

## OFFICIAL STATEMENT DATED AUGUST 11, 2022

IN THE OPINION OF BOND COUNSEL, THE BONDS ARE VALID OBLIGATIONS OF MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126, 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. SEE “LEGAL MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

THE BONDS HAVE BEEN DESIGNATED “QUALIFIED TAX-EXEMPT OBLIGATIONS” FOR FINANCIAL INSTITUTIONS. SEE “LEGAL MATTERS—Qualified Tax-Exempt Obligations.”

### BOOK-ENTRY-ONLY

Insured Ratings (AGM): S&P “AA” (stable outlook)  
Moody’s “A1”  
Underlying Rating: Moody’s “Baa2”  
See “MUNICIPAL BOND RATING” and  
“MUNICIPAL BOND INSURANCE” herein.

**\$5,040,000**

### MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126

*(A political subdivision of the State of Texas located within Montgomery County)*

### UNLIMITED TAX BONDS

### SERIES 2022

**Dated Date: September 1, 2022**

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

**Interest Accrual Date: Date of Delivery**

Principal of the bonds described above (the “Bonds”) will be payable at maturity or earlier redemption at the principal payment office of the Paying Agent/Registrar, initially The Bank of New York Mellon Trust Co., N.A., Dallas, Texas (the “Paying Agent/Registrar”). Interest on the Bonds will accrue from the date of delivery (expected to be September 15, 2022) (the “Date of Delivery”) and will be payable on March 1 and September 1 of each year commencing March 1, 2023 until maturity or prior redemption and will be calculated on the basis of a 360-day year consisting of twelve 30-day months. The Bonds will be issued in fully registered form only in denominations of \$5,000 each or integral multiples thereof. The Bonds will be subject to redemption prior to their maturity, as shown below.

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/Registrar, as herein defined, 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.”



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

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

Due	Principal	Interest	Initial	CUSIP	Due	Principal	Interest	Initial	CUSIP
(Sept. 1)	Amount	Rate	Reoffering	Number (c)	(Sept. 1)	Amount	Rate	Reoffering	Number (c)
			Yield (a)					Yield (a)	
2023	\$ 210,000	3.00 %	2.00 %	61371R EA7	2032	\$ 210,000 (b)	3.25 %	3.00 %	61371R EK5
2024	210,000	3.00	2.10	61371R EB5	2033	210,000 (b)	3.25	3.25	61371R EL3
2025	210,000	3.00	2.20	61371R EC3	2034	210,000 (b)	3.50	3.35	61371R EM1
2026	210,000	3.00	2.35	61371R ED1	2035	210,000 (b)	3.50	3.40	61371R EN9
2027	210,000	3.00	2.50	61371R EE9	2036	210,000 (b)	3.50	3.55	61371R EP4
2028	210,000	3.25	2.60	61371R EF6	***	***	***	***	***
2029	210,000 (b)	3.25	2.70	61371R EG4	2039	210,000 (b)	4.00	3.85	61371R ES8
2030	210,000 (b)	3.25	2.75	61371R EH2	2040	210,000 (b)	4.00	3.90	61371R ET6
2031	210,000 (b)	3.25	2.80	61371R EJ8					

\$420,000 Term Bonds due September 1, 2038 (b), 61371R ER0 (c), 4.00% Interest Rate, 3.80% Yield (a)

\$420,000 Term Bonds due September 1, 2042 (b), 61371R EV1 (c), 4.00% Interest Rate, 4.00% Yield (a)

\$420,000 Term Bonds due September 1, 2044 (b), 61371R EX7 (c), 4.00% Interest Rate, 4.03% Yield (a)

\$420,000 Term Bonds due September 1, 2046 (b), 61371R EZ2 (c), 4.00% Interest Rate, 4.05% Yield (a)

- (a) Initial reoffering yield represents the initial offering yield to the public, which has been established by the Initial Purchaser for offers to the public and which may be subsequently changed by the Initial Purchaser and is the sole responsibility of the Initial Purchaser. The initial reoffering yields indicated above represent the lower of the yields resulting when priced to maturity or to the first call date.
- (b) The Bonds maturing on or after September 1, 2029 are subject to redemption prior to maturity at the option of the District, in whole or, from time to time in part, on September 1, 2028, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See “THE BONDS—Redemption Provisions.”
- (c) CUSIP Numbers have been assigned to the Bonds by CUSIP Global Services and are included solely for the convenience of the purchasers of the Bonds. Neither the District nor the Initial Purchaser shall be responsible for the selection or correctness of the CUSIP Numbers set forth herein.

The Bonds, when issued, will constitute valid and legally binding obligations of Montgomery County Municipal Utility District No. 126 (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, Montgomery County, the City of Conroe 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 September 15, 2022.

## TABLE OF CONTENTS

MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS .....	1
OFFICIAL STATEMENT SUMMARY .....	3
THE BONDS .....	7
BOOK-ENTRY-ONLY SYSTEM.....	12
USE AND DISTRIBUTION OF BOND PROCEEDS .....	14
THE DISTRICT.....	14
UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE.....	16
THE DEVELOPER.....	17
MANAGEMENT OF THE DISTRICT .....	18
THE ROADS .....	19
THE SYSTEM.....	19
FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED).....	20
ESTIMATED OVERLAPPING DEBT STATEMENT .....	21
TAX DATA .....	22
TAX PROCEDURES .....	24
DISTRICT OPERATIONS.....	28
DEBT SERVICE REQUIREMENTS.....	29
INVESTMENT CONSIDERATIONS.....	30
MUNICIPAL BOND RATING.....	36
MUNICIPAL BOND INSURANCE .....	37
LEGAL MATTERS.....	38
REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS.....	41
NO MATERIAL ADVERSE CHANGE .....	41
NO LITIGATION CERTIFICATE.....	41
SALE AND DISTRIBUTION OF THE BONDS.....	41
PREPARATION OF OFFICIAL STATEMENT.....	42
UPDATING OF OFFICIAL STATEMENT.....	42
CERTIFICATION OF OFFICIAL STATEMENT.....	43
CONTINUING DISCLOSURE OF INFORMATION .....	43
MISCELLANEOUS .....	44
AERIAL PHOTO.....	45
PHOTOGRAPHS.....	46
DISTRICT AUDITED FINANCIAL STATEMENTS FOR THE FISCAL YEAR ENDED JULY 31, 2021.....	APPENDIX A
SPECIMEN MUNICIPAL BOND INSURANCE POLICY .....	APPENDIX B

## USE OF INFORMATION IN OFFICIAL STATEMENT

No dealer, broker, salesman or other person has been authorized to give any information or to make any representations other than those contained in this Official Statement, and, if given or made, such other information or representation 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, 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., 1300 Post Oak Boulevard, Suite 2400, Houston, Texas, 77056 upon payment of the costs of duplication.

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 relevant information actually comes to its attention, the other matters described in this Official Statement until delivery of the Bonds to the Initial Purchaser, and thereafter only as specified in "UPDATING OF OFFICIAL STATEMENT."

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

## OFFICIAL STATEMENT SUMMARY

The following information 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.

### INFECTIOUS DISEASE OUTLOOK (COVID-19)

*General*..... In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State of Texas (the “State”) because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings and other activities.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed in order to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

The District has not experienced any decrease in property values, unusual tax delinquencies or interruptions to any service as a result of COVID-19; however, the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and reinstitution of restrictions. See “INVESTMENT CONSIDERATIONS—Infectious Disease Outlook (COVID-19).”

### THE DISTRICT

*Description and Location* ..... The District is a political subdivision of the State of Texas, created by order of the Texas Commission on Environmental Quality (the “Commission” or “TCEQ”), dated November 20, 2008. The District is a municipal utility district and operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended. The District consists of approximately 330 acres of land. The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Conroe (the “City”) and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and on the west by Lake Conroe. See “THE DISTRICT” and “AERIAL PHOTO.”

*The Developer* ..... The developer of the land within the District is D.R. Horton - Texas, Ltd. (the “Developer”), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. (“D.R. Horton”), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol “DHI.” The Developer owns no additional land within the District. See “THE DEVELOPER.”

*Status of Development* ..... The development in the District is being marketed as Water Crest on Lake Conroe. Development in the District currently includes 210 developed acres of single-family residential development (770 lots). As of June 2022, the District consisted of 765 completed and occupied homes and 5 vacant developed lots. In addition, approximately 28 acres (approximately 95 lots) are currently under construction with an expected completion date by fourth quarter of 2022. New homes in the District have an average sales price of approximately \$350,000.

The remainder of the District is comprised of approximately 24 acres for recreational facilities (including approximately 4 acres upon which a recreation center has been constructed which includes a playground, two pools and parking lot), approximately 43 undevelopable acres (detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 2 acres owned by City of Conroe for a fire station, and approximately 23 developable acres that have not been provided with water, sanitary sewer and storm drainage facilities. See “THE DISTRICT.”

*Homebuilder* ..... The Developer is the only active homebuilder in the District. See “THE DISTRICT—Status of Development: Homebuilding.”

## THE FINANCING

<i>The Issue</i> .....	\$5,040,000 Montgomery County Municipal Utility District No. 126 Unlimited Tax Bonds, Series 2022, dated September 1, 2022. The Bonds mature serially on September 1 in each of the years from 2023 through 2036 and 2039 through 2040, both inclusive, and as term bonds on September 1 in each of the years 2038, 2042, 2044 and 2046 (the “Term Bonds”), in the respective amounts and bearing interest at the rates for each maturity shown on the cover page hereof. Interest on the Bonds will accrue from the Date of Delivery and will be payable March 1 and September 1 of each year commencing March 1, 2023 until maturity or prior redemption and will be calculated on the basis of 360-day year consisting of twelve 30-day months. The Bonds maturing on or after September 1, 2029 are subject to optional redemption, in whole or, from time to time, in part, on September 1, 2028, or on any date thereafter, at a price equal to the principal amount of the Bonds to be redeemed plus accrued interest thereon to the date fixed for redemption. The Term Bonds also are subject to mandatory sinking fund redemption as more fully described herein. If less than all the Bonds are redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be selected by the District in integral multiples of \$5,000 in any one maturity. If less than all the Bonds within a maturity are redeemed, the Bonds to be redeemed shall be selected by DTC in accordance with its procedures. See “BOOK-ENTRY-ONLY SYSTEM” and “THE BONDS—Redemption Provisions.” The Bonds will be issued in fully registered form only, in denominations of \$5,000 or any integral multiple thereof. See “THE BONDS.”
<i>Book-Entry-Only</i> .....	The Bonds will be registered in the name of, and delivered only to, Cede & Co., the nominee of DTC, pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC, which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the Beneficial Owners of the Bonds. See “BOOK-ENTRY- ONLY SYSTEM.”
<i>Authority for Issuance</i> .....	The Bonds are issued pursuant to the Article XVI, Section 59 of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, the general laws of the State of Texas, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and an election held within the District. See “THE BONDS— Authority for Issuance.”
<i>Source of Payment</i> .....	The Bonds are payable from a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe or any entity other than the District. See “THE BONDS—Source and Security for Payment.”
<i>Use of Proceeds</i> .....	Proceeds of the Bonds will be used to finance water, sanitary sewer and drainage facilities as described herein under “USE AND DISTRIBUTION OF BOND PROCEEDS.” In addition, Bond proceeds will be used to pay interest on funds advanced by the Developer on behalf of the District, engineering fees, and administrative costs and certain other costs related to the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
<i>Payment Record</i> .....	The District has previously issued \$3,060,000 principal amount of unlimited tax road bonds in one series and \$16,200,000 principal amount of unlimited tax bonds in three series (the “Previously Issued Bonds”). The District has a total of \$18,520,000 principal amount of bonds outstanding as of July 1, 2022 (the “Outstanding Bonds”). The District has never defaulted on the debt service payments on the Previously Issued Bonds.
<i>Municipal Bond Rating and Municipal Bond Insurance</i> ....	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) and Moody’s Investors Service, Inc. (“Moody’s”) has assigned a municipal bond rating of “A1” (stable outlook), respectively, to the Bonds with the understanding that, upon delivery of the Bonds, a Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the Bonds. Moody’s has also assigned an underlying rating of “Baa2” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance,” “MUNICIPAL BOND RATING,” “MUNICIPAL BOND INSURANCE” and “APPENDIX B.”

<i>Qualified Tax-Exempt Obligations</i> .....	The District has designated 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.
<i>Engineer</i> .....	Edminster, Hinshaw, Russ & Associates, Inc., Houston, Texas.
<i>Disclosure Counsel</i> .....	McCall, Parkhurst & Horton L.L.P, Houston, Texas.
<i>Financial Advisor</i> .....	Masterson Advisors LLC, Houston, Texas.
<i>Paying Agent/Registrar</i> .....	The Bank of New York Mellon Trust Company, N.A., Dallas, Texas.

## INVESTMENT CONSIDERATIONS

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

## FINANCIAL INFORMATION (UNAUDITED)

2021 Certified Taxable Assessed Valuation .....	\$160,886,645 (a)
2022 Preliminary Taxable Assessed Valuation .....	\$236,929,558 (b)
Gross Direct Debt Outstanding.....	\$23,560,000 (c)
Estimated Overlapping Debt .....	<u>16,855,329</u>
Total Gross Direct Debt and Estimated Overlapping Debt.....	\$40,415,329

### Ratios of Gross Direct Debt to:

2021 Certified Taxable Assessed Valuation .....	14.64%
2022 Preliminary Taxable Assessed Valuation .....	9.94%

### Ratios of Gross Direct and Estimated Overlapping Debt to:

2021 Certified Taxable Assessed Valuation.....	25.12%
2022 Preliminary Taxable Assessed Valuation .....	17.06%

2021 Debt Service Tax Rate .....	\$0.75
2021 Maintenance Tax Rate .....	<u>0.15</u>
Total .....	\$0.90

Average Annual Debt Service Requirement (2023-2046).....	\$1,283,344 (d)
Maximum Annual Debt Service Requirement (2023).....	\$1,451,933 (d)

### Tax Rate Required to Pay Average Annual Debt Service (2023-2046) at a 95% Collection Rate

Based upon 2021 Certified Taxable Assessed Valuation .....	\$0.84
Based upon 2022 Preliminary Taxable Assessed Valuation .....	\$0.58

### Tax Rate Required to Pay Maximum Annual Debt Service (2023) at a 95% Collection Rate

Based upon 2021 Certified Taxable Assessed Valuation .....	\$0.95
Based upon 2022 Preliminary Taxable Assessed Valuation .....	\$0.65

### Status of Development as of June 2022 (e):

Single family - occupied .....	765
Vacant Lots .....	5
Lots Under Construction .....	95

Estimated 2022 Population.....	2,678 (f)
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- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."
- (b) Provided by the Appraisal District as a preliminary indication of the 2022 taxable value (as of January 1, 2022). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2022. See "TAX PROCEDURES."
- (c) After giving effect to issuance of the Bonds. See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds."
- (d) See "DEBT SERVICE REQUIREMENTS" Interest rate is assumed at 4.50% for illustrative purposes.
- (e) See "THE DISTRICT—Land Use" and "—Status of Development."
- (f) Based upon 3.5 persons per occupied single-family residence.

## **OFFICIAL STATEMENT**

**\$5,040,000**

### **MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**

*(A political subdivision of the State of Texas located within Montgomery County)*

### **UNLIMITED TAX BONDS**

#### **SERIES 2022**

This Official Statement provides certain information in connection with the issuance by Montgomery County Municipal Utility District No. 126 (the “District”) of its \$5,040,000 Unlimited Tax Bonds, Series 2022 (the “Bonds”).

The Bonds are issued pursuant to the Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended, an order authorizing the issuance of the Bonds (the “Bond Order”) adopted by the Board of Directors of the District (the “Board”), an order of the Texas Commission on Environmental Quality (the “TCEQ” or “Commission”) and an election held within the District on May 9, 2009.

This Official Statement includes descriptions, among others, of the Bonds and the Bond Order, and certain other information about the District, D.R. Horton – Texas Ltd. (the “Developer”) 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 Order, a copy of which is available from Bond Counsel upon payment of the costs of duplication therefor. The Bond Order authorizes the issuance and sale of the Bonds and prescribes the terms, conditions and provisions for the payment of the principal of and interest on the Bonds by the District.

### **Description**

The Bonds will be dated September 1, 2022, with interest payable on March 1, 2023 (six months of interest), 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. The Bonds mature on September 1 in each of the years and in the principal amounts shown under “MATURITIES PRINCIPAL AMOUNTS, INTEREST RATES AND INITIAL REOFFERING YIELDS” on the cover page hereof. The Bonds are issued in fully registered form only in denominations of \$5,000 or any integral multiple of \$5,000 for any one maturity. The Bonds will be registered and delivered only to The Depository Trust Company, New York, New York (“DTC”), in its nominee name of Cede & Co., pursuant to the book-entry system described herein (“Registered Owners”). No physical delivery of the Bonds will be made to the purchasers thereof. See “BOOK-ENTRY-ONLY SYSTEM.” Interest calculations are based upon a three hundred sixty (360) day year comprised of twelve (12) thirty (30) day months.

### **Authority for Issuance**

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$41,320,000 in principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and drainage facilities. The Bonds constitute the fourth issuance of bonds from such authorization. After the issuance of the Bonds, a total of \$20,080,000 in principal amount of unlimited tax bonds for water, sanitary sewer and drainage facilities will remain authorized but unissued. The Bonds are issued by the District pursuant to the terms and provisions of the Bond Order; Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including, without limitation, Chapters 49 and 54 of the Texas Water Code, as amended; and an order of the TCEQ dated August 1, 2022.

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

The Bonds, together with the Outstanding Bonds 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 “TAX 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 City of Conroe, Montgomery County, the State of Texas, or any political subdivision or entity other than the District.

