

THE DELIVERY OF THE BONDS IS SUBJECT TO THE OPINION OF BOND COUNSEL TO THE EFFECT THAT, UNDER EXISTING LAW AND ASSUMING CONTINUING COMPLIANCE WITH COVENANTS IN THE BOND ORDER, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES, SUBJECT TO THE MATTERS DESCRIBED IN “TAX MATTERS” HEREIN, AND IS NOT INCLUDED IN THE FEDERAL ALTERNATIVE MINIMUM TAXABLE INCOME OF INDIVIDUALS. SEE “LEGAL MATTERS” AND “TAX MATTERS” HEREIN FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL, INCLUDING THE ALTERNATIVE MINIMUM TAX ON CERTAIN CORPORATIONS.

The Bonds will be designated as “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”

NEW ISSUE—BOOK-ENTRY ONLY
CUSIP No. 413928

RATINGS: Underlying “BBB+” (stable outlook) S&P
See “MUNICIPAL BOND RATING” herein

\$4,405,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86

(A political subdivision of the State of Texas, located in Harris County, Texas)

UNLIMITED TAX BONDS

SERIES 2025

Dated: December 1, 2025

Due: March 1 (as shown below)

Interest on the \$4,405,000 Unlimited Tax Bonds, Series 2025 (the “Bonds”) will accrue from December 1, 2025, and will be payable on March 1 and September 1 of each year, commencing March 1, 2026. The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company (“DTC”), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. **No physical delivery of the Bonds will be made to the owners thereof.** Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See “BOOK-ENTRY-ONLY SYSTEM” herein. The initial Paying Agent/Registrar is BOKF, N.A., Dallas, Texas. See “THE BONDS – Paying Agent/Registrar.”

MATURITIES, AMOUNTS, INTEREST RATES, AND PRICES

<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>	<u>Principal Amount</u>	<u>Maturity</u>	<u>Interest Rate</u>	<u>Yield (a)</u>
\$25,000	2028	%	%	\$240,000	2041(b)	%	%
\$25,000	2029	%	%	\$250,000	2042(b)	%	%
\$25,000	2030	%	%	\$265,000	2043(b)	%	%
\$25,000	2031(b)	%	%	\$280,000	2044(b)	%	%
\$25,000	2032(b)	%	%	\$290,000	2045(b)	%	%
\$25,000	2033(b)	%	%	\$305,000	2046(b)	%	%
\$25,000	2034(b)	%	%	\$320,000	2047(b)	%	%
\$25,000	2035(b)	%	%	\$340,000	2048(b)	%	%
\$25,000	2036(b)	%	%	\$355,000	2049(b)	%	%
\$25,000	2037(b)	%	%	\$375,000	2050(b)	%	%
\$50,000	2038(b)	%	%	\$395,000	2051(b)	%	%
\$50,000	2039(b)	%	%	\$415,000	2052(b)	%	%
\$225,000	2040(b)	%	%				

- (a) The initial reoffering yields are established by and are the sole responsibility of the Underwriter (hereinafter defined) and may be subsequently changed. Accrued interest is to be added to the price.
- (b) The Bonds maturing on or after March 1, 2031, are subject to redemption in whole or from time to time in part, at the option of the District (hereinafter defined), on March 1, 2030, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. If fewer than all of the Bonds within any one maturity are redeemed, the Bonds to be redeemed shall be selected, on behalf of the District, by the Paying Agent/Registrar by lot or other customary method, in integral multiples of \$5,000 in any one maturity. See “THE BONDS – Optional Redemption.”

The proceeds of the Bonds will be used by Harris County Municipal Utility District No. 86 (the “District”) to: (1) reimburse the Developer (hereinafter defined) for certain water, wastewater, drainage, and detention pond improvements serving the District and associated engineering, stormwater pollution prevention planning, and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; and (3) pay issuance and administrative expenses associated with the sale of the Bonds. See “USE OF BOND PROCEEDS.”

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

The Bonds are offered when, as and if issued by the District, subject to approval by the Attorney General of Texas and the approval of certain legal matters by Wallace & Philbin, L.L.P., Houston, Texas, Bond Counsel. The District will be advised on certain legal matters concerning disclosure by Norton Rose Fulbright US LLP, Houston, Texas, Disclosure Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about December 16, 2025.

Bids Due: Thursday, November 13, 2025 at 9:00 A.M. Houston Time

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USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission ("SEC") as amended ("Rule 15c2-12" or the "Rule"), this Preliminary Official Statement constitutes an "official statement" of the District with respect to the Bonds that has been deemed "final" by the District as of its date except for the omission of no more than the information permitted by the Rule.

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

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

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the District, c/o Wallace & Philbin, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057, upon payment of duplication costs.

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

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

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

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

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

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

Prices and Marketability

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

THE PRICES AND OTHER TERMS RESPECTING THE OFFERING AND SALE OF THE BONDS MAY BE CHANGED FROM TIME TO TIME BY THE UNDERWRITER AFTER THE BONDS ARE RELEASED FOR SALE, AND THE BONDS MAY BE OFFERED AND SOLD AT PRICES OTHER THAN THE INITIAL OFFERING PRICES, INCLUDING SALES TO DEALERS WHO MAY SELL THE BONDS INTO INVESTMENT ACCOUNTS. IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITER MAY OVER-ALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICES OF THE BONDS AT LEVELS ABOVE THOSE THAT MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

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

NO REGISTRATION OR QUALIFICATION FOR SALE OF BONDS UNDER SECURITIES LAWS

No registration statement relating to the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the Securities acts of any 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 or qualification provisions.

The Bonds have been sold to the Underwriter on the basis of its representation that the Bonds will be sold in states other than Texas only pursuant to exemptions from registration or qualification or that the Underwriter will, where necessary, register or qualify the Bonds in accordance with the Securities laws of the state in which the Bonds are offered or sold.

CONTINUING DISCLOSURE OF INFORMATION – SEC RULE 15c2-12

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

Annual Reports

The District will provide certain updated financial information and operating data to EMMA annually.

