvement District No. 2
Management’s Discussion and Analysis
December 31, 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	\$ 1,965,282	\$ 1,305,222
Total expenditures	<u>(672,585)</u>	<u>(650,677)</u>
Revenues over expenditures	<u>\$ 1,292,697</u>	<u>\$ 654,545</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. The 2022 levy was recognized as revenues in the 2023 fiscal year, while the 2021 levy was recognized in the 2022 fiscal year (to the extent that these amounts were collected). Property tax revenues increased from prior year because the District increased the maintenance and operation component of the levy and because assessed values increased from prior year.

Debt Service Fund

A comparative summary of the Debt Service Fund’s financial position as of December 31, 2023 and 2022, is as follows:

	<u>2023</u>	<u>2022</u>
Total assets	<u>\$ 446,926</u>	<u>\$ 467,861</u>
Total liabilities	\$ 3,242	\$ 758
Total deferred inflows	206,098	274,203
Total fund balance	<u>237,586</u>	<u>192,900</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 446,926</u>	<u>\$ 467,861</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	\$ 294,683	\$ 221,100
Total expenditures	<u>(249,997)</u>	<u>(239,991)</u>
Revenues over/(under) expenditures	<u>\$ 44,686</u>	<u>\$ (18,891)</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 changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

**Waller County Improvement District No. 2
 Management’s Discussion and Analysis
 December 31, 2023**

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 \$665,197 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 financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District’s financial statements upon completion of construction.

Capital assets held by the District at December 31, 2023 and 2022, are summarized as follows:

	<u>2023</u>	<u>2022</u>
Capital assets not being depreciated		
Land and improvements	\$ 9,721,551	\$ 9,721,551
Capital assets being depreciated		
Infrastructure	6,370,830	6,370,830
Less accumulated depreciation	<u>(1,125,763)</u>	<u>(980,491)</u>
Capital assets being depreciated, net	<u>5,245,067</u>	<u>5,390,339</u>
Total capital assets, net	<u>\$ 14,966,618</u>	<u>\$ 15,111,890</u>

Long-Term Debt and Related Liabilities

As of December 31, 2023, the District owes approximately \$17,071,111 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District’s financial statements upon completion of construction. The District intends to reimburse the developers from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer are trued up when the developers are reimbursed.

**Waller County Improvement District No. 2
 Management's Discussion and Analysis
 December 31, 2023**

At December 31, 2023 and 2022, the District had total bonded debt outstanding as shown below:

Series	2023	2022
2016 Road	\$ 2,675,000	\$ 2,775,000

At December 31, 2023, the District had the following bonds authorized but unissued:

Bond Authority	Bonds Authorized by Voters	Bonds Issued	Bonds Remaining to be Issued
Water, sewer and drainage facilities	\$ 139,200,000	\$ -	\$ 139,200,000
Recreational facilities	20,000,000		20,000,000
Roads	20,400,000	(3,125,000)	17,275,000
Transportation facilities	20,000,000		20,000,000
Parking facilities	133,000,000		133,000,000
Economic development	100,000,000		100,000,000
	<u>\$ 432,600,000</u>	<u>\$ (3,125,000)</u>	<u>\$ 429,475,000</u>

Next Year's Budget

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

	2023 Actual	2024 Budget
Total revenues	\$ 1,965,282	\$ 2,206,400
Total expenditures	(672,585)	(659,600)
Revenues over expenditures	1,292,697	1,546,800
Beginning fund balance	1,261,049	2,553,746
Ending fund balance	<u>\$ 2,553,746</u>	<u>\$ 4,100,546</u>

Basic Financial Statements

Waller County Improvement District No. 2
Statement of Net Position - Governmental Activities
December 31, 2023

Assets	
Cash	\$ 415,088
Investments	2,739,779
Taxes receivable	2,037,694
Customer service receivables	10,746
Other receivables	30,715
Prepaid items	10,752
Capital assets not being depreciated	9,721,551
Capital assets, net	<u>5,245,067</u>
Total Assets	<u>20,211,392</u>
Liabilities	
Accounts payable	40,713
Other payables	15,350
Deposits	41,980
Accrued interest payable	34,682
Due to developers	17,071,111
Long-term debt	
Due within one year	100,000
Due after one year	<u>2,511,250</u>
Total Liabilities	<u>19,815,086</u>
Deferred Inflows of Resources	
Deferred property taxes	<u>2,355,378</u>
Net Position	
Net investment in capital assets	(795,122)
Restricted for debt service	202,925
Unrestricted	<u>(1,366,875)</u>
Total Net Position	<u><u>\$ (1,959,072)</u></u>

See notes to basic financial statements.