## **Funds**

The Bond Order confirms the prior creation of the District's Bond Fund, including the sub-accounts which are used to separate funds received to pay debt service on bonds issued to finance water, sanitary sewer, and storm drainage ("WSD Bonds") from funds received to pay debt service on bonds issued to finance road facilities ("Road Bonds"). The Bond Order also confirms the District's Construction Fund, including the sub-accounts which are used to separate proceeds from WSD Bonds and Road Bonds. All remaining proceeds of the Bonds will be deposited in the sub-account of the Construction Fund created in respect of WSD Bonds.

The proceeds from all taxes levied, appraised and collected for and on account of the Bonds authorized by the Bond Order shall be deposited, as collected, into the sub-account of the Bond Fund created in respect of WSD Bonds. The Bond Fund, which constitutes a trust fund for the benefit of the owners of the Outstanding Bonds, the Bonds and any additional tax bonds issued by the District, is to be kept separate from all other funds of the District, and funds in the sub-accounts created in respect of WSD Bonds are to be used for payment of debt service on the Bonds and any of the District's duly authorized WSD Bonds, whether heretofore, hereunder, or hereafter issued, payable in whole or part from taxes. Amounts on deposit in the sub-accounts of the Bond Fund created in respect of WSD Bonds 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 Districts duly authorized WSD Bonds, whether heretofore, 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 to or become due on WSD Bonds, together with interest thereon, as such tax anticipation notes become due. Funds otherwise on deposit in the Bond Fund, including funds in a sub-account created in respect of Road Bonds, will not be allocated to the payment of the Bonds.

## **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**

***Mandatory Redemption:*** The Term Bonds maturing on September 1 in each of the years 2038, 2042, 2044 and 2046 (the "Term Bonds") shall be redeemed, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption on September 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "Optional Redemption" below):

<b>\$420,000 Term Bonds Due September 1, 2038</b>		<b>\$420,000 Term Bonds Due September 1, 2042</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2037	\$ 210,000	2041	\$ 210,000
2038 (maturity)	210,000	2042 (maturity)	210,000

  

<b>\$420,000 Term Bonds Due September 1, 2044</b>		<b>\$420,000 Term Bonds Due September 1, 2046</b>	
<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>	<b>Mandatory Redemption Date</b>	<b>Principal Amount</b>
2043	\$ 210,000	2045	\$ 210,000
2044 (maturity)	210,000	2046 (maturity)	210,000

Notice of the mandatory redemption of the Term Bonds will be provided at least thirty (30) calendar days prior to the date fixed for redemption, with the particular portions of the Term Bonds to be redeemed to be selected by lot or other customary method in accordance with the procedures of DTC so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY-SYSTEM."

***Optional Redemption:*** The District reserves the right, at its option, to redeem the Bonds (including any Term Bonds) maturing on or after September 1, 2029 prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000, on September 1, 2028, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest thereon to the date fixed for redemption. If fewer than all of the Bonds are to be redeemed, the particular maturity or maturities and the amounts thereof to be redeemed shall be determined by the District. If fewer than all of the Serial Bonds of the same maturity are to be redeemed, the particular Bonds shall be selected by DTC in accordance with its procedures, so long as the Bonds are registered in accordance with the Book-Entry-Only System. See "BOOK-ENTRY-ONLY SYSTEM." If less than all of the entire outstanding principal amount of a Term Bond is redeemed, the District will notify the Paying Agent/Registrar of the reductions in the remaining mandatory redemption amounts to result from the optional redemption. Notice of each exercise of the reserved right of optional redemption shall be given at least thirty (30) calendar days prior to the date fixed for redemption, in the manner specified in the Bond Order.



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

### **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 Dallas, 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 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 the Register on behalf of the District.

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

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

### **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 \$41,320,000 unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer and storm drainage facilities and could authorize additional amounts. Following the issuance of the Bonds, the District will have \$20,080,000 of unlimited tax bonds authorized but unissued for said improvements and facilities. The District's voters have also authorized the issuance of a total of \$6,000,000 unlimited tax bonds for the purpose of acquiring or constructing road facilities and could authorize additional amounts. The District currently has \$2,940,000 unlimited tax bonds authorized but unissued for said road facilities. The District's voters have also authorized a total of \$51,420,000 of unlimited tax refunding bonds for the purpose of refunding outstanding bonds of the District and could authorize additional amounts. The District currently has \$51,420,000 unlimited tax refunding bonds authorized but unissued. The District's voters have also authorized issuance of a total of \$4,100,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts. See "Financing Recreational Facilities" below.

The Bond Order imposes 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.

The District also is authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue fire-fighting bonds payable from taxes, the following actions would be required: (a) authorization of a detailed master plan and bonds for such purpose by the qualified voters in the District; (b) approval of the master plan and issuance of bonds by the TCEQ; and (c) approval of bonds by the Attorney General of Texas. The District does not provide fire protection service, and the Board has not considered calling such an election at this time. Issuance of bonds for fire-fighting activities could dilute the investment security for the Bonds.

### **Financing Road Facilities**

Pursuant to the provisions of the Texas Constitution and Chapter 54 Texas Water Code, as amended, conservation and reclamation districts created pursuant to said Chapter 54 are authorized to develop and finance with property taxes certain road facilities following the granting of road powers by the TCEQ and a successful District election to approve the issuance of road bonds payable from taxes. The TCEQ granted road powers to the District and at an election held within the District on May 9, 2009, voters of the District authorized a total of \$6,000,000 unlimited tax bonds for financing and constructing road facilities. The District has issued \$3,060,000 in road bonds from said authorization and could issue additional amounts. See "—Issuance of Additional Debt" herein and "INVESTMENT CONSIDERATIONS—Future Debt."

### **Financing Recreational Facilities**

Conservation and reclamation districts in certain counties are authorized to develop and finance with property taxes certain recreational facilities 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.

The District is authorized to issue bonds payable from an ad valorem tax to pay for the development and maintenance of recreational facilities 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 conditions, 3% of the value of taxable property in the District at the time of issuance of the bonds, but in no event in an amount greater than the estimated cost in the plan, whichever amount is smaller; (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. In addition, the District is authorized to levy an operation and maintenance tax to support recreational facilities at a rate not to exceed 10 cents per \$100 of assessed valuation of taxable property in the District, after such tax is approved at an election. Said maintenance tax is in addition to any other maintenance tax authorized to be levied by the District.

At an election held within the District on May 9, 2009, voters of the District authorized a total of \$4,100,000 unlimited tax bonds for the purpose of acquiring or constructing recreational facilities and could authorize additional amounts.

Issuance of bonds for recreational facilities could dilute the investment security for the Bonds.

### **Abolishment**

Under Texas law, the District may be abolished and dissolved by the City of Conroe (the "City") without the District's consent. If the District is abolished, the City will assume the District's assets and obligations (including the Bonds) and abolish the District within ninety (90) days thereafter. Prior to abolishment and dissolution by the City, the District shall have the opportunity to discharge any obligations of the District by selling its bonds or by causing the City to sell bonds of the City in an amount necessary to discharge such obligations. Abolishment of the District by the City is a policymaking matter within the discretion of the Mayor and the City Council of the City, and, therefore, the District makes no representation that abolishment will or will not occur. Moreover, no representation is made concerning the ability of the City to make debt service payments should abolishment occur. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE" for a discussion of certain limitations on the City's right to abolish the District.

## **Consolidation**

The District has the legal authority to consolidate with other districts and, in connection therewith, to provide for the consolidation of its water and wastewater systems with the water and wastewater systems of the district or districts with which it is consolidating, subject to voter approval. In their consolidation agreement, the consolidating districts may agree to assume each other's bonds, notes and other obligations. If each district assumes the other's bonds, notes and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of same. If the districts do not assume each other's bonds, notes and other obligations, each district's taxes are levied on property in each of the original districts to pay said debts created by the respective original district as if no consolidation had taken place. No representation is made concerning whether the District will consolidate with any other district, but the District currently has no plans to do so.

## **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 Order, or defaults in the observance or performance of any other covenants, conditions, or obligations set forth in the Bond Order, 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Certain traditional legal remedies may also not be available. See "INVESTMENT CONSIDERATIONS—Registered Owners' Remedies."

## **Defeasance**

The Bond Order provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of the State of Texas a sum of money equal to the principal of, premium, if any, and all interest to accrue on the Bonds to maturity or redemption or (ii) by depositing with any place 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 Order.

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

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

## BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company, New York, New York, (“DTC”) while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book- Entry-Only System has been provided by DTC for use in disclosure documents such as this Official Statement. The District and the Financial Advisor believe the source of such information to be reliable, but neither of the District or the Financial Advisor take any responsibility for the accuracy or completeness thereof.

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

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

DTC, the world’s largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a “banking organization” within the meaning of the New York Banking Law, a member of the Federal Reserve System, a “clearing corporation” within the meaning of the New York Uniform Commercial Code, and a “clearing agency” registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC’s participants (“Direct Participants”) deposit with DTC. DTC also facilitates the post-trade settlement among Direct Participants of sales and other securities transactions in deposited securities, through electronic computerized book-entry transfers and pledges between Direct Participants’ accounts. This eliminates the need for physical movement of securities certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation (“DTCC”). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“Indirect Participants”). DTC has a rating of “AA+” from S&P Global Ratings, a division of S&P Global, Inc. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://www.dtcc.com).

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

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC’s partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers. Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

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

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

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

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

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but neither the District nor the Initial Purchasers take any responsibility for the accuracy thereof.

## USE AND DISTRIBUTION OF BOND PROCEEDS

The construction costs were compiled by Edminster, Hinshaw, Russ & Associates, Inc., the District's engineer (the "Engineer"), based on the estimated cost of facilities and were submitted to the TCEQ in the District's bond application. Non-construction costs are based upon either contract amounts or estimates of various costs by the Engineer and the District's financial advisor, Masterson Advisors LLC (the "Financial Advisor"), at the time the District's bond application was filed with the TCEQ. Surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used. Certain uses of surplus funds require TCEQ approval.

Proceeds from the Bonds will be used to fund (1) construction expenses for clearing and grubbing to serve Water Crest, Phase Two and Three (2) construction and engineering expenses for water, sanitary sewer and drainage facilities to serve Water Crest, Section 15, and Water Crest, Section 10, (3) Clearing and Grubbing to serve Water Crest, Phase Two and Three (4) Engineering and Geotechnical, and (5) Storm Water Compliance. Bond proceeds will also be used to pay certain costs associated with the issuance of the Bonds.

### **CONSTRUCTION RELATED COSTS**

Construction Costs Approved by the TCEQ.....	\$ 4,740,168
Less: Surplus Funds.....	<u>(1,000,000)</u>

**Total Construction Related Costs..... \$ 3,740,168**

### **NON-CONSTRUCTION COSTS**

Underwriter's Discount .....	\$ 56,742
Developer Interest.....	<u>804,706</u>

**Total Non-Construction Related Costs..... \$ 861,448**

### **ISSUANCE COSTS AND FEES**

Issuance Costs and Professional Fees.....	\$ 276,261
Bond Application Report Costs .....	50,025
State Regulatory Fees.....	17,640
Contingency.....	<u>94,458</u>

**Total Issuance Costs and Fees..... \$ 438,384**

**TOTAL BOND ISSUE \$ 5,040,000**

In the instance that TCEQ-approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for uses approved under the rules of the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

## THE DISTRICT

### **General**

The District is a municipal utility district created by an order of the TCEQ, dated November 20, 2008. The District operates under the provisions of Chapters 49 and 54 of the Texas Water Code, as amended, and other general statutes of Texas applicable to municipal utility districts. The District, which lies wholly within the corporate limits of the City, 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. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste disposal and collection services. The District is also empowered to establish, operate and maintain fire-fighting facilities, separately or jointly with one or more conservation and reclamation districts, municipalities or other political subdivisions, after approval by the TCEQ and the voters of the District. Additionally, the District may, subject to certain limitations, develop and finance recreational facilities and may also, subject to the granting of road powers by the TCEQ and certain limitations, develop and finance roads. See "THE BONDS—Authority for Issuance," "—Issuance of Additional Debt," "—Financing Recreational Facilities," and "—Financing Road Facilities."

Construction and operation of the District's storm drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

## **Description and Location**

The District currently consists of approximately 330 acres of land in south Montgomery County. The District is located approximately 25 miles north of the central downtown business district of the City of Houston and lies wholly within the corporate limits of the City of Conroe and within the boundaries of the Willis Independent School District. The District is bounded on the north by League Line Road, on the east by Longmire Drive, and the west by Lake Conroe. See "AERIAL PHOTO."

## **Land Use**

The District currently includes approximately 210 developed acres of single-family residential development (770 lots), approximately 24 acres for recreational facilities, approximately 43 undevelopable acres (detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves), approximately 2 acres owned by City of Conroe for a fire station, and approximately 23 developable acres that have not been provided with water, sanitary sewer and storm drainage facilities. In addition, approximately 28 acres (approximately 95 lots) are currently under utility construction for single-family residential development. With an expected completion date by fourth quarter of 2022. The table below 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>
Water Crest on Lake Conroe:		
Section 1.....	23	107
Section 2.....	14	51
Section 3.....	12	31
Section 4.....	19	28
Section 5.....	16	67
Section 6 (a).....	8	29
Section 7.....	15	22
Section 8.....	11	45
Section 9.....	16	77
Section 10.....	26	95
Section 11.....	4	14
Section 13.....	20	96
Section 14.....	10	37
Section 15.....	24	100
Section 16 (a).....	8	20
Section 17 (b).....	<u>12</u>	<u>46</u>
Subtotal.....	238	865
Recreational Facilities (c) .....	24	---
Fire Station Site (d) .....	2	---
Future Development .....	23	---
Non-Developable (e) .....	<u>43</u>	<u>---</u>
	330	865

(a) Utility construction is currently underway with an expected completion date of October 2022.

(b) Utility construction is currently underway with an expected completion date of September 2022.

(c) Includes recreation center on approximately 4 acres, parks and open spaces.

(d) Owned by City of Conroe for future fire station.

(e) Includes detention and storm drainage facilities, street right-of-way, open space and undevelopable reserves.

## **Status of Development**

Single-Family Residential: The development in the District is being marketed as Water Crest on Lake Conroe. As of June 2022, the District consisted of 765 completed and occupied homes and 5 vacant developed lots. New homes in the District have an average sales price of approximately \$350,000. As of June 2022, the estimated population in the District based upon 3.5 persons per occupied single-family residence was 2,678. In addition, there are approximately 24 acres within the District for recreational facilities, including approximately 4 acres upon which a recreation center has been constructed which includes a playground, two pools and parking lot.

Homebuilding: The sole homebuilder in the District is D.R. Horton, who is the Developer.

## **Future Development**

The District is planned as a primarily residential development. Approximately 23 developable acres of land in the District are not yet served with water distribution, sanitary sewer collection and treatment or storm drainage facilities necessary for the construction of taxable improvements. While the District anticipates future development of this acreage, there can be no assurances given as to whether or when any of such undeveloped land will ultimately be developed. The District anticipates issuing additional bonds to accomplish full development of the District. See “INVESTMENT CONSIDERATIONS— Future Debt.” The Engineer has stated that under current development plans, the remaining authorized but unissued bonds after issuance of the Bonds (\$27,120,000) should be sufficient to finance the construction of water, sanitary sewer, storm drainage, recreational and road facilities to complete development of the District.

## **UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE**

The City provides water and sanitary sewer service to customers within the jurisdictional boundaries of the District pursuant to the Amended and Restated Utility Services and Development Agreement by and between the City and the District effective as of January 15, 2021 (the “Utility Agreement”). Pursuant to the Utility Agreement, the City agreed to extend water distribution and wastewater collection lines to agreed upon points of connection to serve customers within the District and to provide sufficient water supply and wastewater treatment plant capacity to serve customers within the District at full development, and the District assumed responsibility for acquiring and constructing the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the “Facilities”).

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the requirements and criteria of the City and all applicable regulatory authorities. The City agrees to provide the District with its ultimate requirements for water supply capacity as needed and when required by the District without capital charges of any kind. The City represents that it has sufficient capacity in the City's wastewater treatment plant to serve the development of the District as needed and when required by the District and that it shall provide these services to customers within the District when needed. The City agrees to make any necessary improvements to its wastewater treatment plant, at no cost to the District, if at any time it does not have sufficient capacity to serve the development in the District.

All existing Facilities have been conveyed to the City and any new Facilities to be acquired or constructed to serve the District shall be conveyed to the City, reserving a security interest therein in favor of the District for the purpose of securing the performance of the City under the Utility Agreement. The Facilities conveyed to the City shall be operated, maintained and managed by the City at its sole cost and expense.

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities, parks and recreational facilities, and eligible road facilities and related appurtenances. Before the District is authorized to issue bonds, the District must provide the City with a copy of a TCEQ order authorizing issuance of such bonds, if applicable, and such order must provide that under the TCEQ's rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$1.10 per \$100 of taxable assessed valuation. The Utility Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. Both the City and the District levy taxes on property within the District. The District must also provide the City with a copy of the applicable preliminary official statement and draft bond order before issuing bonds.

Bonds issued by the District must provide that the District reserves the right to redeem the bonds on any interest payment date not later than the fifteenth anniversary of the date of issuance without premium and may be sold only after the taking of public bids. Such bonds, other than refunding bonds, may not be sold for less than 95% of par; provided, however, that the net effective interest rate on such bonds, taking into account any discount or premium as well as the interest rate borne by such bonds, will not exceed 2% above the highest average interest rate reported by the Daily Bond Buyer in its weekly “20 Bond Index” during the one-month period next preceding the date notice of the sale of such bonds is given, and that bids for the Bonds will be received not more than 45 days after notice of sale of the Bonds is given. Bonds issued by the District may not have a maturity of more than 30 years and may not provide for more than 18 months of capitalized interest, unless required by the rules of the TCEQ.