The information to be updated with respect to the District includes all quantitative financial information and operating data of the District of the general type included in this Official Statement included under the heading “DISTRICT DEBT” (except for “Estimated Overlapping Debt”), “TAX DATA,” and “APPENDIX A” (Annual Financial Report). The District will update and provide this information within six months after the end of each of fiscal year commencing 2025.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by the Rule. The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six-month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Road 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 September 30. Accordingly, it must provide updated information by March 31, in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB via EMMA of the change.

Event Notices

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

have the meanings ascribed to them under the Rule. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Order makes any provisions for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under "Annual Reports."

Availability of Information

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

Limitations and Amendments

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

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

Compliance with Prior Undertakings

During the last five years, the District has complied in all material respects with its prior continuing disclosure agreements made in accordance with the Rule.

REGISTRATION

Paying Agent/Registrar

The Bonds will be issued in fully registered form in multiples of \$5,000 for any one maturity, and principal and semi-annual interest will be paid by the District through the Paying Agent/Registrar. Principal will be payable to the registered holder at maturity or redemption upon presentation to the Paying Agent/Registrar. Interest will be payable by check or draft, dated as of the interest payment date, and mailed by the Paying Agent/Registrar to registered holders as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each interest payment date.

Successor 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 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 either a national or state banking institution and shall be a corporation organized and doing business under the laws of the United States of America or of any State, shall be authorized under such laws to exercise trust powers, and shall be subject to supervision or examination by Federal or State banking authorities. Any successor Paying Agent/Registrar shall be selected by the District.

Assignments, Transfers, and Exchange

In the event that the Book-Entry-Only System is discontinued, the Bonds may be transferred, registered and assigned only on the registration books of the Paying Agent/Registrar, and such registration (exclusive of any tax or governmental charge therefor) shall be at the expense of the District. A Bond may be assigned by execution of the assignment form printed on the Bond. A new Bond or Bonds will be delivered by the Paying Agent/Registrar to the last assignee (the new registered owners) in exchange for such transferred and assigned Bonds not more than three days after receipt of the Bonds to be transferred in proper form. Such new Bond or Bonds must be in the denomination of \$5,000 for any one maturity, or any integral multiple thereof. The Bonds are transferable only on the bond register kept by the Registrar upon surrender and re-issuance. The Bonds are exchangeable for an equal principal amount or maturity amount of Bonds of the same maturity in any authorized denomination upon surrender of the Bonds to be exchanged at the principal office of the Registrar.

Record Date

The record date ("Record Date") for the interest payable on any interest payment date means the 15th calendar day of the month next preceding such interest payment date.

Record Date for Bonds to be Redeemed

Neither the District nor the Paying Agent/Registrar shall be required to: (1) issue, transfer, or exchange any Bond during a period beginning at the opening of business 15 days before the day of the first mailing of a notice of redemption of Bonds and ending at the close of business on the day of such mailing, or (2) transfer or exchange any Bond so selected for redemption in whole or in part when such redemption is scheduled to occur within 45 calendar days.

MUNICIPAL BOND RATING

In connection with the sale of the Bonds, the District has made application to S&P Global Ratings ("S&P") which has assigned a rating of "BBB+" (stable outlook) on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating. The District can make no assurance that the S&P rating will continue for any period of time or that such rating will not be revised downward or withdrawn entirely by S&P if in the judgment of S&P circumstances so warrant. Any such downward revision or withdrawal of the rating may have an adverse effect on the market price of the Bonds.

BOND INSURANCE

The District has applied to Assured Guaranty Inc. ("AG") and Build America Mutual Assurance Company ("BAM") for qualification of the Bonds for bond insurance. The Underwriter (as defined herein) may bid for the Bonds with or without bond insurance. If the Underwriter bids for the Bonds with bond insurance, the cost of the bond insurance premium must be paid for by the Underwriter. The District will pay for the cost of the S&P rating. The Underwriter must pay for the cost of any rating other than the S&P rating. If the Underwriter purchases the Bonds with bond insurance and subsequent to the sale date and prior to the closing date, the bond insurer's credit rating is downgraded the Underwriter is still obligated to accept delivery of the Bonds. Information relative to the cost of the insurance premium will be available from AG and BAM on the day of the sale.

OFFICIAL STATEMENT SUMMARY

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

THE BONDS

Description:	The \$4,405,000 Unlimited Tax Bonds, Series 2025 (the "Bonds"), issued pursuant to an order (the "Bond Order") of the Board of Directors of Harris County Municipal Utility District No. 86 (the "District"). The Bonds will be dated December 1, 2025, with interest payable commencing March 1, 2026, and each September 1 and March 1, thereafter until the earlier of maturity or redemption. See "THE BONDS – General."
Book-Entry-Only System:	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds. See "BOOK-ENTRY-ONLY SYSTEM."
Redemption Provisions:	The Bonds maturing on or after March 1, 2031, are subject to redemption at the option of the District, prior to maturity, in whole or part, on March 1, 2030, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS – Optional Redemption."
Source of Payment:	The Bonds are payable from a continuing direct annual ad valorem tax levied against all taxable property within the District which, under Texas law, is not limited as to rate or amount. The Bonds are obligations of the District and are not obligations of the State of Texas, Harris County, the City of Houston, or any other political subdivision or agency. See "THE BONDS – Sources of and Security for Payment."
Use of Proceeds:	Proceeds from the sale of the Bonds will be used by the District to: (1) reimburse the Developer (hereinafter defined) for certain water, wastewater, drainage, and detention pond improvements serving the District and associated engineering, stormwater pollution prevention planning, and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; and (3) pay issuance and administrative expenses associated with the sale of the Bonds. See "USE OF BOND PROCEEDS."
Qualified Tax-Exempt Obligations:	The District will designate the Bonds as "qualified tax-exempt obligations" pursuant to Section 265(b) of the Internal Revenue Code of 1986, as amended. See "TAX MATTERS – Qualified Tax-Exempt Obligations."
Municipal Bond Rating:	In connection with the sale of the Bonds, the District has made application to S&P which has assigned a rating of "BBB+" (stable outlook) on the Bonds based upon the District's underlying credit without bond insurance. An explanation of the significance of such rating may be obtained from S&P. The rating reflects only the view of S&P and the District makes no representation as to the appropriateness of such rating. See "MUNICIPAL BOND RATING."
Bond Insurance:	The District has applied to AG and BAM for qualification of the Bonds for bond insurance. The Underwriter (as defined herein) may bid for the Bonds with or without bond insurance. If the Underwriter bids for the Bonds with bond insurance, the cost of the bond insurance premium must be paid for by the Underwriter. Information relative to the cost of the insurance premium will be available from the bond insurance companies on the day of the sale. See "BOND INSURANCE."
Authorized but Unissued Bonds:	After the sale of the Bonds, the District will have \$8,915,000 authorized but unissued unlimited tax bonds that may be used for the purposes of constructing water, sewer, and drainage facilities to serve the District. See "RISK FACTORS – Future Debt" and "THE BONDS – Authority for Issuance."
Paying Agent/Registrar:	BOKF, N.A., Dallas, Texas. See "THE BONDS – Paying Agent/Registrar."
Legal Opinion:	Wallace & Philbin, L.L.P., Houston, Texas. See "LEGAL MATTERS."
Payment Record:	The District has never defaulted in the timely payment of principal of or interest on its prior bonded indebtedness.

