

PRELIMINARY OFFICIAL STATEMENT DATED AUGUST 19, 2024

THIS PRELIMINARY OFFICIAL STATEMENT is subject to completion and amendment and is intended solely for the solicitation of initial bids to purchase the Bonds. Upon sale of the Bonds, the OFFICIAL STATEMENT will be completed and delivered to the Underwriters.

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 159, AND INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR PURPOSES OF FEDERAL INCOME TAXATION UNDER STATUTES, REGULATIONS, PUBLISHED RULINGS AND COURT DECISIONS EXISTING ON THE DATE OF SUCH OPINION SUBJECT TO THE MATTERS DESCRIBED UNDER "LEGAL MATTERS" HEREIN, INCLUDING THE ALTERNATIVE MINIMUM TAX ON CERTAIN CORPORATIONS. SEE "LEGAL MATTERS" HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS WILL BE DESIGNATED "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS. SEE "LEGAL MATTERS—QUALIFIED TAX-EXEMPT OBLIGATIONS."

NEW ISSUE-BOOK-ENTRY-ONLY

Underlying Rating: Moody's "A3"
See "MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE" herein.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 159
(A political subdivision of the State of Texas located within Harris County)

\$3,920,000
UNLIMITED TAX BONDS
SERIES 2024

\$3,855,000
UNLIMITED TAX PARK BONDS
SERIES 2024A

Dated Date: October 1, 2024

Interest Accrual Date: Date of Delivery

Due: September 1, as shown on the inside cover

The \$3,920,000 Unlimited Tax Bonds, Series 2024 (the "Series 2024 Bonds"), and the \$3,855,000 Unlimited Tax Park Bonds, Series 2024A (the "Series 2024A Park Bonds" and together with the Series 2024 Bonds, the "Bonds"), are being issued by Harris County Water Control and Improvement District No. 159 (the "District"). Principal of the Bonds is payable at maturity or prior redemption. Interest on the Bonds initially accrues from the initial date of delivery (the "Date of Delivery," expected to be on or about October 17, 2024), and is payable on March 1, 2025. Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each September 1 and March 1 until maturity or prior redemption. The Bonds will be issued only in fully registered form in denominations of \$5,000 each or integral multiples thereof. The Bonds mature and are subject to redemption prior to their maturity as shown on the inside cover.

The Bonds will be registered and delivered only in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial Owners (as defined herein under "BOOK-ENTRY-ONLY SYSTEM.") of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the DTC participants. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A. in Houston, Texas (the "Paying Agent/Registrar"), directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the Beneficial Owners. See "BOOK-ENTRY-ONLY SYSTEM."

See "MATURITY SCHEDULES" on the inside cover

The Bonds, when issued, will constitute valid and legally binding obligations of the District and will be payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District, as further described herein. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any entity other than the District. **INVESTMENT IN THE BONDS IS SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS DESCRIBED HEREIN. See "INVESTMENT CONSIDERATIONS."**

The Bonds are offered when, as and if issued by the District, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by Schwartz, Page & Harding, L.L.P., Houston, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through DTC is expected on or about October 17, 2024.

Bids Due: Monday, September 16, 2024, at 10:30 A.M., Houston, Texas Time, in Houston, Texas
Bid Award: Monday, September 16, 2024 at 1:15 P.M., Houston, Texas Time, in Houston, Texas

This Preliminary Official Statement and the information contained herein are subject to completion or amendment. These securities may not be sold nor may offers to buy be accepted prior to the time the Official Statement is delivered in final form. Under no circumstances shall this Preliminary Official Statement constitute an offer to sell or the solicitation of an offer to buy nor shall there be any sale of these securities in any jurisdiction in which such offer, solicitation or sale would be unlawful prior to registration or qualification under the securities laws of any such jurisdiction.

MATURITY SCHEDULES

\$3,920,000

THE SERIES 2024 BONDS

| Due (September 1) | Principal Amount (a) | Interest Rate | Initial Reoffering Yield (c) | CUSIP Number (d) | Due (September 1) | Principal Amount (a) | Interest Rate | Initial Reoffering Yield (c) | CUSIP Number (d) |
|----------------------|-------------------------|------------------|------------------------------------|---------------------|----------------------|-------------------------|------------------|------------------------------------|---------------------|
| 2026 | \$ 160,000 | % | % | | 2039 | \$ 155,000 (b) | % | % | |
| 2027 | 160,000 | | | | 2040 | 155,000 (b) | | | |
| 2028 | 160,000 | | | | 2041 | 155,000 (b) | | | |
| 2029 | 160,000 | | | | 2042 | 155,000 (b) | | | |
| 2030 | 160,000 | | | | 2043 | 155,000 (b) | | | |
| 2031 | 160,000 (b) | | | | 2044 | 155,000 (b) | | | |
| 2032 | 160,000 (b) | | | | 2045 | 155,000 (b) | | | |
| 2033 | 160,000 (b) | | | | 2046 | 155,000 (b) | | | |
| 2034 | 160,000 (b) | | | | 2047 | 155,000 (b) | | | |
| 2035 | 155,000 (b) | | | | 2048 | 155,000 (b) | | | |
| 2036 | 155,000 (b) | | | | 2049 | 155,000 (b) | | | |
| 2037 | 155,000 (b) | | | | 2050 | 155,000 (b) | | | |
| 2038 | 155,000 (b) | | | | | | | | |

\$3,855,000

THE SERIES 2024A PARK BONDS

| Due (September 1) | Principal Amount (a) | Interest Rate | Initial Reoffering Yield (c) | CUSIP Number (d) | Due (September 1) | Principal Amount (a) | Interest Rate | Initial Reoffering Yield (c) | CUSIP Number (d) |
|----------------------|-------------------------|------------------|------------------------------------|---------------------|----------------------|-------------------------|------------------|------------------------------------|---------------------|
| 2026 | \$ 155,000 | % | % | | 2039 | \$ 155,000 (b) | % | % | |
| 2027 | 155,000 | | | | 2040 | 155,000 (b) | | | |
| 2028 | 155,000 | | | | 2041 | 155,000 (b) | | | |
| 2029 | 155,000 | | | | 2042 | 155,000 (b) | | | |
| 2030 | 155,000 | | | | 2043 | 155,000 (b) | | | |
| 2031 | 155,000 (b) | | | | 2044 | 155,000 (b) | | | |
| 2032 | 155,000 (b) | | | | 2045 | 155,000 (b) | | | |
| 2033 | 155,000 (b) | | | | 2046 | 155,000 (b) | | | |
| 2034 | 155,000 (b) | | | | 2047 | 150,000 (b) | | | |
| 2035 | 155,000 (b) | | | | 2048 | 150,000 (b) | | | |
| 2036 | 155,000 (b) | | | | 2049 | 150,000 (b) | | | |
| 2037 | 155,000 (b) | | | | 2050 | 150,000 (b) | | | |
| 2038 | 155,000 (b) | | | | | | | | |

- (a) The Underwriters (hereinafter defined) may designate one or more maturities as term bonds. See accompanying “OFFICIAL NOTICE OF SALE” and “OFFICIAL BID FORM.”
- (b) Bonds maturing on or after September 1, 2031, are subject to redemption at the option of the District prior to their maturity dates in whole, or from time to time, in part, on September 1, 2030, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.”
- (c) Initial Reoffering Yield represents the initial offering yield to the public, which will be established by the Underwriters for offers to the public and which subsequently may be changed.
- (d) CUSIP Numbers will be assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Underwriters shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purpose of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), as amended and in effect on the date hereof, this document constitutes an OFFICIAL STATEMENT of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by SEC Rule 15c2-12.

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

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

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this OFFICIAL STATEMENT are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 2400, Houston, Texas, 77056, upon payment of the costs of duplication thereof.

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Series 2024 Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the “Series 2024 Bond Underwriter”), paying the interest rates shown on the inside cover page hereof, at a price of _____% of the principal amount thereof which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the IBA method).

After requesting competitive bids for the Series 2024A Park Bonds, the District accepted the bid resulting in the lowest net effective interest rate, which bid was tendered by _____ (the “Series 2024A Park Bond Underwriter”), paying the interest rates shown on the inside cover page hereof, at a price of _____% of the principal amount thereof which resulted in a net effective interest rate of _____% as calculated pursuant to Chapter 1204, Texas Government Code, as amended (the IBA method).

The Series 2024 Bond Underwriter and the Series 2024A Park Bond Underwriter shall be referred to herein collectively as the “Underwriters.”

Prices and Marketability

Information concerning initial reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time-to-time by the Underwriters 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 Underwriters may over-allot or effect transactions which stabilize or maintain the market prices of the Bonds at levels above those which might otherwise prevail in the open market. Such stabilizing, if commenced, may be discontinued at any time.

Except as otherwise described in the OFFICIAL NOTICE OF SALE under “DELIVERY OF THE BONDS AND ACCOMPANYING DOCUMENTS—Establishing the Price of the Bonds,” the District has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such a secondary market, the difference between the bid and asked price of the Bonds may be greater than the difference between the bid and asked price of bonds of comparable maturity and quality issued by more traditional municipal entities, as bonds of such entities are more generally bought, sold or traded in the secondary market.

Securities Laws

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

OFFICIAL STATEMENT SUMMARY

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

THE DISTRICT

- Description...* The District is a political subdivision of the State of Texas, created by an order of the Texas Commission on Environmental Quality (the “TCEQ”) on August 16, 2007, and operates pursuant to Chapters 49 and 51 of the Texas Water Code, as amended. The District currently includes approximately 3,146 acres of land within its boundaries. See “THE DISTRICT.”
- Location...* The District is located approximately 25 miles northwest of the central downtown business district of the City of Houston, Texas and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston. Approximately 1,737 acres in District are within the boundaries of Cypress-Fairbanks Independent School District, approximately 722 acres in the District are within Katy Independent School District and approximately 687 acres in the District are within Waller Independent School District. The District lies west of Fry Road approximately 4 miles south of the intersection of Hempstead Highway and House Hahl Road. Access to the District is provided by U.S. Highway 290 to Fry Road south or by the Grand Parkway to House Hahl Road east. See “THE DISTRICT” and “AERIAL LOCATION MAP.”
- Bridgeland...* The District is part of the master-planned community of Bridgeland, currently consisting of the District, two other water control and improvement districts, seven municipal utility districts, and approximately 1,226 acres not currently located within any district. The District includes approximately 1,259 acres within the boundaries of Harris County Municipal Utility District No. 489 (“MUD 489”), approximately 376 acres are located within the boundaries of Harris County Municipal Utility District No. 492 (“MUD 492”), approximately 488 acres are located within the boundaries of Harris County Municipal Utility District No. 493 (“MUD 493”), and approximately 1,023 acres that are not currently located within the boundaries of any district. The development of Bridgeland is planned by the Developer (defined below) to ultimately encompass approximately 11,400 acres. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes,” “BRIDGELAND,” “THE DISTRICT” and “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes.”
- The Developer...* Bridgeland Development, LP, a Maryland limited partnership (the “Developer”) is the developer of Bridgeland. The Developer is wholly owned by The Howard Hughes Corporation, a Delaware corporation (“HHC”). HHC is a public company whose stock is traded on the New York Stock Exchange under the symbol HHC. See “THE DEVELOPER.”
- Status of Development...* As of August 1, 2024, underground utilities and paving are complete for 2,822 single-family residential lots (approximately 681 acres) in the District. 2,241 homes were complete (2,228 occupied), 136 homes were under construction or continue to be in the name of a builder, and 445 lots were available for home construction. According to the Developer, new homes in the District are being offered for sale at prices ranging from approximately \$250,000 to over \$1,000,000.
- A multi-school complex, an elementary school and church site, none of which are subject to ad valorem taxation by the District, have been constructed on approximately 149 acres within the District. Utilities have been completed for approximately 17 acres of commercial development and vertical improvements, consisting of a daycare center, gas station and a second daycare under construction on approximately 3 acres. The remainder of the District is comprised of approximately 783 acres that are not developable (amenity/detention facilities, pipeline easements, street right-of-way, drill sites and utility sites) and approximately 1,516 developable acres that have not been provided with utility service. See “THE DISTRICT—Land Use,” “—Status of Development,” and “—Future Development.”
- Homebuilders...* Homebuilders actively marketing or building homes in the District include Beazer Homes, Chesmar Homes, Coventry Homes, Darling Homes, David Weekley Homes, Fredrick Harris Homes, Highland Homes, Lennar Homes, M/I Homes, Newmark Homes, Partners in Building LP, Perry Homes, Ravenna Homes, Taylor Morrison, Village Builders and Westin Homes. See “THE DISTRICT—Homebuilding.”

*Water and Wastewater
Facilities...*

Internal water, sewer and drainage facilities have been constructed by MUD 489 and MUD 493 within their boundaries and within the boundaries of the District to serve the development described herein. MUD 492 has not constructed water, sewer and drainage facilities to date. Regional water supply and wastewater treatment services for the development within the District's boundaries are provided by facilities owned and operated by Harris County Municipal Utility District No. 418 ("MUD 418"), in its capacity as the regional provider of such services (the "Master District"). See "WATER, WASTEWATER AND DRAINAGE."

Storm Drainage...

The District provides or will provide amenity/detention facilities and major drainage and channel improvements to serve the land within its boundaries. See "THE SYSTEM."

*Overlapping Debt
Obligations...*

Approximately 1,259 acres within the District are within the boundaries of Harris County Municipal Utility District No. 489 ("MUD 489"), approximately 376 acres are located within the boundaries of Harris County Municipal Utility District No. 492 ("MUD 492"), approximately 488 acres are within Harris County Municipal Utility District No. 493 ("MUD 493") and approximately 1,023 acres are not located within any municipal utility district. Property within the District is currently subject to overlapping taxation by MUD 489 and MUD 493, and the District expects that MUD 492 will levy a tax in the future. MUD 489 levied a 2023 tax rate in the amount of \$0.91 of taxable assessed valuation. MUD 489 has previously issued a total of \$210,055,000 in aggregate principal amount of bonds payable from ad valorem taxes of which \$197,520,000 remains outstanding as of September 2, 2024, and expects to issue approximately \$31,640,000 of unlimited tax bonds in the fourth quarter of 2024. MUD 492 expects to levy a 2024 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance) and has not issued any debt to date. MUD 493 levied a 2023 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance) and expects to levy a 2024 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance). MUD 493 expects to issue approximately \$5,450,000 of unlimited tax road bonds in the fourth quarter of 2024. The District's 2023 tax rate, in combination with the 2023 tax rate of MUD 489, is \$1.315 per \$100 of taxable assessed valuation and in combination with the 2023 tax rate of MUD 493 is \$1.405 per \$100 of taxable assessed valuation. See "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."

Payment Record...

The District has previously issued four series of unlimited tax bonds in the aggregate initial principal amount of \$34,605,000 for the purpose of acquiring or constructing drainage facilities, and three series of unlimited tax bonds in the initial principal amount of \$22,530,000 for the purpose of constructing park and recreational facilities, of which \$53,740,000 principal amount collectively will remain outstanding (the "Outstanding Bonds") as of September 2, 2024. The District has not defaulted on any debt service payments related to its previously issued debt. The District will capitalize six (6) months of interest from proceeds of the Series 2024 Bonds and six (6) months of interest from proceeds of the Series 2024A Park Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."

THE BONDS

Description...

The \$3,920,000 Unlimited Tax Bonds, Series 2024 (the "Series 2024 Bonds") and the \$3,855,000 Unlimited Tax Park Bonds, Series 2024A (the "Series 2024A Park Bonds" and, together with the Series 2024 Bonds, the "Bonds") are being issued as fully registered bonds pursuant to separate orders (the "Bond Orders") authorizing the issuance of each such series of the Bonds adopted by the District's Board of Directors. Each series of Bonds are scheduled to mature serially on September 1 in the years 2026 through 2050, both inclusive. The Bonds will be issued in book-entry form only in denominations of \$5,000 or integral multiples of \$5,000. Interest on the Bonds initially accrues from the Date of Delivery, and is payable on March 1, 2025. Thereafter, interest on the Bonds accrues from the most recent interest payment date and is payable on each September 1 and March 1 until maturity or prior redemption. See "THE BONDS."

Book-Entry-Only System...

The Depository Trust Company ("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 Bond will be issued for each maturity of each series of the Bonds and will be deposited with DTC or its designee. See "BOOK-ENTRY-ONLY SYSTEM."

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| <i>Redemption...</i> | Bonds maturing on or after September 1, 2031, are subject to redemption at the option of the District in whole, or from time to time in part, prior to their maturity dates on September 1, 2030, or on any date thereafter, at a price of par plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. See “THE BONDS—Redemption Provisions.” |
| <i>Use of Proceeds for the Series 2024 Bonds...</i> | Proceeds of the Series 2024 Bonds will be used to finance engineering and construction costs associated with drainage facilities shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Series 2024 Bond proceeds will be used to capitalize six (6) months of interest on the Series 2024 Bonds; to pay for interest on funds advanced by the Developer on behalf of the District; and to pay engineering fees and administrative costs and certain other costs related to the issuance of the Series 2024 Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS—The Series 2024 Bonds.” |
| <i>Use of Proceeds for the Series 2024A Park Bonds...</i> | Proceeds of the Series 2024A Park Bonds will be used to finance engineering and construction costs associated with parks and recreational facilities shown herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Series 2024A Park Bond proceeds will be used to capitalize six (6) months of interest on the Series 2024A Park Bonds; to pay interest on funds advanced by the Developer on behalf of the District; and to pay engineering fees and administrative costs and certain other costs related to the issuance of the Series 2024A Park Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS—The Series 2024A Park Bonds.” |
| <i>Authority for Issuance...</i> | The Series 2024 Bonds are the fifth series of bonds issued out of an aggregate of \$210,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing drainage facilities. The Series 2024A Park Bonds are the fourth series of bonds issued out of an aggregate of \$134,000,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing recreational facilities. The Bonds are issued by the District pursuant to the terms and provisions of an order of the TCEQ, Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 51 of the Texas Water Code, as amended, elections held within the District, and the Bond Orders. See “THE BONDS—Authority for Issuance,” “—Issuance of Additional Debt,” “—Financing Recreational Facilities” and “INVESTMENT CONSIDERATIONS—Future Debt.” |
| <i>Source of Payment...</i> | Principal of and interest on the Bonds and the Outstanding Bonds are payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any entity other than the District. See “THE BONDS—Source and Security for Payment” and “—Funds.” |
| <i>Municipal Bond Rating and Municipal Bond Insurance...</i> | Moody’s Investors Service (“Moody’s”) has assigned a credit rating of “A3” on the Bonds. An explanation of the rating may be obtained from Moody’s, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The fee associated with the rating assigned to the District by Moody’s will be paid by the District; however, the fee associated with ratings provided by other agencies will be at the expense of the Underwriter. See “MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE.” Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance with respect to the Bonds is optional and at the expense of the Underwriter. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance.” |
| <i>Qualified Tax-Exempt Obligations...</i> | The District will designate the Bonds as “qualified tax-exempt obligations” pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS—Qualified Tax-Exempt Obligations.” |
| <i>Bond Counsel...</i> | Schwartz, Page & Harding, L.L.P., Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants” and “LEGAL MATTERS.” |
| <i>Financial Advisor...</i> | Masterson Advisors LLC, Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants.” |

Disclosure Counsel... McCall, Parkhurst & Horton L.L.P., Houston, Texas. See “MANAGEMENT OF THE DISTRICT—District Consultants.”

Paying Agent/Registrar... The Bank of New York Mellon Trust Company, N.A., Houston, Texas. See “THE BONDS—Method of Payment of Principal and Interest.”

INVESTMENT CONSIDERATIONS

The purchase and ownership of the Bonds are subject to special investment considerations and all prospective purchasers are urged to examine carefully this entire OFFICIAL STATEMENT with respect to the investment security of the Bonds, including particularly the section captioned “INVESTMENT CONSIDERATIONS.”

SELECTED FINANCIAL INFORMATION (UNAUDITED)

| | | |
|---|--------------------|-----|
| 2024 Taxable Assessed Valuation..... | \$1,406,957,078 | (a) |
| Estimated Taxable Assessed Valuation as of July 1, 2024..... | \$1,519,179,786 | (b) |
| Gross Direct Debt Outstanding (including the Bonds)..... | \$ 61,515,000 | (c) |
| Estimated Overlapping Debt | <u>165,156,268</u> | (d) |
| Gross Direct Debt and Estimated Overlapping Debt..... | \$226,671,268 | |
| Ratios of Gross Direct Debt to: | | |
| 2024 Taxable Assessed Valuation | 4.37% | |
| Estimated Taxable Assessed Valuation as of July 1, 2024 | 4.05% | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2024 Taxable Assessed Valuation | 16.11% | |
| Estimated Taxable Assessed Valuation as of July 1, 2024 | 14.92% | |
| Funds Available for Debt Service: | | |
| Debt Service Fund Balance as of August 19, 2024..... | \$4,468,750 | (e) |
| Capitalized Interest from proceeds of the Series 2024 Bonds (Six (6) months) | 88,200 | (f) |
| Capitalized Interest from proceeds of the Series 2024A Park Bonds (Six (6) months) | <u>86,738</u> | (f) |
| Total Funds Available for Debt Service..... | \$4,643,688 | |
| Funds Available for Maintenance and Operations as of August 19, 2024 | \$2,506,961 | (g) |
| Funds Available for Construction as of August 19, 2024 | \$1,721,198 | (h) |
| 2023 Debt Service Tax Rate..... | \$0.290 | |
| 2023 Maintenance and Operations Tax Rate..... | <u>0.115</u> | |
| 2023 Total Tax Rate..... | \$0.405 | |
| Average Annual Debt Service Requirement (2025-2050)..... | \$3,485,407 | (i) |
| Maximum Annual Debt Service Requirement (2026)..... | \$4,616,169 | (i) |
| Tax Rate Required to Pay Average Annual Debt Service (2025-2050) at a 95% Collection Rate | | |
| Based upon 2024 Taxable Assessed Valuation..... | \$0.27 | (j) |
| Based upon Estimated Taxable Assessed Valuation as of July 1, 2024..... | \$0.25 | (j) |
| Tax Rate Required to Pay Maximum Annual Debt Service (2026) at a 95% Collection Rate | | |
| Based upon 2024 Taxable Assessed Valuation..... | \$0.35 | (j) |
| Based upon Estimated Taxable Assessed Valuation as of July 1, 2024..... | \$0.32 | (j) |
| Status of Development as of August 1, 2024 (k): | | |
| Completed homes (2,228 homes occupied) | 2,241 | |
| Homes under construction or in the name of the builder | 136 | |
| Lots available for construction..... | 445 | |
| Estimated population | 7,798 | (l) |

- (a) The 2024 Taxable Assessed Valuation shown herein includes \$1,358,049,059 of certified value and \$48,908,019 of uncertified value. The uncertified value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Harris Central Appraisal District (the "Appraisal District"). See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the taxable assessed value on July 1, 2024, and may be revised upward or downward once certified by the Appraisal District. Increases in value occurring between January 1, 2024 and July 1, 2024 will be certified as of January 1, 2025. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt," "—Overlapping Taxes" and "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."
- (e) Includes funds for September 1, 2024, debt service payment in the amount of \$2,469,797.
- (f) The District will capitalize six (6) months of interest from proceeds of the Series 2024 Bonds and six (6) months of interest from proceeds of the Series 2024A Park Bonds. The amounts above are estimated at 4.50%. See "THE BONDS—Funds" and "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) Balance excludes approximately \$220,319 (unaudited) for construction of certain drainage improvements which cannot be used to pay the general operations and maintenance expenses of the District. See "THE SYSTEM—Langham Creek Drainage Improvements."
- (h) Represents surplus construction funds, and interest thereon, derived from the Outstanding Bonds and includes \$560,000 approved for use by the TCEQ in connection with the issuance of the Series 2024 Bonds and \$515,000 in connection with the issuance of the Series 2024A Park Bonds. The Bonds, if, as and when issued, may produce additional surplus funds. Surplus funds for construction may be expended for any lawful purpose for which surplus funds may be used, limited, however, to the purposes for which the issue of the Outstanding Bonds which produced the surplus funds were issued. Under certain circumstances, the approval of the TCEQ is required for the use of surplus funds derived from the Outstanding Bonds.
- (i) See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements."
- (j) See "TAX DATA—Tax Adequacy for Debt Service" and "INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates."
- (k) See "THE DISTRICT—Land Use" and "—Status of Development."
- (l) Based upon 3.5 persons per completed and occupied home.