The Utility Agreement provides that the City pays an annual rebate to the District of a portion of the City's tax rate related to the water, wastewater and storm drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City's tax rate that is attributable to water, sewer or storm drainage facilities (which it may increase or decrease over time). The annual rebate payment is to be deposited in the District's debt service fund. As of the District's fiscal year ended July 31, 2021, the District recorded annual rebate revenue from the City in the amount of \$8,811 per the Utility Agreement. As of May 3, 2022, the District has received \$12,245 from the City for the current fiscal year accounting.



The City's right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until ninety percent of the District's Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules. The term of the Utility Agreement expires upon the earlier of the dissolution of the District by the City or the final maturity date of the last series of bonds issued by the District pursuant to the terms and conditions of the Utility Agreement.

## **THE DEVELOPER**

### **Role of a Developer**

In general, the activities of a landowner or developer in a municipal utility district such as the District include designing the project, defining a marketing program and setting building schedules; securing necessary governmental approvals and permits for development; arranging for the construction of streets and the installation of utilities; and selling or leasing improved tracts or commercial reserves to other developers or third parties. While a developer is required by the TCEQ to pave streets in areas being financed with bond proceeds, 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.

### **D. R. Horton - Texas, Ltd.**

The developer of the land within the District is D.R. Horton - Texas, Ltd. (the "Developer"), a Texas limited partnership. The Developer is wholly owned by D.R. Horton, Inc. ("D.R. Horton"), a Delaware corporation and publicly held company, the stock of which is listed on the New York Stock Exchange under the ticker symbol "DHL."

D.R. Horton is subject to the information requirements of the Securities and Exchange Act of 1934, as amended, and in accordance therewith files reports and other information with the Securities and Exchange Commission ("SEC"). Reports, proxy statements and other information filed by D.R. Horton can be inspected at the office of the SEC at Judiciary Plaza, Room 1024, 450 Fifth Street, N.W., Washington, D.C. 20549, and at the Regional Office of the SEC located at Citicorp Center, 500 West Madison Street, Suite 1400, Chicago, Illinois 60661-2511. Copies of such material can be obtained from the Public Reference Section of the SEC at 450 Fifth Street, N.W., Washington, D.C. 20549, at prescribed rates. Copies of the above reports, proxy statements and other information may also be inspected at the offices of the New York Stock Exchange, Inc., 20 Broad Street, New York, New York 10005. The SEC maintains a World Wide Web site on the Internet at <http://www.sec.gov> that contains reports, proxy information statements and other information regarding registrants that file electronically with the SEC.

In addition, D.R. Horton makes available on its web site <http://www.drhorton.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 electronically filed with the SEC as well as other financial institutions. Unless otherwise specified, information contained on D.R. Horton's website, available by hyperlink from D.R. Horton's website or on the SEC's website, is not incorporated into this Official Statement.

Neither the Developer, D.R. Horton nor any affiliates of D.R. Horton are responsible for, liable for, or has made any commitment for payment of the Bonds or other obligations of the District. Neither the Developer, D.R. Horton, nor any affiliates of D.R. Horton 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. Further, the financial condition of the Developer and D.R. Horton is subject to change, and financial information concerning such entities will not be provided by the District after the sale of the Bonds.

### **Development Financing**

All funds required by the Developer for development activities are provided by D.R. Horton, affiliates of D.R. Horton, or from lot sales. The Developer's ability to continue development within the District is dependent in part on its continued receipt of funds from D.R. Horton or affiliates of D.R. Horton. Neither D.R. Horton nor such affiliates are legally obligated to continuing providing funds for the development of the District, to provide funds to pay taxes on property in the District owned by the Developer, or to pay any other obligations of the Developer.

## 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. None of the Board members reside in the District; however, each of the Board members owns 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>
Irving A. Wolf	President	May 2026
Dan Dominey	Vice President	May 2026
Michael F. Knapick	Secretary	May 2024
John R. Collett	Asst. Secretary	May 2024
Adam Soffar	Asst. Secretary	May 2024

The District has no full-time employees but instead contracts with the entities described below for professional services:

### **Tax Assessor/Collector**

Land and improvements in the District are being appraised for taxation by the Montgomery Central Appraisal District. The District contracts with Assessments of the Southwest to act as Tax Assessor/Collector for the District.

### **System Operator**

The operator of the District's water, wastewater and storm sewer systems is Municipal Operations & Consulting, Inc.

### **Bookkeeper**

The District contracts with Municipal Accounts & Consulting, L.P. (the "Bookkeeper") for bookkeeping services for the District.

### **Engineer**

The District's consulting engineer is Edminster, Hinshaw, Russ & Associates, Inc. (the "Engineer").

### **Auditor**

As required by the Texas Water Code, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District's financial statements for the year ended July 31, 2021, were audited by McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountants. See "APPENDIX A" for a copy of the District's July 31, 2021, financial statements. The District has engaged McCall Gibson Swedlund Barfoot PLLC to audit its financial statements for the fiscal year ended July 31, 2022.

### **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**

The District has engaged McCall, Parkhurst & Horton L.L.P. as disclosure counsel ("Disclosure Counsel"). The fees paid to Disclosure Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds.

### **Financial Advisor**

Masterson Advisors LLC (the "Financial Advisor") serves as financial advisor to the District. The fee to be paid the Financial Advisor is contingent upon the sale and delivery of the Bonds.

## **THE ROADS**

Two major collector streets, Crest Royale Parkway and Forest Crest Parkway, currently exist within the District's boundaries. Both roadways meet City of Conroe criteria for collector roadway designation. Crest Royale Parkway and Forest Crest Parkway have been accepted by the City of Conroe.

These roads lie within the public right-of-way. In addition to the roadway, public utilities such as underground water, sewer and storm drainage facilities are also located within the right-of-way. The right-of-way is also shared by streetlights, sidewalks and franchise utilities (power, gas, telephone and cable).

All roadways are designed and constructed in accordance with City of Conroe standards, rules and regulations. Upon acceptance of roadway facilities, the City of Conroe will be responsible for operation and maintenance thereof.

## **THE SYSTEM**

### **Regulation**

Construction and operation of the District's water, sanitary sewer and storm drainage system (the "System") as it now exists or as it may be expanded from time to time is subject to regulatory jurisdiction of federal, state and local authorities. The TCEQ exercises continuing, supervisory authority over the District. Construction of water, sanitary sewer and storm drainage facilities is subject to the regulatory authority of the District and the City of Conroe. The TCEQ also exercises regulatory jurisdiction over portions of the System.

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

Water supply and wastewater treatment for the District is provided by the City of Conroe pursuant to the Utility Agreement. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE." The City of Conroe has committed to provide water supply and wastewater capacity to the District adequate to serve the proposed development in the District. As a result, the District no longer receives water and wastewater revenue.

### **Surface Water Conversion**

The District is within the boundaries of the Lone Star Groundwater Conservation District (the "Conservation District") which regulates groundwater withdrawal. Because the District is served by the City of Conroe with water, the District has no potable water wells subject to regulation by the Conservation District.

The City of Conroe is a participant in the San Jacinto River Authority (SJRA) Groundwater Reduction Plan (GRP). The SJRA is constructing a surface water treatment facility and transmission system to provide treated surface water to the City of Conroe. The transmission system is interconnected to the City's water system.

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

The District has constructed water distribution, wastewater collection, storm drainage and paving facilities to serve 770 lots in Water Crest, Sections 1 through 5, 7 through 11, and 13 through 15. Utility construction is currently underway for approximately 95 lots (Sections 6, 16 and 17) with expected completion by fourth quarter of 2022. Water distribution and sanitary sewer collection systems are owned, maintained and operated by the City. See "THE DISTRICT—Land Use."

### **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 rainstorm 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, there is currently one acre of land within the District officially within the 100-year flood plain. Such acre will not be developed. See "INVESTMENT CONSIDERATIONS—Extreme Weather Events."

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

## FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)

2021 Certified Taxable Assessed Valuation .....	\$160,886,645	(a)
2022 Preliminary Taxable Assessed Valuation .....	\$236,929,558	(b)

Gross Direct Debt Outstanding (the Bonds and the Outstanding Bonds) ..... \$23,560,000

Ratios of Gross Direct Debt to:

2021 Certified Taxable Assessed Valuation .....	14.64%
2022 Preliminary Taxable Assessed Valuation .....	9.94%

- (a) As certified by the Montgomery Central Appraisal District (the "Appraisal District"). See "TAX PROCEDURES."  
 (b) Provided by the Appraisal District as a preliminary indication of the 2022 taxable value (as of January 1, 2022). Such amount is subject to review and downward adjustment prior to certification. No tax will be levied on such amount until it is certified in the fall of 2022. See "TAX PROCEDURES."

### **Cash and Investment Balances** (unaudited as of July 14, 2022)

General Fund	Cash and Temporary Investments	\$852,183
Water, Sewer and Drainage Capital Projects Fund	Cash and Temporary Investments	\$1,376,879 (a)
Water, Sewer and Drainage Bond Fund	Cash and Temporary Investments	\$1,333,387 (b)(c)
Road Bond Fund	Cash and Temporary Investments	\$249,665 (b)
Road Capital Projects Fund	Cash and Temporary Investments	\$97,340

- (a) The District intends to apply \$1,000,000 of such surplus funds towards the issuance of the Bonds.  
 (b) Although all of the District's debt, including the Outstanding Bonds and the Bonds, is payable from an unlimited tax pledge on parity, a pro rata portion of the District's ad valorem tax revenue will be allocated to bonds sold for road facilities (the "Road Bonds"), and a portion will be allocated to bonds sold for water, sanitary sewer and drainage facilities including the Bonds (the "WSD Bonds"). See "FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)—Outstanding Bonds." The Road Bond Fund is not pledged to the WSD Bonds and the WSD Bond Fund is not pledged to the Road Bonds.  
 (c) Includes approximately \$12,245 collected from the City rebate collected to date. See "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE."

### **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** (as of July 1, 2022)

Series	Original Principal Amount	Outstanding Bonds (as of 7/1/22)
2016 (a)	\$ 3,060,000	\$ 2,705,000
2019	4,175,000	3,950,000
2020	6,625,000	6,465,000
2021	5,400,000	5,400,000
Total	\$ 19,260,000	\$ 18,520,000

- (a) Unlimited tax road bonds.

## ESTIMATED OVERLAPPING DEBT STATEMENT

### Estimated Overlapping Debt

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

Taxing Jurisdiction	Outstanding Bonds	As of	Overlapping	
			Percent	Amount
Montgomery County.....	\$ 464,200,000	5/31/2022	0.27%	\$ 1,253,340
City of Conroe.....	431,220,000	5/31/2022	1.46%	6,295,812
Willis Independent School District.....	229,415,000	5/31/2022	3.86%	8,855,419
Lone Star College System.....	643,940,000	5/31/2022	0.07%	450,758
Total Estimated Overlapping Debt.....				\$ 16,855,329
The District.....	23,560,000 (a)	Current	100.00%	23,560,000
Total Direct and Estimated Overlapping Debt....				\$ 40,415,329
Ratio of Estimated Direct and Overlapping Debt to 2021 Certified Taxable Assessed Valuation.....				25.12%
Ratio of Estimated Direct and Overlapping Debt to 2022 Preliminary Taxable Assessed Valuation.....				17.06%

(a) Includes the Bonds and the Outstanding Bonds.

### Overlapping Taxes for 2021

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 2021 tax year by all taxing jurisdictions overlapping the District and the 2020 tax rate of 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.

	2021 Tax Rate per \$100 of Taxable <u>Assessed Valuation</u>
Montgomery County.....	\$ 0.408300
Montgomery County Hospital District.....	0.056700
Willis Independent School District.....	1.172000
Lone Star Community College System.....	0.107800
City of Conroe.....	0.437500
Total Overlapping Tax Rate.....	\$ 2.182300
The District .....	0.900000
Total Tax Rate.....	\$ 3.082300

## TAX DATA

### Debt Service Tax

The Board covenants in the Bond Order to levy and assess, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax adequate to provide funds to pay the principal of and interest on the Bonds and the Outstanding Bonds. For tax year 2021, the District levied a tax rate of \$0.75 for debt service. See “Tax Rate Distribution” and “Tax Roll Information” below, and “TAX 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 May 9, 2009, 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 assessed valuation for general operations and maintenance costs. At the same election, voters authorized the Board to levy a maintenance tax for operations and maintenance costs of recreational facilities at a rate not to exceed \$0.10 per \$100 assessed valuation. The District levied a \$0.15 maintenance and operations tax rate for 2021. It has not levied a maintenance and operations tax for recreational facilities to date. 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 Rate Distribution

	2021	2020	2019	2018	2017
Debt Service	\$ 0.750	\$ 0.750	\$ 0.510	\$ 0.340	\$ 0.420
Maintenance and Operations	0.150	0.150	0.390	0.560	0.480
Total	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900	\$ 0.900

### Historical Tax Collections

The following statement of tax collections set forth in condensed form the historical tax collection experience of the District. This summary has been prepared for inclusion herein, based upon information from District records. Reference is made to such records for further and more complete information.

Tax Year	Certified Taxable Assessed Valuation	Tax Rate	Total Tax Levy	Total Collections as of June 30, 2022 (a)	
				Amount	Percent
2017	\$ 45,375,958	\$ 0.900	\$ 408,357	\$ 407,581	99.81%
2018	56,815,283	0.900	511,311	509,513	99.65%
2019	91,320,232	0.900	821,882	819,887	99.76%
2020	117,708,761	0.900	1,059,379	1,056,543	99.73%
2021	160,836,439	0.900	1,447,528	1,430,807	98.84%

(a) Unaudited.

Taxes are due upon receipt of 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 21<sup>st</sup> day after such taxes are billed. No split payments are allowed, and no discounts are allowed.

## Principal Taxpayers

The following table represents the principal taxpayers, the type of property, the certified taxable assessed value of such property and such property's certified assessed value as a percentage of the 2021 Certified Taxable Assessed Valuation of \$160,886,645, which represents ownership as of January 1, 2021. A principal taxpayer lists related to the 2022 Preliminary Taxable Assessed Valuation, of \$236,929,558, which is subject to review and downward adjustment prior to certification, is not available.

Taxpayer	Type of Property	2021 Certified Taxable Assessed Valuation	% of 2021 Certified Taxable Assessed Valuation
DR Horton Texas Ltd. (a)	Land & Improvements	\$ 2,186,570	1.36%
Hudson SFR Property Holdings II LLC	Land & Improvements	673,780	0.42%
FKH SFR Propco H LP	Land & Improvements	526,200	0.33%
Individual	Land & Improvements	490,560	0.30%
Individual	Land & Improvements	450,150	0.28%
Individual	Land & Improvements	445,620	0.28%
Individual	Land & Improvements	442,730	0.28%
Individual	Land & Improvements	439,020	0.27%
Individual	Land & Improvements	431,740	0.27%
Individual	Land & Improvements	406,620	0.25%
Total		\$ 6,492,990	4.04%

(a) See "THE DEVELOPER."

## Tax Roll Information

The District's assessed value as of January 1 of each year is used by the District in establishing its tax rate. See "TAX PROCEDURES—Valuation of Property for Taxation". The following represents the composition of certified property comprising the 2019 through 2021 Certified Taxable Assessed Valuations. Differences in value from other information herein are due to differences in dates of information provided. A breakdown of the 2022 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, is not available.

	2021 Certified Taxable Assessed Valuation	2020 Certified Taxable Assessed Valuation	2019 Certified Taxable Assessed Valuation
Land	\$ 44,586,990	\$ 39,069,440	\$ 35,343,150
Improvements	123,448,350	83,950,630	59,863,080
Personal Property	870,990	560,946	841,473
Exemptions	(8,019,685)	(5,860,265)	(4,722,471)
Total	<u>\$ 160,886,645</u>	<u>\$ 117,720,751</u>	<u>\$ 91,325,232</u>

## **Tax Adequacy for Debt Service**

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation which would be required to meet average annual and maximum debt service requirements if no growth in the District's tax base occurred beyond the 2021 Certified Taxable Assessed Valuation of \$160,886,645 and the 2022 Preliminary Taxable Assessed Valuation of \$236,929,558, subject to review and downward revision prior to certification. The calculations contained in the following table merely represent the tax rates required to pay principal and interest on the Bonds and the Outstanding Bonds when due, assuming no further increase or any decrease in taxable assessed values in the District, collection of ninety-five percent (95%) of taxes levied, the sale of no additional bonds, and no other funds available for the payment of debt service. See "INVESTMENT CONSIDERATIONS."

Average Annual Debt Service Requirement (2023-2046) .....	\$1,283,344
\$0.84 Tax Rate on 2021 Certified Taxable Assessed Valuation at 95% collections.....	\$1,283,875
\$0.58 Tax Rate on 2022 Preliminary Taxable Assessed Valuation at 95% collections .....	\$1,305,482
Maximum Annual Debt Service Requirement (2023) .....	\$1,451,933
\$0.95 Tax Rate on 2021 Certified Taxable Assessed Valuation at 95% collections.....	\$1,452,002
\$0.65 Tax Rate on 2022 Preliminary Taxable Assessed Valuation at 95% collections .....	\$1,463,040

No representations or suggestions are made that the 2022 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, 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 "TAX PROCEDURES."

## **TAX 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 Montgomery Central Appraisal District (the "Appraisal District") has the responsibility for appraising property for all taxing units wholly within Montgomery County, including the District. Such appraisal values are subject to review and change by the Montgomery County Appraisal Review Board (the "Appraisal Review Board"). Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Absent any such appeal, the appraisal roll, as prepared by the Appraisal District and approved by the Appraisal Review Board, must be used by each taxing jurisdiction in establishing its tax roll and tax rate. The District is eligible, along with all other conservation and reclamation districts within Montgomery 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 2022 tax year, the District has not granted any such exemptions. 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 not exercised its option to tax goods-in-transit personal property but may choose to do so in the future.

### **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. For the 2022 tax year, the District has not 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 "TAX PROCEDURES—Rollback of Operations and Maintenance Tax Rate." 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, 2022, no land within the District was designated for agricultural use, open space, inventory deferment, or timberland.