Waller County Improvement District No. 2
Statement of Activities - Governmental Activities
For the Year Ended December 31, 2023

Expenses	
Water operations	
Purchased services	\$ 56,146
Repairs and maintenance	301,700
Utilities	46,432
Administrative	
Professional fees	129,908
Contracted services	132,006
Administrative	48,369
Miscellaneous	8,308
Debt service	
Interest and fees	103,463
Depreciation	145,272
Total Expenses	<u>971,604</u>
 Program Revenues	
Charges for water service	136,388
Tap connection and inspection	4,860
Penalties and interest	9,846
Total program revenues	<u>151,094</u>
 Net Program Expense	 (820,510)
 General Revenues	
Property taxes	1,986,253
Investment earnings	122,639
Total general revenues	<u>2,108,892</u>
 Revenues Over Expenses	 1,288,382
 Net Position	
Beginning of the year	(3,247,454)
End of the year	<u>\$ (1,959,072)</u>

See notes to basic financial statements.

Waller County Improvement District No. 2
Balance Sheet - Governmental Funds
December 31, 2023

	General Fund	Debt Service Fund	Total
Assets			
Cash	\$ 70,842	\$ 344,246	\$ 415,088
Investments	2,511,994	227,785	2,739,779
Taxes receivable	1,859,395	178,299	2,037,694
Customer service receivables	10,746		10,746
Internal balances	303,404	(303,404)	
Other receivables	30,715		30,715
Prepaid items	10,752		10,752
Total Assets	\$ 4,797,848	\$ 446,926	\$ 5,244,774
Liabilities			
Accounts payable	\$ 40,713	\$ -	\$ 40,713
Other payables	12,108	3,242	15,350
Deposits	41,980		41,980
Total Liabilities	94,801	3,242	98,043
Deferred Inflows of Resources			
Deferred property taxes	2,149,301	206,098	2,355,399
Fund Balances			
Nonspendable	10,752		10,752
Restricted		237,586	237,586
Unassigned	2,542,994		2,542,994
Total Fund Balances	2,553,746	237,586	2,791,332
Total Liabilities, Deferred Inflows of Resources and Fund Balances	\$ 4,797,848	\$ 446,926	\$ 5,244,774

See notes to basic financial statements.

Waller County Improvement District No. 2
Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position
December 31, 2023

Total fund balances, governmental funds \$ 2,791,332

Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 16,092,381	
Less accumulated depreciation	<u>(1,125,763)</u>	
Change due to capital assets		14,966,618

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

Bonds payable, net	(2,611,250)	
Interest payable on debt	<u>(34,682)</u>	
Change due to debt		(2,645,932)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the *Statement of Net Position*. (17,071,111)

Deferred inflows in the fund statements consist of the unavailable portion of property taxes receivable and collections of the 2023 levy. In the government wide statements, however, deferred inflows consist of the entire 2023 property tax levy.

Fund level deferred property taxes	2,355,399	
Government wide level deferred property taxes	<u>(2,355,378)</u>	
Change due to deferred inflows		21

Total net position - governmental activities \$ (1,959,072)

See notes to basic financial statements.

Waller County Improvement District No. 2
Statement of Revenues, Expenditures and Changes in Fund Balances - Governmental Funds
For the Year Ended December 31, 2023

	General Fund	Debt Service Fund	Total
Revenues			
Charges for water services	\$ 136,388	\$ -	\$ 136,388
Property taxes	1,713,597	272,635	1,986,232
Penalties and interest	1,426	8,420	9,846
Tap connection and inspection fees	4,860		4,860
Investment earnings	109,011	13,628	122,639
Total Revenues	<u>1,965,282</u>	<u>294,683</u>	<u>2,259,965</u>
Expenditures			
Current service operations			
Purchased services	56,146		56,146
Professional fees	129,908		129,908
Contracted services	82,663	49,343	132,006
Repairs and maintenance	301,700		301,700
Utilities	46,432		46,432
Administrative	47,428	941	48,369
Miscellaneous	8,308		8,308
Debt service			
Principal		100,000	100,000
Interest and fees		99,713	99,713
Total Expenditures	<u>672,585</u>	<u>249,997</u>	<u>922,582</u>
Revenues Over Expenditures	1,292,697	44,686	1,337,383
Fund Balances			
Beginning of the year	<u>1,261,049</u>	<u>192,900</u>	<u>1,453,949</u>
End of the year	<u>\$ 2,553,746</u>	<u>\$ 237,586</u>	<u>\$ 2,791,332</u>

See notes to basic financial statements.