THE DISTRICT

Description:	Harris County Municipal Utility District No. 86 was created by order of the Texas Water Rights Commission, predecessor to the Texas Commission on Environmental Quality (the "TCEQ"), on March 21, 1974, pursuant to the authority of Article XVI, Section 59, of the Texas Constitution and operates pursuant to Chapters 49 and 54, Texas Water Code, as amended. The District currently encompasses 397 acres located in northern Harris County, approximately 18 miles from the City of Houston's Central Business District. The District is bounded by F.M. 1960 on the north, Mathis Church Road on the west, and Hafer Road on the east, and is located approximately one mile west of Interstate Highway 45. The District is entirely within the exclusive extraterritorial jurisdiction of the City of Houston. See "THE DISTRICT."
Authority:	The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, including particularly Chapters 49 and 54 of the Texas Water Code, as amended. See "THE DISTRICT – Authority."
Status of Development:	The single-family residential development in the District includes the subdivisions known as Ella Crossing, Legacy Park, The Villas at Legacy Park, Legacy Park on Hafer, and Providence Place. Ella Crossing, Sections 1 – 3, contains 310 single-family residential lots (including approximately 130 duplex lots), all of which have homes constructed thereon. Legacy Park, Sections 1 – 3, contains 276 single-family residential lots, all of which have homes constructed thereon. The Villas at Legacy Park contains 143 single-family residential lots, on which homebuilding is currently taking place. As of October 1, 2025, the District included approximately 672 completed homes (of which, approximately 607 were occupied by homeowners), approximately 34 homes under construction, and approximately 83 vacant developed lots. Additionally, approximately 138 single-family residential lots are currently under development in Legacy Park on Hafer; such lots are anticipated to be available for homebuilding during the first quarter of 2026. See "THE DISTRICT – Single-Family Residential Development." Providence Place, a development project owned by Harris County Housing and Community Development, is expected to contain 60 single-family residential homes at ultimate buildout. The land, improvements, and personal property located within the Providence Place development are exempt from taxation by the District; however, Harris County Housing and Community Development intends to transfer completed homes to individuals who qualify to purchase them, whereupon the individual home would become taxable. According to data provided by HCAD, such property had a market value of approximately \$3,224,529 as of the 2025 certified tax rolls. See "RISK FACTORS – Tax-Exempt Property" and "TAXING PROCEDURES – Certain Tax Exemptions Provided for Affordable Housing." Multi-family residential and commercial building development in the District includes, but is not limited to, the following: seven multi-family apartment complexes and one senior living community, totaling approximately 1,513 units, three strip shopping centers with approximately twenty service and retail businesses, nine free-standing service and retail business establishments, three restaurants, four medical related office buildings, a two-story office building, two bank buildings, one office condominium project, two pharmacies, three carwash facilities, a personal storage facility, a day care facility, a light industrial warehouse, and three limited service/extended stay motels. See "THE DISTRICT – Multi-Family Residential and Commercial Development."
Summary of Land Uses:	As of October 1, 2025, the District included approximately 130 acres that have been developed and improved for single-family residential purposes, approximately 100 acres that have been developed and improved for multi-family residential purposes, approximately 73 acres that have been developed and improved for commercial purposes, approximately 17 acres under development, approximately 44 remaining developable acres, and approximately 33 undevelopable acres, which includes roadways, detention facilities, drainage easements, District plant sites, parks and recreational areas, and open spaces. See "THE DISTRICT – Summary of Land Use."
The Developers:	D.R. Horton Texas, Ltd., a Texas limited partnership ("D.R. Horton") whose general partner is D.R. Horton, Inc., a Delaware corporation, has developed approximately 74 acres of land within the District known as the Legacy Park and The Villas at Legacy Park subdivisions; D.R. Horton is also the sole homebuilder in such subdivisions. Legacy Park, Sections 1 – 3, contains 276 single-family residential lots, all of which have homes constructed thereon and have been sold to homebuyers. The Villas at Legacy Park contains 143 single-family residential lots. According to D.R. Horton, homes in The Villas at Legacy Park are being constructed on 24-foot lots and are being marketed in the \$240,990 - \$256,990 price range. Additionally, Forestar (USA) Real Estate Group, Inc. ("Forestar"), a subsidiary of D.R. Horton Inc., a Delaware corporation, is developing

approximately 16.79 acres of land within the District, known as the Legacy Park on Hafer subdivision. Legacy Park on Hafer will consist of 138 single-family residential lots, all of which are expected to be available for homebuilding during the first quarter of 2026. Upon completion of such development, D.R. Horton will serve as the homebuilder for this subdivision. According to D.R. Horton, homes in Legacy Park on Hafer will be constructed on 24-foot lots, and are expected to be marketed in the \$230,000 - \$260,000 price range. See "THE DISTRICT – Single-Family Residential Development."

D.R. Horton and Forestar are referred to herein as the "Developers." See "THE DISTRICT'S DEVELOPERS."

Risk Factors:

The purchase and ownership of the Bonds are subject to special investment risks 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 "RISK FACTORS."