## **Tax Abatement**

The City and Montgomery County may designate all or part of the District as a reinvestment zone, and the District, Montgomery County, and the City 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 penalty of up to the amount of the compensation specified in the District's contract with its delinquent tax collection attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District. With respect to personal property taxes that become delinquent on or after February 1 of a year and that remain delinquent sixty (60) days after the date on which they become delinquent, as an alternative to the penalty described in the foregoing sentence, an additional penalty on personal property of up to the amount specified in the District's contract with its delinquent tax attorney, but not to exceed twenty percent (20%) of the total tax, penalty and interest, may, under certain circumstances, be imposed by the District prior to July 1. The District's contract with its delinquent tax collection attorney currently specifies a twenty percent (20%) additional penalty. The District may waive penalties and interest on delinquent taxes only 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 classifies municipal utility districts 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 “FINANCIAL INFORMATION CONCERNING THE DISTRICT (UNAUDITED)” 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. 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 “ESTIMATED OVERLAPPING DEBT STATEMENT.” 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."

## DISTRICT OPERATIONS

The following statement sets forth in condensed form the General Operating Fund for the District as shown in the District's audited financial statement for the fiscal years ended July 31, 2018 through 2021 and an unaudited summary for the nine month period ended April 30, 2022, provided by the District's 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.

	8/1/2021 to 4/30/2022 (a,b)	Fiscal Year Ended July 31			
		2021 (b)	2020	2019	2018
<b>Revenues</b>					
Property Taxes	\$ 232,733	\$ 177,871	\$ 354,515	\$ 316,355	\$ 219,435
Water Service	-	256,486	383,883	261,322	179,840
Wastewater Service	-	275,378	375,985	224,808	129,826
Water Authority Fees	-	154,448	218,057	130,692	98,649
Penalty and Interest	-	10,537	14,755	7,506	11,146
Tap Connection and Inspection Fees	-	94,150	212,796	118,807	77,155
Miscellaneous Revenues	1,147	10,920	10,899	4,780	5,436
<b>Total Revenues</b>	<u>\$ 233,880</u>	<u>\$ 979,790</u>	<u>\$ 1,570,890</u>	<u>\$ 1,064,270</u>	<u>\$ 721,487</u>
<b>Expenditures</b>					
Professional Fees	\$ 77,726	\$ 174,738	\$ 167,034	\$ 157,738	\$ 133,280
Contracted Services	23,220	46,015	51,914	45,420	36,691
Purchased Water Service/Water Authority Fees	-	283,488	425,673	271,318	202,264
Purchased Wastewater Service	-	220,594	305,413	165,391	109,541
Repairs and Maintenance	-	79,033	70,945	107,833	62,174
Other Operating Expenditures	19,800	163,055	211,581	167,480	108,072
<b>Total Expenditures</b>	<u>\$ 120,746</u>	<u>\$ 966,923</u>	<u>\$ 1,232,560</u>	<u>\$ 915,180</u>	<u>\$ 652,022</u>
<b>Revenues Over (Under) Expenditures</b>	<u>\$ 113,134</u>	<u>\$ 12,867</u>	<u>\$ 338,330</u>	<u>\$ 149,090</u>	<u>\$ 69,465</u>
<b>Other Sources (Transfer from Capital Projects)</b>	<u>\$ 53,204</u>	<u>\$ 46,092</u>	<u>\$ 39,111</u>	<u>\$ -</u>	<u>\$ 35,000</u>
<b>Fund Balance (Beginning of Year)</b>	<u>\$ 759,977</u>	<u>\$ 701,018</u>	<u>\$ 323,577</u>	<u>\$ 174,487</u>	<u>\$ 70,022</u>
<b>Fund Balance (End of Year)</b>	<u>\$ 926,315</u>	<u>\$ 759,977</u>	<u>\$ 701,018</u>	<u>\$ 323,577</u>	<u>\$ 174,487</u>

(a) Unaudited. Provided by the District's bookkeeper.

(b) In the first quarter of calendar year 2021, the City of Conroe took over operations of the District's System, which impacted both revenues and expenses for a portion of the District's fiscal year ended July 31, 2021 and all of the District's fiscal year ending July 31, 2022, and as a result, the District will no longer receive water and wastewater revenue.

## DEBT SERVICE REQUIREMENTS

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

Year	Outstanding Bonds Debt Service Requirements	Plus: Debt Service on the Bonds			Total Debt Service Requirements
		Principal	Interest	Total	
2022	\$ 837,538 (a)				\$ 837,538
2023	1,070,375	\$ 210,000	\$ 171,558	\$ 381,558	1,451,933
2024	1,059,875	210,000	172,200	382,200	1,442,075
2025	1,058,425	210,000	165,900	375,900	1,434,325
2026	1,060,475	210,000	159,600	369,600	1,430,075
2027	1,060,875	210,000	153,300	363,300	1,424,175
2028	1,065,925	210,000	147,000	357,000	1,422,925
2029	1,065,525	210,000	140,175	350,175	1,415,700
2030	1,069,825	210,000	133,350	343,350	1,413,175
2031	1,073,163	210,000	126,525	336,525	1,409,688
2032	1,080,869	210,000	119,700	329,700	1,410,569
2033	1,082,788	210,000	112,875	322,875	1,405,663
2034	1,084,050	210,000	106,050	316,050	1,400,100
2035	1,089,025	210,000	98,700	308,700	1,397,725
2036	1,093,381	210,000	91,350	301,350	1,394,731
2037	1,091,731	210,000	84,000	294,000	1,385,731
2038	1,094,075	210,000	75,600	285,600	1,379,675
2039	1,095,525	210,000	67,200	277,200	1,372,725
2040	1,100,606	210,000	58,800	268,800	1,369,406
2041	1,104,575	210,000	50,400	260,400	1,364,975
2042	992,750	210,000	42,000	252,000	1,244,750
2043	989,938	210,000	33,600	243,600	1,233,538
2044	686,125	210,000	25,200	235,200	921,325
2045	230,063	210,000	16,800	226,800	456,863
2046	-	210,000	8,400	218,400	218,400
Total	\$ 24,237,500	\$ 5,040,000	\$ 2,360,283	\$ 7,400,283	\$ 31,637,783

(a) Excludes March 1, 2022 debt service payment of \$241,912.

Maximum Annual Debt Service Requirement (2023) .....	\$1,451,933
Average Annual Debt Service Requirements (2023-2046) .....	\$1,283,344

## INVESTMENT CONSIDERATIONS

### **General**

The Bonds are obligations solely of the District and are not obligations of the State of Texas, Montgomery County, the City of Conroe, 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 of Payment." The collection by the District of delinquent taxes owed to it and the enforcement by Registered Owners (as hereinafter defined) 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.

### **Infectious Disease Outlook (COVID-19)**

In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus ("COVID-19") to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas (the "State") because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

There are currently no COVID-19 related operating limits imposed by executive order of the Governor for any business or other establishment in the State. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

The District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19; however the District cannot predict the long-term economic effect of COVID-19 or a similar virus should there be a reversal of economic activity and re-imposition of restrictions.

### **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 will 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, the water, sewer, and drainage 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 homes or other 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.

## **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. The market value of such homes and lots is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon can be significantly affected by factors such as interest rates, credit availability, 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—Status of Development.”

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, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued construction within the District. In addition, since the District is located approximately 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 national credit and financial markets. A downturn in the economic conditions of Houston and the nation could adversely affect development and home-building plans in the District and restrain the growth of the District’s property tax base or reduce it from current levels.

## **Competition**

The demand for and construction of single-family homes in the District could be affected by competition from other developments in the City of Houston, The Woodlands and the City of Conroe, many of which have a more mature development status. 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 Developer 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. 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.

## **Landowner 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 or developed lots would restrict the rate of growth of taxable values in the District. The District cannot and does not make any representations that over the life of the Bonds, the District will increase or maintain its taxable value.

## **Undeveloped Acreage and Vacant Lots**

There are approximately 23 developable acres of land within the District that have not been provided with road, water, wastewater and storm drainage facilities necessary for the construction of taxable improvements and approximately 28 acres (95 lots) which are currently with utility construction underway with an expected completion date by fourth quarter of 2022. The District makes no representation as to when or if development of the undeveloped acreage will occur or that the lot sales and building program will be successful. The District makes no representation as to when or if development of this acreage will occur. See “THE DISTRICT—Land Use.”

## **Maximum 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 2021 Certified Taxable Assessed Valuation, is \$160,886,645 and the 2022 Preliminary Taxable Assessed Valuation is \$236,929,558. After issuance of the Bonds, the maximum annual debt service requirement will be \$1,451,933 (2023), and the average annual debt service requirement will be \$1,283,344 (2023-2046, inclusive). Assuming no increase or decrease from the 2022 Preliminary Taxable Assessed Valuation and the 2021 Certified Taxable Assessed Valuation, the issuance of no additional debt, and no other funds available for the payment of debt service, tax rates of \$0.65 and \$0.58, respectively, based on the 2022 Preliminary Taxable Assessed Valuation and \$0.95 and \$0.84, respectively, based on the 2021 Certified Taxable Assessed Valuation, 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. See “DEBT SERVICE REQUIREMENTS.”

No representations or suggestions are made that the 2022 Preliminary Taxable Assessed Valuation, which is subject to review and downward revision prior to certification, or that the estimated values of land and improvements provided by the Appraisal District as of June 1, 2022 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 “TAX PROCEDURES.”

## **Future Debt**

The District has the right to issue obligations other than the Bonds, including tax anticipation notes and bond anticipation notes, and to borrow for any valid corporate purpose. A total of \$41,320,000 in principal amount of unlimited tax bonds has been authorized by the District’s voters for financing water, sanitary sewer, and storm drainage facilities, and, after the issuance of the Bonds, \$20,080,000 in principal amount of said unlimited tax bonds will remain authorized but unissued. Further, a total of \$6,000,000 principal amount of unlimited tax bonds for financing road facilities has been authorized by the District’s voters, of which \$2,940,000 in principal amount remains authorized but unissued, and a total of \$4,100,000 principal amount of unlimited tax bonds has been authorized by the District’s voters for the purpose of acquiring or constructing recreational facilities, all of which remains unissued. In addition, voters have authorized \$51,420,000 principal amount in unlimited tax refunding bonds, all of which remains unissued, and voters may authorize the issuance of additional bonds secured by ad valorem taxes. The issuance of additional obligations may increase the District’s tax rate and adversely affect the security for, and the investment quality and value of the Bonds.

After reimbursements are made with Bond proceeds, the District will continue to owe the Developer approximately \$3,910,000 (estimated as of June 30, 2022) plus interest for advances made for the engineering and construction of water, sanitary sewer and storm drainage facilities and road facilities. The District intends to issue additional bonds in order to fully reimburse the Developer and other landowners for facilities constructed or under construction and to provide water, sanitary sewer, storm drainage and major storm drainage facilities to the remainder of undeveloped but developable land (23 acres). See “THE BONDS—Issuance of Additional Debt”. In addition, future changes in health or environmental regulations could require the construction and financing of additional improvements without any corresponding increases in taxable value in the District. 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. Except with respect to additional bonds for roads, the issuance of additional bonds is subject to approval by the TCEQ pursuant to its rules regarding issuance and feasibility of bonds. See “ESTIMATED OVERLAPPING DEBT STATEMENT” in this section and “THE BONDS—Issuance of Additional Debt” and “—Financing of Recreational Facilities.”

## **Environmental and Air Quality Regulations**

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

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

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



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

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

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

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

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

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

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

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

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

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

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

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

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

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

On January 23, 2020, the EPA and USACE released the Navigable Waters Protection Rule (“NWPR”), which contains a new definition of “waters of the United States.” The stated purpose of the NWPR is to restore and maintain the integrity of the nation’s waters by maintaining federal authority over the waters Congress has determined should be regulated by the federal government, while preserving the states’ primary authority over land and water resources. The new definition outlines four categories of waters that are considered “waters of the United States,” and thus federally regulated under the CWA: (i) territorial seas and traditional navigable waters; (ii) perennial and intermittent tributaries to territorial seas and traditional navigable waters; (iii) certain lakes, ponds, and impoundments of jurisdictional waters; and (iv) wetlands adjacent to jurisdictional waters. The new rule also identifies certain specific categories that are not “waters of the United States,” and therefore not federally regulated under the CWA: (a) groundwater; (b) ephemeral features that flow only in direct response to precipitation; (c) diffuse stormwater runoff and directional sheet flow over upland; (d) certain ditches; (e) prior converted cropland; (f) certain artificially irrigated areas; (g) certain artificial lakes and ponds; (h) certain water-filled depressions and certain pits; (i) certain stormwater control features; (j) certain groundwater recharge, water reuse, and wastewater recycling structures; and (k) waste treatment systems. The NWPR became effective June 22, 2020, and is currently the subject of ongoing litigation.

On June 9, 2021, the EPA and USACE announced plans to further revise the definition of “waters of the United States.” On August 30, 2021, the United States District Court for the District of Arizona issued an order vacating the NWPR while the EPA and USACE make plans to replace it. On November 18, 2021, the EPA and USACE issued a Notice of Proposed Rulemaking to put back into place the pre-2015 definition of “waters of the United States,” and on December 7, 2021, the proposed rule was published in the Federal Register, with the public comment period closing on February 7, 2022. Due to existing and possible future litigation and regulatory action, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

## **Tax Collection Limitations**

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

## **Registered Owners' Remedies**

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Beneficial 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 Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Beneficial 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 Beneficial Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgment for money damages. Even if a judgment against the District for money damages could be obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Beneficial 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 Beneficial 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**

Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. Section 901-946, if the District: (1) is authorized to file for federal bankruptcy protection by Texas law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, the District must also obtain the approval of the Commission prior to filing bankruptcy. Such law requires that the Commission investigate the financial conditions of the District and authorize the District to proceed only if the District has fully exercised its rights and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

If the District decides in the future to proceed voluntarily under the federal Bankruptcy Code, the District could develop and file a plan for the adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect the Registered Owners by reducing or eliminating the interest rate or the principal amount, 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 such Registered Owner's claim against the District.

A district may not be forced into bankruptcy involuntarily.

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

The Bond Order contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. Failure by the District to comply with such covenants in the Bond Order on a continuous basis prior to maturity of the Bonds could result in interest on the Bonds becoming taxable retroactively to the date of original issuance. See “LEGAL MATTERS—Tax Exemption.”

### **Marketability**

The District has no agreement with the Initial Purchaser regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price 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 generally bought, sold or traded in the secondary market.

### **Future and Proposed 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 proposal could limit 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.

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

The Initial Purchaser (as defined herein) has entered into an agreement with ASSURED GUARANTY MUNICIPAL CORP. (“AGM” or the “Insurer”) for the purchase of a municipal bond insurance policy (the “Policy”). At the time of entering into the agreement, the Insurer was rated “AA” (stable outlook) by S&P and “A1” (stable outlook) by Moody’s. See “MUNICIPAL BOND INSURANCE.”

The long-term ratings on the Bonds are dependent in part on the financial strength of the bond insurer (the “Insurer”) and its claim paying ability. The Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term 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) for the Bonds. See description of “MUNICIPAL BOND RATING” and “MUNICIPAL BOND INSURANCE.”

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

Neither the District nor the Initial Purchaser has 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.

## **MUNICIPAL BOND RATING**

S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) and Moody’s Investors Service, Inc. (“Moody’s”) has assigned a municipal bond rating of “A1” (stable outlook), respectively, to the Bonds with the understanding that, upon delivery of the Bonds, a Policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Assured Guaranty Municipal Corp. Moody’s has also assigned an underlying rating of “Baa2” to the Bonds. An explanation of the ratings may be obtained from S&P and Moody’s. See “INVESTMENT CONSIDERATIONS—Risk Factors Related to the Purchase of Municipal Bond Insurance” and “MUNICIPAL BOND INSURANCE.”

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

## MUNICIPAL BOND INSURANCE

### **Bond Insurance Policy**

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

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

### **Assured Guaranty Municipal Corp.**

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. (“AGL”), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol “AGO”. AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

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

### *Current Financial Strength Ratings*

On July 8, 2022, S&P announced it had affirmed AGM’s financial strength rating of “AA” (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On March 18, 2022, Moody’s announced it had upgraded AGM’s insurance financial strength rating to “A1” (stable outlook) from “A2” (stable outlook). AGM can give no assurance as to any further ratings action that Moody’s may take.

On October 20, 2021, KBRA announced it had affirmed AGM’s insurance financial strength rating of “AA+” (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

For more information regarding AGM’s financial strength ratings and the risks relating thereto, see AGL’s Annual Report on Form 10-K for the fiscal year ended December 31, 2021.

### *Capitalization of AGM*

At June 30, 2022:

- The policyholders’ surplus of AGM was approximately \$2,779 million.
- The contingency reserve of AGM was approximately \$905 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,114 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiaries Assured Guaranty UK Limited (“AGUK”) and Assured Guaranty (Europe) SA (“AGE”).

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

### *Incorporation of Certain Documents by Reference*

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2021 (filed by AGL with the SEC on February 25, 2022); and
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2022 (filed by AGL with the SEC on May 6, 2022).
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2022 (filed by AGL with the SEC on August 4, 2022).

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

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

### *Miscellaneous Matters*

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

## **LEGAL MATTERS**

### **Legal Opinions**

The District will furnish to the Initial Purchaser a transcript of certain certified proceedings incident to the issuance and authorization of the Bonds, including a certified copy of the approving legal opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Attorney General has examined a transcript of proceedings authorizing the issuance of the Bonds, and that based upon such examination, the Bonds are valid and binding obligations of the District payable from the proceeds of an annual ad valorem tax, without legal limitation as to rate or amount, levied upon all taxable property within the District. The District will also furnish the approving legal opinion of 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," "UTILITY AGREEMENT BETWEEN THE DISTRICT AND THE CITY OF CONROE," "MANAGEMENT OF THE DISTRICT—Bond Counsel and General Counsel," "TAX 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 Order relating to certain matters, including arbitrage and the use of the proceeds of the Bonds and the property financed or refinanced therewith. Failure by the District to observe the aforementioned representations or covenants could cause the interest on the Bonds to become taxable retroactively to the date of issuance.