PRELIMINARY OFFICIAL STATEMENT

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NO. 159
(A political subdivision of the State of Texas located within Harris County)

\$3,920,000
UNLIMITED TAX BONDS
SERIES 2024

\$3,855,000
UNLIMITED TAX PARK BONDS
SERIES 2024A

This OFFICIAL STATEMENT provides certain information in connection with the issuance by Harris County Water Control and Improvement District No. 159 (the “District”) of its \$3,920,000 Unlimited Tax Bonds, Series 2024 (the “Series 2024 Bonds”) and the \$3,855,000 Unlimited Tax Park Bonds, Series 2024A (the “Series 2024A Park Bonds”) (collectively referred to herein as the “Bonds”).

The Bonds are issued by the District pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 51 of the Texas Water Code, as amended, elections held within the District, an order of the Texas Commission on Environmental Quality (the “TCEQ”) approving the issuance of the Bonds, and separate orders authorizing the issuance of the Series 2024 Bonds and the Series 2024A Park Bonds (collectively, the “Bond Orders”) adopted by the Board of Directors of the District (the “Board”).

This OFFICIAL STATEMENT includes descriptions, among others, of the Bonds and the Bond Orders, and certain other information about the District, Bridgeland Development, LP, a Maryland limited partnership (the “Developer”), homebuilders building homes in the District (the “Builders”) and development activity in the District. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of certain of the documents may be obtained from Schwartz, Page & Harding, L.L.P., Bond Counsel, 1300 Post Oak Boulevard, Suite 2400, Houston, Texas 77056, upon payment of duplication costs therefor.

THE BONDS

General

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

Description

The Bonds will be dated October 1, 2024, with interest payable on March 1, 2025, and on each September 1 and March 1 thereafter (each an “Interest Payment Date”) until the earlier of maturity or redemption. Interest on the Bonds initially accrues from the Date of Delivery, and thereafter, from the most recent Interest Payment Date. Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months. The Bonds mature on September 1 of the years and in the amounts, and accrue interest at the rates, shown under “MATURITY SCHEDULE” on the inside cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be initially registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.”

Authority for Issuance

At elections held within the District on November 5, 2013, voters of the District authorized a total of \$210,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing drainage facilities and \$134,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities. The Series 2024 Bonds constitute the fifth issuance of bonds from the authorization for acquiring or constructing drainage facilities, and the Series 2024A Park Bonds constitute the fourth issuance of bonds from the authorization for acquiring or constructing park and recreational facilities. After issuance of the Bonds, a total of \$171,475,000 in principal amount of unlimited tax bonds for drainage facilities will remain authorized but unissued, and a total of \$107,615,000 in principal amount of unlimited tax bonds for park and recreational facilities will remain authorized but unissued. See “Issuance of Additional Debt” herein.

The Bonds are issued by the District pursuant to Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including without limitation, Chapters 49 and 51 of the Texas Water Code, as amended, the elections held within the District described hereinabove, an order of the TCEQ, and the Bond Orders.

Source and Security for Payment

The Bonds, together with the Outstanding Bonds (hereafter defined) and any additional bonds payable from ad valorem taxes, are secured by and payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property located within the District. See “TAXING PROCEDURES.” Investment in the Bonds involves certain elements of risk, and all prospective purchasers are urged to examine carefully this OFFICIAL STATEMENT with respect to the investment security of the Bonds. See “INVESTMENT CONSIDERATIONS.” The Bonds are obligations solely of the District and are not obligations of the State of Texas, Harris County, Texas, the City of Houston, Texas or any political subdivision or entity other than the District.

Funds

The Bond Orders confirm the prior creation of the District’s Bond Fund (the “Bond Fund”), and the District’s Construction Fund. An amount equal to six (6) months of interest on the Series 2024 Bonds and six (6) months of interest on the Series 2024A Park Bonds will be deposited from the proceeds of the sale of the Bonds into the Bond Fund. All remaining proceeds of the Bonds will be deposited in the Construction Fund.

The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Outstanding Bonds, and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds, the Outstanding Bonds, and any of the District’s duly authorized bonds, whether hereunder or hereafter issued, payable in whole or part from taxes. Amounts on deposit in the Bond Fund may also be used to pay the fees and expenses of the Paying Agent/Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any of the District’s duly authorized bonds, whether hereunder or hereafter issued, payable in whole or in part from taxes, and to pay any tax anticipation notes issued in respect of debt service due or to become due on bonds, together with interest thereon, as such tax anticipation notes become due.

Record Date

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

Redemption Provisions

The District reserves the right, at its option, to redeem the Bonds maturing on or after September 1, 2031, prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2030, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon through the date fixed for redemption of such Bonds (the “Redemption Date”). If fewer than all of the Bonds are to be redeemed, the particular series and maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Bonds of the same series and maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM.” Notice of each exercise of the reserved right of optional redemption shall be given by the Paying Agent/Registrar at least thirty (30) calendar days prior to the Redemption Date, in the manner specified in the Bond Orders.

By the Redemption Date, due provision shall be made with the Paying Agent/Registrar for payment of the principal of the Bonds or portions thereof to be redeemed, plus accrued interest to the Redemption Date. When Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as herein provided, the Bonds or portions thereof so redeemed shall no longer be regarded as outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the Redemption Date on any Bond or portion thereof called for redemption shall terminate on the Redemption Date.

Method of Payment of Principal and Interest

The Board has appointed The Bank of New York Mellon Trust Company, N.A., having its principal corporate trust office and its principal payment office in Houston, Texas, as the initial Paying Agent/Registrar for the Bonds. The principal of and interest on the Bonds shall be paid to DTC, which will make distribution of the amounts so paid. See “BOOK-ENTRY-ONLY SYSTEM.”

Registration

Section 149(a) of the Internal Revenue Code of 1986, as amended, requires that all tax exempt obligations (with certain exceptions that do not include the Bonds) be in registered form in order for the interest payable on such obligations to be excludable from a Beneficial Owner's income for federal income tax purposes. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. pursuant to the Book-Entry-Only System described herein. One fully-registered Bond will be issued for each maturity of each series of the Bonds and will be deposited with DTC. See "BOOK-ENTRY-ONLY SYSTEM." So long as any Bonds remain outstanding, the District will maintain at least one paying agent/registrar in the State of Texas for the purpose of maintaining on behalf of the District the registry books reflecting the names and addresses of the holders of the Bonds (the "Registered Owners") and the maturities, principal amounts, and such other information as necessary to identify the Bonds registered in the name of such Registered Owners. All references herein to the Registered Owners of the Bonds shall mean Cede & Co. and not the Beneficial Owners of the Bonds, so long as the Bonds are registered in the name of Cede & Co. See "BOOK-ENTRY-ONLY SYSTEM."

Replacement of Paying Agent/Registrar

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

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

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

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

Issuance of Additional Debt

The District's voters have authorized the issuance of a total of \$210,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing drainage facilities, and a total of \$134,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing park and recreational facilities. After issuance of the Bonds, \$171,475,000 in principal amount of unlimited tax bonds for drainage facilities will remain authorized but unissued, and \$107,615,000 in principal amount of unlimited tax bonds for park and recreational facilities will remain authorized but unissued. The District's voters have also authorized a total of \$344,000,000 in principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District, all of which remains authorized but unissued. The District's voters could authorize additional unlimited tax bonds for drainage facilities and park and recreational facilities, and for refunding outstanding bonds of the District. Issuance of additional bonds for drainage facilities, and/or for park and recreational facilities, is subject to the approval of the TCEQ. See "—Financing Recreational Facilities," herein, "THE DISTRICT—General" and "INVESTMENT CONSIDERATIONS—Future Debt."

The Bond Orders impose no limitation on the amount of additional parity bonds which may be authorized for issuance by the District's voters or the amount ultimately issued by the District.

Financing Recreational Facilities

Conservation and reclamation districts in certain counties are authorized to develop and finance certain recreational facilities with property taxes after a district election has been successfully held to approve the issuance of bonds payable from taxes and/or a maintenance tax to support recreational facilities.

At an election held within the District on November 5, 2013, voters of the District authorized a total of \$134,000,000 in principal amount of unlimited tax bonds for acquiring or constructing parks and recreational facilities. The District is authorized to issue such bonds if (i) the District duly adopts a plan for the facilities; (ii) the bonds are authorized at an election; (iii) the bonds payable from any source do not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or, in the event the District meets certain criteria, 3% of the value of the taxable property in the District at the time of issuance of the bonds, but in no event in an amount greater than the estimated costs in the plan; (iv) the District obtains any necessary governmental consents allowing the issuance of such bonds; (v) the issuance of the bonds is approved by the TCEQ in accordance with its rules with respect to same; and (vi) the bonds are approved by the Attorney General of Texas. The District may issue bonds for such purposes payable solely from net operating revenues without an election. See “INVESTMENT CONSIDERATIONS—Future Debt” and “—Issuance of Additional Debt” herein.

Annexation

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District may be annexed for full purposes by the City of Houston, subject to compliance by the City of Houston with various requirements of Chapter 43 of the Texas Local Government Code, as amended. Such requirements may include the requirement that the City of Houston hold an election in the District whereby the qualified voters of the District approve the proposed annexation. If the District is annexed, the City of Houston must assume the District’s assets and obligations (including the Bonds and the Outstanding Bonds) and abolish the District within ninety (90) days of the date of annexation. Annexation of territory by the City of Houston is a policy-making matter within the discretion of the Mayor and City Council of the City of Houston, and, therefore, the District makes no representation that the City of Houston will ever attempt to annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City of Houston to make debt service payments should annexation occur.

Remedies in Event of Default

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

Defeasance

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

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

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Orders do not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under Texas law.

BOOK-ENTRY-ONLY SYSTEM

The information in this section concerning the Depository Trust Company (“DTC”), New York, NY and DTC’s book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy or completeness thereof.

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

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

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

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

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

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

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

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

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

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

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

USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs below were approved by the TCEQ in its order authorizing the issuance of the Bonds. Non-construction costs are based upon either contract amounts or estimates of various costs by BGE, Inc. (the “Engineer”) and Masterson Advisors LLC (the “Financial Advisor”). The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and agreed-upon procedures are completed by an independent accountant. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, if approved by the TCEQ where required. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

The Series 2024 Bonds

CONSTRUCTION RELATED COSTS

| | |
|--|---------------------|
| • Construction and Engineering Related Costs Approved by the TCEQ..... | \$ 3,620,475 |
| • Less: Surplus Capital Projects Funds..... | <u>(560,000)</u> |
| Total Construction Costs..... | \$ 3,060,475 |

NON-CONSTRUCTION COSTS

| | |
|---|-------------------|
| • Underwriter’s Discount (Estimated at 3.00%) (a)..... | \$ 117,600 |
| • Capitalized Interest (6 months estimated at 4.75%) (a)..... | 93,100 |
| • Developer Interest..... | <u>369,972</u> |
| Total Non-Construction Costs..... | \$ 580,672 |

ISSUANCE COSTS AND FEES

| | |
|---|---------------------|
| • Issuance Costs and Professional Fees..... | \$ 215,133 |
| • Bond Application Report Costs..... | 50,000 |
| • State Regulatory Fees..... | <u>13,720</u> |
| Total Issuance Costs and Fees..... | \$ 278,853 |
| TOTAL BOND ISSUE..... | \$ 3,920,000 |

(a) The TCEQ approved a maximum Underwriter’s discount of 3.00% and six (6) months of capitalized interest at an estimated interest rate of 4.75%. Debt service and capitalized interest calculations throughout the OFFICIAL STATEMENT are based upon an estimated interest rate of 4.50% per annum.

The Series 2024A Park Bonds

CONSTRUCTION COSTS

| | |
|--|---------------------|
| • Construction and Engineering Related Costs Approved by the TCEQ..... | \$ 3,517,313 |
| • Less: Surplus Capital Projects Funds..... | <u>(515,000)</u> |
| Total Construction Costs..... | \$ 3,002,313 |

NON-CONSTRUCTION COSTS

| | |
|---|-------------------|
| • Underwriter’s Discount (Estimated at 3.00%) (a)..... | \$ 115,650 |
| • Capitalized Interest (6 months estimated at 4.75%) (a)..... | 91,556 |
| • Developer Interest..... | <u>374,401</u> |
| Total Non-Construction Costs..... | \$ 581,607 |

ISSUANCE COSTS AND FEES

| | |
|---|-------------------|
| • Issuance Costs and Professional Fees..... | \$ 217,587 |
| • Bond Application Report Costs..... | 40,000 |
| • State Regulatory Fees..... | <u>13,493</u> |
| Total Issuance Costs and Fees..... | \$ 271,080 |

| | |
|------------------------------|---------------------|
| TOTAL BOND ISSUE..... | \$ 3,855,000 |
|------------------------------|---------------------|

(a) The TCEQ approved a maximum Underwriter’s discount of 3.00% and six (6) months of capitalized interest at an estimated interest rate of 4.75%. Debt service and capitalized interest calculations throughout the OFFICIAL STATEMENT are based upon an estimated interest rate of 4.50% per annum.

BRIDGELAND

The District is part of the master-planned community of Bridgeland, currently consisting of the District, two other water control and improvement districts, seven municipal utility districts, and approximately 1,226 acres not currently located within any district. To date, 8,454 single-family residential lots on approximately 2,270 acres, approximately 958 apartment units on approximately 49 acres, and approximately 73 acres of commercial development have been completed in Bridgeland along with 225 acres of recreational amenities. All of the residential and commercial development occurring in Bridgeland is currently occurring within Harris County Municipal Utility District No. 419 (“MUD 419”), Harris County Municipal Utility District No. 489 (“MUD 489”), Harris County Municipal Utility District No. 490 (“MUD 490”), Harris County Municipal Utility District No. 491 (“MUD 491”), and Harris County Municipal Utility District No. 493 (“MUD 493”), each of which are overlapped by Harris County Water Control and Improvement District No. 157 (“WCID 157”), Harris County Water Control and Improvement District No. 158 (“WCID 158”) or the District. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes” and “THE DISTRICT.” Development has not begun or is in its early stages in Harris County Municipal Utility District No. 492 (“MUD 492”) and Harris County Municipal Utility District No. 418 (“MUD 418”). MUD 492 is overlapped by the District, and MUD 418 is overlapped by WCID 157 or WCID 158.

The Bridgeland Management District (the “Management District”) was created by an act of the Texas Legislature in 2011 as a special district under Section 59, Article XVI of the Texas Constitution to provide economic development projects and services to the area of Bridgeland planned primarily, among other purposes, for commercial development. The Management District encompasses approximately 5,995 acres, of which approximately 2,319 acres are within the boundaries of the District. On November 6, 2012, voters authorized the Management District to levy a sales and use tax and a hotel occupancy tax and to issue bonds payable from such taxes and/or property assessments to finance its projects and services. The Management District has not yet considered if or when it will issue debt for such purposes. The Management District has not considered calling an election to authorize the levy, assessment and collection of ad valorem taxes or the issuance of bonds payable in whole or in part from ad valorem taxes.

THE DISTRICT

General

The District is a water control and improvement district created by an order of the TCEQ, dated August 16, 2007, under Article XVI, Section 59 of the Texas Constitution, and operates under the provisions of Chapters 49 and 51 of the Texas Water Code, as amended, and other general statutes of Texas applicable to water control and improvement districts. The District, which lies wholly within the extraterritorial jurisdiction of the City of Houston, is subject to the continuing supervisory jurisdiction of the TCEQ.

The District is empowered, among other things, to finance, purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation and treatment of wastewater; and the control and diversion of storm water. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District currently plans to provide major storm drainage and channel improvements and park and recreational facilities within its boundaries. The District may also provide solid waste disposal and collection services. See “THE BONDS—Issuance of Additional Debt,” “—Financing Recreational Facilities,” “THE SYSTEM—District Purpose,” and “INVESTMENT CONSIDERATIONS—Future Debt.”

The District is required to observe certain requirements of the City of Houston which limit the purposes for which the District may sell bonds to finance the acquisition, construction, and improvement of waterworks, wastewater, drainage, recreational and firefighting facilities and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of Houston of District construction plans; and permit water and sewer connections only to lots and reserves described in a plat that has been approved by the City of Houston and filed in the real property records of Harris County, Texas. The District is also required to obtain certain TCEQ approvals prior to acquiring, constructing and financing certain drainage facilities, parks and recreational facilities, and fire-fighting facilities as well as voter approval of the issuance of bonds for said purpose.

Construction and operation of the District’s drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See “THE SYSTEM—Regulation.”

Description and Location

The District currently includes approximately 3,146 acres of land within its boundaries. The District is located approximately 25 miles northwest of the central downtown business district of the City of Houston, Texas and lies wholly within the exclusive extraterritorial jurisdiction of the City of Houston. Approximately 1,737 acres in District are within the boundaries of Cypress-Fairbanks Independent School District, approximately 722 acres in the District are within Katy Independent School District and approximately 687 acres in the District are within Waller Independent School District. The District lies west of Fry Road approximately 4 miles south of the intersection of Hempstead Highway and House Hahl Road. Access to the District is provided by U.S. Highway 290 to Fry Road south or by the Grand Parkway to House Hahl Road east. See “AERIAL LOCATION MAP.”

Land Use

The following table represents a detailed breakdown of the current acreage and development in the District.

| <u>Single-Family Residential</u> | Approximate <u>Acres</u> | <u>Lots</u> |
|--|-----------------------------|-------------|
| Parkland Village..... | 681 | 2,822 |
| Subtotal..... | 681 | 2,822 |
| Multi-School Complex (tax-exempt)..... | 144 | -- |
| Church (tax-exempt)..... | 5 | -- |
| Commercial..... | 17 | -- |
| Future Development..... | 1,516 | -- |
| Non-Developable (a)..... | 783 | -- |
| Subtotal..... | 2,465 | -- |
| Totals..... | 3,146 | 2,822 |

(a) Includes amenity/detention facilities, pipeline easements, street rights-of-way, drill sites and utility sites.

Status of Development

As of August 1, 2024, underground utilities and paving are complete for 2,822 single-family residential lots (approximately 681 acres) in the District. 2,241 homes were complete (2,228 occupied), 136 homes were under construction or in the name of the builder and 445 lots were available for home construction. Homes in the District are being offered for sale at prices ranging from approximately \$250,000 to over \$1,000,000. The estimated population in the District as of the date hereof is 7,798 based upon 3.5 persons per occupied single-family residence.

A multi-school complex and church, which are not subject to ad valorem taxation by the District, has been constructed on approximately 149 acres within the District. Utilities have been completed for approximately 17 acres of commercial development and vertical improvements, consisting of a daycare center, gas station and a second daycare under construction on approximately 3 acres. The remainder of the District is comprised of approximately 783 acres that are not developable (amenity/detention facilities, pipeline easements, street right-of-way, drill sites and utility sites) and approximately 1,516 developable acres that have not been provided with utility service.

Homebuilding

Homebuilders actively marketing or building homes in the District include Beazer Homes, Chesmar Homes, Coventry Homes, Darling Homes, David Weekley Homes, Fredrick Harris Homes, Highland Homes, Lennar Homes, M/I Homes, Newmark Homes, Partners in Building LP, Perry Homes, Ravenna Homes, Taylor Morrison, Village Builders and Westin Homes.

Future Development

Approximately 1,516 developable acres of land in the District are not yet fully served with water, sewer and drainage and paving facilities necessary for the construction of taxable improvements. While the District anticipates future development of this acreage, there can be no assurances when or if any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to fund drainage and recreational facilities within the District necessary to serve the land at full development. The Engineer has stated that under current development plans, the remaining authorized but unissued bonds (\$279,090,000 principal amount collectively for drainage and recreational facilities) should be sufficient to finance the construction of facilities to complete the District's drainage and recreational facilities for full development of the District. See "THE BONDS—Issuance of Additional Debt," "THE SYSTEM" and "INVESTMENT CONSIDERATIONS—Future Debt."

THE DEVELOPER

Role of a Developer

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

Investors in the Bonds should note that the prior real estate experience of the Developer and its affiliates should not be construed as an indication that further development within the District will occur, or that construction of additional taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. The District cautions that the development experience of the Developer or its affiliates was gained in different markets and under different circumstances than those that exist in the District, and the prior success of the Developer or its affiliates, if any, is no indication or guarantee that the Developer will be successful in the future development of land within the District.

Bridgeland Development, LP

Bridgeland Development, LP, a Maryland limited partnership (the "Developer"), is the developer of Bridgeland. The Developer is wholly owned by The Howard Hughes Corporation, a Delaware corporation ("HHC"). HHC is a public company whose stock is traded on the New York Stock Exchange under the symbol HHC.

All funds required for development activities are provided by the Developer, HHC, or from lot sales. Neither the Developer nor HHC is legally obligated to continue providing funds for the development of the District. HHC is not legally obligated to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer.

HHC files annual, quarterly and current reports, proxy statements and other information with the SEC and such filings are available to the public over the Internet at the SEC's web site at <http://www.sec.gov>. You may also read and copy any document that HHC has filed with the SEC at the SEC's Public Reference Room at 100 F. Street, N.E., Washington, D.C. 20549. Please call the SEC at 1-800-SEC-0330 for further information regarding the operation of the Public Reference Room.

In addition, HHC makes available on its web site <http://www.howardhughes.com> its annual reports on Form 10-K, quarterly reports on Form 10-Q and current reports on Form 8-K (and any amendments to those reports) filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as soon as practicable after they have been electronically filed with the SEC as well as other financial institutions. **Unless otherwise specified, information contained on HHC's web site, available by hyperlink from HHC's web site or on the SEC's web site, is not incorporated into this OFFICIAL STATEMENT.**

Neither the Developer, HHC, nor any affiliates of the Developer nor HHC are responsible for, liable for, or have made any commitment for payment of the Bonds or other obligations of the District. None of the Developer, HHC, any affiliates of the Developer nor HHC have any legal commitment to the District or the holders of the Bonds to continue development of the land within the District, and the Developer may sell or otherwise dispose of property within the District, or any assets, at any time.

Bridgeland GL Holdings LLC

Bridgeland GL Holdings LLC is a major property owner of commercial properties in the District consisting of a convenience store and daycare center.

MANAGEMENT OF THE DISTRICT

Board of Directors

The District is governed by the Board, consisting of five (5) directors, which has control over and management supervision of all affairs of the District. Directors are elected to four-year staggered terms and elections are held in May in even numbered years. Two of the Board members reside within the District and each of the remaining three Board members own land within the District subject to a Deed of Trust in favor of the Developer. The current members and officers of the Board, along with their titles and terms, are listed as follows:

| <u>Name</u> | <u>Title</u> | <u>Term Expires</u> |
|------------------------|---------------------|---------------------|
| William Cook | President | May 2026 |
| Nicholas J. Russo, III | Vice President | May 2026 |
| Krystal Helbig | Secretary | May 2028 |
| Laura Maham | Assistant Secretary | May 2028 |
| Robin Goin | Assistant Secretary | May 2028 |

District Consultants

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

Bond Counsel and General Counsel: Schwartz, Page & Harding, L.L.P. (“Bond Counsel”) serves as bond counsel to the District. The fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. In addition, Schwartz, Page & Harding, L.L.P. serves as general counsel to the District on matters other than the issuance of bonds.