SELECTED FINANCIAL INFORMATION
(Unaudited)

8/1/2025 Estimated Taxable Value	\$399,035,907 (a)
2025 Certified Taxable Value	\$375,606,146 (b)
Direct Debt (See "DISTRICT DEBT")	
Outstanding Bonds (as of October 1, 2025)	\$6,110,000
The Bonds	<u>\$4,405,000</u>
Total Direct Debt	\$10,515,000
Estimated Overlapping Debt	<u>\$26,705,906 (c)</u>
Direct and Estimated Overlapping Debt	\$37,220,906
Percentage of Direct Debt to:	
8/1/2025 Estimated Taxable Value	2.64%
2025 Certified Taxable Value	2.80%
See "DISTRICT DEBT"	
Percentage of Direct and Estimated Overlapping Debt to:	
8/1/2025 Estimated Taxable Value	9.33%
2025 Certified Taxable Value	9.91%
See "DISTRICT DEBT"	
2025 Tax Rate Per \$100 of Assessed Value:	
Debt Service Tax	\$0.341
Maintenance Tax	<u>\$0.250</u>
Total 2025 Tax Rate	\$0.591
Cash and Temporary Investment Balances as of October 3, 2025:	
General Fund	\$3,699,257 (d)
Debt Service Fund	\$466,571 (e)

- (a) Reflects data supplied by the Harris Central Appraisal District ("HCAD" or the "Appraisal District"). The Estimated Taxable Value as of August 1, 2025, was prepared by HCAD and provided to the District for informational purposes only. The increase in value reflects HCAD's estimate of the value of new construction in the District since January 1, 2025 through August 1, 2025. Such values are not binding on HCAD. Any values added after January 1, 2025, will not be included on the District's tax roll until the 2026 tax roll is prepared and certified by HCAD during the second half of 2026. The District is authorized by law to levy taxes only against certified values. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2025 Certified Taxable Value according to data supplied to the District by HCAD, which includes \$19,362,839 of uncertified taxable value that is still in the certification process. Such amount of uncertified value represents HCAD's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest. The District is authorized by law to levy taxes only against certified values. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Estimated Overlapping Debt."
- (d) Unaudited figure per the District's records. See "THE SYSTEM – General Fund Operating History."
- (e) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Order requires the District to maintain any particular balance in the Debt Service Fund. See "TAX DATA – Adequacy of Tax Revenue."

DEBT SERVICE REQUIREMENTS

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

<u>Year</u>	<u>Outstanding Debt Service Requirements</u>	<u>Plus: Debt Service on the Bonds</u>		<u>Total Debt Service Requirements*</u>
		<u>Principal</u>	<u>Interest*</u>	
2025	\$1,083,068	-	-	\$1,083,068
2026	\$995,594	-	\$165,188	\$1,160,781
2027	\$988,294	-	\$220,250	\$1,208,544
2028	\$973,909	\$25,000	\$219,625	\$1,218,534
2029	\$760,569	\$25,000	\$218,375	\$1,003,944
2030	\$886,922	\$25,000	\$217,125	\$1,129,047
2031	\$309,706	\$25,000	\$215,875	\$550,581
2032	\$306,644	\$25,000	\$214,625	\$546,269
2033	\$332,772	\$25,000	\$213,375	\$571,147
2034	\$328,041	\$25,000	\$212,125	\$565,166
2035	\$318,047	\$25,000	\$210,875	\$553,922
2036	\$312,863	\$25,000	\$209,625	\$547,488
2037	\$331,956	\$25,000	\$208,375	\$565,331
2038	\$158,519	\$50,000	\$206,500	\$415,019
2039	\$162,900	\$50,000	\$204,000	\$416,900
2040	-	\$225,000	\$197,125	\$422,125
2041	-	\$240,000	\$185,500	\$425,500
2042	-	\$250,000	\$173,250	\$423,250
2043	-	\$265,000	\$160,375	\$425,375
2044	-	\$280,000	\$146,750	\$426,750
2045	-	\$290,000	\$132,500	\$422,500
2046	-	\$305,000	\$117,625	\$422,625
2047	-	\$320,000	\$102,000	\$422,000
2048	-	\$340,000	\$85,500	\$425,500
2049	-	\$355,000	\$68,125	\$423,125
2050	-	\$375,000	\$49,875	\$424,875
2051	-	\$395,000	\$30,625	\$425,625
2052	-	\$415,000	\$10,375	\$425,375
TOTALS	\$8,249,802	\$4,405,000	\$4,395,563	\$17,050,364

Maximum Annual Debt Service Requirement (2028) \$1,218,534*

Requires a \$0.33 debt service tax rate on the August 1, 2025 Estimated Taxable Value of \$399,035,907
at 95% collections \$1,250,978*

Requires a \$0.35 debt service tax rate on the 2025 Certified Taxable Value of \$375,606,146
at 95% collections \$1,248,890*

See "TAX DATA – Adequacy of Tax Revenue."

*Preliminary, subject to change.

OFFICIAL STATEMENT

relating to

\$4,405,000

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
(A political subdivision of the State of Texas located within Harris County, Texas)

UNLIMITED TAX BONDS
SERIES 2025

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Harris County Municipal Utility District No. 86 (the "District") of its \$4,405,000 Unlimited Tax Bonds, Series 2025 (the "Bonds").

The Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas, including but not limited to Chapters 49 and 54, Texas Water Code, as amended, an order authorizing issuance of the Bonds (the "Bond Order") adopted by the Board of Directors (the "Board") of the District, an approving order of the Texas Commission on Environmental Quality (the "TCEQ"), and elections held within the District.

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

RISK FACTORS

General

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

Marketability

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

Tax Collections

The District's ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within six (6) months for commercial property and two (2) years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. 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, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes 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 (2) other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six (6) 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 "TAXING PROCEDURES – District's Rights in the Event of Tax Delinquencies."

Registered Owners' Remedies

If the District defaults in the payment of principal of, interest on, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Order, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Order, the Registered Owners have the right of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Order. Except for mandamus, the Bond Order does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages. Even if such sovereign immunity were waived and a judgment against the District for money damages were obtained, the judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce the tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may further be limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions, such as the District.