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 has designated 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.

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

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

## **State, Local and Foreign Taxes**

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

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

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

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

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

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



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

The initial public offering price to be paid for certain maturities of the Bonds is 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.

### **REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS**

The offer and sale of the Bonds have not been registered or qualified under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder; the Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; and the Bonds have not been registered or qualified under the securities laws of any other jurisdiction.

The District assumes no responsibility for registration or qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds shall not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration provisions.

### **NO MATERIAL ADVERSE CHANGE**

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

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

After requesting competitive bids for the Bonds, the District accepted the bid resulting in the lowest net interest cost, which bid was rendered by Raymond James & Associates, Inc. (the "Initial Purchaser") bearing the interest rates shown on the cover page of this Official Statement, at a price of 98.8742% of the principal amount thereof which resulted in a net effective interest rate of 3.848521% as calculated pursuant to Chapter 1204, Texas Government Code (the "IBA" method).

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

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

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

### **Financial Advisor**

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

### **Consultants**

In approving this Official Statement, the District has relied upon the following consultants in addition to the Financial Advisor.

*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 ROADS" and "THE SYSTEM" (as it relates to District facilities) has been provided by Edminster, Hinshaw, Russ & Associates, Inc. and has been included herein in reliance upon the authority of said firm as experts in the field of civil engineering.

*Appraisal District:* The information contained in this Official Statement relating to the Assessed Valuations of the District has been provided by the Montgomery Central Appraisal District and has been included herein in reliance upon the authority of such entity as experts in assessing the values of property in Montgomery County, including the District.

*Tax Assessor Collector:* The information contained in this Official Statement relating to the historical breakdown of the Certified Taxable Assessed Valuations, principal taxpayers, and certain other historical data concerning tax rates and tax collections has been provided by Assessments of the Southwest and is included herein in reliance upon Assessments of the Southwest as an expert in collecting taxes.

*Auditor:* The financial statements of the District as of and for the fiscal year ended July 31, 2021, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot, PLLC, Certified Public Accountants, as stated in their report appearing herein. See "APPENDIX A."

*Bookkeeper:* The information related to the "unaudited" summary of the District's General Operating Fund as it appears in "THE SYSTEM—District Operations" has been provided by 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 OF OFFICIAL STATEMENT**

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

## **CERTIFICATION OF OFFICIAL STATEMENT**

The District, acting through its Board in its official capacity and in reliance upon the experts listed above, 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.

## **CONTINUING DISCLOSURE OF INFORMATION**

In the Bond Order, 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 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),” “DISTRICT OPERATIONS,” “TAX DATA,” (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 2022.

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 Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

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

### **Event Notices**

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701 TEB) or other material notices or determinations with respect to the tax-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 an definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the 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 Order makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

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

The District has agreed to provide the foregoing information only to the MSRB. Investors can access continuing disclosure information filed with the MSRB at [www.emma.msrb.org](http://www.emma.msrb.org).

### **Limitations and Amendments**

The District has agreed to update information and to provide notices of specified events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition or prospects 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 SEC Rule 15c2-12, taking into account any amendments and interpretations of SEC Rule 15c2-12 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 SEC Rule 15c2-12 or a court of final jurisdiction determines that such provisions are invalid but in either case, only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under "Annual Reports" an explanation, in narrative form, of the 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**

During the last five years, the District has complied in all material respects with all continuing disclosure agreements made by it in accordance with SEC Rule 15c2-12.

## **MISCELLANEOUS**

All estimates, statements and assumptions in this Official Statement and the Appendix 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.

This Official Statement was approved by the Board of Directors of Montgomery County Municipal Utility District No. 126, as of the date shown on the cover page.

/s/ Irving A. Wolf  
President, Board of Directors

ATTEST:

/s/ Michael F. Knapick  
Secretary, Board of Directors

**AERIAL PHOTO**  
**(Approximate boundaries as of June 2022)**



LAKE CONROE

LEAGUE LINE RD.

LONGMIRE RD.

**MONTGOMERY COUNTY MUNICIPAL  
UTILITY DISTRICT No. 126**





## **PHOTOGRAPHS**

**(Taken June 2022)**





















## **APPENDIX A**

**District Audited Financial Statements for the fiscal year ended July 31, 2021**

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**JULY 31, 2021**

**McCALL GIBSON SWEDLUND BARFOOT PLLC**  
Certified Public Accountants





**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**

**MONTGOMERY COUNTY, TEXAS**

**ANNUAL FINANCIAL REPORT**

**JULY 31, 2021**



## **TABLE OF CONTENTS**

	<u>PAGE</u>
INDEPENDENT AUDITOR’S REPORT	1-2
MANAGEMENT’S DISCUSSION AND ANALYSIS	3-7
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	8-9
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET TO THE STATEMENT OF NET POSITION	10
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES	11-12
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES TO THE STATEMENT OF ACTIVITIES	13
NOTES TO THE FINANCIAL STATEMENTS	14-26
REQUIRED SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE-BUDGET AND ACTUAL-GENERAL FUND	28
SUPPLEMENTARY INFORMATION – REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE	
NOTES REQUIRED BY THE WATER DISTRICT FINANCIAL MANAGEMENT GUIDE (Included in the notes to the financial statements)	
SERVICES AND RATES	30
GENERAL FUND EXPENDITURES	31
INVESTMENTS	32
TAXES LEVIED AND RECEIVABLE	33-34
LONG-TERM DEBT SERVICE REQUIREMENTS	35-38
CHANGES IN LONG-TERM BOND DEBT	39-40
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES GENERAL FUND AND DEBT SERVICE FUND - FIVE YEARS	41-44
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	45-46



# **McCALL GIBSON SWEDLUND BARFOOT PLLC**

*Certified Public Accountants*

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## **INDEPENDENT AUDITOR'S REPORT**

Board of Directors  
Montgomery County Municipal Utility District No. 126  
Montgomery County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Montgomery County Municipal Utility District No. 126 (the "District"), as of and for the year ended July 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

### **Management's Responsibility 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; this includes 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.

### **Auditor's Responsibility**

Our responsibility is to express opinions on these financial statements based on our audit. We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements 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, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinions.



## Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of July 31, 2021, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

## Other Matters

### *Required Supplementary Information*

Accounting principles generally accepted in the United States of America require that the Management's Discussion and Analysis and the Schedule of Revenues, Expenditures, and Changes in Fund Balance – Budget and Actual – General Fund be presented to supplement the basic financial statements. Such information, 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.

### *Other 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 supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information, excluding that portion marked "Unaudited" on which we express no opinion or provide any assurance, has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC  
Certified Public Accountants  
Houston, Texas

November 17, 2021





**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JULY 31, 2021**

Management's discussion and analysis of the financial performance of Montgomery County Municipal Utility District No. 126 (the "District") provides an overview of the District's financial activities for the year ended July 31, 2021.

**USING THIS ANNUAL REPORT**

This annual report consists of a series of financial statements. The basic financial statements include: (1) combined fund financial statements and government-wide financial statements and (2) notes to the financial statements. The combined fund financial statements and government-wide financial statements combine both: (1) the Statement of Net Position and Governmental Funds Balance Sheet and (2) the Statement of Activities and Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances. This report also includes required and other supplementary information in addition to the basic financial statements.

**GOVERNMENT-WIDE FINANCIAL STATEMENTS**

The District's annual report includes two financial statements combining the government-wide financial statements and the fund financial statements. The government-wide financial statements provide both long-term and short-term information about the District's overall status. Financial reporting at this level uses a perspective similar to that found in the private sector with its basis in full accrual accounting and elimination or reclassification of internal activities.

The Statement of Net Position includes all of the District's assets, liabilities, and, if applicable, deferred inflows and outflows of resources with the difference reported as net position. Over time, increases or decreases in net position may serve as a useful indicator of whether the financial position of the District as a whole is improving or deteriorating. Evaluation of the overall health of the District would extend to other non-financial factors.

The Statement of Activities reports how the District's net position changed during the current year. All current year revenues and expenses are included regardless of when cash is received or paid.

**FUND FINANCIAL STATEMENTS**

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has three governmental fund types. The General Fund accounts for maintenance tax revenues, professional fees, and administrative costs. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the costs of assessing and collecting taxes. The Capital Projects Fund accounts for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JULY 31, 2021**

**FUND FINANCIAL STATEMENTS (Continued)**

Governmental funds are reported in each of the financial statements. The focus in the fund statements provides a distinctive view of the District's governmental funds. These statements report short-term fiscal accountability focusing on the use of spendable resources and balances of spendable resources available at the end of the current period. They are useful in evaluating annual financing requirements of the District and the commitment of spendable resources for the near-term.

Since the government-wide focus includes the long-term view, comparisons between these two perspectives may provide insight into the long-term impact of short-term financing decisions. The adjustments columns, the Reconciliation of the Governmental Funds Balance Sheet to the Statement of Net Position and the Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities explain the differences between the two presentations and assist in understanding the differences between these two perspectives.

**NOTES TO THE FINANCIAL STATEMENTS**

The accompanying notes to the financial statements provide information essential to a full understanding of the government-wide and fund financial statements.

**OTHER INFORMATION**

In addition to the financial statements and accompanying notes, this report also presents certain required supplementary information ("RSI") and other supplementary information. A budgetary comparison schedule is included as RSI for the General Fund.

**GOVERNMENT-WIDE FINANCIAL ANALYSIS**

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$5,810,633 as of July 31, 2021. A comparative analysis of government-wide changes in net position is presented below:

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JULY 31, 2021**

**GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)**

	Summary of Changes in the Statement of Net Position		
	2021	2020	Change Positive (Negative)
Current and Other Assets	\$ 3,001,879	\$ 2,061,965	\$ 939,914
Intangible Assets (Net of Accumulated Amortization)	15,755,695		15,755,695
Capital Assets (Net of Accumulated Depreciation)		13,597,953	(13,597,953)
Total Assets	<u>\$ 18,757,574</u>	<u>\$ 15,659,918</u>	<u>\$ 3,097,656</u>
Due to Developer	\$ 10,751,446	\$ 13,133,439	\$ 2,381,993
Bonds Payable	13,539,437	7,065,000	(6,474,437)
Other Liabilities	<u>277,324</u>	<u>283,283</u>	<u>5,959</u>
Total Liabilities	<u>\$ 24,568,207</u>	<u>\$ 20,481,722</u>	<u>\$ (4,086,485)</u>
Net Position:			
Net Investment in Capital Assets	\$ (7,405,884)	\$ (5,622,386)	\$ (1,783,498)
Restricted	1,060,620	586,120	474,500
Unrestricted	<u>534,631</u>	<u>214,462</u>	<u>320,169</u>
Total Net Position	<u>\$ (5,810,633)</u>	<u>\$ (4,821,804)</u>	<u>\$ (988,829)</u>

The following table provides a summary of the District's operations for the years ended July 31, 2021 and July 31, 2020.

	Summary of Changes in the Statement of Activities		
	2021	2020	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 1,059,486	\$ 821,837	\$ 237,649
Charges for Services	795,158	1,208,553	(413,395)
Other Revenues	<u>25,897</u>	<u>31,239</u>	<u>(5,342)</u>
Total Revenues	\$ 1,880,541	\$ 2,061,629	\$ (181,088)
Expenses for Services	<u>2,869,370</u>	<u>2,648,625</u>	<u>(220,745)</u>
Change in Net Position	\$ (988,829)	\$ (586,996)	\$ (401,833)
Net Position, Beginning of Year	<u>(4,821,804)</u>	<u>(4,234,808)</u>	<u>(586,996)</u>
Net Position, End of Year	<u>\$ (5,810,633)</u>	<u>\$ (4,821,804)</u>	<u>\$ (988,829)</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JULY 31, 2021**

**FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS**

The Districts' combined fund balances as of July 31, 2021, were \$2,864,157, an increase of \$1,010,798 from the prior year.

The General Fund fund balance increased by \$58,959, primarily due to service and property tax revenues exceeding operating and administrative costs.

The Debt Service Fund fund balance increased by \$538,135, primarily due to the structure of the District's long-term debt obligations and the receipt of capitalized interest from the sale of the Series 2020 Bonds.

The Capital Projects Fund fund balance increased by \$413,704, primarily due to unspent proceeds from the Series 2020 bonds.

**GENERAL FUND BUDGETARY HIGHLIGHTS**

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$532,360 less than budgeted revenues and actual expenditures were \$397,477 less than budgeted expenditures which resulted in a negative variance of \$134,883. See the budget to actual comparison for more information.

**INTANGIBLE ASSETS**

The District is located within the City of Conroe, Texas (the "City"). In accordance with the Utility Agreement with the City, certain facilities have been conveyed to the City. The District has recognized an intangible asset representing the right to receive service from the City for the cost of such facilities. The City is now responsible for providing services to customers located within the boundaries of the District. See Note 8 for more information related to the Utility Agreement.

Intangible Assets At Year-End, Net of Accumulated Depreciation			
	2021	2020	Change Positive (Negative)
Intangible Assets, Net of Accumulated Amortization:			
Water System	\$ 3,032,235	\$ 2,627,593	\$ 404,642
Wastewater System	4,476,873	3,539,585	937,288
Drainage System	8,246,587	7,430,775	815,812
Total Net Intangible Assets	<u>\$ 15,755,695</u>	<u>\$ 13,597,953</u>	<u>\$ 2,157,742</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE YEAR ENDED JULY 31, 2021**

**LONG-TERM DEBT ACTIVITY**

As of July 31, 2021, the District had total bond debt payable of \$13,490,000. The changes in the long-term debt position of the District during the fiscal year ended July 31, 2021, are summarized as follows:

Bond Debt Payable, August 1, 2020	\$ 7,065,000
Add: Bond Sale - Series 2020	6,625,000
Less: Bond Principal Paid	<u>200,000</u>
Bond Debt Payable, July 31, 2021	<u>\$ 13,490,000</u>

The District's Series 2016 Bonds are not rated. The Series 2019 Bonds and Series 2020 Bonds carry insured ratings of "AA" by virtue of bond insurance issued by Assured Guaranty Municipal Corp.

**CONTACTING THE DISTRICT'S MANAGEMENT**

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Montgomery County Municipal Utility District No. 126, c/o Schwartz, Page & Harding, L.L.P., 1300 Post Oak Boulevard, Suite 2400, Houston, Texas 77056.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**STATEMENT OF NET POSITION AND**  
**GOVERNMENTAL FUNDS BALANCE SHEET**  
**JULY 31, 2021**

	General Fund	Debt Service Fund
<b>ASSETS</b>		
Cash	\$ 991	\$ 38,914
Investments	744,032	1,183,256
Receivables:		
Property Taxes	3,510	7,912
Penalty and Interest on Delinquent Taxes		
Accrued Interest	511	1,093
Other		1,470
Due from Other Funds	21,001	
Prepaid Costs	4,049	
Intangible Assets - Right to Receive Service (Net of Accumulated Amortization)		
<b>TOTAL ASSETS</b>	<u>\$ 774,094</u>	<u>\$ 1,232,645</u>
<b>LIABILITIES</b>		
Accounts Payable	\$ 10,607	\$
Accrued Interest Payable		
Due to Developers		
Due to Other Funds		21,001
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
<b>TOTAL LIABILITIES</b>	<u>\$ 10,607</u>	<u>\$ 21,001</u>
<b>DEFERRED INFLOWS OF RESOURCES</b>		
Property Taxes	\$ 3,510	\$ 7,912
<b>FUND BALANCES</b>		
Nonspendable:		
Prepaid Costs	\$ 4,049	\$
Restricted for Authorized Construction		
Restricted for Debt Service		1,203,732
Unassigned	755,928	
<b>TOTAL FUND BALANCES</b>	<u>\$ 759,977</u>	<u>\$ 1,203,732</u>
<b>TOTAL LIABILITIES AND FUND BALANCES</b>	<u>\$ 774,094</u>	<u>\$ 1,232,645</u>
<b>NET POSITION</b>		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
<b>TOTAL NET POSITION</b>		

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

Capital Projects Fund	Total	Adjustments	Statement of Net Position
\$ 100	\$ 40,005	\$	\$ 40,005
1,014,013	2,941,301		2,941,301
	11,422		11,422
		2,028	2,028
	1,604		1,604
	1,470		1,470
	21,001	(21,001)	
	4,049		4,049
		15,755,695	15,755,695
<u>\$ 1,014,113</u>	<u>\$ 3,020,852</u>	<u>\$ 15,736,722</u>	<u>\$ 18,757,574</u>
\$ 113,665	\$ 124,272	\$	\$ 124,272
		153,052	153,052
		10,751,446	10,751,446
	21,001	(21,001)	
		370,000	370,000
		13,169,437	13,169,437
<u>\$ 113,665</u>	<u>\$ 145,273</u>	<u>\$ 24,422,934</u>	<u>\$ 24,568,207</u>
<u>\$ -0-</u>	<u>\$ 11,422</u>	<u>\$ (11,422)</u>	<u>\$ -0-</u>
\$	\$ 4,049	\$ (4,049)	\$
900,448	900,448	(900,448)	
	1,203,732	(1,203,732)	
	755,928	(755,928)	
<u>\$ 900,448</u>	<u>\$ 2,864,157</u>	<u>\$ (2,864,157)</u>	<u>\$ -0-</u>
<u>\$ 1,014,113</u>	<u>\$ 3,020,852</u>		
		\$ (7,405,884)	\$ (7,405,884)
		1,060,620	1,060,620
		534,631	534,631
		<u>\$ (5,810,633)</u>	<u>\$ (5,810,633)</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET**  
**TO THE STATEMENT OF NET POSITION**  
**JULY 31, 2021**