Disclosure Counsel: McCall, Parkhurst & Horton L.L.P., serves as Disclosure Counsel to the District. 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.

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

Engineer: The District’s consulting engineer is BGE, Inc.

Auditor: The financial statements of the District as of May 31, 2023, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s May 31, 2023, financial statements. The District has engaged Forvis Mazars, LLP to audit its financial statements for the fiscal year ended May 31, 2024.

Bookkeeper: The District has contracted with Municipal Accounts & Consulting, L.P. (the “Bookkeeper”) for bookkeeping services.

Utility System Operator: Inframark, LLC operates the District’s non-potable irrigation system, as well as the water and wastewater systems and plants of MUD 418 and the internal water distribution and wastewater collection facilities of MUD 489.

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

Tax Assessor/Collector: The District has appointed an independent tax assessor/collector to perform the tax collection function. B&A Municipal Tax Services, LLC (the “Tax Assessor/Collector”) has been employed by the District to serve in this capacity.

THE SYSTEM

Regulation

According to the Engineer, the District's improvements that have been financed with proceeds from certain of the Outstanding Bonds, or that will be financed with the proceeds of the Bonds have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications, as and if required for the particular improvements and the approval and permitting requirements of the Harris County, the Harris County Flood Control District, and the City of Houston, as applicable.

District Purpose

The District was created to construct and operate all major drainage and channel improvements necessary to serve the land within the boundaries of the District and to construct and operate certain recreational facilities. Although the District has the legal authority to provide water supply and distribution, wastewater collection and treatment, and other storm drainage facilities or services, it is not presently anticipated by the District that such authority will be exercised. Instead, MUD 489, MUD 492, and MUD 493 will provide internal water distribution and wastewater collection services to the land located within their respective boundaries as well as internal storm drainage facilities connecting with the channels constructed by the District. In addition, MUD 418, in its capacity as the Master District, will provide major water supply and wastewater treatment to MUD 489, MUD 492, and MUD 493 serve the development within the District (see "Master Facilities" below).

Major Channel and Detention Improvements

The drainage facilities constructed by the District are a series of interconnected detention basins that serve both as amenity lakes as well as detention and mitigation facilities. The detention facilities were designed and constructed in accordance with Harris County Flood Control District criteria and comply with the master drainage study prepared for the project. The purpose of these facilities is to provide outfall drainage and mitigate any negative flood plain effects caused by the development of Bridgeland. Construction of additional detention facilities has been phased to accommodate development as it occurs. The detention basins constructed to date encompass approximately 122 acres of land and detain enough storm water to develop approximately 1,188 acres of development within the District's boundaries. See "INVESTMENT CONSIDERATIONS—Atlas 14."

Langham Creek Drainage Improvements

The District is a party to an agreement among the Developer, Harris County Municipal Utility District No. 165 and certain developers of land within Harris County Municipal Utility District Nos. 165 (the "Parties"). Pursuant to the agreement, the District is obligated to construct drainage improvements within the Langham Creek corridor for the benefit of the Parties and, after completion of such improvements, convey the improvements to the Harris County Flood Control District for ownership, operations and maintenance. The District's unaudited General Operating Fund balance as of August 19, 2024 is \$2,506,961, which excludes approximately \$220,319 (unaudited) that has been advanced to the District by the Developer and the other developers that are Parties to the agreement in order to fund the construction of the improvements. Amounts so advanced to the District are not available to pay the general operations and maintenance expenses of the District. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)."

WATER, WASTEWATER AND DRAINAGE

Regulation

According to the Engineer, the Master District's improvements have been designed and the corresponding plans prepared in accordance with accepted engineering practices and specifications and, as and if required for the particular improvements, the approval and permitting requirements of the TCEQ, Harris County, Texas, the City of Houston, Texas and Harris County Flood Control District, as applicable.

Master Facilities

Master Water and Sanitary Sewer Facilities Contract: The development in the District is served by a regional water supply and wastewater treatment system that is owned and operated by MUD 418, in its capacity as the "Master District," pursuant to that certain Contract for Financing, Operation, and Maintenance of Master Water and Sanitary Sewer Facilities, dated August 1, 2006, as amended and supplemented from time to time (the "Master Contract"). The Master Contract provides that the Master District will acquire, construct, own, operate, and/or maintain central water supply and wastewater treatment facilities, as well as major trunk lines related to said facilities (the "Master Facilities"), to serve the land within the Service Area defined therein and any other area subsequently added to the Bridgeland development or otherwise served by the Master District pursuant to the Master Contract. At this time, MUD 418, MUD 419, MUD 489, MUD 490, MUD 491, MUD 492, and MUD 493 are all parties to the Master Contract. Each party to the Master Contract, including the Master District in its capacity as a district receiving Master District services, is referred to hereinafter at times as a "Participant." Each Participant is responsible for the acquisition, construction, ownership, operation, and/or maintenance of all internal water, sewer and drainage facilities, not otherwise constructed by the Master District as part of the Master Facilities. As required by the Master Contract, a plan of proposed Master Facilities has been adopted by the Master District and approved by the Participants.

The Master Contract provides that capacity in the Master Facilities will be allocated to a Participant contingent upon the payment to the Master District of a "Connection Charge" (as more specifically detailed in the Master Contract) calculated to approximate, on a uniform per-connection basis, the incurred and projected capital expenditures, interest, and other attendant costs associated with the provision of the Master Facilities by the Master District ("Capital Costs"). The Master Contract requires that the Master District use the Connection Charges solely for payment of the Capital Costs of the Master Facilities, and further requires that the Connection Charge be recalculated from time to time but not less often than annually. Once a Connection Charge has been paid by a Participant, additional Capital Costs may not be recovered for the associated capacity in the Master Facilities acquired by payment of same. The current Connection Charge imposed by the Master District under the Master Contract is \$5,012 per equivalent single-family connection for water supply capacity, and \$3,527 for wastewater treatment capacity. Connection charges relative to wastewater collection service vary by geographic location within the Service Area, and range from \$241 per equivalent single-family connection to \$5,127 per equivalent single-family connection. The Master Contract additionally provides that Master Facilities may be constructed and conveyed to the Master District as an alternative to the payment of a Connection Charge, such Master Facilities being credited at their Capital Cost value towards Connection Charge payments.

The Master Contract requires that operations and maintenance expenses be paid to the Master District by the Participants on a monthly basis. Additionally, each Participant is required to advance funds to the Master District to create a reserve ("Reserve") for the benefit of such Participant in an amount equal to the Participant's projected share of operations and maintenance costs for a two-month period commencing at the beginning of the Master District's fiscal year (currently June 1). The amount of the required Reserve for any Participant is determined annually, and any shortfall is required to be funded by the Participant. The Master District's operations and maintenance expenses, as billed to Participants, may include a fee to fund a Participant's Reserve, subject to certain restrictions.

The Master Contract further requires that each Participant hold an election to authorize the levy and collection of ad valorem contract taxes to meet its obligations under the Master Contract. Such contract taxes are to be pledged to support debt service on contract revenue bonds, if issued, by the Master District. The Master Contract authorizes the issuance of such bonds by the Master District solely for the purpose or purposes of (1) providing surface water as an alternative to groundwater, if required by law; (2) the acquisition, construction, improvement, enlargement, extension, or repair of the Master Facilities, if required by law; (3) the payment of unbudgeted, extraordinary expenses of maintaining or repairing the Master Facilities for which sufficient funds have not been placed in the Reserve; or (4) meeting a request by a Participant that such bonds be issued by the Master District. The voters of all the Participants have approved such a contract revenue tax proposition.

Water Supply: Water supply to serve the development within the District is provided by Water Plant Nos. 1, 2, and 4 owned and operated by the Master District. The Master District's current facilities at Water Plant No. 1 include two water wells with a total of 1,500 gallons per minute ("gpm") of capacity, two 15,000 gallon pressure tanks, two 250,000 gallon ground storage tanks, a 750,000 gallon elevated storage tank, and 10,150 gpm of booster pump capacity, which can serve 2,500 equivalent single family connections. The Master District receives 1,458 gpm of treated surface water at Water Plant No. 1, which can serve 2,430 equivalent single family connections. See "Surface Water" below for a discussion of the additional source of water supply capacity as a result of surface water supplied by the West Harris County Regional Water Authority (the "Authority"). The Master District's current facilities at Water Plant No. 2 include three 1,200 gpm water wells, one 20,000-gallon pressure tank, 1,500,000 gallons of ground storage tank capacity, one 1,000,000-gallon elevated storage tank, and 11,300 gpm booster pump capacity, which can serve 6,000 equivalent single family connections. The Master District's current facilities at Water Plant No. 4 include one 1,200 gpm water well, one 30,000-gallon pressure tank, one 500,000 gallon ground storage tank, and 3,750 gpm booster pump capacity, which can serve 1,875 equivalent single family connections. Combined, the three water plants will be able to serve a total of 12,930 equivalent single-family connections, of which 3,865 equivalent single-family connections are allocated to MUD 419, 3,622 equivalent single-family connections are allocated to MUD 489, 1,126 equivalent single-family connections are allocated to MUD 490, 394 equivalent single-family connections are allocated to MUD 491, and 200 equivalent single-family connections are allocated to MUD 493. No capacity has been allocated to MUD 418 or MUD 492 at this time. Future expansions of Water Plant Nos. 2 and 4 will include additional water wells, ground storage tanks, elevated storage tanks, booster pumps, and facilities to receive surface water, which will expand the service capacity of the system. Water Plant No. 1 is fully built out.

Surface Water: The Master District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The Master District's authority to pump groundwater is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in areas within the Subsidence District's jurisdiction. In 2001, the Texas legislature created the Authority to, among other things, reduce groundwater usage in, and to provide surface water to, the western portion of Harris County (including the District). The Authority developed a groundwater reduction plan ("GRP") and obtained Subsidence District approval of its GRP. The Authority's GRP sets forth the Authority's plan to comply with Subsidence District regulations, construct surface water facilities, and convert users from groundwater to alternate source water (e.g., surface water). In connection with its GRP, the Authority entered into a water supply contract with the City of Houston to obtain treated surface water from the City of Houston. The District is included within the Authority's GRP.

The Authority has the power to issue debt supported by the revenues pledged for the payment of its obligations and may establish fees, rates, and charges as necessary to accomplish its purposes. Effective January 1, 2024, the Authority currently charges the Master District, as owner of the water wells, and other major groundwater users, a fee of \$3.95 per 1,000 gallons of groundwater pumped and \$4.35 per 1,000 gallons of surface water received. The Authority has issued revenue bonds that have been issued to fund, among other things, certain Authority surface water project costs. It is expected that the Authority will issue substantially more bonds by the year 2035 to finance the Authority's project costs.

Under the Subsidence District regulations and the GRP, the Authority is required: (i) through the year 2024, to limit groundwater withdrawals to no more than 70% of the total annual water demand within the Authority's GRP; (ii) beginning in the year 2025, to limit groundwater withdrawals to no more than 40% of the total annual water demand within the Authority's GRP; and (iii) beginning in the year 2035, to limit groundwater withdrawals to no more than 20% of the total annual water demand within the Authority's GRP. If the Authority fails to comply with the above Subsidence District regulations or its GRP, the Authority is subject to a disincentive fee penalty ("Disincentive Fees"), imposed by the Subsidence District for any groundwater withdrawn in excess of 20% of the total annual water demand within the Authority's GRP. In the event of such Authority's failure to comply and imposition of a disincentive fee penalty by the Subsidence District, the Authority may also seek to collect Disincentive Fees from the Master District. If the Master District failed to comply with surface water conversion requirements mandated by the Authority, the Authority would likely seek monetary or other penalties against the Master District.

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

Pursuant to a contract dated August 13, 2008, among the Developer, the Master District and the Authority, the Authority has constructed a water line to provide treated surface water to the Master District's Water Plant No. 1. Capacity in certain portions of said water line also serves municipal utility districts which are not a part of Bridgeland and said districts entered into similar contracts with the Authority. Construction of the water line is complete and the Authority began delivering metered surface water to the Master District's Water Plant No. 1 as of June 5, 2013. Such water line provides the Master District with 2,100,000 gallons per day ("gpd") of additional water supply. This water supply constitutes part of the Master Facilities that serve the Bridgeland development, and provides capacity for up to 2,500 water supply system connections. This source of supply supplements groundwater supplied by wells installed or to be installed by the Master District to meet Participant water demands.

Wastewater Treatment: Wastewater treatment for the development within the District is provided by a 600,000 gpd interim wastewater treatment plant and a permanent 1,500,000 gpd wastewater treatment plant (“WWTP 1”) owned and operated by the Master District. WWTP 1 can serve up to 9,130 equivalent single-family connections based on 230 gpd per connection, of which 3,622 equivalent single-family connections are allocated to MUD 489, 3,865 equivalent single-family connections are allocated to MUD 419, 1,126 equivalent single-family connections are allocated to MUD 490, 394 equivalent single-family connections are allocated to MUD 491, and 200 equivalent single-family connections are allocated to MUD 493. No capacity has been allocated to MUD 418 or MUD 492 at this time. A 600,000 gpd wastewater treatment plant owned and operated by the Master District (“WWTP 2”) is currently under construction and is expected to be put in service in the fourth quarter of 2024. A 150,000 gpd wastewater treatment plant owned and operated by the Master District (“WWTP 3”) is also under construction and is expected to be operational in the fourth quarter of 2024. With these three treatment plants, the Master District will be able to serve up to 12,391 connections based on 230 gpd per connection. Future expansions of the Master District’s wastewater treatment facilities will be planned as required by the needs of the District.

Major Trunk Lines: Major water distribution and wastewater collection lines have been constructed by the Developer on behalf of the Master District. There is no charge for water distribution system capacity in the Master District’s trunk lines; however, there are charges applicable to wastewater collection system capacity in the Master District’s trunk lines, as described hereinabove.

Internal Water Distribution, Wastewater Collection and Storm Drainage Facilities

To date, water distribution, wastewater collection, storm drainage facilities and related paving have been constructed in the District by MUD 489 and MUD 493 to serve 2,822 single-family residential lots. See “THE DISTRICT—Land Use,” “—Status of Development,” and “—Future Development.”

100-Year Flood Plain

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

According to the Engineer, approximately 527 acres of land in the southern portion of the District is currently located in the 100-year flood plain. The District filed a Letter of Map Revision to request removal of such acreage from the 100-year flood plain and is awaiting approval from the Harris County Flood Control District and the Federal Emergency Management Agency. See “INVESTMENT CONSIDERATIONS—Extreme Weather Events” and “—Specific Flood Type Risks.”

Atlas 14

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. 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. See “INVESTMENT CONSIDERATIONS—Atlas 14.”

PARK AND RECREATIONAL FACILITIES

Park and recreational improvements within the District include; Lakeland Village Park, a recreation and outdoor space consisting of a fenced dog park, skate park, basketball court, heated lap pool, fishing pier, spraypark, tennis courts, playgrounds, walking trails and playfields on approximately 20 acres; Dragonfly Park, a recreation center with a lazy river, leisure pool, lap pool, sprayground, tennis courts, open play field, basketball court, dog park, kayak launch, hike and bike trails, fitness center and event hall on approximately 25 acres; and Parkland Common, a twelve foot wide linear park and trail system.

FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

| | | |
|--|--------------------|-----|
| 2024 Taxable Assessed Valuation..... | \$1,406,957,078 | (a) |
| Estimated Taxable Assessed Valuation as of July 1, 2024..... | \$1,519,179,786 | (b) |
| Gross Direct Debt Outstanding (including the Bonds)..... | \$ 61,515,000 | (c) |
| Estimated Overlapping Debt | <u>165,156,268</u> | (d) |
| Gross Direct Debt and Estimated Overlapping Debt..... | \$226,671,268 | |
| Ratios of Gross Direct Debt to: | | |
| 2024 Taxable Assessed Valuation | 4.37% | |
| Estimated Taxable Assessed Valuation as of July 1, 2024 | 4.05% | |
| Ratios of Gross Direct Debt and Estimated Overlapping Debt to: | | |
| 2024 Taxable Assessed Valuation | 16.11% | |
| Estimated Taxable Assessed Valuation as of July 1, 2024 | 14.92% | |
| Funds Available for Debt Service: | | |
| Debt Service Fund Balance as of August 19, 2024..... | \$4,468,750 | (e) |
| Capitalized Interest from proceeds of the Series 2024 Bonds (Six (6) months) | 88,200 | (f) |
| Capitalized Interest from proceeds of the Series 2024A Park Bonds (Six (6) months) | <u>86,738</u> | (f) |
| Total Funds Available for Debt Service..... | \$4,643,688 | |
| Funds Available for Maintenance and Operations as of August 19, 2024 | \$2,506,961 | (g) |
| Funds Available for Construction as of August 19, 2024 | \$1,721,198 | (h) |

- (a) The 2024 Taxable Assessed Valuation shown herein includes \$1,358,049,059 of certified value and \$48,908,019 of uncertified value. The uncertified value is subject to change and downward revision prior to certification. No tax will be levied on said uncertified value until it is certified by the Appraisal District. See "TAXING PROCEDURES."
- (b) As provided by the Appraisal District. Such amount is only an estimate of the taxable assessed value on July 1, 2024, and may be revised upward or downward once certified by the Appraisal District. Increases in value occurring between January 1, 2024 and July 1, 2024 will be certified as of January 1, 2025. See "TAXING PROCEDURES."
- (c) After the issuance of the Bonds. See "—Outstanding Bonds" herein.
- (d) See "—Estimated Overlapping Debt," "—Overlapping Taxes" herein and "INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes."
- (e) Includes funds for September 1, 2024, debt service payment in the amount of \$2,469,797.
- (f) The District will capitalize six (6) months of interest from proceeds of the Series 2024 Bonds and six (6) months of interest from proceeds of the Series 2024A Park Bonds. The amounts above are estimated at 4.50%. See "THE BONDS—Funds" and "USE AND DISTRIBUTION OF BOND PROCEEDS."
- (g) Balance excludes approximately \$220,319 (unaudited) for construction of certain drainage improvements which cannot be used to pay the general operations and maintenance expenses of the District. See "THE SYSTEM—Langham Creek Drainage Improvements."
- (h) Represents surplus construction funds, and interest thereon, derived from the Outstanding Bonds and includes \$560,000 approved for use by the TCEQ in connection with the issuance of the Series 2024 Bonds and \$515,000 in connection with the issuance of the Series 2024A Park Bonds. The Bonds, if, as and when issued, may produce additional surplus funds. Surplus funds for construction may be expended for any lawful purpose for which surplus funds may be used, limited, however, to the purposes for which the issue of the Outstanding Bonds which produced the surplus funds were issued. Under certain circumstances, the approval of the TCEQ is required for the use of surplus funds derived from the Outstanding Bonds.

Investments of the District

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 on its portfolio. Funds of the District will be invested in short term U.S. Treasuries, certificates of deposit insured by the Federal Deposit Insurance Corporation ("FDIC") or secured by collateral evidenced by perfected safekeeping receipts held by a third party bank, and public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate owning long term securities or derivative products in the District’s investment portfolio.

Outstanding Bonds

The District has previously issued four series of unlimited tax bonds for the purpose of acquiring or constructing drainage facilities and three series of unlimited tax bonds for acquiring or constructing park and recreational facilities. The following table lists the original principal amount of such bonds by series and the principal amount of such bonds that will be outstanding as of September 2, 2024 (the “Outstanding Bonds”).

| Series | Original Principal Amount | Outstanding Bonds |
|-----------|---------------------------------|----------------------|
| 2019 | \$ 13,625,000 | \$ 12,355,000 |
| 2020 | 8,150,000 | 7,175,000 |
| 2021 | 4,070,000 | 3,750,000 |
| 2021A (a) | 4,685,000 | 4,315,000 |
| 2022 | 8,760,000 | 8,410,000 |
| 2022A (a) | 2,830,000 | 2,720,000 |
| 2023 (a) | 15,015,000 | 15,015,000 |
| Total | \$ 57,135,000 | \$ 53,740,000 |

(a) Park Bonds.