Bankruptcy Limitation to Registered Owners' Rights

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

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

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

If a petitioning district were allowed to proceed voluntarily under Chapter 9 of the Federal Bankruptcy Code, it could file a plan for an adjustment of its debts. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect Registered Owners by reducing or eliminating the amount of indebtedness, deferring or rearranging the debt service schedule, reducing or eliminating the interest rate, modifying or abrogating collateral or security arrangements, substituting (in whole or in part) other securities, and otherwise compromising and modifying the rights and remedies of the Registered Owners' claims against the District. A district cannot be placed into bankruptcy involuntarily.

Approval of the Bonds

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

Economic Factors and Interest Rates

The continued growth of taxable values in the District is directly related to the housing industry and the commercial building development industry. The housing and commercial building development industry has historically been a cyclical industry, affected by both short- and long-term interest rates, availability of mortgage and development funds, labor conditions, material shortages, consumer spending, foreclosure rates, and general economic conditions. A return to relatively high mortgage interest rates similar to those experienced in the past may adversely affect the availability and desirability of mortgage financing for real estate, hence reducing demand within the District. High foreclosure rates may also affect mortgage lenders' willingness to accept risks and potential borrowers' ability to qualify for loans. The inability to qualify for mortgages may negatively affect home sales and the growth of taxable values in the District.

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

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

Potential Effects of Oil Price Fluctuations on the Houston Area

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

Dependence on Principal Taxpayers

Major property owners in the District include multi-family residential apartment complexes, commercial building owners, and the Developers. According to the District's 2025 certified tax roll, the ten (10) principal taxpayers represent approximately \$192,867,279 of taxable value, or approximately 54.14% of the District's 2025 certified tax roll. See "TAX DATA – Principal Taxpayers."

The ability of the principal taxpayers to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. If, for any reason, the principal taxpayers do not pay taxes due or do not pay in a timely manner, the District may need to use other funds available for debt service purposes to the extent available. Further, if any of the principal taxpayers cease operations within the District, a substantial decrease in the District's value may result; the District has no understanding with any of the principal taxpayers regarding their future level of operations in the District. The District has not covenanted in the Bond Order, nor is it required by Texas law, to maintain any particular balance in its Debt Service Fund, or any other funds. Therefore, failure by the principal taxpayers to pay their taxes on a timely basis in amounts in excess of the District's available funds could have a material adverse effect upon the District's ability to pay debt service on the Bonds on a current basis. See "– Economic Factors and Interest Rates" and "– Landowners/Developers Under No Obligation to the District" herein, and "THE DISTRICT'S DEVELOPERS."

Competition

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

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

Landowners/Developers Under No Obligation to the District

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

Potential Impact on District Tax Rates

The District's 2025 combined debt service and maintenance tax rate is \$0.591 per \$100 of assessed valuation. The maintenance of the District's taxable value is related to both the housing industry in general, the demand for homes in the District in particular, as well as multi-family, commercial, retail and/or office development. The housing industry has historically been a cyclical industry, affected by short and long-term interest rates, demand for developed property, and availability of mortgage and development funds, labor conditions, and general economic conditions. In the 1980s, and again in the 2000s, the downturn in the Houston economy and concurrent increases in unemployment substantially reduced the demand for housing. In many instances, homeowners turned homes back to mortgage companies because of a negative equity position and, consequently, many repossessed homes were resold at substantially reduced prices. The demand for single family homes in the District or commercial industrial buildings, which is 18 miles from downtown Houston, also could be affected by competition from nearby developments.

Both the local demand for, and the leasing of multi-family residential apartment units are affected by most of the factors discussed herein and will directly affect the maintenance of taxable values in the District and the ability of the District to raise tax revenues sufficient to pay its debt service requirements.

Assuming no further construction of residential or commercial building projects within the District, other than those which have heretofore been constructed, the value of such land and improvements currently located within the District could be a major determinant of the ability of the District to collect, and the willingness of property owners to pay, ad valorem taxes levied by the District. After issuance of the Bonds, the Maximum Annual Debt Service Requirement on the Bonds and the remaining Outstanding Bonds will be \$1,218,534 (2028; preliminary, subject to change). Assuming no increase or decrease from the August 1, 2025 Estimated Taxable Value of \$399,035,907 and no use of other District funds, a debt service tax of \$0.33 per \$100 of assessed valuation at 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement. Assuming no increase or decrease from the 2025 Certified Taxable Value of \$375,606,146, which includes \$19,362,839 of uncategorized taxable value that represents the Appraisal District's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest, and no use of other District funds, a debt service tax rate of \$0.35 per \$100 of assessed valuation at 95% collection would be necessary to pay the Maximum Annual Debt Service Requirement. See "TAX DATA – Adequacy of Tax Revenue."

Tax-Exempt Property

Providence Place, a development project owned by Harris County Housing and Community Development, is expected to contain 60 single-family residential homes at ultimate buildout. The land, improvements, and personal property located within the Providence Place development are exempt from taxation by the District; however, Harris County Housing and Community Development intends to transfer completed homes to individuals who qualify to purchase them, whereupon the individual home would become taxable. According to data provided by HCAD, such property had a market value of approximately \$3,224,529 as of the 2025 certified tax rolls. See "TAXING PROCEDURES – Certain Tax Exemptions Provided for Affordable Housing."

On February 3, 2023, the District enacted new water and wastewater rate classes and rates for tax exempt single-family residential and multi-family residential customers. The rates set approximated the lost revenue from debt service and maintenance taxes based on the average assessed valuation of single-family homes in the District with regard to the single-family residential rate class, and the average assessed valuation of the seven apartment complexes in the District with regard to the multi-family residential rate class. See "THE SYSTEM – Rate Order."

Future Debt

The District reserves in the Bond Order to issue the remaining \$8,915,000 authorized but unissued unlimited tax bonds which may be issued for the purpose of providing water, sewer, and drainage facilities and improvements to serve the District. All such bonds that will remain authorized but unissued can be issued subject to the approval of the Attorney General of the State of Texas, and in the case of new money bonds, subject to the approval of the TCEQ.