Total Fund Balances - Governmental Funds	\$	2,864,157
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		15,755,695
---	--	------------

Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2020 and prior tax levies became part of recognized revenue in the governmental activities of the District.		13,450
--	--	--------

Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year end consist of:

Due to Developer	\$ (10,751,446)	
Accrued Interest Payable	(153,052)	
Bonds Payable	<u>(13,539,437)</u>	<u>(24,443,935)</u>
Total Net Position - Governmental Activities		<u>\$ (5,810,633)</u>

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



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**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**FOR THE YEAR ENDED JULY 31, 2021**

	General Fund	Debt Service Fund
<b>REVENUES</b>		
Property Taxes	\$ 177,871	\$ 880,308
Water Service	256,486	
Wastewater Service	275,378	
Water Authority Fees	154,448	
Penalty and Interest	10,537	3,888
Tap Connection and Inspection Fees	94,150	
Investment and Miscellaneous Revenues	10,920	4,888
Tax Rebate		8,812
<b>TOTAL REVENUES</b>	<u>\$ 979,790</u>	<u>\$ 897,896</u>
<b>EXPENDITURES/EXPENSES</b>		
Service Operations:		
Professional Fees	\$ 174,738	\$ 931
Contracted Services	46,015	24,501
Purchased Water Service/Water Authority Fees	283,488	
Purchased Wastewater Service	220,594	
Repairs and Maintenance	79,033	
Amortization		
Other	163,055	4,846
Capital Outlay		
Developer Interest		
Debt Service:		
Bond Principal		200,000
Bond Interest		295,839
Bond Issuance Costs		
<b>TOTAL EXPENDITURES/EXPENSES</b>	<u>\$ 966,923</u>	<u>\$ 526,117</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER</b>		
<b>EXPENDITURES/EXPENSES</b>	<u>\$ 12,867</u>	<u>\$ 371,779</u>
<b>OTHER FINANCING SOURCES (USES)</b>		
Transfers In (Out)	\$ 46,092	\$
Proceeds from Issuance of Long-Term Debt		166,356
Bond Discount		
Bond Premium		
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 46,092</u>	<u>\$ 166,356</u>
<b>NET CHANGE IN FUND BALANCES</b>	\$ 58,959	\$ 538,135
<b>CHANGE IN NET POSITION</b>		
<b>FUND BALANCES/NET POSITION - AUGUST 1, 2020</b>	<u>701,018</u>	<u>665,597</u>
<b>FUND BALANCES/NET POSITION - JULY 31, 2021</b>	<u>\$ 759,977</u>	<u>\$ 1,203,732</u>

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

Capital Projects Fund	Total	Adjustments	Statement of Activities
\$	\$ 1,058,179	\$ 1,307	\$ 1,059,486
	256,486		256,486
	275,378		275,378
	154,448		154,448
	14,425	271	14,696
	94,150		94,150
1,277	17,085		17,085
	8,812		8,812
<u>\$ 1,277</u>	<u>\$ 1,878,963</u>	<u>\$ 1,578</u>	<u>\$ 1,880,541</u>
\$ 1,449	\$ 177,118	\$	\$ 177,118
166	70,682		70,682
	283,488		283,488
	220,594		220,594
	79,033		79,033
		326,424	326,424
36	167,937		167,937
4,866,159	4,866,159	(4,866,159)	
458,147	458,147		458,147
	200,000	(200,000)	
	295,839	64,439	360,278
<u>725,669</u>	<u>725,669</u>		<u>725,669</u>
<u>\$ 6,051,626</u>	<u>\$ 7,544,666</u>	<u>\$ (4,675,296)</u>	<u>\$ 2,869,370</u>
<u>\$ (6,050,349)</u>	<u>\$ (5,665,703)</u>	<u>\$ 4,676,874</u>	<u>\$ (988,829)</u>
\$ (46,092)	\$	\$	\$
6,458,644	6,625,000	(6,625,000)	
(55,306)	(55,306)	55,306	
<u>106,807</u>	<u>106,807</u>	<u>(106,807)</u>	
<u>\$ 6,464,053</u>	<u>\$ 6,676,501</u>	<u>\$ (6,676,501)</u>	<u>\$ -0-</u>
\$ 413,704	\$ 1,010,798	\$ (1,010,798)	\$
		(988,829)	(988,829)
<u>486,744</u>	<u>1,853,359</u>	<u>(6,675,163)</u>	<u>(4,821,804)</u>
<u>\$ 900,448</u>	<u>\$ 2,864,157</u>	<u>\$ (8,674,790)</u>	<u>\$ (5,810,633)</u>

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

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF**  
**REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES**  
**TO THE STATEMENT OF ACTIVITIES**  
**FOR THE YEAR ENDED JULY 31, 2021**

Net Change in Fund Balances - Governmental Funds	\$ 1,010,798
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds report tax revenues when collected. However, in the Statement of Activities, revenue is recorded in the accounting period for which the taxes are levied.	1,307
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Governmental funds report penalty and interest revenue on property taxes when collected. However, in the Statement of Activities, revenue is recorded when penalties and interest are assessed.	271
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Governmental funds do not account for amortization. However, in the Statement of Net Position, intangible assets are amortized and amortization expense is recorded in the Statement of Activities.	(326,424)
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Governmental funds report capital expenditures as expenditures in the period purchased. However, in the Statement of Net Position, intangible assets are increased by new purchases and the Statement of Activities is not affected.	4,866,159
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Governmental funds report bond premiums and bond discounts as other financing sources/uses in the year received or paid. However, in the Statement of Net Position, bond premiums and bond discounts are amortized over the life of the bonds and the current year amortized portion is recorded in the Statement of Activities.	(51,501)
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Governmental funds report bond principal payments as expenditures. However, in the Statement of Net Position, bond principal payments are reported as decreases in long-term liabilities.	200,000
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Governmental funds report interest expenditures on long-term debt as expenditures in the year paid. However, in the Statement of Net Position, interest is accrued on the long-term debt through fiscal year-end.	(64,439)
---	----------

Governmental funds report bond proceeds as other financing sources. Issued bonds increase long-term liabilities in the Statement of Net Position.	(6,625,000)
---	-------------

Change in Net Position - Governmental Activities	\$ (988,829)
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The accompanying notes to the financial  
statements are an integral part of this report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 1. CREATION OF DISTRICT**

Montgomery County Municipal Utility District No. 126 of Montgomery County, Texas (the “District”) was created on November 20, 2008, by an Order of the Texas Commission on Environmental Quality (the “Commission”). Pursuant to the provisions of Chapters 49 and 54 of the Texas Water Code, the District is empowered to purchase, operate and maintain all facilities, plants, and improvements necessary to provide water, sanitary sewer service, storm sewer drainage, irrigation, roads, solid waste collection and disposal, including recycling, and to construct parks and recreational facilities for the residents of the District. The District is also empowered to contract for or employ its own peace officers with powers to make arrests and to establish, operate and maintain a fire department to perform all fire-fighting activities within the District. The Board of Directors held its organizational meeting on February 20, 2009.

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES**

The accompanying financial statements have been prepared in accordance with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). In addition, the accounting records of the District are maintained generally in accordance with the *Water District Financial Management Guide* published by the Commission.

The District is a political subdivision of the State of Texas governed by an elected board. GASB has established the criteria for determining whether or not an entity is a primary government or a component unit of a primary government. The primary criteria are that it has a separately elected governing body, it is legally separate, and it is fiscally independent of other state and local governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statement as component units.

Financial Statement Presentation

These financial statements have been prepared in accordance with GASB Codification of Governmental Accounting and Financial Reporting Standards Part II, Financial Reporting (“GASB Codification”).

The GASB Codification sets forth standards for external financial reporting for all state and local government entities, which include a requirement for a Statement of Net Position and a Statement of Activities. It requires the classification of net position into three components: Net Investment in Capital Assets; Restricted; and Unrestricted. These classifications are defined as follows:

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Financial Statement Presentation (Continued)

- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

The Statement of Net Position and the Statement of Activities display information about the District as a whole. The District's Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The District is viewed as a special-purpose government and has the option of combining these financial statements.

The Statement of Net Position is reported by adjusting the governmental fund types to report on the full accrual basis, economic resource basis, which recognizes all long-term assets and receivables as well as long-term debt and obligations. Any amounts recorded due to and due from other funds are eliminated in the Statement of Net Position.

The Statement of Activities is reported by adjusting the governmental fund types to report only items related to current year revenues and expenditures. Items such as capital outlay are allocated over their estimated useful lives as depreciation expense. Internal activities between governmental funds, if any, are eliminated by adjustment to obtain net total revenue and expense of the government-wide Statement of Activities.

Fund Financial Statements

As discussed above, the District's fund financial statements are combined with the government-wide financial statements. The fund financial statements include a Balance Sheet and Statement of Revenues, Expenditures and Changes in Fund Balances.

Governmental Funds - The District has three major governmental funds.

General Fund - To account for maintenance tax revenues, professional fees and administrative costs.

Debt Service Fund - To account for ad valorem taxes and financial resources restricted, committed or assigned for serving bond debt and the costs of assessing and collecting taxes.

Capital Projects Fund - To account for financial resources restricted, committed or assigned for acquisition or construction of facilities and related costs.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both “measurable and available.” Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenues reported in the governmental funds to be available if they are collectable within sixty days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

Property taxes considered available by the District and included in revenue include the taxes collected during the year and taxes collected after year-end, which were considered available to defray the expenditures of the current year. Deferred inflows of resources related to property tax revenues are those taxes which the District does not reasonable expect to be collected soon enough in the subsequent period to finance current expenditures.

Amounts transferred from one fund to another fund are reported as other financing sources or uses. Loans by one fund to another fund and amounts paid by one fund for another fund are reported as interfund receivables and payables in the Governmental Funds Balance Sheet if there is intent to repay the amount and if the debtor fund has the ability to repay the advance on a timely basis. As of July 31, 2021, the Debt Service Fund owed the General Fund \$21,001 for maintenance tax collections. During the current fiscal year, the Capital Projects Fund transferred \$46,092 to the General Fund to reimburse bond issuance costs.

Intangible Assets

The District is located within the City of Conroe, Texas. In accordance with the Utility Agreement with the City, certain facilities have been conveyed to the City. The District has recognized an intangible asset representing the right to receive service from the City for the cost of such facilities. The City is now responsible for providing services to customers located within the boundaries of the District. See Note 8 for more information related to the Utility Agreement.

Budgeting

An annual unappropriated budget is adopted for the General Fund by the District’s Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The original General Fund budget for the current year was not amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the original budget amounts compared to the actual amounts of revenues and expenditures for the current year.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 2.      SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Pensions

A pension plan has not been established. The District does not have employees, except that the Internal Revenue Service has determined that directors are considered to be “employees” for federal payroll tax purposes only.

Measurement Focus

Measurement focus is a term used to describe which transactions are recognized within the various financial statements. In the government-wide Statement of Net Position and Statement of Activities, the governmental activities are presented using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net position, financial position, and cash flows. All assets and liabilities associated with the activities are reported. Fund equity is classified as net position.

Governmental fund types are accounted for on a spending or financial flow measurement focus. Accordingly, only current assets and current liabilities are included on the Balance Sheet, and the reported fund balances provide an indication of available spendable or appropriable resources. Operating statements of governmental fund types report increases and decreases in available spendable resources. Fund balances in governmental funds are classified using the following hierarchy:

*Nonspendable:* amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact.

*Restricted:* amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally.

*Committed:* amounts that can be spent only for purposes determined by a formal action of the Board of Directors. The Board is the highest level of decision-making authority for the District. This action must be made no later than the end of the fiscal year. Commitments may be established, modified, or rescinded only through ordinances or resolutions approved by the Board. The District does not have any committed fund balances.

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

*Unassigned:* all other spendable amounts in the General Fund.

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



**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)**

Accounting 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 amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

**NOTE 3. LONG-TERM DEBT**

	<u>Series 2016 Road</u>	<u>Series 2019</u>	<u>Series 2020</u>
Amount Outstanding – July 31, 2021	\$ 2,800,000	\$ 4,065,000	\$ 6,625,000
Interest Rates	2.50% - 3.625%	2.00% - 4.50%	2.00% - 4.50%
Maturity Dates – Serially Beginning/Ending	September 1, 2021/2041	September 1, 2021/2043	September 1, 2021/2044
Interest Payment Dates	September 1/ March 1	September 1/ March 1	September 1/ March 1
Callable Dates	September 1, 2024*	September 1, 2024*	September 1, 2025*

\* Or any date thereafter at a price of par plus accrued interest in whole or in part, at the option of the District. Series 2016 term bonds maturing on September 1, 2041, are subject to mandatory redemption by random selection beginning September 1, 2038. Series 2019 term bonds maturing on September 1, 2031, 2033, 2035, 2037, 2039, and 2043, are subject to mandatory redemption by random selection beginning September 1, 2030, 2032, 2034, 2036, 2038, and 2040, respectively. Series 2020 term bonds maturing on September 1, 2044 are subject to mandatory redemption by random selection beginning September 1, 2043.

The following is a summary of transaction regarding bonds payable for the year ended July 31, 2021:

	<u>August 1, 2020</u>	<u>Additions</u>	<u>Retirements</u>	<u>July 31, 2021</u>
Bonds Payable	\$ 7,065,000	\$ 6,625,000	\$ 200,000	\$ 13,490,000
Unamortized Discounts		(55,306)	(2,216)	(53,090)
Unamortized Premiums		106,807	4,280	102,527
Bonds Payable, Net	<u>\$ 7,065,000</u>	<u>\$ 6,676,501</u>	<u>\$ 202,064</u>	<u>\$ 13,539,437</u>
		Amount Due Within One Year		\$ 370,000
		Amount Due After One Year		<u>13,169,437</u>
		Bonds Payable		<u>\$ 13,539,437</u>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 3. LONG-TERM DEBT (Continued)**

As of July 31, 2021, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2022	\$ 370,000	\$ 359,950	\$ 729,950
2023	380,000	344,976	724,976
2024	400,000	329,375	729,375
2025	410,000	312,900	722,900
2026	430,000	297,700	727,700
2027-2031	2,420,000	1,322,719	3,742,719
2032-2036	2,925,000	1,008,753	3,933,753
2037-2041	3,510,000	592,480	4,102,480
2042-2045	2,645,000	122,882	2,767,882
	<u>\$ 13,490,000</u>	<u>\$ 4,691,735</u>	<u>\$ 18,181,735</u>

During the year ended July 31, 2021, the District levied an ad valorem debt service tax of \$0.75 per \$100 of assessed valuation, which resulted in a tax levy of \$882,905 on the adjusted taxable valuation of \$117,720,751 for the 2020 tax year. The bond orders require the District to levy and collect an ad valorem debt service tax sufficient to pay interest and principal on bonds when due and the cost of assessing and collecting taxes. See Note 7 for the maintenance tax levy.

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

**NOTE 4. SIGNIFICANT BOND ORDER AND LEGAL REQUIREMENTS**

The bond orders state that the District is required to provide continuing disclosure of annual financial information and operating data with respect to the District to certain information repositories. The information, along with the audited annual financial statements, is of the general type included in the annual audit report and must be filed within six months after the end of each fiscal year of the District.

The District has covenanted that it will take all necessary steps to comply with the requirement that rebatable arbitrage earnings on the investment of the gross proceeds of the Bonds, within the meaning of Section 148(f) of the Internal Revenue Code, be rebated to the federal government. The minimum requirement for determination of the rebatable amount is on the five-year anniversary of each use.

In the current fiscal year, Series 2020 Bond proceeds of \$166,356 were deposited into the Debt Service Fund and restricted for the payment of bond interest.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 5. DEPOSITS AND INVESTMENTS**

Deposits

Custodial credit risk is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover deposits or will not be able to recover collateral securities that are in the possession of an outside party. The District's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year-end, the carrying amount of the District's deposits was \$1,130,005 and the bank balance was \$1,137,861. The District was not exposed to custodial credit risk at year-end.

The carrying values of the deposits are included in the Governmental Funds Balance Sheet and the Statement of Net Position at July 31, 2021, as listed below:

	Cash	Certificates of Deposit	Total
GENERAL FUND	\$ 991	\$ 550,000	\$ 550,991
DEBT SERVICE FUND	38,914	540,000	578,914
CAPITAL PROJECTS FUND	100		100
TOTAL DEPOSITS	<u>\$ 40,005</u>	<u>\$ 1,090,000</u>	<u>\$ 1,130,005</u>

Investments

Under Texas law, the District is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity and that address investment diversification, yield, maturity, and the quality and capability of investment management, and all District funds must be invested in accordance with the following investment objectives: understanding the suitability of the investment to the District's financial requirements, first; preservation and safety of principal, second; liquidity, third; marketability of the investments if the need arises to liquidate the investment before maturity, fourth; diversification of the investment portfolio, fifth; and yield, sixth. The District's investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." No person may invest District funds without express written authority from the Board of Directors.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Texas statutes include specifications for and limitations applicable to the District and its authority to purchase investments as defined in the Public Funds Investment Act. The District has adopted a written investment policy to establish the guidelines by which it may invest. This policy is reviewed annually. The District's investment policy may be more restrictive than the Public Funds Investment Act.

The District invests in Texas Cooperative Liquid Assets Securities System Trust ("Texas CLASS"), an external public funds investment pool that is not SEC-registered. Public Trust Advisors, LLC serves as the pool's administrator and investment advisor. The pool is subject to the general supervision of the Board of Trustees and its Advisory Board. Wells Fargo Bank, N.A. serves as custodian for the pool. Investments held by Texas CLASS are priced to market on a weekly basis. The investments are considered to be Level I investments because their fair value is measured by quoted prices in active markets. The fair value of the District's position in the pool is the same as the value of the pool shares. There are no limitations or restrictions on withdrawals from Texas CLASS. Certificates of deposit are valued at acquisition cost at the date of purchase.