***Waller County Improvement District No. 2
Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances
of the Governmental Funds to the Statement of Activities
For the Year Ended December 31, 2023***

Revenues over expenditures - governmental funds \$ 1,337,383

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

In the *Statement of Activities*, the cost of capital assets is charged to depreciation expense over the estimated useful life of the asset. (145,272)

The repayment of principal uses current financial resources. At the fund level, interest on long-term debt is recognized when due, not incurred; however, in the *Statement of Activities* interest is recognized when incurred.

Principal payments	\$ 100,000	
Interest expense accrual	(3,750)	
		96,250

Change in net position of governmental activities \$ 1,288,382

See notes to basic financial statements.

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Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Waller County Improvement 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 organized, created and established pursuant to Senate Bill No. 1821, Acts 2013, 83rd Legislature, Regular Session, later codified as Chapter 3914, Texas Special District Local Laws Code, dated June 14, 2013, and operates in accordance with Sections 52 and 52-a, Article III, and Section 59, Article XVI, Texas Constitution, as well as Chapter 375, Texas Local Government Code and the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on May 28, 2014 and the first bonds were issued on November 17, 2016.

The District was established to facilitate the economic development of land within its boundaries through the construction, maintenance, and operation of (1) water and drainage facilities, (2) roads and road improvements, (3) recreational facilities, (4) parking facilities, and (5) transportation facilities. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll, or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by a five-member Board of Directors appointed by the Texas Commission on Environmental Quality (the “TCEQ”). 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 governments. Since the District does not have an elected governing body, it is not a primary government. A component unit is a legally separate government for which the elected officials of a primary government are financially accountable. The criteria used to determine financial accountability is whether the primary government appoints a voting majority of the component unit’s governing body and (1) is able to impose its will on the component unit or (2) the component unit creates a financial benefit/burden for the primary government. While the TCEQ appoints the Directors of the District, it has no further financial accountability for the District. Under these criteria, the District is not a component unit of the TCEQ or any other governmental entity. An other stand-alone government is an entity that does not have a separately elected governing body and is not a component unit of another government. For financial reporting purposes, the District is a stand-alone government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements

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

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has two governmental funds, which are both 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’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.

Measurement Focus and Basis of Accounting

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

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

Note 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 December 31, 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 primarily consist of water and wastewater facilities, are depreciated using the straight-line method over an estimated useful life of 45 years. The District's detention facilities are considered improvements to land and 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. Additionally, collections of the 2023 property tax levy are not considered current year revenues and, consequently, are also reported as deferred property taxes.

Deferred inflows of financial resources at the government-wide level consist of the 2023 property tax levy, which was levied to finance the 2024 fiscal year.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds (continued)

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Note 2 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 2 – Deposits and Investments (continued)

Investments

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

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

As of December 31, 2023, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	General	\$ 1,150,000	42%	N/A	N/A
TexSTAR	General	1,361,994			
	Debt Service	227,785			
		<u>1,589,779</u>	<u>58%</u>	AAAm	45 days
Total		<u>\$ 2,739,779</u>	<u>100%</u>		

The District’s investments in certificates of deposit are reported at cost.

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.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 2 – Deposits and Investments (continued)

TexSTAR (continued)

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.

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 3 – Interfund Balances and Transactions

Amounts due to/from other funds at December 31, 2023, consist of the following:

<u>Receivable Fund</u>	<u>Payable Fund</u>	<u>Amounts</u>	<u>Purpose</u>
General Fund	Debt Service Fund	\$ 303,404	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.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 4 – Capital Assets

A summary of changes in capital assets, for the year ended December 31, 2023, is as follows:

	Beginning Balances	Additions	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 9,721,551	\$ -	\$ 9,721,551
Capital assets being depreciated			
Infrastructure	6,370,830		6,370,830
Less accumulated depreciation	(980,491)	(145,272)	(1,125,763)
Capital assets being depreciated, net	5,390,339	(145,272)	5,245,067
Total capital assets, net	\$ 15,111,890	\$ (145,272)	\$ 14,966,618

Depreciation expense for the current year was \$145,272.