Debt Service Requirements

The following sets forth the debt service on the Outstanding Bonds and the estimated debt service on the Bonds at an estimated interest rate per annum of 4.50%. The schedule does not reflect that the District will capitalize six (6) months of interest from proceeds of the Series 2024 Bonds and six (6) months of interest from proceeds of the Series 2024A Park Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”

| Year | Outstanding Bonds Debt Service Requirements | Plus: The Series 2024 Bonds | | Plus: The Series 2024A Park Bonds | | Total Debt Service Requirements |
|-------|--|-----------------------------|-----------------|-----------------------------------|-----------------|---------------------------------------|
| | | Principal | Interest | Principal | Interest | |
| 2025 | \$ 4,024,593.75 (a) | \$ - | \$ 161,700.00 | \$ - | \$ 159,018.75 | \$ 4,345,312.50 |
| 2026 | 3,951,293.75 | 160,000 | 176,400.00 | 155,000 | 173,475.00 | 4,616,168.75 |
| 2027 | 3,879,093.75 | 160,000 | 169,200.00 | 155,000 | 166,500.00 | 4,529,793.75 |
| 2028 | 3,816,643.75 | 160,000 | 162,000.00 | 155,000 | 159,525.00 | 4,453,168.75 |
| 2029 | 3,753,793.75 | 160,000 | 154,800.00 | 155,000 | 152,550.00 | 4,376,143.75 |
| 2030 | 3,694,606.25 | 160,000 | 147,600.00 | 155,000 | 145,575.00 | 4,302,781.25 |
| 2031 | 3,634,431.25 | 160,000 | 140,400.00 | 155,000 | 138,600.00 | 4,228,431.25 |
| 2032 | 3,591,881.25 | 160,000 | 133,200.00 | 155,000 | 131,625.00 | 4,171,706.25 |
| 2033 | 3,545,431.25 | 160,000 | 126,000.00 | 155,000 | 124,650.00 | 4,111,081.25 |
| 2034 | 3,497,481.25 | 160,000 | 118,800.00 | 155,000 | 117,675.00 | 4,048,956.25 |
| 2035 | 3,453,212.50 | 155,000 | 111,600.00 | 155,000 | 110,700.00 | 3,985,512.50 |
| 2036 | 3,411,225.00 | 155,000 | 104,625.00 | 155,000 | 103,725.00 | 3,929,575.00 |
| 2037 | 3,358,218.75 | 155,000 | 97,650.00 | 155,000 | 96,750.00 | 3,862,618.75 |
| 2038 | 3,308,437.50 | 155,000 | 90,675.00 | 155,000 | 89,775.00 | 3,798,887.50 |
| 2039 | 3,257,006.25 | 155,000 | 83,700.00 | 155,000 | 82,800.00 | 3,733,506.25 |
| 2040 | 3,209,325.00 | 155,000 | 76,725.00 | 155,000 | 75,825.00 | 3,671,875.00 |
| 2041 | 3,154,750.00 | 155,000 | 69,750.00 | 155,000 | 68,850.00 | 3,603,350.00 |
| 2042 | 3,108,175.00 | 155,000 | 62,775.00 | 155,000 | 61,875.00 | 3,542,825.00 |
| 2043 | 3,059,181.25 | 155,000 | 55,800.00 | 155,000 | 54,900.00 | 3,479,881.25 |
| 2044 | 3,008,750.00 | 155,000 | 48,825.00 | 155,000 | 47,925.00 | 3,415,500.00 |
| 2045 | 2,956,368.75 | 155,000 | 41,850.00 | 155,000 | 40,950.00 | 3,349,168.75 |
| 2046 | 1,962,206.25 | 155,000 | 34,875.00 | 155,000 | 33,975.00 | 2,341,056.25 |
| 2047 | 1,573,543.75 | 155,000 | 27,900.00 | 150,000 | 27,000.00 | 1,933,443.75 |
| 2048 | 1,157,237.50 | 155,000 | 20,925.00 | 150,000 | 20,250.00 | 1,503,412.50 |
| 2049 | 635,250.00 | 155,000 | 13,950.00 | 150,000 | 13,500.00 | 967,700.00 |
| 2050 | - | 155,000 | 6,975.00 | 150,000 | 6,750.00 | 318,725.00 |
| Total | \$ 78,002,137.50 | \$ 3,920,000 | \$ 2,438,700.00 | \$ 3,855,000 | \$ 2,404,743.75 | \$ 90,620,581.25 |

Average Annual Debt Service Requirements (2025-2050) \$3,485,407
 Maximum Annual Debt Service Requirement (2026) \$4,616,169

Estimated Overlapping Debt

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

| Taxing Jurisdiction | Outstanding Bonds | As of | Overlapping | |
|--|----------------------|-----------|-------------|----------------|
| | | | Percent | Amount |
| Harris County (a)..... | \$ 1,994,511,319 | 7/31/2024 | 0.19% | \$ 3,789,572 |
| Harris County Flood Control District..... | 991,095,000 | 7/31/2024 | 0.19% | 1,883,081 |
| Harris County Hospital District..... | 65,285,000 | 7/31/2024 | 0.21% | 137,099 |
| Harris County Department of Education..... | 28,960,000 | 7/31/2024 | 0.19% | 55,024 |
| Port of Houston Authority..... | 426,134,397 | 7/31/2024 | 0.19% | 809,655 |
| Cypress Fairbanks Independent School District..... | 3,376,585,000 | 7/31/2024 | 1.82% | 61,453,847 |
| Katy Independent School District..... | 2,386,475,000 | 7/31/2024 | 0.01% | 238,648 |
| Waller Independent School District..... | 703,140,000 | 7/31/2024 | 0.02% | 140,628 |
| Lone Star College System..... | 512,185,000 | 7/31/2024 | 0.40% | 2,048,740 |
| MUD 489..... | 234,275,000 (b) | 7/31/2024 | 40.02% | 93,754,681 |
| MUD 493..... | 5,450,000 (c) | 7/31/2024 | 15.51% | 845,295 |
| Total Estimated Overlapping Debt..... | | | | \$ 165,156,268 |
| The District..... | 61,515,000 | (d) | 100.00% | 61,515,000 |
| Total Direct and Estimated Overlapping Debt..... | | | | \$ 226,671,268 |

Direct and Estimated Overlapping Debt as a Percentage of:

| | |
|--|--------|
| 2024 Taxable Assessed Valuation of \$1,406,957,078 | 16.11% |
| Estimated Taxable Assessed Valuation as of July 1, 2024 of \$1,519,179,786 | 14.92% |

- (a) Excludes the Harris County Toll Road Unlimited Tax Bonds in the principal amount of \$130,635,000. Historically, Harris County has provided for payment of such debt service from toll road revenues and certain other funds and, no ad valorem tax revenue has been required to pay debt service on such bonds.
- (b) Includes approximately \$5,450,000 principal amount of unlimited tax bonds expected to be issued in the fourth quarter of 2024. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes.”
- (c) Includes approximately \$31,640,000 principal amount of unlimited tax bonds expected to be issued in the fourth quarter of 2024. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes.”
- (d) Includes the Outstanding Bonds and the Bonds.

Overlapping Taxes

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

Set forth below are all of the taxes levied for the 2023 tax year by all overlapping taxing jurisdictions and the 2023 tax rates for MUD 489 and the District. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges or any other levy of entities other than political subdivisions.

| | Tax Rate per \$100 of Taxable <u>Taxable Assessed</u> |
|--|---|
| Harris County (including Harris County Flood Control District Harris County Hospital District, Harris County Department of Education and the Port of Houston Authority)..... | \$ 0.535090 |
| Cypress Fairbanks Independent School District (a)..... | 1.081100 |
| Harris County Emergency Services District No. 9..... | 0.044360 |
| MUD 489 (b)..... | 0.910000 |
| Lone Star College System..... | <u>0.107600</u> |
| Total Overlapping Tax Rate..... | \$ 2.678150 |
| The District (b)..... | <u>0.405000</u> |
| Total Tax Rate..... | \$ 3.083150 |

- (a) Approximately 722 acres within the District overlaps with Katy Independent School District, which set its 2023 tax rate at \$1.15507 per \$100 of taxable assessed valuation, creating a total tax rate for taxpayers in this area of \$3.15712 per \$100 of taxable assessed valuation and approximately 687 acres within the District overlaps with Waller Independent School District, which set its 2023 tax rate at \$1.10920 per \$100 of taxable assessed valuation, creating a total tax rate for taxpayers in this area of \$3.11125 per \$100 of taxable assessed valuation.
- (b) MUD 489 set its 2023 tax rate at \$0.91 per \$100 of taxable assessed valuation, and the District set its 2023 tax rate at \$0.405 per \$100 of taxable assessed valuation, comprised of \$0.29 for debt service and \$0.115 for maintenance. Property within the District is also subject to overlapping taxation by MUD 491 and MUD 493, who both set their 2023 tax rates at \$1.00 per \$100 of taxable assessed valuation. See “INVESTMENT CONSIDERATIONS—Overlapping Debt and Taxes.”

District Operations

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

The following statement sets forth in condensed form the General Operating Fund for the District as shown in the District's audited financial statements for the fiscal years ended May 31, 2020 through May 31, 2023, and an unaudited summary for the fiscal year end May 31, 2024, provided by the Bookkeeper. Such figures are included for informational purposes only. Accounting principles customarily employed in the determination of net revenues have been observed and, in all instances, exclude depreciation. Reference is made to "APPENDIX A" for further and complete information.

| | Fiscal Year Ended May 31 | | | | |
|--|--------------------------|-----------------------|-----------------------|-----------------------|---------------------|
| | 2024 (Unaudited) | 2023 | 2022 | 2021 | 2020 |
| Revenues | | | | | |
| Property Taxes | \$ 1,544,707 | \$ 1,366,219 | \$ 923,733 | \$ 393,905 | \$ 347,077 |
| Penalty and Interest | - | - | - | - | 414 |
| Sale of Capacity | - | 18,651 | - | - | - |
| Investment Income | 93,165 | 40,437 | 1,854 | 2,524 | 20,299 |
| Other Income | 117,900 | - | 283 | - | 120,916 |
| Total Revenues | \$ 1,755,772 | \$ 1,425,307 | \$ 925,870 | \$ 396,429 | \$ 488,706 |
| Expenditures | | | | | |
| Professional Fees | \$ 214,395 | \$ 174,275 | \$ 150,305 | \$ 150,249 | \$ 160,387 |
| Purchased Services | 6,372 | 6,129 | 2,500 | - | - |
| Contracted Services | 74,949 | 54,652 | 24,868 | 25,950 | 27,771 |
| Repairs and Maintenance | 581,825 | 582,824 | 509,024 | 300,265 | 40,032 |
| Other Expenditures | 176,150 | 50,779 | 40,764 | 37,905 | 46,080 |
| Tap Connections | 32,125 | 85,256 | 91,050 | 18,302 | 59,084 |
| Capital Outlay | 7,920 (a) | 3,392,626 (a) | 4,211,721 (a) | 1,450,427 (a) | 666,587 (a) |
| Debt Issuance Costs | - | 50,524 | 58,587 | 42,045 | - |
| Total Expenditures | \$ 1,093,736 | \$ 4,397,065 | \$ 5,088,819 | \$ 2,025,143 | \$ 999,941 |
| Revenues Over (Under) Expenditures | \$ 662,036 | \$ (2,971,758) | \$ (4,162,949) | \$ (1,628,714) | \$ (511,235) |
| Other Sources (Developer Advance) (a) | \$ 2,704,736 | \$ 1,936,210 | \$ 4,303,290 | \$ 156,087 | \$ 2,728,735 |
| Repayment of Developer Advances | \$ - | \$ (156,087) | \$ - | \$ - | \$ - |
| Interfund Transfers | \$ 50,524 | \$ 58,587 | \$ 42,045 | \$ 33,271 | \$ - |
| Fund Balance (Beginning of Year) | \$ 1,679,986 | \$ 2,813,034 | \$ 2,630,648 | \$ 4,070,004 | \$ 1,852,504 |
| Fund Balance (End of Year) | \$ 5,097,282 | \$ 1,679,986 | \$ 2,813,034 | \$ 2,630,648 | \$ 4,070,004 |

(a) Represents the contribution from developers and the associated capital outlay for the Langham Creek drainage improvements project. Such funds are not available to pay the general operations and maintenance expenses of the District. See "THE SYSTEM—Langham Creek Drainage Improvements."

TAX DATA

Debt Service Tax

The Board covenants in the Bond Orders to levy and assess, for each year that all or any part of the Bonds and the Outstanding Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. See “Tax Rate Distribution” and “Tax Roll Information” below, and “TAXING PROCEDURES.”

Maintenance and Operations Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for the operation and maintenance of the District, if such a maintenance tax is authorized by the District’s voters. A maintenance tax election was held on November 5, 2013, and voters of the District authorized, among other things, the Board to levy a maintenance tax at a rate not to exceed \$1.50 per \$100 taxable assessed valuation for operations and maintenance costs. A maintenance tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds. See “Debt Service Tax” above.

Tax Exemptions

For the tax year 2024, the District has adopted a \$20,000 tax exemption of the taxable assessed value of resident homesteads for persons who are disabled or 65 years of age or older. See “TAXING PROCEDURES—Property Subject to Taxation by the District.” See “TAXING PROCEDURES—Property Subject to Taxation by the District.”

Tax Rate Distribution

| | 2023 | 2022 | 2021 | 2020 | 2019 |
|----------------------------|----------|----------|----------|----------|----------|
| Debt Service | \$ 0.290 | \$ 0.260 | \$ 0.300 | \$ 0.325 | \$ - |
| Maintenance and Operations | 0.115 | 0.160 | 0.160 | 0.175 | 0.500 |
| Total | \$ 0.405 | \$ 0.420 | \$ 0.460 | \$ 0.500 | \$ 0.500 |

Historical Tax Collections

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

| Tax Year | Taxable Assessed Valuation (a) | Tax Rate | Total Tax Levy (b) | Total Collections as of July 31, 2024 (c) | |
|----------|--------------------------------|----------|--------------------|---|---------|
| | | | | Amount | Percent |
| 2019 | \$ 75,447,125 | \$ 0.500 | \$ 377,236 | \$ 377,236 | 100.00% |
| 2020 | 250,411,484 | 0.500 | 1,252,057 | 1,247,674 | 99.65% |
| 2021 | 539,105,810 | 0.460 | 2,479,887 | 2,455,553 | 99.02% |
| 2022 | 925,829,747 | 0.420 | 3,888,485 | 3,878,944 | 99.75% |
| 2023 | 1,251,593,130 | 0.405 | 5,068,952 | 5,039,818 | 99.43% |

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

Tax Roll Information

The District’s taxable assessed value as of January 1 of each year is used by the District in establishing its tax rate. See “TAXING PROCEDURES—Valuation of Property for Taxation.” The following represents the composition of property comprising the 2020 through 2024 Taxable Assessed Valuation. Breakdowns of the uncertified portion (\$48,908,019) of the 2024 Taxable Assessed Valuation of \$1,406,957,078, which is subject to property owner protest and Appraisal District review and downward revision prior to certification, and the Estimated Taxable Assessed Valuation as of July 1, 2024, of \$1,519,179,786, are not available.

| Tax Year | Type of Property | | | Gross Assessed Valuation | Defrements and Exemptions | Uncertified Value | Taxable Assessed Valuation |
|----------|------------------|----------------|-------------------|--------------------------|---------------------------|-------------------|----------------------------|
| | Land | Improvements | Personal Property | | | | |
| 2020 | \$ 130,395,074 | \$ 211,645,184 | \$ 2,573,051 | \$ 344,613,309 | \$ (94,201,825) | \$ - | \$ 250,411,484 |
| 2021 | 188,550,495 | 447,549,158 | 4,175,019 | 640,274,672 | (101,168,862) | - | 539,105,810 |
| 2022 | 245,678,138 | 801,047,096 | 7,023,416 | 1,053,748,650 | (127,918,903) | - | 925,829,747 |
| 2023 | 274,892,535 | 1,138,639,100 | 10,277,865 | 1,423,809,500 | (172,216,370) | - | 1,251,593,130 |
| 2024 | 249,754,015 | 1,286,794,819 | 13,600,155 | 1,550,148,989 | (192,099,930) | 48,908,019 | 1,406,957,078 |

Principal Taxpayers

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property’s taxable assessed value as a percentage of the 2023 Certified Taxable Assessed Valuation. This represents ownership as of January 1, 2023. An accurate principal taxpayer list related to the Estimated Taxable Assessed Valuation as of July 1, 2024, of \$1,519,179,786 is not available.

| Taxpayer | 2024 Certified Taxable Assessed Valuation | % of 2024 Certified Taxable Assessed Valuation |
|--------------------------------------|---|--|
| BL Prairieland Village SFBTR LLC (a) | \$ 20,280,097 | 1.49% |
| Bridgeland Development LP (a) | 18,385,438 | 1.35% |
| Bridgeland GL Holdings LLC (a) | 2,851,755 | 0.21% |
| Weekley Homes LLC (b) | 2,549,333 | 0.19% |
| Magellan Pipeline Company | 2,463,250 | 0.18% |
| Individual | 2,384,320 | 0.18% |
| Individual | 2,364,994 | 0.17% |
| Individual | 2,362,306 | 0.17% |
| Individual | 2,339,362 | 0.17% |
| Individual | 2,220,288 | 0.16% |
| Total | \$ 58,201,143 | 4.29% |

(a) See “THE DEVELOPER.”

(b) See “THE DISTRICT—Homebuilding.”

Tax Adequacy for Debt Service

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum annual debt service requirements on the Bonds and the Outstanding Bonds if no growth in the District’s tax base occurred beyond the 2024 Taxable Assessed Valuation of \$1,406,957,078 (\$1,358,049,059 certified and \$48,908,019 uncertified) and the Estimated Taxable Assessed Valuation as of July 1, 2024 of \$1,519,179,786. The calculations contained in the following table merely represent the tax rates required to pay principal of and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in the taxable value in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “INVESTMENT CONSIDERATIONS—Possible Impact on District Tax Rates.”

| | |
|--|-------------|
| Average Annual Debt Service Requirement (2025-2050) | \$3,485,407 |
| \$0.27 Tax Rate on the 2024 Taxable Assessed Valuation | \$3,210,336 |
| \$0.25 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2024 | \$3,608,052 |
| Maximum Annual Debt Service Requirement (2026)..... | \$4,616,169 |
| \$0.35 Tax Rate on the 2024 Taxable Assessed Valuation | \$4,161,547 |
| \$0.32 Tax Rate on Estimated Taxable Assessed Valuation as of July 1, 2024 | \$4,618,307 |

No representation or suggestion is made that the uncertified portion of the 2024 Taxable Assessed Valuation will not be adjusted downward prior to certification by the Appraisal District or that the estimated values of land and improvements provided by the Appraisal District as of July 1, 2024, for the District will be certified as taxable value by the Appraisal District, and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

TAXING PROCEDURES

Property Tax Code and County-Wide Appraisal District

The Texas Tax Code (the “Property Tax Code”) requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas a single appraisal district with the responsibility for recording and appraising property for all taxing units within a county and a single appraisal review board with the responsibility for reviewing and equalizing the values established by the appraisal district. The Harris Central Appraisal District (the “Appraisal District”) has the responsibility for appraising property for all taxing units wholly within Harris County, including the District. Such appraisal values are subject to review and change by the Harris Central Appraisal Review Board (the “Appraisal Review Board”). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Harris County, to participate in the nomination of and vote for a member of the Board of Directors of the Appraisal District.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property and tangible personal property in the District is subject to taxation by the District; however, it is expected that no effort will be made by the District to collect taxes on personal property other than on personal property rendered for taxation, business inventories and the property of privately-owned utilities. Principal categories of exempt property include: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; farm products owned by the producer; all oil, gas and mineral interests owned by an institution of higher education; certain property owned by exclusively charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; solar and wind-powered energy devices; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons sixty-five (65) years or older or under a disability for purposes of payment of disability insurance benefits under the Federal Old-Age Survivors and Disability Insurance Act to the extent deemed advisable by the Board. The District would be required to call an election on such residential homestead exemption upon petition by at least twenty percent (20%) of the number of qualified voters who voted in the District's preceding election and would be required to offer such an exemption if a majority of voters approve it at such election. For the 2023 tax year, the District has granted an exemption of \$20,000 of assessed valuation for person 65 years of age and older and to individuals who are under a disability for purposes of payment of disability insurance benefits under the Federal Old Age

Survivors and Disability Insurance Act. The District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to an exemption for the full value of the veteran's residence homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran who is entitled to an exemption for the full value of the veteran's residence homestead is also entitled to an exemption from taxation of the total appraised value of the same property to which the disabled veteran's exemption applied. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran's disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of a member of the armed forces or a first responder (as defined under Texas law), who was (i) killed in action, or (ii) fatally injured in the line of duty, is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

A "Freeport Exemption" applies to goods, wares, merchandise, other tangible personal property and ores, other than oil, natural gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining oil or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to certain tangible personal property, as defined by the Property Tax Code acquired in or imported into Texas for storage purposes and which is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. The exemption excludes oil, natural gas, petroleum products, aircraft and certain special inventory including dealer's motor vehicles, dealer's vessel and outboard motor vehicle, dealer's heavy equipment and retail manufactured housing inventory. The exemption applies to covered property if it is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. However, taxing units who took official action as allowed by prior law before October 1, 2011, to tax goods-in-transit property, and who pledged such taxes for the payment of debt, may continue to impose taxes against the goods-in-transit property until the debt is discharged without further action, if cessation of the imposition would impair the obligations of the contract by which the debt was created. The District has taken official action to allow taxation of all such goods-in-transit personal property, but may choose to exempt same in the future by further official action.

Tax Exemption Provided to Public Facility Corporations and Certain Lessees

Chapter 303 of the Texas Local Government Code (the "PFC Act") authorizes cities, counties, school districts, housing authorities and special districts (a "Sponsor") to create a sponsored Public Facility Corporation ("PFC") to acquire, construct, rehabilitate, renovate, repair, equip, furnish and place in service public facilities. These activities may be financed through certain obligations of either the Sponsor or the PFC. Under the PFC Act, a "public facility" includes any real, personal, or mixed property, or an interest in property devoted or to be devoted to public use, and authorized to be financed under the PFC Act. A public facility, including a leasehold estate in a public facility, that is owned by a PFC is exempt from taxation by the State or a municipality or other political subdivision of the State, including the District. This exemption applies to both ad valorem and sales taxes levied by such taxing authorities. Subject to certain restrictions, a leasehold or other possessory interest granted by the PFC to the user of a PFC-owned multifamily residential development entitles that user to this same exemption. The 88th Texas Legislature passed H.B. 2071, which became effective June 18, 2023, to amend the PFC Act. H.B. 2071 significantly revised the PFC Act's requirements for the lessee of a multifamily residential development to qualify for this exemption and provides that the exemption for such projects does not apply to taxes imposed by a conservation and reclamation district providing water, sewer or drainage services to the development, unless an agreement is entered into with the district concerning payments in lieu of taxation. Projects for which PFC or Sponsor approval was received prior to the effective date of H. B. 2071 are governed by the prior law and are not subject to the same requirements. The District is not aware of any public facilities located within the boundaries of the District that are either owned or leased by a PFC.

General Residential Homestead Exemption

Texas law authorizes the governing body of each political subdivision in the State of Texas to exempt up to twenty percent (20%) of the appraised value of residential homesteads, but not less than \$5,000, if any exemption is granted, from ad valorem taxation. The law provides, however, that where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The District has never granted a general residential homestead exemption.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Assessments under the Property Tax Code are to be based upon one hundred percent (100%) of market value. The appraised value of residential homestead property may be limited to the lesser of the market value of the property, or the sum of the appraised value of the property for the last year in which it was appraised, plus ten percent (10%) of such appraised value multiplied by the number of years since the last appraisal, plus the market value of all new improvements to the property. Once an appraisal roll is prepared and approved by the Appraisal Review Board, it is used by the District in establishing its tax rate. The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraised values. The plan must provide for appraisal of all real property by the Appraisal District at least once every three (3) years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units, including the District, may appeal orders of the Appraisal Review Board by filing a petition for review in district court within forty-five (45) days after notice is received that a final order has been entered. In such event, the property value in question may be determined by the court, or by a jury, if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to comply with the Property Tax Code. The District may challenge the exclusion of property from the appraisal rolls or the grant, in whole or in part, of an exemption.

Texas law provides for notice and hearing procedures prior to the adoption of an ad valorem tax rate by the District. Additionally, under certain circumstances, an election would be required to determine whether to approve the adopted total tax rate. See "Rollback of Operation and Maintenance Tax Rate" herein. The Property Tax Code also establishes a procedure for notice to property owners of reappraisals reflecting increased property values, appraisals that are higher than renditions and appraisals of property not previously on an appraisal roll.

Agricultural, Open Space, Timberland, and Inventory Deferment

The Property Tax Code permits land designated for agricultural use (including wildlife management), open space, or timberland to be appraised at its value based on the land's capacity to produce agriculture or timber products rather than at its fair market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of any of such designations must apply for the designation, and the Appraisal District is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions and not as to others. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use for the three (3) years prior to the loss of the designation for agricultural, timberland or open space land. According to the District's Tax Assessor/Collector, as of January 1, 2023, approximately 1,314 acres of land within the District were the subject of a special exemption.

Tax Abatement

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

Levy and Collection of Taxes

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. The District adopts its tax rate each year after it receives a tax roll certified by the Appraisal District. Taxes are due upon receipt of a bill therefor, and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later, or, if billed after January 10, they are delinquent on the first day of the month next following the 21st day after such taxes are billed. A delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month the tax remains unpaid beginning the first calendar month it is delinquent. A delinquent tax also incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent plus a one percent (1%) penalty for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. However, a tax delinquent on July 1 incurs a total penalty of twelve percent (12%) of the amount of the delinquent tax without regard to the number of months the tax has been delinquent, which penalty remains at such rate without further increase. If the tax is not paid by July 1, an additional tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only for the items specified in the Texas Property Tax Code. The Property Tax Code also makes provision for the split payment of taxes, discounts for early payment and the postponement of the delinquency of taxes under certain circumstances. The owner of a residential homestead property who is (i) a person sixty-five (65) years of age or older, (ii) under a disability for purpose of payment of disability insurance benefits under the Federal Old Age Survivors and Disability Insurance Act, or (iii) qualifies as a disabled veteran under Texas law, is also entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership. Additionally, a person who is delinquent on taxes for a residential homestead is entitled to an agreement with the District to pay such taxes in installments over a period of between 12 and 36 months (as determined by the District) when such person has not entered into another installment agreement with respect to delinquent taxes with the District in the preceding 24 months.