As of July 31, 2021, the District had the following investments and maturities:

Fund and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
Texas CLASS	\$ 194,032	\$ 194,032
Certificates of Deposit	550,000	550,000
<u>DEBT SERVICE FUND</u>		
Texas CLASS	643,256	643,256
Certificates of Deposit	540,000	540,000
<u>CAPITAL PROJECTS FUND</u>		
Texas CLASS	<u>1,014,013</u>	<u>1,014,013</u>
TOTAL INVESTMENTS	<u>\$ 2,941,301</u>	<u>\$ 2,941,301</u>

Credit risk the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At July 31, 2021, the District's investments in Texas CLASS were rated "AAAm" by Standard and Poor's. The District also manages credit risk by investing in certificates of deposit with balances below FDIC coverage.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 5. DEPOSITS AND INVESTMENTS (Continued)**

Investments (Continued)

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investments in Texas CLASS to have a maturity of less than one year due to the fact the share positions can usually be redeemed at the discretion of the District, unless there has been a significant change in value. The District also manages interest rate risk by investing in certificates of deposit with maturities of less than one year.

Restrictions

All cash and investments of the Debt Service Fund are restricted for the payment of debt service and the cost of assessing and collecting taxes. All cash and investments of the Capital Projects Fund are restricted for the purchase of capital assets.

**NOTE 6. INTANGIBLE ASSETS**

Intangible asset activity for the year ended July 31, 2021 is as follows:

	August 1, 2020	Increases	Decreases	July 31, 2021
<b>Intangible Assets Subject to Amortization</b>				
Water System	\$ 2,871,487	\$ 471,578	\$	\$ 3,343,065
Wastewater System	3,848,806	1,030,832		4,879,638
Drainage System	8,154,170	981,756		9,135,926
<b>Total Intangible Assets Subject to Amortization</b>	<b>\$ 14,874,463</b>	<b>\$ 2,484,166</b>	<b>\$ - 0 -</b>	<b>\$ 17,358,629</b>
<b>Accumulated Amortization</b>				
Water System	\$ 243,894	\$ 66,936	\$	\$ 310,830
Wastewater System	309,221	93,544		402,765
Drainage System	723,395	165,944		889,339
<b>Total Accumulated Amortization</b>	<b>\$ 1,276,510</b>	<b>\$ 326,424</b>	<b>\$ - 0 -</b>	<b>\$ 1,602,934</b>
<b>Total Intangible Assets, Net of Accumulated Amortization</b>	<b>\$ 13,597,953</b>	<b>\$ 2,157,742</b>	<b>\$ - 0 -</b>	<b>\$ 15,755,695</b>

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 7. MAINTENANCE TAX**

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's waterworks and wastewater system and for any other lawful purposes. During the year ended July 31, 2021, the District levied an ad valorem maintenance tax rate of \$0.15 per \$100 of assessed valuation, which resulted in a tax levy of \$176,581 on the adjusted taxable valuation of \$117,720,751 for the 2020 tax year.

On May 9, 2009, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.10 per \$100 of assessed valuation of taxable property within the District to be used by the General Fund to pay expenditures for maintenance and other authorized purposes related to recreational facilities. As of the end of the current fiscal year, the District has not yet levied this particular tax.

**NOTE 8. UTILITY AGREEMENT WITH THE CITY OF CONROE**

The City of Conroe, Texas (the "City") provides water and sanitary sewer service to customers within the jurisdictional boundaries of the District pursuant to the Amended and Restated Utility Services and Development Agreement by and between the City and the District, as amended, effective as of January 15, 2021 (the "Utility Agreement"). Pursuant to the Utility Agreement, the City agreed to extend water distribution and wastewater collection lines to agreed upon points of connection to serve customers within the District and to provide sufficient water supply and wastewater treatment plant capacity to serve customers within the District at full development, and the District assumed responsibility for acquiring and constructing the water distribution, wastewater collection and drainage facilities to serve development occurring within the boundaries of the District (the "Facilities").

The Utility Agreement provides that the Facilities shall be designed and constructed in accordance with the requirements and criteria of the City and all applicable regulatory authorities. The City agrees to provide the District with its ultimate requirements for water supply capacity as needed and when required by the District without capital charges of any kind. The City represents that it has sufficient capacity in the City's wastewater treatment plant to serve the development of the District as needed and when required by the District and that it shall provide these services to customers within the District when needed. The City agrees to make any necessary improvements to its wastewater treatment plant, at no cost to the District, if at any time it does not have sufficient capacity to serve the development in the District.

All existing Facilities have been conveyed to the City and any new Facilities to be acquired or constructed to serve the District shall be conveyed to the City, reserving a security interest therein in favor of the District for the purpose of securing the performance of the City under the Utility Agreement. The Facilities conveyed to the City shall be operated, maintained and managed by the City at its sole cost and expense.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 8. UTILITY AGREEMENT WITH THE CITY OF CONROE (Continued)**

Under the Utility Agreement, the District is authorized to issue bonds to finance the construction and acquisition of the Facilities, parks and recreational facilities, and eligible road facilities and related appurtenances. Before the District is authorized to issue bonds, the District must provide the City with a copy of a TCEQ order authorizing issuance of such bonds, if applicable, and such order must provide that under the TCEQ's rules governing the issuance of bonds it is feasible to sell the bonds at a District tax rate that does not exceed \$1.10 per \$100 of taxable assessed valuation. The Utility Agreement expressly provides that such condition is not a limitation on the District's authority to levy an unlimited tax and that the District's bonds are secured by a pledge of the proceeds of an ad valorem tax without limit as to rate or amount. Both the City and the District levy taxes on property within the District. The District must also provide the City with a copy of the applicable preliminary official statement and draft bond order before issuing bonds.

Bonds issued by the District must provide that the District reserves the right to redeem the bonds on any interest payment date not later than the fifteenth anniversary of the date of issuance without premium and may be sold only after the taking of public bids. Such bonds, other than refunding bonds, may not be sold for less than 95% of par; provided, however, that the net effective interest rate on such bonds, taking into account any discount or premium as well as the interest rate borne by such bonds, will not exceed 2% above the highest average interest rate reported by the Daily Bond Buyer in its weekly "20 Bond Index" during the one-month period next preceding the date notice of the sale of such bonds is given, and that bids for the Bonds will be received not more than 45 days after notice of sale of the Bonds is given. Bonds issued by the District may not have a maturity of more than 30 years and may not provide for more than 18 months of capitalized interest, unless required by the rules of the TCEQ.

The Utility Agreement provides that the City pays an annual rebate to the District of a portion of the City's tax rate related to the water, wastewater and storm drainage in order to prevent double payment of taxes by taxpayers in the District. The annual rebate is equal to the total assessed value in the District for a given year multiplied by the portion of the City's tax rate that is attributable to water, sewer or storm drainage facilities (which it may increase or decrease over time). The annual rebate payment is to be deposited in the District's debt service fund. During the current fiscal year, the District recorded annual rebate revenue from the City in the amount of \$8,812 per the Utility Agreement.

The City's right to dissolve the District is restricted under the Utility Agreement. Under the terms of the Utility Agreement, the City agrees that it will not dissolve the District until 90% of the District's Facilities have been developed and the developers advancing funds to construct the Facilities have been reimbursed to the maximum extent permitted by the rules of the TCEQ or the City assumes any obligation for such reimbursement of the District under such rules. The term of the Utility Agreement expires upon the earlier of the dissolution of the District by the City or the final maturity date of the last series of bonds issued by the District pursuant to the terms and conditions of the Utility Agreement.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 9. UNREIMBURSED DEVELOPER COSTS**

The District has executed developer financing agreements which call for the Developers to fund costs associated with water, sewer, drainage and road infrastructure until such time as the District can sell bonds. Reimbursement to the Developers will come from future bond sales, subject to the approval of the Commission, as necessary. The following table summarizes current year activity:

Due to Developer, beginning of year	\$13,133,439
Additions	2,902,236
Reimbursements	<u>(5,284,229)</u>
Due to Developer, end of year	<u>\$10,751,446</u>

**NOTE 10. RISK MANAGEMENT**

The District is exposed to various risks of loss related to torts, theft of, damage to and destruction of assets; errors and omissions; and natural disasters. The District participates in the Texas Municipal League Intergovernmental Risk Pool (TML) to provide general liability, automobile, and errors and omissions coverage. The District, along with other participating entities, contributes annual amounts determined by TML's management. As claims arise, they are submitted and paid by TML. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

**NOTE 11. BOND SALE**

On August 13, 2020, the District issued \$6,625,000 of Series 2020 Unlimited Tax Bonds. Proceeds from the bonds were used to reimburse Developers for construction and engineering costs for water, wastewater and drainage facilities serving Water Crest, Sections 3, 4, 5, 7 and 13 and Developer advances. Additional proceeds were used to pay capitalized interest and issuance costs of the bonds.

**NOTE 12. ECONOMIC UNCERTAINTIES**

On March 11, 2020, the World Health Organization declared the COVID-19 virus a global pandemic. Since that time, the District has not experienced any decrease in property values, unusual tax delinquencies, or interruptions to service as a result of COVID-19. The District will continue to carefully monitor the situation and evaluate the financial statement impact, if any, that results from the pandemic.



**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**NOTES TO THE FINANCIAL STATEMENTS**  
**JULY 31, 2021**

**NOTE 13.     SUBSEQUENT EVENT – BOND SALE**

On August 12, 2021, subsequent to year end, the District issued \$5,400,000 of Series 2021 Unlimited Tax Bonds. Proceeds from the bonds and \$45,000 of surplus funds were used to reimburse a Developer for construction and engineering costs for water, wastewater and drainage facilities serving Water Crest, Sections 8, 9, 11 and 14, Forest Crest Parkway and Forest Crest Parkway Extension. Additional proceeds were used to pay capitalized interest and issuance costs of the bonds.

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**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**

**REQUIRED SUPPLEMENTARY INFORMATION**

**JULY 31, 2021**



**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES**  
**IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND**  
**FOR THE YEAR ENDED JULY 31, 2021**

	Original and Final Budget	Actual	Variance Positive (Negative)
<b>REVENUES</b>			
Property Taxes	\$ 150,000	\$ 177,871	\$ 27,871
Water Service	495,800	256,486	(239,314)
Wastewater Service	489,000	275,378	(213,622)
Water Authority Fees	284,200	154,448	(129,752)
Penalty and Interest	19,300	10,537	(8,763)
Tap Connection and Inspection Fees	64,400	94,150	29,750
Investment and Miscellaneous Revenues	<u>9,450</u>	<u>10,920</u>	<u>1,470</u>
<b>TOTAL REVENUES</b>	<u>\$ 1,512,150</u>	<u>\$ 979,790</u>	<u>\$ (532,360)</u>
<b>EXPENDITURES</b>			
Service Operations:			
Professional Fees	\$ 107,600	\$ 174,738	\$ (67,138)
Contracted Services	60,700	46,015	14,685
Purchased Water Service/Water Authority Fees	538,700	283,488	255,212
Purchased Wastewater Service	387,900	220,594	167,306
Repairs and Maintenance	91,700	79,033	12,667
Other	162,800	163,055	(255)
Capital Outlay	<u>15,000</u>	<u></u>	<u>15,000</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 1,364,400</u>	<u>\$ 966,923</u>	<u>\$ 397,477</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 147,750</u>	<u>\$ 12,867</u>	<u>\$ (134,883)</u>
<b>OTHER FINANCING SOURCES(USES)</b>			
Transfers In (Out)	<u>\$ 46,092</u>	<u>\$ 46,092</u>	<u>\$ -0-</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 193,842	\$ 58,959	\$ (134,883)
<b>FUND BALANCE - AUGUST 1, 2020</b>	<u>701,018</u>	<u>701,018</u>	<u></u>
<b>FUND BALANCE - JULY 31, 2021</b>	<u><u>\$ 894,860</u></u>	<u><u>\$ 759,977</u></u>	<u><u>\$ (134,883)</u></u>

See accompanying independent auditor's report.

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**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**

**SUPPLEMENTARY INFORMATION – REQUIRED BY THE  
WATER DISTRICT FINANCIAL MANAGEMENT GUIDE**

**JULY 31, 2021**





**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**SERVICES AND RATES**  
**FOR THE YEAR ENDED JULY 31, 2021**

**1. SERVICES PROVIDED BY THE DISTRICT DURING THE FISCAL YEAR:**

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

Water, wastewater and drainage facilities constructed by the District have been conveyed to the City of Conroe, Texas. The City maintains the facilities and operates the facilities for the benefit of the residents of the District. Therefore, the District is not responsible for operation of the utilities within its boundaries.

**2. RETAIL SERVICE PROVIDERS: N/A**

**3. TOTAL WATER CONSUMPTION: N/A**

**4. STANDBY FEES: N/A**

**5. LOCATION OF DISTRICT:**

Is the District located entirely within one county?

Yes   X   No       

County in which District is located:

Montgomery County, Texas

Is the District located within a city?

Entirely   X   Partly        Not at all       

City in which District is located:

City of Conroe, Texas.

Are Board Members appointed by an office outside the District?

Yes        No   X  

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**GENERAL FUND EXPENDITURES**  
**FOR THE YEAR ENDED JULY 31, 2021**

PROFESSIONAL FEES:

Auditing	\$ 14,750
Engineering	60,063
Legal	99,925

TOTAL PROFESSIONAL FEES	<u>\$ 174,738</u>
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PURCHASED SERVICES FOR RESALE:

Purchased Water Service/Water Authority Fees	\$ 283,488
Purchased Wastewater Service	220,594

TOTAL PURCHASED SERVICES FOR RESALE	<u>\$ 504,082</u>
-------------------------------------	-------------------

CONTRACTED SERVICES:

Bookkeeping	\$ 23,014
Operations and Billing	23,001

TOTAL CONTRACTED SERVICES	<u>\$ 46,015</u>
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REPAIRS AND MAINTENANCE	<u>\$ 79,033</u>
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ADMINISTRATIVE EXPENDITURES:

Director Fees, Including Payroll Taxes	\$ 8,558
Insurance	1,027
Office Supplies and Postage	12,892

TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 22,477</u>
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TAP CONNECTIONS	<u>\$ 77,025</u>
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OTHER EXPENDITURES:

Laboratory Fees	\$ 4,320
Permit Fees	2,901
Reconnection Fees	5,750
Inspection Fees	17,760
Regulatory Assessment	2,976
CCN Connection Costs	25,850
Other	3,996

TOTAL OTHER EXPENDITURES	<u>\$ 63,553</u>
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TOTAL EXPENDITURES	<u><u>\$ 966,923</u></u>
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See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**INVESTMENTS**  
**JULY 31, 2021**

<u>Funds</u>	<u>Identification or Certificate Number</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>	<u>Accrued Interest Receivable at End of Year</u>
<b><u>GENERAL FUND</u></b>					
Texas CLASS	XXXX0001	Varies	Daily	\$ 194,032	\$
Certificate of Deposit	XXXX1566	0.15%	10/24/21	50,000	19
Certificate of Deposit	XXXX1074	0.28%	11/23/21	50,000	36
Certificate of Deposit	XXXX2691	0.40%	09/07/21	50,000	94
Certificate of Deposit	XXXX2943	0.50%	07/01/22	50,000	21
Certificate of Deposit	XXXX1515	0.25%	06/08/22	50,000	18
Certificate of Deposit	XXXX0268	0.20%	01/27/22	50,000	26
Certificate of Deposit	XXXX1913	0.25%	04/27/22	50,000	33
Certificate of Deposit	XXXX0587	0.20%	12/23/21	50,000	26
Certificate of Deposit	XXXX8774	0.75%	02/09/22	50,000	177
Certificate of Deposit	XXXX0218	0.30%	05/04/22	50,000	22
Certificate of Deposit	XXXX0532	0.30%	03/23/22	50,000	39
TOTAL GENERAL FUND				<u>\$ 744,032</u>	<u>\$ 511</u>
<b><u>DEBT SERVICE FUND</u></b>					
Texas CLASS	XXXX0002	Varies	Daily	\$ 181,711	\$
Texas CLASS	XXXX0006	Varies	Daily	461,545	
Certificate of Deposit	XXXX2854	0.62%	02/09/22	240,000	701
Certificate of Deposit	XXXX2692	0.50%	02/09/22	100,000	236
Certificate of Deposit	XXXX1465	0.30%	02/21/22	200,000	156
TOTAL DEBT SERVICE FUND				<u>\$ 1,183,256</u>	<u>\$ 1,093</u>
<b><u>CAPITAL PROJECTS FUND</u></b>					
Texas CLASS	XXXX0004	Varies	Daily	\$ 97,081	\$
Texas CLASS	XXXX0005	Varies	Daily	390,173	
Texas CLASS	XXXX0007	Varies	Daily	526,759	
TOTAL CAPITAL PROJECTS FUND				<u>\$ 1,014,013</u>	<u>\$ -0-</u>
TOTAL - ALL FUNDS				<u>\$ 2,941,301</u>	<u>\$ 1,604</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED JULY 31, 2021**

	Maintenance Taxes		Debt Service Taxes		Road Debt Service Taxes	
TAXES RECEIVABLE -						
AUGUST 1, 2020	\$	4,800	\$	5,315	\$	
Adjustments to Beginning						
Balance		\$ 4,800	(1,550)	\$ 3,765	1,550	\$ 1,550
Original 2020 Tax Levy	\$	166,326	\$	648,670	\$	182,958
Adjustment to 2020 Tax Levy		10,255	176,581	39,996	688,666	11,281
						194,239
TOTAL TO BE						
ACCOUNTED FOR		\$ 181,381		\$ 692,431		\$ 195,789
TAX COLLECTIONS:						
Prior Years	\$	2,450	\$	1,655	\$	1,550
Current Year		175,421	177,871	684,528	686,183	192,575
						194,125
TAXES RECEIVABLE -						
JULY 31, 2021		\$ 3,510		\$ 6,248		\$ 1,664
TAXES RECEIVABLE BY						
YEAR:						
2020	\$	1,160		\$ 4,138		\$ 1,664
2019		818		1,069		
2018		1,119		679		
2017		413		362		
TOTAL	\$	3,510		\$ 6,248		\$ 1,664

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**TAXES LEVIED AND RECEIVABLE**  
**FOR THE YEAR ENDED JULY 31, 2021**

	<u>2020</u>	<u>2019</u>	<u>2018</u>	<u>2017</u>
PROPERTY VALUATIONS:				
Land	\$ 39,069,440	\$ 35,343,140	\$ 22,219,750	\$ 20,153,760
Improvements	83,950,630	59,863,070	37,515,520	26,159,980
Personal Property	560,946	841,492	599,613	551,626
Exemptions	<u>(5,860,265)</u>	<u>(4,734,490)</u>	<u>(3,517,620)</u>	<u>(1,487,408)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 117,720,751</u>	<u>\$ 91,313,212</u>	<u>\$ 56,817,263</u>	<u>\$ 45,377,958</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.585	\$ 0.510	\$ 0.340	\$ 0.420
Road Maintenance	0.165			
Maintenance	<u>0.150</u>	<u>0.390</u>	<u>0.560</u>	<u>0.480</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.900</u>	<u>\$ 0.900</u>	<u>\$ 0.900</u>	<u>\$ 0.900</u>
ADJUSTED TAX LEVY*	<u>\$ 1,059,486</u>	<u>\$ 821,819</u>	<u>\$ 511,356</u>	<u>\$ 408,401</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.34 %</u>	<u>99.77 %</u>	<u>99.65 %</u>	<u>99.81 %</u>

\* Based upon the adjusted tax levy at the time of the audit for the fiscal year in which the tax was levied.