Note 5 – Due to Developers

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

The District’s developers have also advanced funds to the District for operating expenses.

The amount due to developers at December 31, 2023 is approximately \$17,071,111. There was no change in this liability from the prior year.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 6 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 2,675,000
Unamortized discounts	(63,750)
	<u>\$ 2,611,250</u>
Due within one year	<u>\$ 100,000</u>

The District’s bonds payable at December 31, 2023, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date,		Call Dates
				Serially, Beginning/ Ending	Interest Payment Dates	
2016 Road	\$ 2,675,000	\$ 3,125,000	2.00% - 4.00%	March 1, 2019/2040	March 1, September 1	March 1, 2022

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 December 31, 2023, the District had the following bonds authorized but unissued:

Bond Authority	Bonds Authorized		Bonds Remaining to be Issued
	by Voters	Bonds Issued	
Water, sewer and drainage facilities	\$ 139,200,000	\$ -	\$ 139,200,000
Recreational facilities	20,000,000		20,000,000
Roads	20,400,000	(3,125,000)	17,275,000
Transportation facilities	20,000,000		20,000,000
Parking facilities	133,000,000		133,000,000
Economic development	100,000,000		100,000,000
	<u>\$ 432,600,000</u>	<u>\$ (3,125,000)</u>	<u>\$ 429,475,000</u>

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

Bonds payable, beginning of year	\$ 2,775,000
Bonds retired	(100,000)
Bonds payable, end of year	<u>\$ 2,675,000</u>

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 6 – Long-Term Debt (continued)

As of December 31, 2023, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2024	\$ 100,000	\$ 96,338	\$ 196,338
2025	125,000	92,962	217,962
2026	125,000	89,212	214,212
2027	125,000	85,369	210,369
2028	125,000	81,337	206,337
2029	125,000	77,150	202,150
2030	150,000	72,400	222,400
2031	150,000	67,075	217,075
2032	150,000	61,563	211,563
2033	150,000	55,937	205,937
2034	175,000	49,844	224,844
2035	175,000	43,281	218,281
2036	175,000	36,500	211,500
2037	175,000	29,500	204,500
2038	200,000	22,000	222,000
2039	225,000	13,500	238,500
2040	225,000	4,500	229,500
	<u>\$ 2,675,000</u>	<u>\$ 978,468</u>	<u>\$ 3,653,468</u>

Note 7 – Property Taxes

On November 4, 2014, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. In addition, the voters of the District authorized the District’s Board of Directors to levy a road maintenance tax limited to \$0.25 per \$100 of assessed and to levy an economic development maintenance tax limited to \$1.50 per \$100 of assessed value. The District’s bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2023 fiscal year was financed through the 2022 tax levy, pursuant to which the District levied property taxes of \$0.80 per \$100 of assessed value, of which \$0.69 was allocated to maintenance and operations and \$0.11 was allocated to debt service. The resulting tax levy was \$1,986,800 on the adjusted taxable value of \$248,349,984.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 7 – Property Taxes (continued)

Property taxes levied each October are intended to finance the next fiscal year and are, therefore, not considered available for the District’s use during the current fiscal year. Consequently, 2023 levy collections in the amount of \$317,705 have been included with deferred property taxes and are recorded as deferred inflows of resources on the *Governmental Funds Balance Sheet*. On the government-wide *Statement of Net Position*, the full 2023 tax levy of \$2,355,378 is reported as deferred inflows. These amounts will be recognized as revenue in 2024.

Property taxes receivable, at December 31, 2023, consisted of the following:

Current year taxes receivable	\$ 2,037,673
Prior year taxes receivable	21
Total property taxes receivable	\$ 2,037,694

Note 8 – Agreements with the City of Katy

On August 8, 2016, the District entered into an Agreement with the City of Katy (the “City”) and its Developers for the conveyance of a Drainage Easement Tract to the City and the de-annexation of another tract (the Stonegate Tract) from the City’s corporate boundaries. The City retains the rights for drainage and/or detention of the Stonegate Tract Pursuant to the agreement, the City also consented to the annexation of certain tracts, as described in the Agreement, into the boundaries of the District. The District lies in the extraterritorial jurisdiction of the City of Katy, and additional tracts of land may be added to the District only with the consent of the City.