Rollback of Operation and Maintenance Tax Rate

Chapter 49 of the Texas Water Code, as amended, classifies certain special purpose districts, including the District, differently based on their current operation and maintenance tax rate or on the percentage of projected build-out that a 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 herein as "Low Tax Rate Districts." Districts that have financed, completed, and issued bonds to pay for all land, 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. See "SELECTED FINANCIAL INFORMATION" for a description of the District's current total tax rate.

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

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

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

The District: A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made by the Board of Directors on an annual basis. For tax year 2024, the District has been designated as a "Developing District." The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

INVESTMENT CONSIDERATIONS

General

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

Economic Factors and Interest Rates

A substantial percentage of the taxable value of the District results from the current market value of single-family residences, undeveloped land and developed lots which are currently being marketed by the Developer to the Builders for the construction of primary residences or commercial/retail improvements. The market value of such properties, homes, lots and undeveloped land is related to general economic conditions in the greater Houston metropolitan region and the national economy and those conditions can affect the demand for residences. Demand for lots and undeveloped land of this type and the construction of residential and commercial improvements 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 lots is directed. Decreased levels of construction activity would tend to restrict the growth of property values in the District or could adversely impact such values. See “THE DISTRICT—Homebuilding” and “Credit Markets and Liquidity in the Financial Markets” below.

Credit Markets and Liquidity in the Financial Markets

Interest rates and the availability of mortgage and development funding have a direct impact on the construction activity, particularly short-term interest rates at which developers are able to obtain financing for development costs. Interest rate levels may affect the ability of a landowner with undeveloped property to undertake and complete construction activities within the District. Because of the numerous and changing factors affecting the availability of funds, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 25 miles from the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and the national financial and credit markets. A downturn in the economic conditions of the City and the nation could adversely affect development and building plans in the District and restrain the growth or reduce the value of the District’s property tax base.

Competition

The demand for and construction of single-family homes in the District, which is 25 miles from downtown Houston, could be affected by competition from other residential developments, including other residential developments located in the northwestern portion of the Houston area market. In addition to competition for new home sales from other developments, there are numerous previously-owned homes in the area of the District. Such homes could represent additional competition for new homes proposed to be sold within the District.

The competitive position of the Builders in the sale of single-family residential houses within the District is affected by most of the factors discussed in this section. Such a competitive position directly affects the growth and maintenance of taxable values in the District and tax revenues to be received by the District. The District can give no assurance that building and marketing programs in the District by the Developer will be implemented or, if implemented, will be successful.

Undeveloped Acreage and Vacant Lots

There are currently approximately 1,516 developable acres of land within the District that have not been provided with water, wastewater and storm drainage facilities necessary to the construction of new development and 445 single-family residential lots remain vacant as of August 1, 2024. Failure of the Developer to develop the developable land or of Builders to construct taxable improvements on developed lots could restrict the rate of growth of taxable values in the District. The District makes no representation as to when or if development of the undeveloped acreage will occur or the success of any homebuilding programs. See “THE DISTRICT—Land Use” and “—Status of Development.”

Developers/Property Owners Obligation to the District

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

Possible Impact on District Tax Rates

Assuming no further development, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of owners of property within the District to pay their taxes. The 2024 Taxable Assessed Valuation is \$1,406,957,078 (\$1,358,049,059 certified and \$48,908,019 uncertified). After issuance of the Bonds, the maximum annual debt service requirement will be \$4,616,169 (2026), and the average annual debt service requirement will be \$3,485,407 (2025-2050 inclusive). Assuming no increase or decrease from the 2024 Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.35 and \$0.27 per \$100 of taxable assessed valuation at a ninety-five percent (95%) collection rate would be necessary to pay both the maximum annual debt service requirement and the average annual debt service requirements, respectively. See “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Debt Service Requirements” and “TAX DATA—Tax Adequacy for Debt Service.”

The Estimated Taxable Assessed Valuation as of July 1, 2024 is \$1,519,179,786, which reduces the above tax calculations to \$0.32 and \$0.25 per \$100 of taxable assessed valuation, respectively. No representation or suggestion is made that the uncertified portion of the 2024 Taxable Assessed Valuation will not be adjusted downward prior to certification by the Appraisal District or the Estimated Taxable Assessed Valuation as of July 1, 2024 will be the amount finally certified by the Appraisal District and no person should rely upon such amounts or their inclusion herein as assurance of their attainment. See “TAXING PROCEDURES.”

Overlapping Debt and Taxes

Approximately 1,259 acres within the District are within the boundaries of Harris County Municipal Utility District No. 489 (“MUD 489”), approximately 376 acres are located within the boundaries of Harris County Municipal Utility District No. 492 (“MUD 492”), approximately 488 acres are within Harris County Municipal Utility District No. 493 (“MUD 493”) and approximately 1,023 acres are not located within any municipal utility district. Property within the District is currently subject to overlapping taxation by MUD 489 and MUD 493, and the District expects that MUD 492 will levy a tax in the future. MUD 489 levied a 2023 tax rate in the amount of \$0.91 of taxable assessed valuation. MUD 492 expects to levy a 2024 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance) and has not issued any debt to date. MUD 493 levied a 2023 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance) and expects to levy a 2024 tax rate in the amount of \$1.00 of taxable assessed valuation (all maintenance). The District’s 2023 tax rate, in combination with the 2023 tax rate of MUD 489, is \$1.315 per \$100 of taxable assessed valuation and in combination with the 2023 tax rate of MUD 493 is \$1.405 per \$100 of taxable assessed valuation. Currently, all development occurring in the District is within MUD 489 and MUD 493. MUD 489 is authorized to issue unlimited tax bonds in a maximum principal amount of \$551,000,000 collectively for water, sewer, drainage, park and road purposes without additional voter approval. MUD 489 has previously issued a total of \$210,055,000 in aggregate principal amount of bonds payable from ad valorem taxes of which \$197,520,000 will remain outstanding as of September 2, 2024, and expects to issue approximately \$31,640,000 of unlimited tax bonds in the fourth quarter of 2024. MUD 492 is authorized to issue unlimited tax bonds in a maximum principal amount of \$283,000,000 collectively for water, sewer, drainage, park and road purposes without additional voter approval. MUD 493 is authorized to issue unlimited tax bonds in a maximum principal amount of \$141,500,000 collectively for water, sewer, drainage, park and road purposes without additional voter approval and expects to issue approximately \$5,450,000 of unlimited tax road bonds in the fourth quarter of 2024. Neither MUD 492 nor MUD 493 have issued any debt to date. The District cannot represent whether any of the development planned or occurring in MUD 489 or future development within MUD 492 or MUD 493 will be successful or whether the appraised valuation of the land located within MUD 489, MUD 492 or MUD 493 will justify continued payment of the taxes by property owners. Increases in the tax rates of either MUD 489, MUD 492 or MUD 493 could have an adverse impact upon future development and home sales within the District and in the willingness of owners of property located within the District to pay ad valorem taxes levied by MUD 489, MUD 492 and MUD 493 and the District.

The tax rate that may be required to service debt on any bonds issued by the District in combination with MUD 489, MUD 492 or MUD 493 is subject to numerous uncertainties such as the growth of taxable values within the boundaries of each, regulatory approvals, construction costs and interest rates. There can be no assurances that the composite of the tax rates imposed by all jurisdictions on property in the District will be competitive with the composite of the tax rates imposed on competing projects in the Harris County area. To the extent that such composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected. Combined tax rates of \$1.315 per \$100 of taxable assessed valuation for the District and MUD 489 and \$1.405 per \$100 of taxable assessed valuation for the District and MUD 493 are higher than the tax rate of many utility districts in the Houston metropolitan area, although such combined rates is within the range of tax rates imposed for similar purposes by many utility districts in the Houston metropolitan area in stages of development comparable with the District.

The current TCEQ rules regarding the feasibility of a bond issue for utility districts in Harris County limit the projected combined total tax rate of entities levying a tax for water, sewer, drainage, roads and recreational facilities to \$1.50 per \$100 of taxable assessed valuation. In the case of the District, the total combined tax rate under current TCEQ rules includes the tax rate of the District in combination with either MUD 489, MUD 492 or MUD 493. The current combined tax rate of the District and MUD 489 is \$1.315 per \$100 of taxable assessed valuation and of the District and MUD 493 is \$1.405 per \$100 of taxable assessed valuation and are consistent with the rules of the TCEQ. If the total combined tax rates of the District and MUD 489, MUD 492 or MUD 493 should ever exceed \$1.50 per \$100 of taxable assessed valuation, the District, MUD 489, MUD 492 or MUD 493 could be prohibited under rules of the TCEQ from selling additional bonds which require the prior approval of TCEQ. See “Possible Impact on District Tax Rates” herein and “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Estimated Overlapping Debt” and “—Overlapping Taxes.”

Voters within the Bridgeland Management District (“Management District”), which includes approximately 2,319 acres within the boundaries of the District, have approved the levy of a sales and use tax and a hotel occupancy tax and issuance of bonds payable from said taxes and/or property assessments. The Management District has not considered calling an election to authorize the levy, assessment and collection of ad valorem taxes or the issuance of bonds payable in whole or in part from ad valorem taxes. See “BRIDGELAND.”

Potential Effects of Oil Price Volatility on the Houston Area

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

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected. The greater Houston area has experienced multiple storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days.

According to the Operator and the Engineer (defined herein), the system serving the District did not sustain any material damage and there was no interruption of water and sewer service as a result of Hurricane Harvey. Further, the District is not aware of any improvements within the District that experienced structural flooding or other material damage as a result of Hurricane Harvey.

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

Specific Flood Type Risks

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

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

Atlas 14

In 2018, the National Weather Service completed a rainfall study known as NOAA Atlas 14, Volume 11 Precipitation-Frequency Atlas of the United States (“Atlas 14”). Floodplain boundaries within the District may be redrawn based upon the Atlas 14 study, which is based upon a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. 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. See “THE SYSTEM.”

Tax Collections Limitations and Foreclosure Remedies

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

Registered Owners' Remedies

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

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

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

A district may not be forced into bankruptcy involuntarily.

Future Debt

The District's voters have authorized the issuance of a total of \$210,000,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing drainage facilities and a total of \$134,000,000 in principal amount of unlimited tax bonds for the purposes of acquiring or constructing park and recreational facilities. After issuance of the Bonds, \$171,475,000 in principal amount of unlimited tax bonds for drainage facilities will remain authorized but unissued and \$107,615,000 in principal amount of unlimited tax bonds for park and recreational facilities will remain authorized but unissued. The District's voters have also authorized, \$344,000,000 in principal amount of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District, all of which remain authorized but unissued. See "THE BONDS—Issuance of Additional Debt," and "—Financing Recreational Facilities." The District's voters could authorize additional unlimited tax bonds for acquiring or constructing drainage facilities, recreational facilities and for refunding outstanding bonds of the District. Any bonds issued by the District, however, must be approved by the Attorney General of Texas and the Board of the District. The issuance of additional bonds for acquiring or constructing drainage and recreational facilities is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. The issuance of additional obligations may increase the District's tax rate and adversely affect the security for, and the investment quality and value of the Bonds.

After reimbursement with proceeds from the Bonds, the District will continue to owe funds to the Developer in the amount of approximately \$5,000,000 plus interest for advances made for the engineering and construction of drainage facilities and approximately \$7,401,533 plus interest plus interest for advances made for the engineering and construction of recreational facilities; however, the principal amount of bonds (outstanding bonds must be taken into account) issued to finance recreational facilities may not exceed 1% of the value of the taxable property in the District at the time of issuance of the bonds, or, in the event the District meets certain criteria, 3% of the value of the taxable property in the District at the time of issuance of the bonds, but in no event in an amount greater than the estimated costs in the plan. The District intends to issue additional bonds in order to fully reimburse the Developer and to provide such facilities to the remainder of undeveloped but developable land (approximately 1,516 acres). In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in value of the taxable property in the District. The District does not employ any formula with respect to appraised valuations, tax collections or otherwise to limit the amount of parity bonds which it may issue. See "Overlapping Debt and Taxes" in this section and "THE BONDS—Issuance of Additional Debt," "—Financing Recreational Facilities," and "—Financing Fire-Fighting Facilities."

Marketability of the Bonds

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

Environmental and Air Quality Regulations

Wastewater treatment and water supply facilities are subject to stringent and complex environmental laws and regulations. Facilities must comply with environmental laws at the federal, state, and local levels. These laws and regulations can restrict or prohibit certain activities that affect the environment in many ways 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), with an effective date of March 5, 2018, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The District’s stormwater discharges currently maintain permit coverage through the Municipal Separate Storm System Permit (the “Current Permit”) issued to the Storm Water Management Joint Task Force consisting of Harris County, Harris County Flood Control District, the City of Houston, and the Texas Department of Transportation. In the event that at any time in the future the District is not included in the Current Permit, it may be required to seek independent coverage under the TCEQ’s General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”), which authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. If the District’s inclusion in the MS4 Permit 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 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.

Flood Protection: According to the Engineer, none of the land within the District is located within the 100-year floodplain.

Risk Factors Related to the Purchase of Municipal Bond Insurance

The District has applied for a bond insurance policy (the “Policy”) to guarantee the scheduled payment of principal and interest on the Bonds. If the Policy is issued, investors should be aware of the following investment considerations:

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

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

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

Future Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such legislation, administrative action, or court decision could limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Continuing Compliance with Certain Covenants

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

LEGAL MATTERS

Legal Opinions

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

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

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

Legal Review

In its capacity as Bond Counsel, Schwartz, Page & Harding, L.L.P., has reviewed the information appearing in this OFFICIAL STATEMENT under the captioned sections "THE BONDS," "THE DISTRICT—General, "MANAGEMENT OF THE DISTRICT—District Consultants—Bond Counsel and General Counsel," and "WATER, WASTEWATER AND DRAINAGE—Master Facilities," "TAXING PROCEDURES," and "LEGAL MATTERS," solely to determine whether such information fairly summarizes the law and documents referred to therein. Such firm has not independently verified factual information contained in this OFFICIAL STATEMENT, nor has such firm conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of this OFFICIAL STATEMENT. No person is entitled to rely upon such firm's limited participation as an assumption of responsibility for, or an expression of opinion of any kind with regard to, the accuracy or completeness of any of the other information contained herein.

Tax Exemption

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

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

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

Qualified Tax-Exempt Obligations

Section 265(a) of the Code provides, in pertinent part, that interest paid or incurred by a taxpayer, including a "financial institution," on indebtedness incurred or continued to purchase or carry tax-exempt obligations is not deductible in determining the taxpayer's taxable income. Section 265(b) of the Code provides an exception to the disallowance of such deduction for any interest expense paid or incurred on indebtedness of a taxpayer that is a "financial institution" allocable to tax-exempt obligations, other than "private activity bonds," that are designated by a "qualified small issuer" as "qualified tax-exempt obligations." A "qualified small issuer" is any governmental issuer (together with any "on- behalf of" and "subordinate" issuers) who issues no more than \$10,000,000 of tax-exempt obligations during the calendar year. Section 265(b)(5) of the Code defines the term "financial institution" as any "bank" described in Section 585(a)(2) of the Code, or any person accepting deposits from the public in the ordinary course of such person's trade or business that is subject to federal or state supervision as a financial institution. Notwithstanding the exception to the disallowance of the deduction of interest on indebtedness related to "qualified tax-exempt obligations" provided by Section 265(b) of the Code, Section 291 of the Code provides that the allowable deduction to a "bank," as defined in Section 585(a)(2) of the Code, for interest on indebtedness incurred or continued to purchase "qualified tax-exempt obligations" shall be reduced by twenty-percent (20%) as a "financial institution preference item."

The District will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b) of the Code. In furtherance of that designation, the District will covenant to take such action that would assure, or to refrain from such action that would adversely affect, the treatment of the Bonds as "qualified tax-exempt obligations." Potential purchasers should be aware that if the issue price to the public exceeds \$10,000,000, there is a reasonable basis to conclude that the payment of a de minimis amount of premium in excess of \$10,000,000 is disregarded; however, the Internal Revenue Service could take a contrary view. If the Internal Revenue Service takes the position that the amount of such premium is not disregarded, then such obligations might fail to satisfy the aforementioned dollar limitation and the Bonds would not be "qualified tax-exempt obligations."

Collateral Federal Income Tax Consequences

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

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

Interest on the Bonds may be includable in certain corporation's "adjusted financial statement income" determined under Section 56A of the Code to calculate the alternative minimum tax imposed by Section 55 of the Code.

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

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

State, Local and Foreign Taxes

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

Tax Accounting Treatment of Original Issue Discount and Premium Bonds

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

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

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

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

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

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

NO MATERIAL ADVERSE CHANGE

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

NO-LITIGATION CERTIFICATE

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

MUNICIPAL BOND RATING AND MUNICIPAL BOND INSURANCE

Moody's Investors Service ("Moody's") has assigned a credit rating of "A3" to the Bonds. An explanation of the rating may be obtained from Moody's, 7 World Trade Center, 250 Greenwich Street, New York, New York 10007. The rating fees of Moody's will be paid by the District; however, the fees associated with any other rating will be the responsibility of the Underwriters.

Application has also been made for municipal bond insurance. If qualified, the purchase of municipal bond insurance with respect to the Series 2024 Bonds is optional and at the expense of the Series 2024 Bond Underwriter, and the purchase of municipal bond insurance with respect to the Series 2024A Park Bonds is optional and at the expense of the Series 2024A Park Bond Underwriter. See "INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance."

There is no assurance that such rating will continue for any given period of time or that it will not be revised or withdrawn entirely by Moody's, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

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

Financial Advisor

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

Consultants

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

Tax Assessor/Collector: The information contained in this OFFICIAL STATEMENT relating to the breakdown of the District's historical assessed value and principal taxpayers, including particularly such information contained in the section entitled "TAX DATA" and "TAXING PROCEDURES" has been provided by B&A Municipal Tax Services, LLC and is included herein in reliance upon the authority of said firm as experts in assessing property values and collecting taxes.

Engineer: The information contained in this OFFICIAL STATEMENT relating to engineering and to the description of the System and, in particular that information included in the sections entitled "THE DISTRICT," "THE SYSTEM" and "WATER, WASTEWATER AND DRAINAGE," and has been provided by BGE, Inc., and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

Auditor: The financial statements of the District as of May 31, 2023, and for the year then ended, included in this offering document, have been audited by FORVIS, LLP, independent auditors, as stated in their report appearing herein. See “APPENDIX A” for a copy of the District’s May 31, 2023, financial statements.

Bookkeeper: The information related to the unaudited summary of the District's General Operating Fund as it appears in “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—District Operations” has been provided from records of Municipal Accounts & Consulting, L.P. and is included herein in reliance upon the authority of such firm as experts in the tracking and managing the various funds of municipal utility districts.

Updating the Official Statement

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

Certification of Official Statement

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

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The District will provide annually to the MSRB certain updated financial information and operating data. The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this OFFICIAL STATEMENT under the headings “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED),” (except “Estimated Overlapping Debt” and “Overlapping Taxes”) and “TAX DATA—Tax Rate Distribution—Historical Tax Collections—Tax Roll Information—Principal Taxpayers,” (most of which information is contained in the District’s annual audited financial statements) and in “APPENDIX A.” The District will update and provide this information within six (6) months after the end of each fiscal year ending in or after 2024.

The district may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District 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, then the District will provide unaudited financial statements by the required time, and audited financial statements when and if such audited financial statements become available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Orders 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 May 31. Accordingly, it must provide updated information by November 30 in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Specified Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person within the meaning of CFR § 240.15c2-12 (the "Rule"); (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material to a decision to purchase or sell Bonds; (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 "financial obligation" and "material" when used in this paragraph shall have the meanings ascribed to them under federal securities laws. Neither the Bonds nor the Bond Orders make any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information from the MSRB

The District has agreed to provide the foregoing information only to the MSRB. The MSRB makes the information available to the public without charge through an internet portal at www.emma.msrb.org.

Limitations and Amendments

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects 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 the Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as a 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 Underwriters 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 reason for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The District has complied in all material respects with all continuing disclosure agreements made by the District in accordance with SEC Rule 15c2-12.

MISCELLANEOUS

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

/s/ _____
President, Board of Directors

ATTEST:

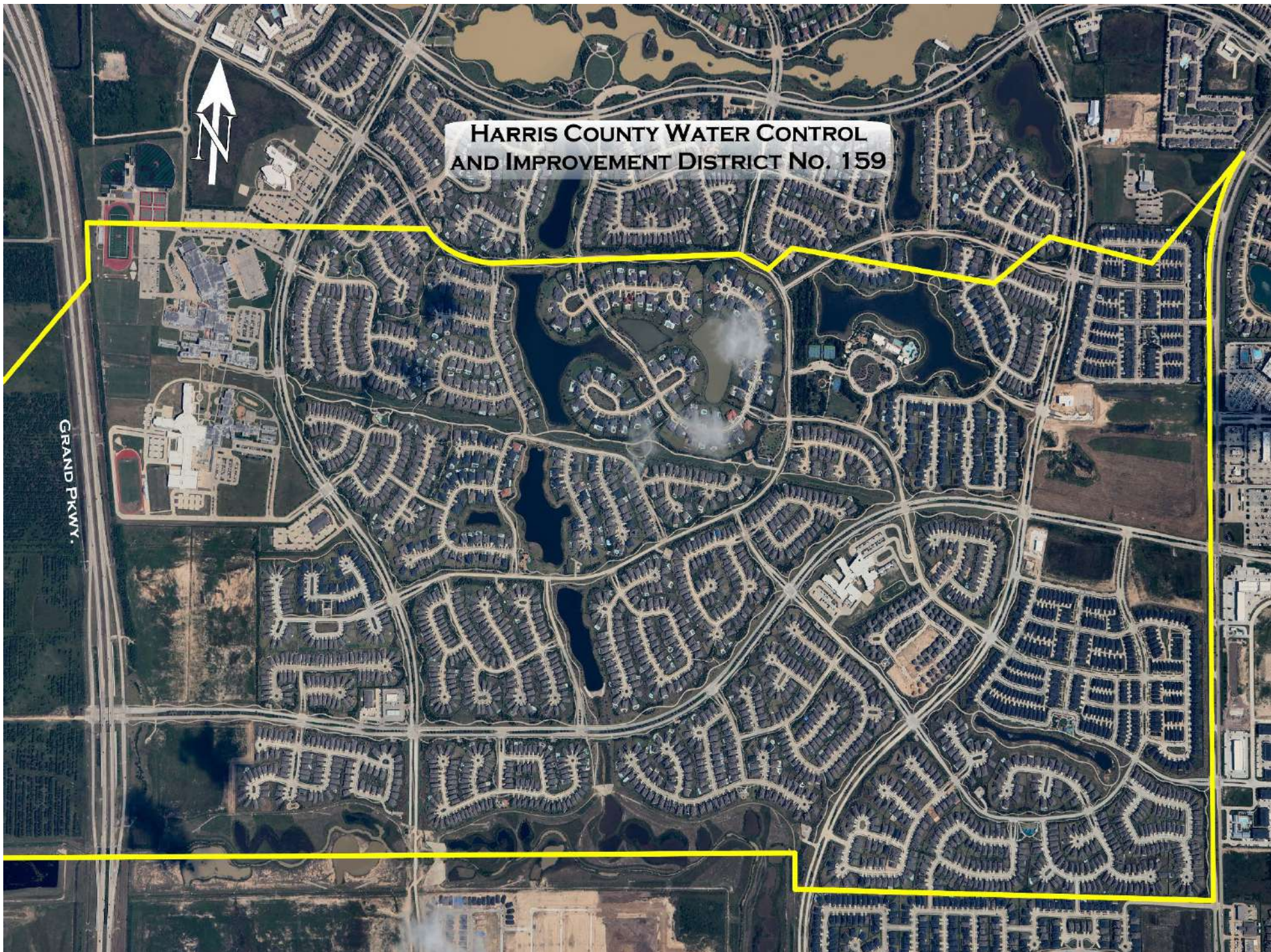
/s/ _____
Secretary, Board of Directors

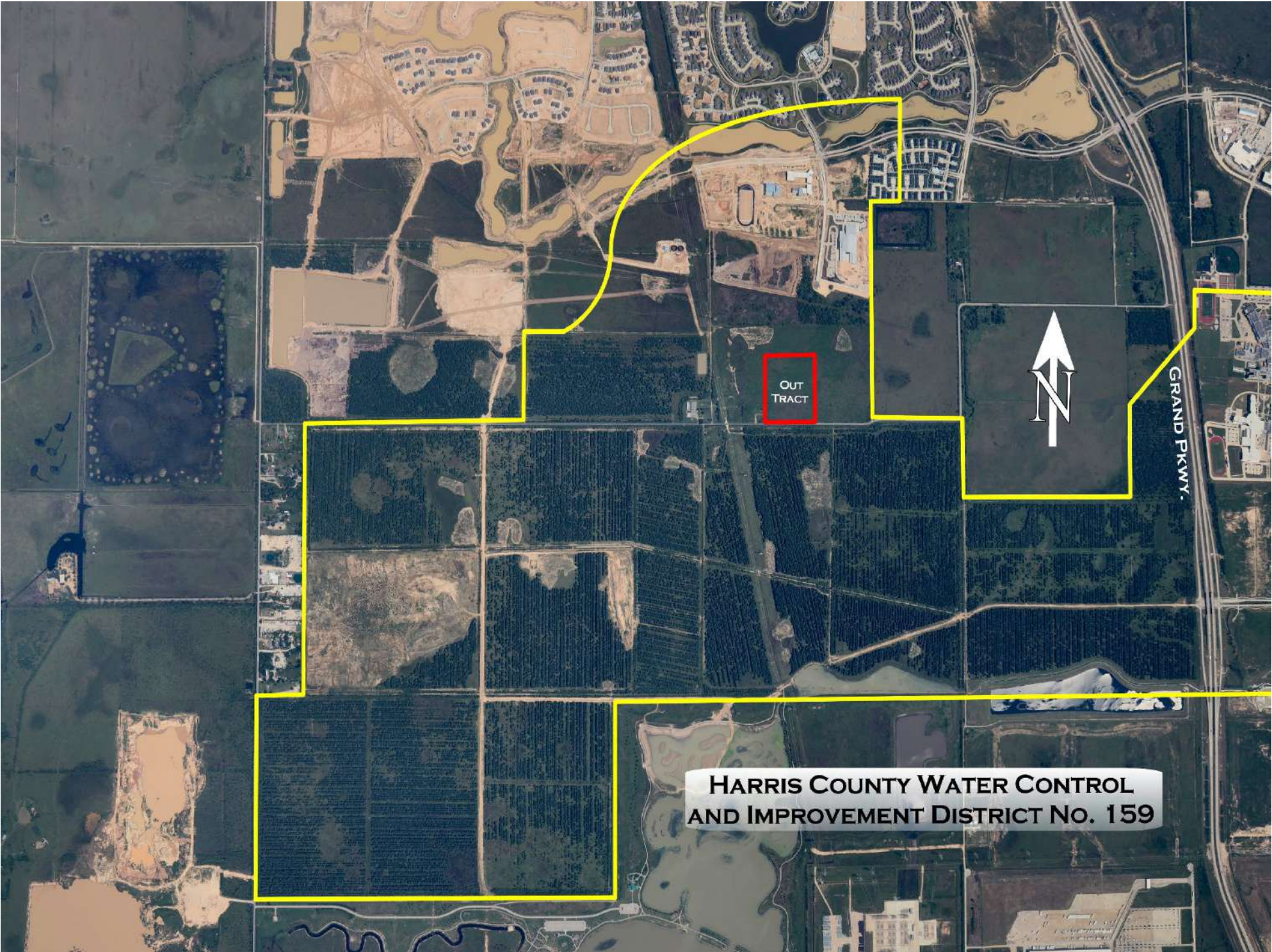
AERIAL LOCATION MAP
(Approximate boundaries as of August 2024)

**HARRIS COUNTY WATER CONTROL
AND IMPROVEMENT DISTRICT No. 159**



GRAND PKWY.





OUT TRACT



GRAND PKWY.

HARRIS COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT No. 159

PHOTOGRAPHS OF THE DISTRICT
(Taken August 2024)













APPENDIX A

Independent Auditor's Report and Financial Statements of the District for the year ended May 31, 2023


The information contained in this appendix includes the audited financial statements of Harris County Water Control and Improvement District No. 159 and certain supplemental information for the fiscal year ended May 31, 2023.



Harris County Water Control and Improvement District No. 159 Harris County, Texas

Independent Auditor's Report and Financial Statements

May 31, 2023



Harris County Water Control and Improvement District No. 159

May 31, 2023

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Independent Auditor's Report

Board of Directors
Harris County Water Control and Improvement District No. 159
Harris County, Texas

Opinions

We have audited the financial statements of the governmental activities and each major fund of Harris County Water Control and Improvement District No. 159 (the District), as of and for the year ended May 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 accompanying financial statements present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District, as of May 31, 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 (GAAS). Our responsibilities under those standards are further described in the "Auditor's Responsibilities for the Audit of the Financial Statements" section of our report. We are required to be independent of the District and to meet our other ethical responsibilities, in accordance with the relevant ethical requirements relating to our audit. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

In performing an audit in accordance with GAAS, we:

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

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

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison schedule, as listed in the table of contents, be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The accompanying schedules required by the Texas Commission on Environmental Quality listed in the table of contents 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. Such information has not been subjected to the auditing procedures applied in the audits of the basic financial statements, and accordingly, we do not express an opinion or provide any assurance on it.

FORVIS,LLP

Houston, Texas
October 4, 2023

Harris County Water Control and Improvement District No. 159 Management's Discussion and Analysis May 31, 2023

Overview of the Financial Statements

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

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

Government-wide Financial Statements

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

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

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

**Harris County Water Control and
Improvement District No. 159
Management's Discussion and Analysis (Continued)
May 31, 2023**

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

Fund Financial Statements

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

Governmental Funds

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

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

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

Notes to Financial Statements

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

**Harris County Water Control and
Improvement District No. 159
Management's Discussion and Analysis (Continued)
May 31, 2023**

Financial Analysis of the District as a Whole

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

Summary of Net Position

| | <u>2023</u> | <u>2022</u> |
|----------------------------------|------------------------|-----------------------|
| Current and other assets | \$ 7,714,099 | \$ 9,888,901 |
| Capital assets | <u>25,290,945</u> | <u>29,588,425</u> |
| Total assets | <u>\$ 33,005,044</u> | <u>\$ 39,477,326</u> |
| Long-term liabilities | \$ 45,151,525 | \$ 40,243,358 |
| Other liabilities | <u>1,140,060</u> | <u>3,696,784</u> |
| Total liabilities | <u>46,291,585</u> | <u>43,940,142</u> |
| Net position: | | |
| Net investment in capital assets | (17,579,734) | (9,042,430) |
| Restricted | 2,565,387 | 1,747,876 |
| Unrestricted | <u>1,727,806</u> | <u>2,831,738</u> |
| Total net position | <u>\$ (13,286,541)</u> | <u>\$ (4,462,816)</u> |

The total net position of the District decreased by \$8,823,725, or about 198 percent. The majority of the decrease in net position is related to the conveyance of capital assets to another governmental entity for maintenance. Although the District's investment in its capital assets is reported net of related debt, it should be noted that the resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Summary of Changes in Net Position

| | <u>2023</u> | <u>2022</u> |
|----------------|--------------------|--------------------|
| Revenues: | | |
| Property taxes | \$ 3,661,100 | \$ 2,592,411 |
| Other revenues | <u>230,790</u> | <u>29,060</u> |
| Total revenues | <u>3,891,890</u> | <u>2,621,471</u> |

**Harris County Water Control and
Improvement District No. 159
Management's Discussion and Analysis (Continued)
May 31, 2023**

Summary of Changes in Net Position (Continued)

| | 2023 | 2022 |
|---------------------------------|-----------------|----------------|
| Expenses: | | |
| Services | \$ 1,163,576 | \$ 1,191,347 |
| Conveyance of capital assets | 9,393,882 | 1,634,705 |
| Depreciation | 334,452 | 215,781 |
| Debt service | 1,823,705 | 1,349,926 |
| Total expenses | 12,715,615 | 4,391,759 |
| Change in net position | (8,823,725) | (1,770,288) |
| Net position, beginning of year | (4,462,816) | (2,692,528) |
| Net position, end of year | \$ (13,286,541) | \$ (4,462,816) |

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of fiscal year ended May 31, 2023, were \$6,751,449, an increase of \$420,706 from the prior year.

The general fund's fund balance decreased by \$1,133,048, primarily due to capital outlay expenditures exceeding property tax revenues and developer construction advances.

The debt service fund's fund balance increased by \$661,334, primarily due to property tax revenues and investment income exceeding principal and interest expenditures on bonds.

The capital projects fund's fund balance increased by \$892,420. This net increase was primarily due to the net proceeds received from the sale of the Series 2022 and Series 2022A Park bonds being greater than debt issuance costs and repayments to the District's developer for facilities located within the District's boundaries.

General Fund Budgetary Highlights

There were several differences between the final budgetary amounts and actual amounts. The major differences between budget and actual were due to capital outlay expenditures being greater than expected and property tax revenues being lower than anticipated. In addition, an interfund transfer in from the capital projects fund, developer advances received, developer advances repaid, and debt issuance costs were not included in the budget. The fund balance as of May 31, 2023, was expected to be \$3,241,458 and the actual end-of-year fund balance was \$1,679,986.

**Harris County Water Control and
Improvement District No. 159
Management's Discussion and Analysis (Continued)
May 31, 2023**

Capital Assets and Related Debt

Capital Assets

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

Capital Assets (Net of Accumulated Depreciation)

| | 2023 | 2022 |
|--------------------------|---------------|---------------|
| Land and improvements | \$ 12,912,873 | \$ 14,886,298 |
| Construction in progress | 6,263,247 | 10,602,282 |
| Recreational facilities | 6,114,825 | 4,099,845 |
| Total capital assets | \$ 25,290,945 | \$ 29,588,425 |

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

| | |
|---|--------------|
| Construction in progress related to Phase 2B-2 of the Langham Creek excavation project | \$ 3,087,837 |
| Langham Creek mass grading, Phase 2, and detention, Phase 1 | 328,143 |
| Detention and amenity excavation and spoil disposal to serve Emerald Lake | 664,364 |
| Recreational facilities and landscape improvements to serve Parkland Village, Sections 11, 12, 14, 17, 18, 20, 29, 31, 34 and 42 | 1,969,551 |
| Landscape improvements at Tuckerton, Phase 1, and Westgreen, Phase 4 | 248,364 |
| Irrigation booster pump Station No. 5 and pump No. 4 | 131,517 |
| Total additions to capital assets | \$ 6,429,776 |

The developer of the District has constructed detention, drainage and recreational facilities on behalf of the District under the terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of May 31, 2023, a liability for developer-constructed capital assets of \$4,798,824 was recorded in the government-wide financial statements.

**Harris County Water Control and
Improvement District No. 159
Management's Discussion and Analysis (Continued)
May 31, 2023**

Debt

The changes in the debt position of the District during the fiscal year ended May 31, 2023, are summarized as follows:

| | | |
|---|--------|-----------------------|
| Long-term debt payable, beginning of year | \$ | 40,243,358 |
| Increases in long-term debt | | 13,409,191 |
| Decreases in long-term debt | | <u>(8,501,024)</u> |
| Long-term debt payable, end of year | \$ | <u>45,151,525</u> |

At May 31, 2023, the District had \$175,395,000 of unlimited tax bonds authorized, but unissued, for the purposes of acquiring, constructing and improving the drainage system within the District and \$126,485,000 for financing and constructing recreational facilities, and \$344,000,000 for refunding such bonds.

The District's bonds carry an underlying rating of "A3" from Moody's Investor Services (Moody's). The Series 2019, Series 2022, and Series 2022A Park bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2020, Series 2021 and Series 2021A Park bonds carry a "AA" rating from Standard & Poor's by virtue of bond insurance issued by Assured Guaranty Municipal Corp. The Series 2021 and Series 2021A Park bonds also carry an "A1" rating from Moody's by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

Other Relevant Factors

Relationship to the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City of Houston (the City), the District must conform to the City ordinance consenting to the creation of the District. In addition, the District may be annexed by the City without the District's consent. Effective December 1, 2017, prior to annexation, the City would be required to hold an election in the District whereby the qualified voters in the District would approve the annexation. If the District is annexed, the City must assume the District's assets and obligations (including the bond indebtedness) and abolish the District within 90 days.

Contingencies

A developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds from future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction amounts are approximately \$1,426,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

**Harris County Water Control and
Improvement District No. 159**
Statement of Net Position and Governmental Funds Balance Sheet
May 31, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|-------------------------|----------------------------------|--------------------------------------|---------------------|----------------------|--|
| Assets | | | | | | |
| Cash | \$ 427,882 | \$ 155,770 | \$ 260 | \$ 583,912 | \$ - | \$ 583,912 |
| Short-term investments | 1,990,604 | 2,616,694 | 2,369,602 | 6,976,900 | - | 6,976,900 |
| Property taxes receivable | 47,820 | 78,803 | - | 126,623 | - | 126,623 |
| Accrued penalty and interest | - | - | - | - | 17,909 | 17,909 |
| Interfund receivable | 69,166 | - | - | 69,166 | (69,166) | - |
| Due from others | 8,755 | - | - | 8,755 | - | 8,755 |
| Capital assets (net of accumulated depreciation): | | | | | | |
| Land and improvements | - | - | - | - | 12,912,873 | 12,912,873 |
| Construction in progress | - | - | - | - | 6,263,247 | 6,263,247 |
| Recreational facilities | - | - | - | - | 6,114,825 | 6,114,825 |
| Total assets | \$ 2,544,227 | \$ 2,851,267 | \$ 2,369,862 | \$ 7,765,356 | \$ 25,239,688 | \$ 33,005,044 |

**Harris County Water Control and
Improvement District No. 159**
Statement of Net Position and Governmental Funds Balance Sheet (Continued)
May 31, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Net Position |
|---|---------------------|-------------------------|-----------------------------|---------------------|------------------------|---------------------------------|
| Liabilities | | | | | | |
| Accounts payable | \$ 63,842 | \$ - | \$ 1,697 | \$ 65,539 | \$ - | \$ 65,539 |
| Accrued interest payable | - | - | - | - | 321,942 | 321,942 |
| Due to others | 8,736 | - | - | 8,736 | - | 8,736 |
| Interfund payable | - | 69,166 | - | 69,166 | (69,166) | - |
| Retainage payable | 743,843 | - | - | 743,843 | - | 743,843 |
| Long-term liabilities: | | | | | | |
| Due within one year | - | - | - | - | 995,000 | 995,000 |
| Due after one year | - | - | - | - | 44,156,525 | 44,156,525 |
| Total liabilities | 816,421 | 69,166 | 1,697 | 887,284 | 45,404,301 | 46,291,585 |
| Deferred Inflows of Resources | | | | | | |
| Deferred property tax revenues | 47,820 | 78,803 | 0 | 126,623 | (126,623) | 0 |
| Fund Balances/Net Position | | | | | | |
| Fund balances: | | | | | | |
| Restricted: | | | | | | |
| Unlimited tax bonds | - | 2,703,298 | - | 2,703,298 | (2,703,298) | - |
| Drainage | - | - | 2,368,165 | 2,368,165 | (2,368,165) | - |
| Assigned, future expenditures | 614,095 | - | - | 614,095 | (614,095) | - |
| Unassigned | 1,065,891 | - | - | 1,065,891 | (1,065,891) | - |
| Total fund balances | 1,679,986 | 2,703,298 | 2,368,165 | 6,751,449 | (6,751,449) | 0 |
| Total liabilities, deferred inflows of resources and fund balances | \$ 2,544,227 | \$ 2,851,267 | \$ 2,369,862 | \$ 7,765,356 | | |
| Net position: | | | | | | |
| Net investment in capital assets | | | | | (17,579,734) | (17,579,734) |
| Restricted for debt service | | | | | 2,478,068 | 2,478,068 |
| Restricted for capital projects | | | | | 87,319 | 87,319 |
| Unrestricted | | | | | 1,727,806 | 1,727,806 |
| Total net position | | | | | \$ (13,286,541) | \$ (13,286,541) |

**Harris County Water Control and
Improvement District No. 159**
**Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balances**
Year Ended May 31, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|--|-----------------|-------------------------|-----------------------------|--------------|-------------|-------------------------------|
| Revenues | | | | | | |
| Property taxes | \$ 1,366,219 | \$ 2,221,970 | \$ - | \$ 3,588,189 | \$ 72,911 | \$ 3,661,100 |
| Penalty and interest | - | 22,922 | - | 22,922 | 10,377 | 33,299 |
| Tap connection and inspection fees | 18,651 | - | - | 18,651 | - | 18,651 |
| Investment income | 40,437 | 61,058 | 77,345 | 178,840 | - | 178,840 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total revenues | 1,425,307 | 2,305,950 | 77,345 | 3,808,602 | 83,288 | 3,891,890 |
| Expenditures/Expenses | | | | | | |
| Service operations: | | | | | | |
| Purchased services | 6,129 | - | - | 6,129 | - | 6,129 |
| Professional fees | 174,275 | 8,750 | - | 183,025 | 133,480 | 316,505 |
| Contracted services | 54,652 | 49,206 | - | 103,858 | 1,245 | 105,103 |
| Repairs and maintenance | 582,824 | - | - | 582,824 | - | 582,824 |
| Other expenditures | 50,779 | 16,480 | 500 | 67,759 | - | 67,759 |
| Tap connections | 85,256 | - | - | 85,256 | - | 85,256 |
| Capital outlay | 3,392,626 | - | 5,101,957 | 8,494,583 | (8,494,583) | - |
| Conveyance of capital assets | - | - | - | - | 9,393,882 | 9,393,882 |
| Depreciation | - | - | - | - | 334,452 | 334,452 |
| Debt service: | | | | | | |
| Principal retirement | - | 635,000 | - | 635,000 | (635,000) | - |
| Interest and fees | - | 935,180 | - | 935,180 | 144,700 | 1,079,880 |
| Debt issuance costs | 50,524 | - | 693,301 | 743,825 | - | 743,825 |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| Total expenditures/expenses | 4,397,065 | 1,644,616 | 5,795,758 | 11,837,439 | 878,176 | 12,715,615 |
| Excess (Deficiency) of Revenues Over Expenditures | | | | | | |
| | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> | <hr/> |
| | (2,971,758) | 661,334 | (5,718,413) | (8,028,837) | (794,888) | |

**Harris County Water Control and
Improvement District No. 159**
**Statement of Activities and Governmental Fund Revenues,
Expenditures and Changes in Fund Balances (Continued)**
Year Ended May 31, 2023

| | General Fund | Debt Service Fund | Capital Projects Fund | Total | Adjustments | Statement of Activities |
|---|-----------------|-------------------------|-----------------------------|--------------|--------------|-------------------------------|
| Other Financing Sources (Uses) | | | | | | |
| Interfund transfers in (out) | \$ 58,587 | \$ - | \$ (58,587) | \$ - | \$ - | |
| General obligation bonds issued | - | - | 11,590,000 | 11,590,000 | (11,590,000) | |
| Discount on debt issued | - | - | (260,911) | (260,911) | 260,911 | |
| Repayment of developer advances | (156,087) | - | (4,659,669) | (4,815,756) | 4,815,756 | |
| Developer construction advances | 1,936,210 | - | - | 1,936,210 | (1,936,210) | |
| Total other financing sources | 1,838,710 | 0 | 6,610,833 | 8,449,543 | (8,449,543) | |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | (1,133,048) | 661,334 | 892,420 | 420,706 | (420,706) | |
| Change in Net Position | | | | | (8,823,725) | \$ (8,823,725) |
| Fund Balances/Net Position | | | | | | |
| Beginning of year | 2,813,034 | 2,041,964 | 1,475,745 | 6,330,743 | - | (4,462,816) |
| End of year | \$ 1,679,986 | \$ 2,703,298 | \$ 2,368,165 | \$ 6,751,449 | \$ 0 | \$ (13,286,541) |

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

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

Harris County Water Control and Improvement District No. 159 (the District) was created by an order of the Texas Commission on Environmental Quality (the Commission), effective August 16, 2007, in accordance with the Texas Water Code, Chapter 51. The District operates in accordance with Chapters 49 and 51 of the Texas Water Code and Article XVI, Section 59, of the Constitution of the State of Texas and is subject to the continuing supervision of the Commission. The principal functions of the District are to finance, construct, own and operate drainage and recreational facilities and to provide such facilities and services to the customers of the District.

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

Reporting Entity

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

Government-wide and Fund Financial Statements

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

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

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

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

The District presents the following major governmental funds:

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

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

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

Fund Balances – Governmental Funds

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

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

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

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

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

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

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Notes to Financial Statements

May 31, 2023

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

Measurement Focus and Basis of Accounting

Government-wide Financial Statements

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

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

Fund Financial Statements

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

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

Deferred Outflows and Inflows of Resources

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

Interfund Transactions

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

Pension Costs

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

Use of Estimates

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

Investments and Investment Income

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

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

Property Taxes

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

**Harris County Water Control and
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Notes to Financial Statements
May 31, 2023**

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

In the governmental funds, property taxes are initially recorded as receivables and deferred inflows of resources at the time the tax levy is billed. Revenues recognized during the fiscal year ended May 31, 2023, include collections during the current period or within 60 days of year-end related to the 2022 and prior years' tax levies.

In the government-wide statement of net position, property taxes are considered earned in the budget year for which they are levied. For the District's fiscal year ended May 31, 2023, the 2022 tax levy is considered earned during the current fiscal year. In addition to property taxes levied, any delinquent taxes are recorded net of amounts considered uncollectible.

Capital Assets

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

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

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

| | Years |
|-------------------------|--------------|
| Recreational facilities | 10-30 |

Debt Issuance Costs

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

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Notes to Financial Statements

May 31, 2023

Long-term Obligations

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

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

Net Position/Fund Balances

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

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

Reconciliation of Government-wide and Fund Financial Statements

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

| | |
|--|------------------------|
| Capital assets used in governmental activities are not financial resources and are not reported in the funds. | \$ 25,290,945 |
| Property tax revenue recognition and the related reduction of deferred inflows of resources are subject to availability of funds in the fund financial statements. | 126,623 |
| Penalty and interest on delinquent taxes is not receivable in the current period and is not reported in the funds. | 17,909 |
| Accrued interest on long-term liabilities is not payable with current financial resources and is not reported in the funds. | (321,942) |
| Long-term debt obligations are not due and payable in the current period and are not reported in the funds. | <u>(45,151,525)</u> |
| Adjustment to fund balances to arrive at net position. | <u>\$ (20,037,990)</u> |

**Harris County Water Control and
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Notes to Financial Statements
May 31, 2023**

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

| | |
|---|-----------------------|
| Change in fund balances. | \$ 420,706 |
| Governmental funds report capital outlays as expenditures. However, for government-wide financial statements, the cost of capitalized assets is allocated over their estimated useful lives and reported as depreciation expense, if depreciable, or conveyed to another entity for maintenance. This is the amount by which conveyed capital assets, depreciation expense and noncapitalized costs exceeded capital outlay expenditures in the current period. | (1,368,476) |
| Governmental funds report developer advances as other financing sources or uses as amounts are received or paid. However, for government-wide financial statements, these amounts are recorded as an increase or decrease in due to developer. | 2,879,546 |
| Governmental funds report the effect of premiums and discounts when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities. | 260,911 |
| Governmental funds report proceeds from the sale of bonds because they provide current financial resources to governmental funds. Principal payments on debt are recorded as expenditures. None of these transactions, however, have any affect on net position. | (10,955,000) |
| Revenues that do not provide current financial resources are not reported as revenues for the funds, but are reported as revenues in the statement of activities. | 83,288 |
| Some expenses reported in the statement of activities do not require the use of current financial resources and, therefore, are not reported as expenditures in governmental funds. | (144,700) |
| Change in net position of governmental activities. | <u>\$ (8,823,725)</u> |

**Harris County Water Control and
Improvement District No. 159**
Notes to Financial Statements
May 31, 2023

Note 2: Deposits, Investments and Investment Income

Deposits

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

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

At May 31, 2023, none of the District's bank balances were exposed to custodial credit risk.