On May 16, 2025, the Board called an election to be held within the boundaries of the District on November 4, 2025, for the purpose of submitting a proposition on the issuance of bonds of the District for the purpose of providing water, sewer, and drainage facilities and improvements to serve the District in the maximum aggregate principal amount of \$15,500,000 and the levy of taxes in payment of such bonds.

The District has the right to issue additional new money as may hereafter be approved by both the Board and the voters of the District. Any such additional new money bonds would be issued on a parity with the Bonds. Any future new money bonds to be issued by the District must also be approved by the TCEQ. The District may issue refunding bonds in a stated principal amount that does not exceed the principal amount of the bonds to be refunded without voter approval.

The District's Engineer has compiled a schedule reflecting potential water, sewer, and drainage bonds that the District may issue in the future for certain water, sewer, and drainage facilities and improvements located in and around the District. The financing of such facilities and improvements could result in a bond application to be submitted to the TCEQ for approval that will deplete the remaining authorized bonds. A bond election has been called for November 4, 2025 to seek voter authorization for an additional \$15,500,000 in bonds. It is anticipated that the District's continued growth in taxable value will support the District's ability to issue additional bonds without threatening the current total tax rate of \$0.591.

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

Financing Parks and Recreational Facilities

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) preparation of a detailed park plan; (b) authorization of park bonds by the qualified voters in the District; (c) approval of the park project and bonds by the TCEQ; and (d) approval of the bonds by the Attorney General of Texas. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent (1%) of the value of the taxable property in the District, unless the District meets certain feasibility requirements under the TCEQ rules, in which case the outstanding principal amounts of such bonds issued by the District may exceed an amount equal to one percent (1%) but not three percent (3%) of the value of the taxable property in the District. The Board has not considered authorizing the preparation of a park plan or calling a park bond election at this time.

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

Continuing Compliance with Certain Covenants

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

Subsidence and Conversion to Surface Water Supply

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. The Subsidence District adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035. In addition, if the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

Additionally, the District is located within the North Harris County Regional Water Authority (the "Authority"). The Authority was created to provide for the supply of surface water to north Harris County and to prepare a ground water reduction plan to comply with the Subsidence District Plan. The Authority submitted its Groundwater Reduction Proposal to the Subsidence District and it received final certification on June 11, 2003. The GRP covers the area of the District and, provided the Authority adheres to the GRP, the District will not owe any disincentive fees to the Subsidence District. The Authority entered into a contract with the City of Houston to purchase surface water beginning in 2010. The District currently pays to the Authority a ground water pumpage fee of \$2.60 per 1,000 gallons and a fee of \$3.05 per 1,000 gallons for surface water purchased from the Authority. The District began receiving surface water from the Authority in 2010. Although the District receives surface water, the District's water well is maintained and utilized from time to time in order to provide an adequate water supply during periods of peak demand. The issuance of additional bonds by the District in an undetermined amount may be necessary in the future to develop further.

Environmental Regulations

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

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

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

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

The HGB Area is currently designated as a “severe” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2027. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

The HGB Area is currently designated as a “serious” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2027. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) groundwater well permitting and surface water appropriation; (2) public water supply systems; (3) wastewater discharges from treatment facilities; (4) storm water discharges; and (5) wetlands dredge and fill activities. Each of these is addressed below:

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

Pursuant to the federal Safe Drinking Water Act (“SDWA”) and the EPA’s National Primary Drinking Water Regulations (“NPDWRs”), which are implemented by the TCEQ’s Water Supply Division, a municipal utility district’s provision of water for human consumption is subject to extensive regulation as a public water system. Municipal utility districts must generally provide treated water that meets the primary and secondary drinking water quality standards adopted by the TCEQ, the applicable disinfectant residual and inactivation standards, and the other regulatory action levels established under the agency’s rules. The EPA has established NPDWRs for more than ninety (90) contaminants and has identified and listed other contaminants which may require national drinking water regulation in the future. Further, the EPA has established a NPDWR for six (6) Per- and Polyfluoroalkyl Substances (“PFAS”), which requires public water systems to perform certain monitoring and remediation measures. Public water systems may be subject to additional PFAS regulation in the future, which could increase the cost of constructing, operating, and maintaining water production and distribution facilities.

Texas Pollutant Discharge Elimination System (“TPDES”) permits set limits on the type and quantity of discharge, in accordance with state and federal laws and regulations. The TCEQ reissued the TPDES Construction General Permit (TXR150000) (“CGP”), with an effective date of March 5, 2023, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. The CGP has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the “MS4 Permit”) on August 15, 2024. The MS4 Permit authorizes the discharge of stormwater to surface water in the state from small municipal separate storm sewer systems. While the District is currently not subject to the MS4 Permit, if the District’s inclusion were required at a future date, the District could incur substantial costs to develop, implement, and maintain the necessary plans as well as to install or implement best management practices to minimize or eliminate unauthorized pollutants that may otherwise be found in stormwater runoff in order to comply with the MS4 Permit.

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

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

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

Changes in Tax Legislation

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

Bond Insurance Investment Considerations

The District has applied for a bond insurance policy to guarantee the scheduled payment of principal and interest on the Bonds. If such policy is issued, investors should be aware of the following:

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

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

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

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

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

Neither the District nor the Underwriter have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the Issuer to pay principal and interest

on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See “BOND INSURANCE” herein for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

Severe Weather: Hurricane Beryl

The District is located approximately 80 miles from the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. If a hurricane (or any other natural disaster) significantly damaged all or part of the improvements within the District, the assessed value of property within the District could be substantially reduced, with a corresponding decrease in tax revenues or necessity to increase the District's tax rate. Further, there can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (or that property owners will even carry flood insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

Hurricane Beryl made landfall along the Texas Gulf Coast on July 8, 2024, and brought high levels of wind and rainfall to the Houston metropolitan area, including the District. According to the District's Engineer, there were no interruptions of water and sewer service as a result of Hurricane Beryl. According to District's Engineer, the District's system did not sustain any material damage. The District did not receive any reports that any homes or improvements within the District experienced structural flooding or other significant damage as a result of Hurricane Beryl.

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

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 in 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). Flood casualties are usually excepted from coverage unless specific flood insurance is purchased. The District cannot provide assurance that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damages to improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District would be adversely affected.