Maintenance Tax – Maximum tax rate of \$1.50 per \$100 of assessed valuation approved by voters on May 9, 2009.

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**JULY 31, 2021**

S E R I E S - 2 0 1 6 R O A D			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2022	\$ 95,000	\$ 90,994	\$ 185,994
2023	95,000	88,619	183,619
2024	100,000	86,181	186,181
2025	100,000	83,431	183,431
2026	105,000	80,356	185,356
2027	110,000	77,131	187,131
2028	115,000	73,756	188,756
2029	120,000	70,231	190,231
2030	120,000	66,631	186,631
2031	125,000	62,800	187,800
2032	130,000	58,575	188,575
2033	135,000	54,103	189,103
2034	140,000	49,375	189,375
2035	145,000	44,388	189,388
2036	150,000	39,225	189,225
2037	155,000	33,888	188,888
2038	160,000	28,275	188,275
2039	165,000	22,384	187,384
2040	170,000	16,313	186,313
2041	180,000	9,969	189,969
2042	185,000	3,353	188,353
2043			
2044			
2045			
	<u>\$ 2,800,000</u>	<u>\$ 1,139,978</u>	<u>\$ 3,939,978</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**JULY 31, 2021**

S E R I E S - 2 0 1 9			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2022	\$ 115,000	\$ 106,200	\$ 221,200
2023	120,000	100,913	220,913
2024	125,000	95,400	220,400
2025	130,000	89,663	219,663
2026	135,000	85,388	220,388
2027	140,000	82,638	222,638
2028	145,000	79,788	224,788
2029	150,000	76,838	226,838
2030	155,000	73,788	228,788
2031	160,000	70,538	230,538
2032	165,000	67,084	232,084
2033	170,000	63,419	233,419
2034	175,000	59,538	234,538
2035	180,000	55,319	235,319
2036	185,000	50,756	235,756
2037	190,000	46,069	236,069
2038	195,000	41,256	236,256
2039	200,000	36,194	236,194
2040	205,000	30,878	235,878
2041	210,000	25,300	235,300
2042	215,000	19,456	234,456
2043	300,000	12,375	312,375
2044	300,000	4,125	304,125
2045			
	<u>\$ 4,065,000</u>	<u>\$ 1,372,923</u>	<u>\$ 5,437,923</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**JULY 31, 2021**

S E R I E S - 2 0 2 0			
Due During Fiscal Years Ending July 31	Principal Due September 1	Interest Due September 1/ March 1	Total
2022	\$ 160,000	\$ 162,756	\$ 322,756
2023	165,000	155,444	320,444
2024	175,000	147,794	322,794
2025	180,000	139,806	319,806
2026	190,000	131,956	321,956
2027	200,000	126,156	326,156
2028	205,000	122,106	327,106
2029	215,000	117,906	332,906
2030	225,000	113,506	338,506
2031	235,000	108,906	343,906
2032	245,000	104,106	349,106
2033	260,000	99,056	359,056
2034	270,000	93,756	363,756
2035	280,000	88,081	368,081
2036	295,000	81,972	376,972
2037	310,000	75,350	385,350
2038	320,000	68,263	388,263
2039	335,000	60,894	395,894
2040	350,000	52,969	402,969
2041	365,000	44,478	409,478
2042	385,000	35,573	420,573
2043	400,000	26,250	426,250
2044	420,000	16,250	436,250
2045	440,000	5,500	445,500
	<u>\$ 6,625,000</u>	<u>\$ 2,178,834</u>	<u>\$ 8,803,834</u>

See accompanying independent auditor's report.



**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**LONG-TERM DEBT SERVICE REQUIREMENTS**  
**JULY 31, 2021**

ANNUAL REQUIREMENTS  
FOR ALL SERIES

Due During Fiscal Years Ending July 31	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2022	\$ 370,000	\$ 359,950	\$ 729,950
2023	380,000	344,976	724,976
2024	400,000	329,375	729,375
2025	410,000	312,900	722,900
2026	430,000	297,700	727,700
2027	450,000	285,925	735,925
2028	465,000	275,650	740,650
2029	485,000	264,975	749,975
2030	500,000	253,925	753,925
2031	520,000	242,244	762,244
2032	540,000	229,765	769,765
2033	565,000	216,578	781,578
2034	585,000	202,669	787,669
2035	605,000	187,788	792,788
2036	630,000	171,953	801,953
2037	655,000	155,307	810,307
2038	675,000	137,794	812,794
2039	700,000	119,472	819,472
2040	725,000	100,160	825,160
2041	755,000	79,747	834,747
2042	785,000	58,382	843,382
2043	700,000	38,625	738,625
2044	720,000	20,375	740,375
2045	440,000	5,500	445,500
	<u>\$ 13,490,000</u>	<u>\$ 4,691,735</u>	<u>\$ 18,181,735</u>

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**CHANGES IN LONG-TERM DEBT BOND DEBT**  
**FOR THE YEAR ENDED JULY 31, 2021**

Description	Original Bonds Issued	Bonds Outstanding August 1, 2020	
Montgomery County Municipal Utility District No. 126 Unlimited Tax Road Bonds - Series 2016	\$ 3,060,000	\$ 2,890,000	
Montgomery County Municipal Utility District No. 126 Unlimited Tax Bonds - Series 2019	4,175,000	4,175,000	
Montgomery County Municipal Utility District No. 126 Unlimited Tax Bonds - Series 2020	<u>6,625,000</u>		
TOTAL	<u>\$ 13,860,000</u>	<u>\$ 7,065,000</u>	
Bond Authority:	<u>Tax Bonds (Utilities)</u>	<u>Refunding Bonds</u>	<u>Park Bonds</u>
Amount Authorized by Voters	\$ 41,320,000	\$ 51,420,000	\$ 4,100,000
Amount Issued	<u>10,800,000</u>		
Remaining to be Issued	<u>\$ 30,520,000</u>	<u>\$ 51,420,000</u>	<u>\$ 4,100,000</u>
Debt Service Fund cash and investment balances as of July 31, 2021:			<u>\$ 1,222,170</u>
Average annual debt service payment (principal and interest) for remaining term of all debt:			\$ 757,572

See accompanying independent auditor's report.

Current Year Transactions				
Bonds Sold	Retirements		Bonds Outstanding July 31, 2021	Paying Agent
	Principal	Interest		
\$	\$ 90,000	\$ 93,081	\$ 2,800,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
	110,000	111,262	4,065,000	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>6,625,000</u>		<u>91,496</u>	<u>6,625,000</u>	The Bank of New York Mellon Trust Company, N.A. Dallas, TX
<u>\$ 6,625,000</u>	<u>\$ 200,000</u>	<u>\$ 295,839</u>	<u>\$ 13,490,000</u>	
Road Bonds				
\$ 6,000,000				
<u>3,060,000</u>				
<u>\$ 2,940,000</u>				

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**GENERAL FUND – FIVE YEARS**

	Amounts		
	2021	2020	2019
<b>REVENUES</b>			
Property Taxes	\$ 177,871	\$ 354,515	\$ 316,355
Water Service	256,486	383,883	261,322
Wastewater Service	275,378	375,985	224,808
Water Authority Fees	154,448	218,057	130,692
Penalty and Interest	10,537	14,755	7,506
Tap Connection and Inspection Fees	94,150	212,796	118,807
Investment and Miscellaneous Revenues	<u>10,920</u>	<u>10,899</u>	<u>4,780</u>
<b>TOTAL REVENUES</b>	<u>\$ 979,790</u>	<u>\$ 1,570,890</u>	<u>\$ 1,064,270</u>
<b>EXPENDITURES</b>			
Professional Fees	\$ 174,738	\$ 167,034	\$ 157,738
Contracted Services	46,015	51,914	45,420
Purchased Water Service/Water Authority Fees	283,488	425,673	271,318
Purchased Wastewater Service	220,594	305,413	165,391
Repairs and Maintenance	79,033	70,945	107,833
Other	<u>163,055</u>	<u>211,581</u>	<u>167,480</u>
<b>TOTAL EXPENDITURES</b>	<u>\$ 966,923</u>	<u>\$ 1,232,560</u>	<u>\$ 915,180</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 12,867</u>	<u>\$ 338,330</u>	<u>\$ 149,090</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In(Out)	\$ 46,092	\$ 39,111	\$
Developer Advances	<u></u>	<u></u>	<u></u>
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 46,092</u>	<u>\$ 39,111</u>	<u>\$ - 0 -</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 58,959	\$ 377,441	\$ 149,090
<b>BEGINNING FUND BALANCE</b>	<u>701,018</u>	<u>323,577</u>	<u>174,487</u>
<b>ENDING FUND BALANCE</b>	<u>\$ 759,977</u>	<u>\$ 701,018</u>	<u>\$ 323,577</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2018	2017	2021	2020	2019	2018	2017		
\$ 219,435	\$ 151,090	18.1 %	22.7 %	29.7 %	30.4 %	31.8 %		
179,840	124,344	26.2	24.4	24.6	24.9	26.2		
129,826	83,460	28.1	23.9	21.1	18.0	17.6		
98,649	60,499	15.8	13.9	12.3	13.7	12.7		
11,146	4,634	1.1	0.9	0.7	1.5	1.0		
77,155	47,479	9.6	13.5	11.2	10.7	10.0		
5,436	3,465	1.1	0.7	0.4	0.8	0.7		
<u>\$ 721,487</u>	<u>\$ 474,971</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 133,280	\$ 128,166	17.8 %	10.6 %	14.8 %	18.5 %	27.0 %		
36,691	34,539	4.7	3.3	4.3	5.1	7.3		
202,264	130,237	28.9	27.1	25.5	28.0	27.4		
109,541	62,537	22.5	19.4	15.5	15.2	13.2		
62,174	31,272	8.1	4.5	10.1	8.6	6.6		
108,072	106,444	16.6	13.5	15.7	15.0	22.4		
<u>\$ 652,022</u>	<u>\$ 493,195</u>	<u>98.6 %</u>	<u>78.4 %</u>	<u>85.9 %</u>	<u>90.4 %</u>	<u>103.9 %</u>		
<u>\$ 69,465</u>	<u>\$ (18,224)</u>	<u>1.4 %</u>	<u>21.6 %</u>	<u>14.1 %</u>	<u>9.6 %</u>	<u>(3.9) %</u>		
\$ 35,000	\$ 19,856							
<u>\$ 35,000</u>	<u>\$ 19,856</u>							
\$ 104,465	\$ 1,632							
<u>70,022</u>	<u>68,390</u>							
<u>\$ 174,487</u>	<u>\$ 70,022</u>							

See accompanying independent auditor's report.

**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES**  
**DEBT SERVICE FUND - FIVE YEARS**

	Amounts		
	2021	2020	2019
<b>REVENUES</b>			
Property Taxes	\$ 880,308	\$ 462,435	\$ 192,327
Penalty and Interest	3,888	2,401	1,219
Investment and Miscellaneous Revenues	4,888	7,494	4,607
Tax Rebate	8,812	7,047	4,688
<b>TOTAL REVENUES</b>	<u>\$ 897,896</u>	<u>\$ 479,377</u>	<u>\$ 202,841</u>
<b>EXPENDITURES</b>			
Tax Collection Expenditures	\$ 28,778	\$ 17,520	\$ 15,587
Debt Service Principal	200,000	85,000	85,000
Debt Service Interest and Fees	297,339	144,552	97,281
<b>TOTAL EXPENDITURES</b>	<u>\$ 526,117</u>	<u>\$ 247,072</u>	<u>\$ 197,868</u>
<b>EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES</b>	<u>\$ 371,779</u>	<u>\$ 232,305</u>	<u>\$ 4,973</u>
<b>OTHER FINANCING SOURCES (USES)</b>			
Transfers In	\$	\$ 4,937	\$
Proceeds from Issuance of Long-Term Debt	166,356	113,737	
<b>TOTAL OTHER FINANCING SOURCES (USES)</b>	<u>\$ 166,356</u>	<u>\$ 118,674</u>	<u>\$ -0-</u>
<b>NET CHANGE IN FUND BALANCE</b>	\$ 538,135	\$ 350,979	\$ 4,973
<b>BEGINNING FUND BALANCE</b>	<u>665,597</u>	<u>314,618</u>	<u>309,645</u>
<b>ENDING FUND BALANCE</b>	<u><u>\$ 1,203,732</u></u>	<u><u>\$ 665,597</u></u>	<u><u>\$ 314,618</u></u>
<b>TOTAL ACTIVE RETAIL WATER CONNECTIONS</b>	<u>N/A</u>	<u>666</u>	<u>438</u>
<b>TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS</b>	<u>N/A</u>	<u>638</u>	<u>419</u>

Note: Utility services are now provided to District residents by the City of Conroe, Texas.

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2018	2017	2021	2020	2019	2018	2017
\$ 192,514	\$ 157,945	98.1 %	96.4 %	94.8 %	95.7 %	96.9 %
1,526	1,692	0.4	0.5	0.6	0.8	1.0
3,670	577	0.5	1.6	2.3	1.8	0.4
<u>3,327</u>	<u>2,846</u>	<u>1.0</u>	<u>1.5</u>	<u>2.3</u>	<u>1.7</u>	<u>1.7</u>
\$ <u>201,037</u>	\$ <u>163,060</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>
\$ 13,738	\$ 10,811	3.2 %	3.7 %	\$ 7.7 %	6.8 %	6.6 %
		22.3	17.7	41.9		
<u>98,131</u>	<u>29,153</u>	<u>33.1</u>	<u>30.2</u>	<u>48.0</u>	<u>48.8</u>	<u>17.9</u>
\$ <u>111,869</u>	\$ <u>39,964</u>	<u>58.6 %</u>	<u>51.6 %</u>	<u>97.6 %</u>	<u>55.6 %</u>	<u>24.5 %</u>
\$ <u>89,168</u>	\$ <u>123,096</u>	<u>41.4 %</u>	<u>48.4 %</u>	<u>2.4 %</u>	<u>44.4 %</u>	<u>75.5</u>
\$	\$					
	<u>97,381</u>					
\$	\$					
	<u>97,381</u>					
\$ 89,168	\$ 220,477					
<u>220,477</u>						
\$ <u>309,645</u>	\$ <u>220,477</u>					
<u>298</u>	<u>223</u>					
<u>281</u>	<u>212</u>					

See accompanying independent auditor's report.

District Mailing Address - Montgomery County Municipal Utility District No. 126  
c/o Schwartz, Page & Harding, L.L.P.  
1300 Post Oak Boulevard, Suite 2400  
Houston, TX 77056

District Telephone Number - (713) 623-4531

Notes: No Director has any business or family relationships (as defined by the Texas Water Code) with major landowners in the District, with the District's developers or with any of the District's consultants.

The limit on Fees of Office that a Director may receive during a fiscal year is the maximum amount allowed by law as set by Board Resolution on February 20, 2009. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year.

- 45 -



**MONTGOMERY COUNTY MUNICIPAL UTILITY DISTRICT NO. 126**  
**BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS**  
**JULY 31, 2021**

<b>Consultants:</b>	<b>Date Hired</b>	<b>Fees / Compensation for the year ended July 31, 2021</b>	<b>Title</b>
Schwartz, Page & Harding, L.L.P.	02/20/09	\$ 99,608 \$ 178,397	General Counsel Bond Counsel
McCall Gibson Swedlund Barfoot PLLC	07/09/15	\$ 14,750 \$ 13,500 \$ 500	Auditor Bond Related SB 625
Municipal Accounts & Consulting, L.P.	02/20/09	\$ 29,604	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/13/14	\$ 931	Delinquent Tax Attorney
Edminster, Hinshaw, Russ & Associates, Inc.	02/20/09	\$ 64,165	Engineer
Masterson Advisors LLC	05/10/18	\$ 246,104	Financial Advisor
Municipal Operations & Consulting, L.P.	01/01/16	\$ 208,204	Prior Operator
Mark Burton	02/20/09	\$ -0-	Investment Officer
Assessments of the Southwest, Inc.	06/07/13	\$ 16,920	Tax Assessor/ Collector

See accompanying independent auditor's report.



## **APPENDIX B**

### **Specimen Municipal Bond Insurance Policy**



## MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

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

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