Investments

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

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

The District invests in Texas CLASS, an external investment pool that is not registered with the Securities and Exchange Commission. A Board of Trustees, elected by the participants, has oversight of Texas CLASS. The District's investments may be redeemed at any time. Texas CLASS attempts to minimize its exposure to market and credit risk through the use of various strategies and credit monitoring techniques and limits its investments in any issuer to the top two ratings issued by nationally recognized statistical rating organizations. The District's investments in Texas CLASS are reported at net asset value.

At May 31, 2023, the District had the following investments and maturities.

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

| Type | Maturities in Years | | | | |
|-------------|---------------------|----------------|------|------|-----------------|
| | Fair Value | Less Than 1 | 1-5 | 6-10 | More Than 10 |
| Texas CLASS | \$ 6,976,900 | \$ 6,976,900 | \$ 0 | \$ 0 | \$ 0 |

Interest Rate Risk. As a means of limiting its exposure to fair value losses arising from rising interest rates, the District's investment policy does not allow investments in certain mortgage-backed securities, collateralized mortgage obligations with a final maturity date in excess of 10 years and interest rate indexed collateralized mortgage obligations. The external investment pool is presented as an investment with a maturity of less than one year because it is redeemable in full immediately.

Credit Risk. Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At May 31, 2023, the District's investments in Texas CLASS were rated "AAAm" by Standard & Poor's.

Summary of Carrying Values

The carrying values of deposits and investments shown previously are included in the balance sheet and statement of net position at May 31, 2023, as follows:

| | | |
|-----------------|----|-----------|
| Carrying value: | | |
| Deposits | \$ | 583,912 |
| Investments | | 6,976,900 |
| Total | \$ | 7,560,812 |

Investment Income

Investment income of \$178,840 for the year ended May 31, 2023, consisted of interest income.

Fair Value Measurements

The District has the following recurring fair value measurements as of May 31, 2023:

- Pooled investments of \$6,976,900 are valued at fair value per share of the pool's underlying portfolio.

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements May 31, 2023

Note 3: Capital Assets

A summary of changes in capital assets for the year ended May 31, 2023, is presented below:

| Governmental Activities | Balances, Beginning of Year | Additions | Retirements | Balances, End of Year |
|---------------------------------------|-----------------------------------|---------------------|------------------------|-----------------------------|
| Capital assets, non-depreciable: | | | | |
| Land and improvements | \$ 14,886,298 | \$ 664,364 | \$ (2,637,789) | \$ 12,912,873 |
| Construction in progress | 10,602,282 | 3,415,980 | (7,755,015) | 6,263,247 |
| Total capital assets, non-depreciable | 25,488,580 | 4,080,344 | (10,392,804) | 19,176,120 |
| Capital assets, depreciable: | | | | |
| Recreational facilities | 4,315,626 | 2,349,432 | - | 6,665,058 |
| Less accumulated depreciation: | | | | |
| Recreational facilities | (215,781) | (334,452) | - | (550,233) |
| Total governmental activities, net | <u>\$ 29,588,425</u> | <u>\$ 6,095,324</u> | <u>\$ (10,392,804)</u> | <u>\$ 25,290,945</u> |

Note 4: Long-term Liabilities

Changes in long-term liabilities for the year ended May 31, 2023, were as shown below:

| Governmental Activities | Balances, Beginning of Year | Increases | Decreases | Balances, End of Year | Amounts Due in One Year |
|---|-----------------------------------|----------------------|---------------------|-----------------------------|-------------------------------|
| Bonds payable: | | | | | |
| General obligation bonds | \$ 30,235,000 | \$ 11,590,000 | \$ 635,000 | \$ 41,190,000 | \$ 995,000 |
| Less discounts on bonds | 599,016 | 260,911 | 22,628 | 837,299 | - |
| | 29,635,984 | 11,329,089 | 612,372 | 40,352,701 | 995,000 |
| Due to developer | 10,607,374 | 2,080,102 | 7,888,652 | 4,798,824 | - |
| Total governmental activities long-term liabilities | <u>\$ 40,243,358</u> | <u>\$ 13,409,191</u> | <u>\$ 8,501,024</u> | <u>\$ 45,151,525</u> | <u>\$ 995,000</u> |

**Harris County Water Control and
Improvement District No. 159
Notes to Financial Statements
May 31, 2023**

General Obligation Bonds

| | Series 2019 | Series 2020 |
|--|---------------------------|------------------------------|
| Amounts outstanding, May 31, 2023 | \$13,020,000 | \$7,825,000 |
| Interest rates | 2.00% to 4.00% | 2.00% to 4.00% |
| Maturity dates, serially beginning/ending | September 1, 2023/2045 | September 1, 2023/2046 |
| Interest payment dates | March 1/ September 1 | March 1/ September 1 |
| Callable dates* | September 1, 2025 | September 1, 2025 |
| | Series 2021 | Park Series 2021A |
| Amounts outstanding, May 31, 2023 | \$4,070,000 | \$4,685,000 |
| Interest rates | 2.00% to 4.00% | 2.00% to 4.00% |
| Maturity dates, serially beginning/ending | September 1, 2023/2047 | September 1, 2023/2047 |
| Interest payment dates | March 1/ September 1 | March 1/ September 1 |
| Callable dates* | September 1, 2026 | September 1, 2026 |
| | Series 2022 | Park Series 2022A |
| Amounts outstanding, May 31, 2023 | \$8,760,000 | \$2,830,000 |
| Interest rates | 4.00% to 5.00% | 4.00% to 5.00% |
| Maturity dates, serially beginning/ending | September 1, 2024/2048 | September 1, 2024/2048 |
| Interest payment dates | March 1/ September 1 | March 1/ September 1 |
| Callable dates* | September 1, 2029 | September 1, 2029 |

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

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

Annual Debt Service Requirements

The following schedule shows the annual debt service requirements to pay principal and interest on general obligation bonds outstanding at May 31, 2023:

| Year | Principal | Interest | Total |
|-------------|----------------------|----------------------|----------------------|
| 2024 | \$ 995,000 | \$ 1,268,682 | \$ 2,263,682 |
| 2025 | 1,470,000 | 1,219,595 | 2,689,595 |
| 2026 | 1,485,000 | 1,162,070 | 2,647,070 |
| 2027 | 1,505,000 | 1,110,070 | 2,615,070 |
| 2028 | 1,520,000 | 1,063,493 | 2,583,493 |
| 2029-2033 | 7,905,000 | 4,669,497 | 12,574,497 |
| 2034-2038 | 8,535,000 | 3,502,946 | 12,037,946 |
| 2039-2043 | 9,300,000 | 2,154,568 | 11,454,568 |
| 2044-2048 | 8,005,000 | 675,076 | 8,680,076 |
| 2049 | 470,000 | 10,868 | 480,868 |
| Total | <u>\$ 41,190,000</u> | <u>\$ 16,836,865</u> | <u>\$ 58,026,865</u> |

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

Bonds voted:

| | |
|-------------------------|----------------|
| Drainage facilities | \$ 210,000,000 |
| Recreational facilities | 134,000,000 |
| Refunding bonds | 344,000,000 |

Bonds sold:

| | |
|-------------------------|------------|
| Drainage facilities | 34,605,000 |
| Recreational facilities | 7,515,000 |

Due to Developer

The developer of the District has constructed detention, drainage and recreational facilities on behalf of the District under terms of contracts with the District. The District has agreed to purchase these facilities from the proceeds of future bond issues subject to the approval of the Commission. As of May 31, 2023, a liability for developer-constructed capital assets of \$4,798,824 was recorded in the government-wide financial statements.

**Harris County Water Control and
Improvement District No. 159
Notes to Financial Statements
May 31, 2023**

Note 5: Significant Bond Order and Commission Requirements

- A. The Bond Orders require that the District levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due. During the year ended May 31, 2023, the District levied an ad valorem debt service tax at the rate of \$0.2600 per \$100 of assessed valuation, which resulted in a tax levy of \$2,278,723 on the taxable valuation of \$876,432,089 for the 2022 tax year. The principal and interest requirements to be paid from the tax revenues and available resources are \$2,174,323, of which \$535,439 has been paid and \$1,638,884 is due September 1, 2023.
- B. In accordance with the Series 2021 and the Series 2021A Park Bond Orders, a portion of the bond proceeds was deposited into the debt service fund and reserved for the payment of bond interest during the construction period. This bond interest reserve is reduced as the interest is paid. The balance of \$147,232 in the bond interest reserve was fully utilized in the current year.
- C. During the current year, the District transferred \$58,587 from the capital projects fund to the general fund. The transfer was in accordance with the rules of the Commission.

Note 6: Due to Others

On April 12, 2017, the District entered into a contract with the District's developer and certain other parties to fund the phased construction of additional conveyance capacity in a portion of the Langham Creek drainage channel and additional detention capacity in a Harris County Flood Control Regional Detention Basin. Under the terms of the contract, each party advanced funds for their proportionate share of the estimated construction costs for each phase of the project.

During 2020, the District implemented the construction of Phase 2B-Contract 1 of the project. During 2021, the District implemented the construction of Phase 2B-Contract 2 of the project.

The District is capitalizing its share of the project into capital assets or conveying the assets to another governmental entity for maintenance, and the remaining escrowed funds from the other parties are reported as due to others in the statement of net position and governmental funds balance sheet. The parties' respective shares of the project are as follows:

| | |
|---|---------|
| The District | 40.8 % |
| Harris County Municipal Utility District No. 165 and certain developers | 38.8 |
| Harris County Municipal Utility District No. 437 and certain developers | 20.4 |
| | 100.0 % |

Harris County Water Control and Improvement District No. 159

Notes to Financial Statements

May 31, 2023

Note 7: Maintenance Taxes

At an election held November 5, 2013, voters authorized a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation on all property within the District subject to taxation. During the year ended May 31, 2023, the District levied an ad valorem maintenance tax at the rate of \$0.1600 per \$100 of assessed valuation, which resulted in a tax levy of \$1,402,292 on the taxable valuation of \$876,432,089 for the 2022 tax year. The maintenance tax is being used by the general fund to pay expenditures of operating the District.

Note 8: Risk Management

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

Note 9: Contingencies

The developer of the District is constructing facilities within the boundaries of the District. The District has agreed to reimburse the developer for a portion of these costs, plus interest, from the proceeds from future bond sales, to the extent approved by the Commission. The District's engineer has stated that current construction amounts are approximately \$1,426,500. This amount has not been recorded in the financial statements since the facilities are not complete or operational.

Required Supplementary Information

**Harris County Water Control and
Improvement District No. 159
Budgetary Comparison Schedule – General Fund
Year Ended May 31, 2023**

| | Original Budget | Final Amended Budget | Actual | Variance Favorable (Unfavorable) |
|---|----------------------------|-------------------------------------|---------------------|---|
| Revenues | | | | |
| Property taxes | \$ 1,179,715 | \$ 1,419,047 | \$ 1,366,219 | \$ (52,828) |
| Tap connection and inspection fees | - | - | 18,651 | 18,651 |
| Investment income | 1,100 | 20,100 | 40,437 | 20,337 |
| Total revenues | <u>1,180,815</u> | <u>1,439,147</u> | <u>1,425,307</u> | <u>(13,840)</u> |
| Expenditures | | | | |
| Service operations: | | | | |
| Purchased services | 6,000 | 6,000 | 6,129 | (129) |
| Professional fees | 161,000 | 176,500 | 174,275 | 2,225 |
| Contracted services | 49,000 | 49,000 | 54,652 | (5,652) |
| Utilities | 8,000 | 8,000 | - | 8,000 |
| Repairs and maintenance | 555,000 | 618,703 | 582,824 | 35,879 |
| Other expenditures | 68,520 | 68,520 | 50,779 | 17,741 |
| Tap connections | - | 80,000 | 85,256 | (5,256) |
| Capital outlay | 4,000 | 4,000 | 3,392,626 | (3,388,626) |
| Debt service, debt issuance costs | - | - | 50,524 | (50,524) |
| Total expenditures | <u>851,520</u> | <u>1,010,723</u> | <u>4,397,065</u> | <u>(3,386,342)</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>329,295</u> | <u>428,424</u> | <u>(2,971,758)</u> | <u>(3,400,182)</u> |
| Other Financing Sources (Uses) | | | | |
| Interfund transfer in | 30,000 | - | 58,587 | 58,587 |
| Repayment of developer advances | - | - | (156,087) | (156,087) |
| Developer construction advances | - | - | 1,936,210 | 1,936,210 |
| Total other financing sources | <u>30,000</u> | <u>0</u> | <u>1,838,710</u> | <u>1,838,710</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>359,295</u> | <u>428,424</u> | <u>(1,133,048)</u> | <u>(1,561,472)</u> |
| Fund Balances, Beginning of Year | <u>2,813,034</u> | <u>2,813,034</u> | <u>2,813,034</u> | <u>-</u> |
| Fund Balances, End of Year | <u>\$ 3,172,329</u> | <u>\$ 3,241,458</u> | <u>\$ 1,679,986</u> | <u>\$ (1,561,472)</u> |

**Harris County Water Control and
Improvement District No. 159**
Notes to Required Supplementary Information
May 31, 2023

Budgets and Budgetary Accounting

An annual operating budget is prepared for the general fund by the District's consultants. The budget reflects resources expected to be received during the year and expenditures expected to be incurred. The Board of Directors is required to adopt the budget prior to the start of its fiscal year. The budget is not a spending limitation (a legally restricted appropriation). The original budget of the general fund was amended during fiscal 2023.

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

Supplementary Information

**Harris County Water Control and
Improvement District No. 159
Other Schedules Included Within This Report
May 31, 2023**

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

- [X] Notes Required by the Water District Accounting Manual
See "Notes to Financial Statements," Pages 14-27
- [X] Schedule of Services and Rates
- [X] Schedule of General Fund Expenditures
- [X] Schedule of Temporary Investments
- [X] Analysis of Taxes Levied and Receivable
- [X] Schedule of Long-term Debt Service Requirements by Years
- [X] Changes in Long-term Bonded Debt
- [X] Comparative Schedule of Revenues and Expenditures – General Fund and Debt Service Fund
- [X] Board Members, Key Personnel and Consultants

**Harris County Water Control and
Improvement District No. 159
Schedule of Services and Rates
Year Ended May 31, 2023**

1. Services provided by the District:

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

**Harris County Water Control and
Improvement District No. 159
Schedule of General Fund Expenditures
Year Ended May 31, 2023**

| | | | |
|---|----|-------------------|--------------------------------|
| Personnel (including benefits) | | \$ | - |
| Professional Fees | | | |
| Auditing | \$ | 16,500 | |
| Legal | | 63,119 | |
| Engineering | | 94,656 | |
| Financial advisor | | - | |
| | | <u> </u> | 174,275 |
| Purchased Services for Resale | | | |
| Bulk water and wastewater service purchases | | | 6,129 |
| Regional Water Fee | | | - |
| Contracted Services | | | |
| Bookkeeping | | 54,652 | |
| General manager | | - | |
| Appraisal district | | - | |
| Tax collector | | - | |
| Security | | - | |
| Other contracted services | | - | |
| | | <u> </u> | 54,652 |
| Utilities | | | - |
| Repairs and Maintenance | | | 582,824 |
| Administrative Expenditures | | | |
| Directors' fees | | 11,850 | |
| Office supplies | | 5,188 | |
| Insurance | | 8,051 | |
| Other administrative expenditures | | 25,690 | |
| | | <u> </u> | 50,779 |
| Capital Outlay | | | |
| Capitalized assets | | 3,105,835 | |
| Expenditures not capitalized | | 286,791 | |
| | | <u> </u> | 3,392,626 |
| Tap Connection Expenditures | | | 85,256 |
| Solid Waste Disposal | | | - |
| Fire Fighting | | | - |
| Parks and Recreation | | | - |
| Other Expenditures | | | <u> </u> 50,524 |
| Total expenditures | | | <u> </u> \$ 4,397,065 |

**Harris County Water Control and
Improvement District No. 159
Schedule of Temporary Investments
May 31, 2023**

| | Interest Rate | Maturity Date | Face Amount | Accrued Interest Receivable |
|------------------------------|--------------------------|--------------------------|------------------------|--|
| General Fund | | | | |
| Texas CLASS | 5.24% | Demand | \$ 1,521,170 | \$ - |
| Texas CLASS | 5.24% | Demand | 316,624 | - |
| Texas CLASS | 5.24% | Demand | <u>152,810</u> | <u>-</u> |
| | | | <u>1,990,604</u> | <u>0</u> |
| Debt Service Fund | | | | |
| Texas CLASS | 5.24% | Demand | <u>2,616,694</u> | <u>0</u> |
| Capital Projects Fund | | | | |
| Texas CLASS | 5.24% | Demand | 364,088 | - |
| Texas CLASS | 5.24% | Demand | 124,472 | - |
| Texas CLASS | 5.24% | Demand | 89,191 | - |
| Texas CLASS | 5.24% | Demand | 99,764 | - |
| Texas CLASS | 5.24% | Demand | <u>1,692,087</u> | <u>-</u> |
| | | | <u>2,369,602</u> | <u>0</u> |
| Totals | | | <u>\$ 6,976,900</u> | <u>\$ 0</u> |

**Harris County Water Control and
Improvement District No. 159
Analysis of Taxes Levied and Receivable
Year Ended May 31, 2023**

| | Maintenance Taxes | Debt Service Taxes |
|---|------------------------------|-----------------------------------|
| Receivable, Beginning of Year | \$ 18,704 | \$ 35,008 |
| Additions and corrections to prior years' taxes | <u>(6,957)</u> | <u>(12,958)</u> |
| Adjusted receivable, beginning of year | <u>11,747</u> | <u>22,050</u> |
| 2022 Original Tax Levy | 1,188,786 | 1,931,776 |
| Additions and corrections | <u>213,506</u> | <u>346,947</u> |
| Adjusted tax levy | <u>1,402,292</u> | <u>2,278,723</u> |
| Total to be accounted for | 1,414,039 | 2,300,773 |
| Tax collections: Current year | (1,359,113) | (2,208,558) |
| Prior years | <u>(7,106)</u> | <u>(13,412)</u> |
| Receivable, end of year | <u>\$ 47,820</u> | <u>\$ 78,803</u> |
| Receivable, by Year | | |
| 2022 | \$ 43,179 | \$ 70,165 |
| 2021 | 1,372 | 2,573 |
| 2020 | 3,265 | 6,065 |
| 2019 | 1 | - |
| 2018 | 1 | - |
| 2017 | <u>2</u> | <u>-</u> |
| Receivable, end of year | <u>\$ 47,820</u> | <u>\$ 78,803</u> |

**Harris County Water Control and
Improvement District No. 159**
Analysis of Taxes Levied and Receivable (Continued)
Year Ended May 31, 2023

| | <u>2022</u> | <u>2021</u> | <u>2020</u> | <u>2019</u> |
|---|---------------------------|---------------------------|---------------------------|--------------------------|
| Property Valuations | | | | |
| Land | \$ 209,887,071 | \$ 192,197,562 | \$ 117,748,168 | \$ 68,600,062 |
| Improvements | 785,215,057 | 447,124,016 | 205,646,946 | 94,704,783 |
| Personal property | 7,067,714 | 2,823,627 | 1,973,668 | 106,767 |
| Exemptions | <u>(125,737,753)</u> | <u>(99,160,164)</u> | <u>(93,175,555)</u> | <u>(92,656,721)</u> |
| Total property valuations | <u>\$ 876,432,089</u> | <u>\$ 542,985,041</u> | <u>\$ 232,193,227</u> | <u>\$ 70,754,891</u> |
| Tax Rates per \$100 Valuation | | | | |
| Debt service tax rates | \$ 0.2600 | \$ 0.3000 | \$ 0.3250 | \$ - |
| Maintenance tax rates* | <u>0.1600</u> | <u>0.1600</u> | <u>0.1750</u> | <u>0.5000</u> |
| Total tax rates per \$100 valuation | <u>\$ 0.4200</u> | <u>\$ 0.4600</u> | <u>\$ 0.5000</u> | <u>\$ 0.5000</u> |
| Tax Levy | <u>\$ 3,681,015</u> | <u>\$ 2,497,731</u> | <u>\$ 1,160,966</u> | <u>\$ 353,774</u> |
| Percent of Taxes Collected to Taxes Levied** | <u>97%</u> | <u>99%</u> | <u>99%</u> | <u>99%</u> |

*Maximum tax rate approved by voters: \$1.50 on November 5, 2013.