The agreement authorized the District to enter into a strategic partnership agreement with the City. The strategic partnership agreement will provide that the City will not annex any property within the District until the latter of ten years from the effective date of the strategic partnership agreement or until the developers in the District have been fully reimbursed for the facilities. The City would also impose a sales and use tax within the District boundaries. As of December 31, 2023, a strategic partnership agreement has not been executed.

Utility Agreement

On August 8, 2016, the District entered into a Utility Agreement with the City for construction and extension of water distribution lines and sanitary sewer collection systems (the “Facilities”) to serve the District. As the Facilities are acquired or constructed, the District shall transfer ownership of the Facilities to the City, but will reserve a security interest in the Facilities. The City will own, operate, and maintain the Facilities. The agreement will remain in effect until (1) the dissolution of the District by the City of (2) the expiration of forty-five years from the date of the agreement, whichever occurs first. The District conveyed the Water & Sanitary Sewer Extension to the City of Katy in fiscal year 2017. In fiscal year 2018, Lift station No. 1 was also conveyed to the City of Katy.

Waller County Improvement District No. 2
Notes to Financial Statements
December 31, 2023

Note 8 – Agreements with the City of Katy (continued)

Utility Agreement (continued)

The District will pay the City a capital recovery fee for water supply and wastewater treatment plant capacity. The capital recovery fee shall be \$1,800 per equivalent single-family connection for water supply and \$1,800 per ESFC for wastewater treatment plant capacity. As of December 31, 2023, there have been no capital recovery fees paid to the City of Katy.

The District sets water and sewer rates charged to users within the District. All revenue derived from these charges belongs to the District. The District is currently receiving water service revenues. However, since the customers are either industrial or commercial, not subject to the City of Katy Agreement, therefore water revenues are not a significant source of revenues.

Interim Wholesale Water Supply and Emergency Interconnect Agreement

On April 26, 2021, as subsequently amended September 12, 2022, the District and the City of Katy, Texas (the “City”) entered into an Interim Wholesale Water Supply and Emergency Interconnect Agreement for interim wholesale water supply along with an interconnect for emergency situations. The District is responsible for constructing the interconnect facilities necessary for the City to receive water from the District’s water plant. The City is responsible for reimbursing the District for the costs of constructing the facilities. Upon completion, the District will own, operate, and maintain the interconnect facilities.

The District agrees to provide the City with interim water supply not to exceed 756,000 gallons per day through the earlier to occur of (i) the date that the water plant adjacent to Young Ranch in the City of Katy is substantially complete and operational, or (ii) or December 31, 2023. Thereafter, the District water will only be used on an emergency basis. The City will pay the District for the actual amount of water delivered by the District to the City as shown on the meter until the agreement is terminated. The rate for each 1,000 gallons of water delivered by the District will be \$1.95. The District may amend this rate annually without written consent of the City.

Note 9 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and 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.

Note 10 – Concentration of Risk

Approximately 84% of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are the primary source of revenue for both the General Fund and the Debt Service Fund, the continued ability of these taxpayers to continue to pay their property taxes is an important factor in the District’s ability to meet its future obligations.

Required Supplementary Information

Waller County Improvement District No. 2
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended December 31, 2023

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Charges for water services	\$ 135,000	\$ 136,388	\$ 1,388
Property taxes	1,135,000	1,713,597	578,597
Penalties and interest	1,000	1,426	426
Tap connection and inspection fees		4,860	4,860
Investment earnings	5,000	109,011	104,011
Total Revenues	<u>1,276,000</u>	<u>1,965,282</u>	<u>689,282</u>
Expenditures			
Current service operations			
Purchased services		56,146	(56,146)
Professional fees	104,500	129,908	(25,408)
Contracted services	75,000	82,663	(7,663)
Repairs and maintenance	301,000	301,700	(700)
Utilities	110,000	46,432	63,568
Administrative	51,000	47,428	3,572
Miscellaneous	7,000	8,308	(1,308)
Total Expenditures	<u>648,500</u>	<u>672,585</u>	<u>(24,085)</u>
Revenues Over Expenditures	627,500	1,292,697	665,197
Fund Balance			
Beginning of the year	1,261,049	1,261,049	
End of the year	<u>\$ 1,888,549</u>	<u>\$ 2,553,746</u>	<u>\$ 665,197</u>