Specific Flood Type Risks

The District may be subject to the following flood risks:

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

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

Coastal (or Storm Surge) Flooding - Coastal, or storm surge, flooding occurs when sea levels or water levels in estuarial rivers, bayous and channels rise to abnormal levels in coastal areas, over and above the regular astronomical tide, caused by forces generated from a severe storm's wind, waves, and low atmospheric pressure. Storm surge is extremely dangerous, because it is capable of flooding large swaths of coastal property and causing catastrophic destruction. This type of flooding may be exacerbated when storm surge coincides with a normal high tide.

Temporary Tax Exemption for Property Damaged by Disaster

The Texas Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within

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

Tax Payment Installments After Disaster

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

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

Atlas 14

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

2025 Legislative Session

The 89th Regular Legislative Session convened on January 14, 2025, and concluded on June 2, 2025. The Governor has called two special sessions and may call additional special sessions that may include legislation affecting property taxes. The District can make no representation regarding any actions the Texas Legislature may take or the effect of any such actions.

Increase in Costs of Building Materials and Labor Shortages

As a result of low supply and high demand, shipping constraints, and the ongoing trade war (including tariffs and retaliatory tariffs), there have been substantial increases in the cost of lumber and other materials, causing developers, homebuilders, and general contractors to experience budget overruns. Further, the federal administration's impositions and threatened impositions of tariffs and the imposition or threatened impositions of retaliatory tariffs against the United States will impact the ability of developers, homebuilders, general contractors, and district consultants to estimate costs, which could have a direct effect on the District's ability to finance water, sanitary, and detention facilities. Furthermore, the federal administration's immigration policies may impact the Texas' workforce.

Cybersecurity

The District's consultants use digital technologies to collect taxes, hold funds, and process disbursements. These systems necessarily hold sensitive protected information that is valued on the black market. As a result, the electronic systems and networks of organizations like the District's consultants are considered targets for cyber-attacks and other potential breaches of their systems. To the extent the District is determined to be the party responsible for various electronic systems or suffers a loss of funds due to a security breach, there could be a material adverse effect on the District's finances. Insurance to protect against such breaches is limited.

USE OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used by the District to: (1) reimburse the Developer for certain water, wastewater, drainage, and detention pond improvements serving the District and associated engineering, stormwater pollution prevention planning, and testing costs; (2) fund developer interest related to the advancement of funds for certain costs; and (3) pay issuance and administrative expenses associated with the sale of the Bonds.

R.G. Miller Engineers, Inc. (the "Engineer") has advised the District that the proceeds listed below should be sufficient for the construction of such facilities. The District's present estimate of the use of proceeds of the Bonds is as follows:

CONSTRUCTION COSTS	Total Amount
<i>Developer Contribution Items</i>	
Clearing/Grubbing Legacy Park on Nanes	\$373,158
Legacy Park on Nanes Detention Pond	\$888,414
Legacy Park on Nanes – W, WW, & D	\$1,751,149
Engineering	\$506,341
Stormwater Pollution Prevention	\$46,120
Geotechnical	\$35,682
<i>Total Developer Contribution Items</i>	\$3,600,864
TOTAL CONSTRUCTION COSTS	\$3,600,864 (a)
NON-CONSTRUCTION COSTS	
Legal Fees	\$110,125
Fiscal Agent Fees	\$88,100
Developer Interest	\$350,925
Bond Discount	\$132,150
Bond Issuance Expenses	\$42,418
Bond Application Report Costs	\$65,000
Attorney General Fee	\$4,405
TCEQ Bond Issuance Fee	\$11,013
Contingency	\$0 (b)
TOTAL NON-CONSTRUCTION COSTS	\$804,136
TOTAL BOND ISSUE REQUIREMENT	\$4,405,000

(a) TCEQ rules require, with certain exceptions, that developers contribute to the District's construction program a minimum of 30% of the construction costs of certain system facilities. The District requested a waiver of the 30% developer contribution rule and such waiver was granted by the TCEQ.

(b) The District will designate any surplus Bond proceeds resulting from the sale of the Bonds at a lower interest rate than the estimated rate as a contingency line item in the Final Official Statement. Such funds will be used by the District to fund costs only after notice to or approval by the TCEQ.

THE DISTRICT

Authority

The District is a municipal utility district created by the Texas Water Rights Commission, predecessor to the TCEQ, on March 21, 1974, and confirmed at an election held within the District on March 5, 1980, where a majority of the votes cast were in favor of creation of the District. The rights, powers, privileges, authority, and functions of the District are established by the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54, Texas Water Code, as amended. The District is subject to the continuing supervision of the TCEQ. The District is empowered to purchase, construct, operate, and maintain all works, improvements, facilities, and plants necessary for the supply of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District, if approved by the voters within the District, the TCEQ, and other governmental entities having jurisdiction, may establish, operate and maintain a fire department independently or with one or more other conservation and reclamation districts, and provide such facilities and services to customers of the District. Under certain limited circumstances, the District is authorized to construct, develop and maintain park and recreational facilities.

The District is required to observe certain requirements of the City of Houston (the "City") which limit the purposes for which the District may sell bonds for the acquisition, construction, and improvement of waterworks, wastewater, and drainage facilities, fire-fighting facilities, recreation facilities, and the refunding of outstanding debt obligations; limit the net effective interest rate on such bonds and other terms of such bonds; require approval by the City of District construction plans; and permit connections only to lots and reserves described in a plat that has been approved by the City and filed in the real property records of Harris County. Construction and operation of the District's drainage system is subject to the regulatory jurisdiction of additional State of Texas and local agencies. See "THE SYSTEM."

Description

The District currently encompasses 397 acres located in northern Harris County, approximately 18 miles from the City's Central Business District. The District is bounded by F.M. 1960 on the north, Mathis Church Road on the west, and Hafer Road on the east. The District is located approximately one mile west of Interstate Highway 45 and is located in the Christopher Walter Survey, Abstract No. 868, Harris County, Texas. The District is entirely within the exclusive extraterritorial jurisdiction of the City.