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

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years May 31, 2023

| Due During Fiscal Years Ending May 31 | Series 2019 | | |
|---|---------------------------------|---|---------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ 325,000 | \$ 361,750 | \$ 686,750 |
| 2025 | 340,000 | 350,963 | 690,963 |
| 2026 | 355,000 | 342,313 | 697,313 |
| 2027 | 375,000 | 335,013 | 710,013 |
| 2028 | 390,000 | 327,362 | 717,362 |
| 2029 | 410,000 | 319,362 | 729,362 |
| 2030 | 430,000 | 310,693 | 740,693 |
| 2031 | 450,000 | 301,062 | 751,062 |
| 2032 | 470,000 | 290,125 | 760,125 |
| 2033 | 490,000 | 276,900 | 766,900 |
| 2034 | 515,000 | 261,825 | 776,825 |
| 2035 | 540,000 | 246,000 | 786,000 |
| 2036 | 565,000 | 229,425 | 794,425 |
| 2037 | 595,000 | 212,025 | 807,025 |
| 2038 | 620,000 | 193,800 | 813,800 |
| 2039 | 650,000 | 174,750 | 824,750 |
| 2040 | 680,000 | 154,800 | 834,800 |
| 2041 | 715,000 | 133,875 | 848,875 |
| 2042 | 745,000 | 111,975 | 856,975 |
| 2043 | 780,000 | 89,100 | 869,100 |
| 2044 | 820,000 | 65,100 | 885,100 |
| 2045 | 860,000 | 39,900 | 899,900 |
| 2046 | 900,000 | 13,500 | 913,500 |
| Totals | \$ 13,020,000 | \$ 5,141,618 | \$ 18,161,618 |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Series 2020 | | |
|---|---------------------------------|---|--------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ 325,000 | \$ 176,500 | \$ 501,500 |
| 2025 | 325,000 | 163,500 | 488,500 |
| 2026 | 325,000 | 150,500 | 475,500 |
| 2027 | 325,000 | 140,750 | 465,750 |
| 2028 | 325,000 | 134,250 | 459,250 |
| 2029 | 325,000 | 127,750 | 452,750 |
| 2030 | 325,000 | 121,250 | 446,250 |
| 2031 | 325,000 | 114,750 | 439,750 |
| 2032 | 325,000 | 108,250 | 433,250 |
| 2033 | 325,000 | 101,750 | 426,750 |
| 2034 | 325,000 | 95,250 | 420,250 |
| 2035 | 325,000 | 88,750 | 413,750 |
| 2036 | 325,000 | 82,250 | 407,250 |
| 2037 | 325,000 | 75,750 | 400,750 |
| 2038 | 325,000 | 69,250 | 394,250 |
| 2039 | 325,000 | 62,750 | 387,750 |
| 2040 | 325,000 | 56,250 | 381,250 |
| 2041 | 325,000 | 49,547 | 374,547 |
| 2042 | 325,000 | 42,641 | 367,641 |
| 2043 | 330,000 | 35,269 | 365,269 |
| 2044 | 330,000 | 27,431 | 357,431 |
| 2045 | 330,000 | 19,594 | 349,594 |
| 2046 | 330,000 | 11,756 | 341,756 |
| 2047 | 330,000 | 3,918 | 333,918 |
| Totals | \$ 7,825,000 | \$ 2,059,656 | \$ 9,884,656 |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Series 2021 | | |
|---|---------------------------------|---|--------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ 160,000 | \$ 102,138 | \$ 262,138 |
| 2025 | 160,000 | 95,738 | 255,738 |
| 2026 | 160,000 | 89,338 | 249,338 |
| 2027 | 160,000 | 82,938 | 242,938 |
| 2028 | 160,000 | 78,138 | 238,138 |
| 2029 | 160,000 | 74,938 | 234,938 |
| 2030 | 160,000 | 71,738 | 231,738 |
| 2031 | 160,000 | 68,538 | 228,538 |
| 2032 | 160,000 | 65,338 | 225,338 |
| 2033 | 160,000 | 62,138 | 222,138 |
| 2034 | 160,000 | 58,938 | 218,938 |
| 2035 | 165,000 | 55,584 | 220,584 |
| 2036 | 165,000 | 51,975 | 216,975 |
| 2037 | 165,000 | 48,262 | 213,262 |
| 2038 | 165,000 | 44,446 | 209,446 |
| 2039 | 165,000 | 40,528 | 205,528 |
| 2040 | 165,000 | 36,506 | 201,506 |
| 2041 | 165,000 | 32,381 | 197,381 |
| 2042 | 165,000 | 28,153 | 193,153 |
| 2043 | 165,000 | 23,821 | 188,821 |
| 2044 | 165,000 | 19,490 | 184,490 |
| 2045 | 165,000 | 15,159 | 180,159 |
| 2046 | 165,000 | 10,828 | 175,828 |
| 2047 | 165,000 | 6,496 | 171,496 |
| 2048 | 165,000 | 2,165 | 167,165 |
| Totals | \$ 4,070,000 | \$ 1,265,712 | \$ 5,335,712 |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Park Series 2021A | | |
|---|---------------------------------|---|---------------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ 185,000 | \$ 114,606 | \$ 299,606 |
| 2025 | 185,000 | 107,206 | 292,206 |
| 2026 | 185,000 | 100,731 | 285,731 |
| 2027 | 185,000 | 95,181 | 280,181 |
| 2028 | 185,000 | 90,556 | 275,556 |
| 2029 | 185,000 | 86,856 | 271,856 |
| 2030 | 185,000 | 83,156 | 268,156 |
| 2031 | 185,000 | 79,456 | 264,456 |
| 2032 | 185,000 | 75,756 | 260,756 |
| 2033 | 185,000 | 72,056 | 257,056 |
| 2034 | 185,000 | 68,356 | 253,356 |
| 2035 | 185,000 | 64,425 | 249,425 |
| 2036 | 185,000 | 60,147 | 245,147 |
| 2037 | 190,000 | 55,694 | 245,694 |
| 2038 | 190,000 | 51,063 | 241,063 |
| 2039 | 190,000 | 46,313 | 236,313 |
| 2040 | 190,000 | 41,563 | 231,563 |
| 2041 | 190,000 | 36,813 | 226,813 |
| 2042 | 190,000 | 32,063 | 222,063 |
| 2043 | 190,000 | 27,313 | 217,313 |
| 2044 | 190,000 | 22,444 | 212,444 |
| 2045 | 190,000 | 17,456 | 207,456 |
| 2046 | 190,000 | 12,469 | 202,469 |
| 2047 | 190,000 | 7,481 | 197,481 |
| 2048 | 190,000 | 2,494 | 192,494 |
| Totals | <u>\$ 4,685,000</u> | <u>\$ 1,451,654</u> | <u>\$ 6,136,654</u> |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Series 2022 | | |
|---|---------------------------------|---|---------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ - | \$ 388,088 | \$ 388,088 |
| 2025 | 350,000 | 379,338 | 729,338 |
| 2026 | 350,000 | 361,838 | 711,838 |
| 2027 | 350,000 | 344,338 | 694,338 |
| 2028 | 350,000 | 326,837 | 676,837 |
| 2029 | 350,000 | 309,337 | 659,337 |
| 2030 | 350,000 | 293,587 | 643,587 |
| 2031 | 350,000 | 279,587 | 629,587 |
| 2032 | 350,000 | 265,587 | 615,587 |
| 2033 | 350,000 | 251,587 | 601,587 |
| 2034 | 350,000 | 237,587 | 587,587 |
| 2035 | 350,000 | 223,588 | 573,588 |
| 2036 | 350,000 | 209,369 | 559,369 |
| 2037 | 350,000 | 194,931 | 544,931 |
| 2038 | 350,000 | 180,275 | 530,275 |
| 2039 | 350,000 | 165,400 | 515,400 |
| 2040 | 350,000 | 150,525 | 500,525 |
| 2041 | 350,000 | 135,431 | 485,431 |
| 2042 | 350,000 | 120,119 | 470,119 |
| 2043 | 350,000 | 104,588 | 454,588 |
| 2044 | 350,000 | 88,838 | 438,838 |
| 2045 | 350,000 | 73,088 | 423,088 |
| 2046 | 350,000 | 57,119 | 407,119 |
| 2047 | 350,000 | 40,931 | 390,931 |
| 2048 | 355,000 | 24,628 | 379,628 |
| 2049 | 355,000 | 8,209 | 363,209 |
| Totals | \$ 8,760,000 | \$ 5,214,750 | \$ 13,974,750 |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Park Series 2022A | | |
|---|---------------------------------|---|--------------|
| | Principal Due September 1 | Interest Due March 1, September 1 | Total |
| 2024 | \$ - | \$ 125,600 | \$ 125,600 |
| 2025 | 110,000 | 122,850 | 232,850 |
| 2026 | 110,000 | 117,350 | 227,350 |
| 2027 | 110,000 | 111,850 | 221,850 |
| 2028 | 110,000 | 106,350 | 216,350 |
| 2029 | 110,000 | 100,850 | 210,850 |
| 2030 | 110,000 | 95,900 | 205,900 |
| 2031 | 110,000 | 91,500 | 201,500 |
| 2032 | 110,000 | 87,100 | 197,100 |
| 2033 | 115,000 | 82,600 | 197,600 |
| 2034 | 115,000 | 78,000 | 193,000 |
| 2035 | 110,000 | 73,500 | 183,500 |
| 2036 | 115,000 | 68,928 | 183,928 |
| 2037 | 115,000 | 64,184 | 179,184 |
| 2038 | 115,000 | 59,369 | 174,369 |
| 2039 | 115,000 | 54,482 | 169,482 |
| 2040 | 115,000 | 49,521 | 164,521 |
| 2041 | 115,000 | 44,491 | 159,491 |
| 2042 | 115,000 | 39,387 | 154,387 |
| 2043 | 115,000 | 34,213 | 149,213 |
| 2044 | 115,000 | 29,037 | 144,037 |
| 2045 | 115,000 | 23,863 | 138,863 |
| 2046 | 115,000 | 18,615 | 133,615 |
| 2047 | 115,000 | 13,297 | 128,297 |
| 2048 | 115,000 | 7,979 | 122,979 |
| 2049 | 115,000 | 2,659 | 117,659 |
| Totals | \$ 2,830,000 | \$ 1,703,475 | \$ 4,533,475 |

Harris County Water Control and Improvement District No. 159

Schedule of Long-term Debt Service Requirements by Years (Continued) May 31, 2023

| Due During Fiscal Years Ending May 31 | Annual Requirements For All Series | | |
|---|------------------------------------|--------------------------|--|
| | Total Principal Due | Total Interest Due | Total Principal and Interest Due |
| 2024 | \$ 995,000 | \$ 1,268,682 | \$ 2,263,682 |
| 2025 | 1,470,000 | 1,219,595 | 2,689,595 |
| 2026 | 1,485,000 | 1,162,070 | 2,647,070 |
| 2027 | 1,505,000 | 1,110,070 | 2,615,070 |
| 2028 | 1,520,000 | 1,063,493 | 2,583,493 |
| 2029 | 1,540,000 | 1,019,093 | 2,559,093 |
| 2030 | 1,560,000 | 976,324 | 2,536,324 |
| 2031 | 1,580,000 | 934,893 | 2,514,893 |
| 2032 | 1,600,000 | 892,156 | 2,492,156 |
| 2033 | 1,625,000 | 847,031 | 2,472,031 |
| 2034 | 1,650,000 | 799,956 | 2,449,956 |
| 2035 | 1,675,000 | 751,847 | 2,426,847 |
| 2036 | 1,705,000 | 702,094 | 2,407,094 |
| 2037 | 1,740,000 | 650,846 | 2,390,846 |
| 2038 | 1,765,000 | 598,203 | 2,363,203 |
| 2039 | 1,795,000 | 544,223 | 2,339,223 |
| 2040 | 1,825,000 | 489,165 | 2,314,165 |
| 2041 | 1,860,000 | 432,538 | 2,292,538 |
| 2042 | 1,890,000 | 374,338 | 2,264,338 |
| 2043 | 1,930,000 | 314,304 | 2,244,304 |
| 2044 | 1,970,000 | 252,340 | 2,222,340 |
| 2045 | 2,010,000 | 189,060 | 2,199,060 |
| 2046 | 2,050,000 | 124,287 | 2,174,287 |
| 2047 | 1,150,000 | 72,123 | 1,222,123 |
| 2048 | 825,000 | 37,266 | 862,266 |
| 2049 | 470,000 | 10,868 | 480,868 |
| Totals | \$ 41,190,000 | \$ 16,836,865 | \$ 58,026,865 |

**Harris County Water Control and
Improvement District No. 159
Changes in Long-term Bonded Debt
Year Ended May 31, 2023**

| | Bond | | | |
|---|---------------------------|---------------------------|---------------------------|------------------------------|
| | Series 2019 | Series 2020 | Series 2021 | Park Series 2021A |
| Interest rates | 2.00% to 4.00% | 2.00% to 4.00% | 2.00% to 4.00% | 2.00% to 4.00% |
| Dates interest payable | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 | March 1/ September 1 |
| Maturity dates | September 1, 2023/2045 | September 1, 2023/2046 | September 1, 2023/2047 | September 1, 2023/2047 |
| Bonds outstanding, beginning of current year | \$ 13,330,000 | \$ 8,150,000 | \$ 4,070,000 | \$ 4,685,000 |
| Bonds sold during current year | - | - | - | - |
| Retirements, principal | 310,000 | 325,000 | - | - |
| Bonds outstanding, end of current year | \$ 13,020,000 | \$ 7,825,000 | \$ 4,070,000 | \$ 4,685,000 |
| Interest paid during current year | \$ 373,638 | \$ 189,500 | \$ 105,338 | \$ 118,306 |

Paying agent's name and address:

| | |
|---------------------|--|
| Series 2019 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2020 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2021 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2021A | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2022 | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |
| Series 2022A | - The Bank of New York Mellon Trust Company, N.A., Dallas, Texas |

Bond authority:

| | Tax Bonds | Recreational Bonds | Refunding Bonds |
|-----------------------------|------------------|-------------------------------|----------------------------|
| Amount authorized by voters | \$ 210,000,000 | \$ 134,000,000 | \$ 344,000,000 |
| Amount issued | \$ 34,605,000 | \$ 7,515,000 | \$ - |
| Remaining to be issued | \$ 175,395,000 | \$ 126,485,000 | \$ 344,000,000 |

Debt service fund cash and temporary investment balances as of May 31, 2023: \$ 2,772,464

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 2,231,803

Issues

| Series 2022 | Park Series 2022A | Totals |
|---------------------------|---------------------------|----------------------|
| 4.00% to 5.00% | 4.00% to 5.00% | |
| March 1/ September 1 | March 1/ September 1 | |
| September 1, 2024/2048 | September 1, 2024/2048 | |
| \$ - | \$ - | \$ 30,235,000 |
| 8,760,000 | 2,830,000 | 11,590,000 |
| - | - | 635,000 |
| <u>\$ 8,760,000</u> | <u>\$ 2,830,000</u> | <u>\$ 41,190,000</u> |
| <u>\$ 112,114</u> | <u>\$ 36,284</u> | <u>\$ 935,180</u> |

**Harris County Water Control and
Improvement District No. 159**
Comparative Schedule of Revenues and Expenditures – General Fund
Five Years Ended May 31,

| | Amounts | | | | |
|---|---------------------|---------------------|---------------------|---------------------|---------------------|
| | 2023 | 2022 | 2021 | 2020 | 2019 |
| General Fund | | | | | |
| Revenues | | | | | |
| Property taxes | \$ 1,366,219 | \$ 923,733 | \$ 393,905 | \$ 347,077 | \$ 161,711 |
| Penalty and interest | - | - | - | 414 | 8 |
| Tap connection and inspection fees | 18,651 | - | - | - | - |
| Investment income | 40,437 | 1,854 | 2,524 | 20,299 | 27,935 |
| Other income | - | 283 | - | 120,916 | - |
| Total revenues | <u>1,425,307</u> | <u>925,870</u> | <u>396,429</u> | <u>488,706</u> | <u>189,654</u> |
| Expenditures | | | | | |
| Service operations: | | | | | |
| Purchased services | 6,129 | 2,500 | - | - | - |
| Professional fees | 174,275 | 150,305 | 150,249 | 160,387 | 123,617 |
| Contracted services | 54,652 | 24,868 | 25,950 | 27,771 | 21,869 |
| Repairs and maintenance | 582,824 | 509,024 | 300,265 | 40,032 | 29,339 |
| Other expenditures | 50,779 | 40,764 | 37,905 | 46,080 | 33,242 |
| Tap connections | 85,256 | 91,050 | 18,302 | 59,084 | 61,742 |
| Capital outlay | 3,392,626 | 4,211,721 | 1,450,427 | 666,587 | 3,420,934 |
| Debt service, debt issuance costs | 50,524 | 58,587 | 42,045 | - | - |
| Total expenditures | <u>4,397,065</u> | <u>5,088,819</u> | <u>2,025,143</u> | <u>999,941</u> | <u>3,690,743</u> |
| Deficiency of Revenues Over Expenditures | <u>(2,971,758)</u> | <u>(4,162,949)</u> | <u>(1,628,714)</u> | <u>(511,235)</u> | <u>(3,501,089)</u> |
| Other Financing Sources (Uses) | | | | | |
| Interfund transfers in | 58,587 | 42,045 | 33,271 | - | - |
| Repayment of developer advances | (156,087) | - | - | - | - |
| Developer construction advances | 1,936,210 | 4,303,290 | 156,087 | 2,728,735 | - |
| Total other financing sources | <u>1,838,710</u> | <u>4,345,335</u> | <u>189,358</u> | <u>2,728,735</u> | <u>0</u> |
| Excess (Deficiency) of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | <u>(1,133,048)</u> | <u>182,386</u> | <u>(1,439,356)</u> | <u>2,217,500</u> | <u>(3,501,089)</u> |
| Fund Balance, Beginning of Year | <u>2,813,034</u> | <u>2,630,648</u> | <u>4,070,004</u> | <u>1,852,504</u> | <u>5,353,593</u> |
| Fund Balance, End of Year | <u>\$ 1,679,986</u> | <u>\$ 2,813,034</u> | <u>\$ 2,630,648</u> | <u>\$ 4,070,004</u> | <u>\$ 1,852,504</u> |
| Total Active Retail Water Connections | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |
| Total Active Retail Wastewater Connections | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> | <u>N/A</u> |

Percent of Fund Total Revenues

| 2023 | 2022 | 2021 | 2020 | 2019 |
|------------------|------------------|------------------|------------------|--------------------|
| 95.9 % | 99.8 % | 99.4 % | 71.0 % | 85.3 % |
| - | - | - | 0.1 | 0.0 |
| 1.3 | - | - | - | - |
| 2.8 | 0.2 | 0.6 | 4.2 | 14.7 |
| - | 0.0 | - | 24.7 | - |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 0.4 | 0.3 | - | - | - |
| 12.2 | 16.2 | 37.9 | 32.8 | 65.2 |
| 3.8 | 2.7 | 6.5 | 5.7 | 11.5 |
| 40.9 | 55.0 | 75.7 | 8.2 | 15.5 |
| 3.6 | 4.4 | 9.6 | 9.4 | 17.5 |
| 6.0 | 9.8 | 4.6 | 12.1 | 32.5 |
| 238.0 | 454.9 | 365.9 | 136.4 | 1,803.8 |
| 3.6 | 6.3 | 10.6 | - | - |
| <u>308.5</u> | <u>549.6</u> | <u>510.8</u> | <u>204.6</u> | <u>1,946.0</u> |
| <u>(208.5) %</u> | <u>(449.6) %</u> | <u>(410.8) %</u> | <u>(104.6) %</u> | <u>(1,846.0) %</u> |

**Harris County Water Control and
Improvement District No. 159**
Comparative Schedule of Revenues and Expenditures – Debt Service Fund
Four Years Ended May 31,

| | Amounts | | | |
|--|----------------------------|----------------------------|----------------------------|--------------------------|
| | 2023 | 2022 | 2021 | 2020 |
| Debt Service Fund | | | | |
| Revenues | | | | |
| Property taxes | \$ 2,221,970 | \$ 1,725,553 | \$ 683,991 | \$ - |
| Penalty and interest | 22,922 | 27,354 | 8,199 | - |
| Investment income | 61,058 | 2,936 | 1,693 | 4,969 |
| Other income | - | 14 | - | - |
| Total revenues | <u>2,305,950</u> | <u>1,755,857</u> | <u>693,883</u> | <u>4,969</u> |
| Expenditures | | | | |
| Current: | | | | |
| Professional fees | 8,750 | 7,421 | 1,417 | - |
| Contracted services | 49,206 | 34,727 | 18,243 | - |
| Other expenditures | 16,480 | 14,727 | 9,790 | - |
| Debt service: | | | | |
| Principal retirement | 635,000 | 295,000 | - | - |
| Interest and fees | 935,180 | 658,149 | 462,415 | 80,504 |
| Total expenditures | <u>1,644,616</u> | <u>1,010,024</u> | <u>491,865</u> | <u>80,504</u> |
| Excess (Deficiency) of Revenues Over Expenditures | <u>661,334</u> | <u>745,833</u> | <u>202,018</u> | <u>(75,535)</u> |
| Other Financing Sources (Uses) | | | | |
| General obligation bonds issued | - | 223,644 | 196,000 | 783,275 |
| Interfund transfers out | - | - | (33,271) | - |
| Total other financing sources | <u>0</u> | <u>223,644</u> | <u>162,729</u> | <u>783,275</u> |
| Excess of Revenues and Other Financing Sources Over Expenditures and Other Financing Uses | 661,334 | 969,477 | 364,747 | 707,740 |
| Fund Balance, Beginning of Year | <u>2,041,964</u> | <u>1,072,487</u> | <u>707,740</u> | <u>-</u> |
| Fund Balance, End of Year | <u><u>\$ 2,703,298</u></u> | <u><u>\$ 2,041,964</u></u> | <u><u>\$ 1,072,487</u></u> | <u><u>\$ 707,740</u></u> |

Percent of Fund Total Revenues

| 2023 | 2022 | 2021 | 2020 |
|----------------------|----------------------|----------------------|---------------------------|
| 96.4 % | 98.3 % | 98.6 % | - % |
| 0.9 | 1.5 | 1.2 | - |
| 2.7 | 0.2 | 0.2 | 100.0 |
| - | 0.0 | - | - |
| <u>100.0</u> | <u>100.0</u> | <u>100.0</u> | <u>100.0</u> |
| 0.4 | 0.4 | 0.2 | - |
| 2.1 | 2.0 | 2.6 | - |
| 0.7 | 0.8 | 1.4 | - |
| 27.5 | 16.8 | - | - |
| <u>40.6</u> | <u>37.5</u> | <u>66.7</u> | <u>1,620.1</u> |
| <u>71.3</u> | <u>57.5</u> | <u>70.9</u> | <u>1,620.1</u> |
| <u><u>28.7 %</u></u> | <u><u>42.5 %</u></u> | <u><u>29.1 %</u></u> | <u><u>(1,520.1) %</u></u> |

**Harris County Water Control and
Improvement District No. 159
Board Members, Key Personnel and Consultants
Year Ended May 31, 2023**

| | | |
|--|---|--------------|
| Complete District mailing address: | Harris County Water Control and Improvement District No. 159 c/o Schwartz, Page & Harding, L.L.P. 1300 Post Oak Boulevard, Suite 2400 Houston, Texas 77056 | |
| District business telephone number: | 713.623.4531 | |
| Submission date of the most recent District Registration Form (TWC Sections 36.054 and 49.054): | | May 16, 2022 |
| Limit on fees of office that a director may receive during a fiscal year: | | \$ 7,200 |

| Board Members | Term of Office Elected & Expires | Fees* | Expense Reimbursements | Title at Year-end |
|-------------------|---|----------|---------------------------|------------------------|
| William Cook | Elected 05/22- 05/26 | \$ 4,200 | \$ 1,419 | President |
| Nicholas J. Russo | Elected 05/22- 05/26 | 1,200 | 0 | Vice President |
| Krystal Helbig | Elected 05/20- 05/24 | 1,800 | 0 | Secretary |
| Robin Goin | Elected 05/20- 05/24 | 2,250 | 1,287 | Assistant Secretary |
| Laura Maham | Elected 05/20- 05/24 | 2,400 | 1,431 | Assistant Secretary |

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

**Harris County Water Control and
Improvement District No. 159
Board Members, Key Personnel and Consultants (Continued)
Year Ended May 31, 2023**

| Consultants | Date Hired | Fees and Expense Reimbursements | Title |
|--|-----------------------|--|---------------------------------|
| B&A Municipal Tax Services, LLC | 09/12/14 | \$ 38,907 | Tax Assessor/ Collector |
| BGE, Inc. | 10/29/08 | 478,350 | Engineer |
| FORVIS, LLP | 05/15/17 | 50,300 | Auditor |
| Harris Central Appraisal District | Legislative Action | 21,992 | Appraiser |
| Inframark, LLC | 07/17/17 | 137,358 | Operator |
| Masterson Advisors LLC | 04/16/18 | 218,216 | Financial Advisor |
| Municipal Accounts & Consulting, L.P. | 02/26/13 | 61,376 | Bookkeeper |
| Perdue, Brandon, Fielder, Collins & Mott, L.L.P. | 01/26/16 | 0 | Delinquent Tax Attorney |
| Schwartz, Page & Harding, L.L.P. | 10/29/08 | 108,405 310,351 | General Counsel Bond Counsel |
| Investment Officers | | | |
| Mark M. Burton and Ghia Lewis | 02/26/13 | N/A | Bookkeepers |