Waller County Improvement District No. 2
Notes to Required Supplementary Information
December 31, 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

Waller County Improvement District No. 2
TSI-1. Services and Rates
December 31, 2023

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

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

2. Retail Service Providers

a. Retail Rates for a 1 inch meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels
Water:	\$ 32.50	15,000	N	\$ 1.89	15,001 to no limit

District employs winter averaging for wastewater usage? Yes No

Total charges per 10,000 gallons usage: Water \$ 32.50 Wastewater \$ -

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	0
less than 3/4"			x 1.0	0
1"	14	14	x 2.5	35
1.5"	5	5	x 5.0	25
2"	10	10	x 8.0	80
3"	6	6	x 15.0	90
4"	1	1	x 25.0	25
6"	4	4	x 50.0	200
8"	6	6	x 80.0	480
10"	2	2	x 115.0	230
12"			x 150.0	0
Total Water	48	48		1,165
Total Wastewater	N/A	N/A	x 1.0	N/A

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-1. Services and Rates
December 31, 2023

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

Gallons pumped into system:	<u>47,799,000</u>	Water Accountability Ratio:
		(Gallons billed / Gallons pumped)
* Gallons billed to customers:	<u>40,116,000</u>	<u>83.93%</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: Waller County

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

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

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

Entirely Partly Not at all

ETJs in which the District is located: City of Katy

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

If Yes, by whom? Texas Commission on Environmental Quality

* Gallons billed to customers includes 37,448,000 gallons sold to the City of Katy.

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-2. General Fund Expenditures
For the Year Ended December 31, 2023

Purchased services	<u>\$ 56,146</u>
Professional fees	
Legal	63,406
Audit	14,500
Engineering	<u>52,002</u>
	<u>129,908</u>
Contracted services	
Bookkeeping	16,600
Operator	63,004
Tap connection and inspection	<u>3,059</u>
	<u>82,663</u>
Repairs and maintenance	<u>301,700</u>
Utilities	<u>46,432</u>
Administrative	
Directors fees	12,318
Printing and office supplies	1,978
Insurance	22,991
Other	<u>10,141</u>
	<u>47,428</u>
Miscellaneous	<u>8,308</u>
Total expenditures	<u><u>\$ 672,585</u></u>

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-3. Investments
December 31, 2023

Fund	Interest Rate	Maturity Date	Balance at End of Year	Accrued Interest
General Fund				
TexSTAR	Variable	N/A	\$ 1,361,994	\$ -
Certificate of deposit	4.89%	05/08/24	230,000	7,303
Certificate of deposit	5.04%	05/18/24	230,000	7,209
Certificate of deposit	4.94%	05/23/24	230,000	7,004
Certificate of deposit	5.00%	05/31/24	230,000	6,742
Certificate of deposit	5.65%	10/23/24	230,000	2,457
			<u>2,511,994</u>	<u>30,715</u>
Debt Service Fund				
TexSTAR	Variable	N/A	<u>227,785</u>	
Total - All Funds			<u>\$ 2,739,779</u>	<u>\$ 30,715</u>

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-4. Taxes Levied and Receivable
December 31, 2023

	Maintenance Taxes	Road Debt Service Taxes	Total	
Taxes Receivable, Beginning of Year	\$ 1,546,803	\$ 246,592	\$ 1,793,395	
Adjustments	(6,384)	(1,018)	(7,402)	
Adjusted Receivable	1,540,419	245,574	1,785,993	
2023 Original Tax Levy	2,149,335	206,101	2,355,436	
Adjustments	(52)	(6)	(58)	
Adjusted Tax Levy	2,149,283	206,095	2,355,378	
Total to be accounted for	3,689,702	451,669	4,141,371	
Tax collections:				
Current year	289,906	27,799	317,705	
Prior years	1,540,400	245,572	1,785,972	
Total Collections	1,830,306	273,371	2,103,677	
Taxes Receivable, End of Year	\$ 1,859,396	\$ 178,298	\$ 2,037,694	
Taxes Receivable, By Years				
2023	\$ 1,859,377	\$ 178,296	\$ 2,037,673	
2022	19	2	21	
	\$ 1,859,396	\$ 178,298	\$ 2,037,694	
	2023	2022	2021	2020
Property Valuations:				
Land	\$ 45,320,440	\$ 34,587,500	\$ 33,054,352	\$ 29,658,920
Improvements	140,591,120	131,177,530	115,579,948	74,343,180
Personal Property	173,542,870	113,496,114	45,294,964	53,343,251
Exemptions	(65,032,148)	(30,911,160)	(22,243,170)	(24,163,060)
Total Property Valuations	\$ 294,422,282	\$ 248,349,984	\$ 171,686,094	\$ 133,182,291
Tax Rates per \$100 Valuation:				
Maintenance and operations	\$ 0.73	\$ 0.69	\$ 0.68	\$ 0.60
Road debt service	0.07	0.11	0.12	0.20
Total Tax Rates per \$100 Valuation	\$ 0.80	\$ 0.80	\$ 0.80	\$ 0.80
Adjusted Tax Levy:	\$ 2,355,378	\$ 1,986,800	\$ 1,373,489	\$ 1,065,458
Percentage of Taxes Collected to Taxes Levied **	13.49%	99.99%	100.00%	100.00%

* Maximum General Maintenance Tax Rate Approved by Voters: \$1.50 on November 4, 2014

* Maximum Road Maintenance Tax Rate for Approved by Voters: \$0.25 on November 4, 2014

* Maximum Economic Development Maintenance Tax Rate for Approved by Voters: \$1.50 on November 4, 2014

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

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-5. Long-Term Debt Service Requirements
Series 2016 Road--by Years
December 31, 2023

<u>Due During Fiscal Years Ending</u>	<u>Principal Due March 1</u>	<u>Interest Due March 1, September 1</u>	<u>Total</u>
2024	\$ 100,000	\$ 96,338	\$ 196,338
2025	125,000	92,962	217,962
2026	125,000	89,212	214,212
2027	125,000	85,369	210,369
2028	125,000	81,337	206,337
2029	125,000	77,150	202,150
2030	150,000	72,400	222,400
2031	150,000	67,075	217,075
2032	150,000	61,563	211,563
2033	150,000	55,937	205,937
2034	175,000	49,844	224,844
2035	175,000	43,281	218,281
2036	175,000	36,500	211,500
2037	175,000	29,500	204,500
2038	200,000	22,000	222,000
2039	225,000	13,500	238,500
2040	225,000	4,500	229,500
	<u>\$ 2,675,000</u>	<u>\$ 978,468</u>	<u>\$ 3,653,468</u>

See accompanying auditor's report.

Waller County Improvement District No. 2
TSI-6. Change in Long-Term Bonded Debt
December 31, 2023

	<u>Bond Issue</u> <u>2016 Road</u>
Interest rate	2.00% - 4.00%
Dates interest payable	3/1; 9/1
Maturity dates	3/1/19 - 3/1/40
Beginning bonds outstanding	\$ 2,775,000
Bonds retired	(100,000)
Ending bonds outstanding	<u>\$ 2,675,000</u>
Interest paid during fiscal year	<u>\$ 99,213</u>

Paying agent's name and city
Series 2016 Road Amegy Bank, a division of Z.B., N.A., Houston, Texas

<u>Bond Authority</u>	<u>Bonds Authorized by Voters</u>	<u>Bonds Issued</u>	<u>Bonds Remaining to be Issued</u>
Water, sewer and drainage facilities	\$ 139,200,000	\$ -	\$ 139,200,000
Recreational facilities	20,000,000		20,000,000
Roads	20,400,000	(3,125,000)	17,275,000
Transportation facilities	20,000,000		20,000,000
Parking facilities	133,000,000		133,000,000
Economic development	100,000,000		100,000,000
	<u>\$ 432,600,000</u>	<u>\$ (3,125,000)</u>	<u>\$ 429,475,000</u>

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

Debt Service Fund cash and temporary investment balances as of December 31, 2023: \$ 572,031

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 214,910

See accompanying auditor's report.

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Waller County Improvement 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					
Charges for water services	\$ 136,388	\$ 119,358	\$ 94,830	\$ 42,898	\$ 47,074
Property taxes	1,713,597	1,167,466	952,430	608,972	544,565
Penalties and interest	1,426	634	2,631	112	368
Tap connection and inspection fees	4,860	4,925	28,403	37,411	241,750
Other revenues			133,100		
Investment earnings	109,011	12,839	104	977	7,961
Total Revenues	1,965,282	1,305,222	1,211,498	690,370	841,718
Expenditures					
Current service operations					
Purchased services	56,146	43,582	85,893		
Professional fees	129,908	173,153	104,517	143,554	264,427
Contracted services	82,663	104,911	173,310	155,765	380,146
Repairs and maintenance	301,700	234,087	164,908	171,078	246,421
Utilities	46,432	51,400	27,120	86,720	43,005
Administrative	47,428	39,852	39,888	30,842	30,472
Miscellaneous	8,308	3,692	3,554	11,818	4,190
Capital outlay			133,100		
Total Expenditures	672,585	650,677	732,290	599,777	968,661
Revenues Over/(Under) Expenditures	\$ 1,292,697	\$ 654,545	\$ 479,208	\$ 90,593	\$ (126,943)
Total Active Retail Water Connections	48	48	48	38	32
Total Active Retail Wastewater Connections	N/A	N/A	N/A	N/A	N/A

* Negligible percentage

See accompanying auditor's report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
7%	9%	8%	6%	6%
87%	90%	79%	89%	64%
*	*	*	*	*
*	*	2%	5%	29%
		11%		
6%	1%	*	*	1%
100%	100%	100%	100%	100%
3%	3%	7%		
7%	13%	9%	21%	31%
4%	8%	14%	23%	45%
15%	18%	14%	25%	29%
2%	4%	2%	13%	5%
2%	3%	3%	4%	4%
*	*	*	2%	*
		11%		
33%	49%	60%	88%	114%
67%	51%	40%	12%	(14%)

Waller County Improvement District No. 2

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

For the Last Five Fiscal Years

	Amounts				
	2023	2022	2021	2020	2019
Revenues					
Property taxes	\$ 272,635	\$ 207,010	\$ 311,072	\$ 202,990	\$ 106,966
Penalty and interest	8,420	11,227	34,847		3,544
Investment earnings	13,628	2,863	270	249	449
Total Revenues	<u>294,683</u>	<u>221,100</u>	<u>346,189</u>	<u>203,239</u>	<u>110,959</u>
Expenditures					
Tax collection services	50,284	37,603	38,859	53,650	51,277
Debt service					
Principal	100,000	100,000	100,000	75,000	75,000
Interest and fees	99,713	102,388	104,888	106,913	108,488
Total Expenditures	<u>249,997</u>	<u>239,991</u>	<u>243,747</u>	<u>235,563</u>	<u>234,765</u>
Revenues Over/(Under) Expenditures	<u>\$ 44,686</u>	<u>\$ (18,891)</u>	<u>\$ 102,442</u>	<u>\$ (32,324)</u>	<u>\$ (123,806)</u>

* Negligible percentage

See accompanying auditor's report.

Percent of Fund Total Revenues

2023	2022	2021	2020	2019
92%	94%	90%	100%	97%
3%	5%	10%		3%
5%	1%	*	*	*
100%	100%	100%	100%	100%
17%	17%	11%	26%	46%
34%	45%	29%	37%	68%
34%	46%	30%	53%	98%
85%	108%	70%	116%	212%
15%	(8%)	30%	(16%)	(112%)

***Waller County Improvement District No. 2
TSI-8. Board Members, Key Personnel and Consultants
December 31, 2023***

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): September 27, 2023
 Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
 (Set by Board Resolution -- TWC Section 49.060)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
George Griggs Huntoon III	09/23 - 06/27	\$ 2,246	\$ 360	President
Lonnie Lee	07/23 - 06/25	1,476	259	Vice President
Neil Andrew Williams	06/21 - 06/25	1,855	79	Secretary
Sara Burson	09/23 - 06/27	2,968	2,442	Assistant Vice President
E. Kay Shepard	09/23 - 06/27	4,223	2,200	Assistant Secretary
George J. Hittner	06/21 - 07/23	971	33	Former Director
Consultants				
Allen Boone Humphries Robinson LLP <i>General legal fees</i>	05/14	<u>Amounts Paid</u> \$ 62,840		Attorney
Municipal District Services, LLC	07/14	180,627		Operator
Myrtle Cruz, Inc.	07/14	19,682		Bookkeeper
Assessments of the Southwest, Inc.	07/14	20,636		Tax Collector
Waller County Appraisal District	Legislation	28,707		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	07/14			Delinquent Tax Attorney
BGE, Inc.	05/14	54,550		Engineer
McGrath & Co., PLLC	09/15	14,500		Auditor
The GMS Group LLC	07/14	1,100		Financial Advisor

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

See accompanying auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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