Summary of Land Use

A summary of the approximate land use in the District as of October 1, 2025, appears in the following table:

	<u>Type of Land Use</u>	<u>Approximate Acres</u>
	Single-Family Residential Developed/Improved Acres (a)	130
	Multi-Family Residential Developed/Improved Acres (b)	100
	Commercial Developed/Improved Acres (c)	73
	Acres Under Development (d)	17
	Remaining Developable Acres	44
	Undevelopable Acres (e)	<u>33</u>
	Total Approximate Acres	397
(a)	Represents acreage attributable to single-family residential development in Ella Crossing, Sections 1 – 3, Legacy Park, Sections 1 – 3, The Villas at Legacy Park, and Providence Place. See "– Single-Family Residential Development" herein.	
(b)	Represents acreage attributable to multi-family residential development, which includes seven (7) multi-family apartment complexes and one (1) senior living community, totaling 1,513 units. See "– Multi-Family Residential and Commercial Development" herein.	
(c)	Represents acreage attributable to commercial, retail, limited service/extended stay motels, and light-industrial development. See "– Multi-Family Residential and Commercial Development" herein.	
(d)	Represents acreage currently under development located in the Legacy Park on Hafer subdivision. The lots in Legacy Park on Hafer (planned for 138 single-family residential lots) are anticipated to be available for homebuilding during the first quarter of 2026. See "THE DISTRICT'S DEVELOPERS – Description."	
(e)	Includes roadways, detention facilities, drainage easements, and District plant sites.	

Single-Family Residential Development

The District has been developed for single-family residential purposes in the subdivisions known as Ella Crossing, Legacy Park, The Villas at Legacy Park, Legacy Park on Hafer, and Providence Place. The following table indicates the approximate status of single-family residential development as of October 1, 2025.

<u>Subdivision/Section</u>	<u>Total Lots</u>	<u>Homes</u>		<u>Vacant Lots</u>
		<u>Completed</u>	<u>Under Construction</u>	
Ella Crossing, Sections 1 – 3 (a)	310	310	0	0
Legacy Park, Section 1 (b)	140	140	0	0
Legacy Park, Section 2 (b)	88	88	0	0
Legacy Park, Section 3 (b)	48	48	0	0
The Villas at Legacy Park (c)	143	86	24	33
Providence Place (d)	60	0	10	50
Legacy Park on Hafer (e)	-	-	-	-
TOTALS	789	672 (f)	34	83

- (a) Homes in Ella Crossing, Sections 1 – 3 include approximately 130 duplex lots.
- (b) Homes in Legacy Park, Sections 1 – 3 were constructed by D.R. Horton on 40-foot lots and were sold in the \$230,000 - \$327,990 price range.
- (c) Homes in The Villas at Legacy Park are being constructed by D.R. Horton on 24-foot lots and are being marketed in the \$240,990 - \$256,990 price range.
- (d) Providence Place (planned for 60 single-family residential homes at ultimate buildout) is a tax-exempt development owned by Harris County Housing and Community Development and is thus exempt from taxation by the District. According to data provided by HCAD, the land of such property had a market value of approximately \$3,224,529 as of the 2025 certified tax rolls. See "RISK FACTORS – Tax-Exempt Property" and "TAXING PROCEDURES – Certain Tax Exemptions Provided for Affordable Housing."
- (e) The lots in Legacy Park on Hafer (planned for 138 single-family residential lots) are currently under development with homebuilding expected to commence during the first quarter of 2026.
- (f) As of October 1, 2025, approximately 607 of the completed homes were owner-occupied and 2 of the completed homes are being used as model homes.

Multi-Family Residential and Commercial Development

Multi-family residential and commercial building development in the District includes, but is not limited to, the following: seven multi-family apartment complexes and one senior living community, totaling approximately 1,513 units, three strip shopping centers with approximately twenty service and retail businesses, nine free-standing service and retail business establishments, three restaurants, four medical related office buildings, a two-story office building, two bank buildings, one office condominium project, two pharmacies, three carwash facilities, a personal storage facility, a day care facility, a light industrial warehouse, and three limited service/extended stay motels.

Management of the District

The District is governed by a board of directors (the "Board"), which has control over and management supervision of all affairs of the District. None of the directors resides in the District; each director owns a parcel of land subject to a note and deed of trust. A directors' election is held within the District in May in even-numbered years. Directors are elected to serve four-year, staggered terms. The current members and officers of the Board, along with their titles on the Board, are listed below.

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Betty L. Grugan (Ross)	President	2026
Deidre M. Reed	Vice President	2026
Patricia Smith	Secretary/Treasurer	2026
Connie L. Cole	Assistant Secretary/Treasurer	2028
Andrew P. Sloan	Director	2028

The District has contracted for certain necessary services as follows:

General Manager – Gary Syzek of Systems Project Management, L.L.C. serves as the General Manager for the District. In the capacity of General Manager, Mr. Syzek coordinates the activities of District consultants and oversees ongoing projects that takes place in the District.

Tax Assessor/Collector – The District's Tax Assessor/Collector is Utility Tax Service, LLC, who is employed under an annual contract to perform the tax collection functions.

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

Auditor – The District employed McCall Gibson Swedlund Barfoot Ellis PLLC, Certified Public Accountants (the “District’s Auditor”) to audit its financials for the period ended September 30, 2024. The results of the September 30, 2024, are included as Appendix A to this Official Statement.

Utility System Operator – The District’s utility system operator is Municipal District Services, LLC.

Engineer – The consulting engineer for the District in connection with the design and construction of the facilities for which the Bonds are being sold is R.G. Miller Engineers, Inc. (the “Engineer”). The Engineer has also been employed by the Developer in connection with certain planning activities and design of certain streets and related improvements within the District.

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

Legal Counsel – The District has engaged Wallace & Philbin, L.L.P., as General Counsel to the District and as Bond Counsel in connection with the issuance of District bonds.

Disclosure Counsel – Norton Rose Fulbright US LLP, Houston, Texas, serves as Disclosure Counsel on certain matters related to the sale and delivery of the Bonds, but such advice should not be relied upon by the purchasers as a due diligence undertaking on their behalf. The fees to be paid to Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the issuance, sale, and delivery of the Bonds.

DISTRICT INVESTMENT POLICY

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

THE DISTRICT’S DEVELOPERS

Role of a Developer

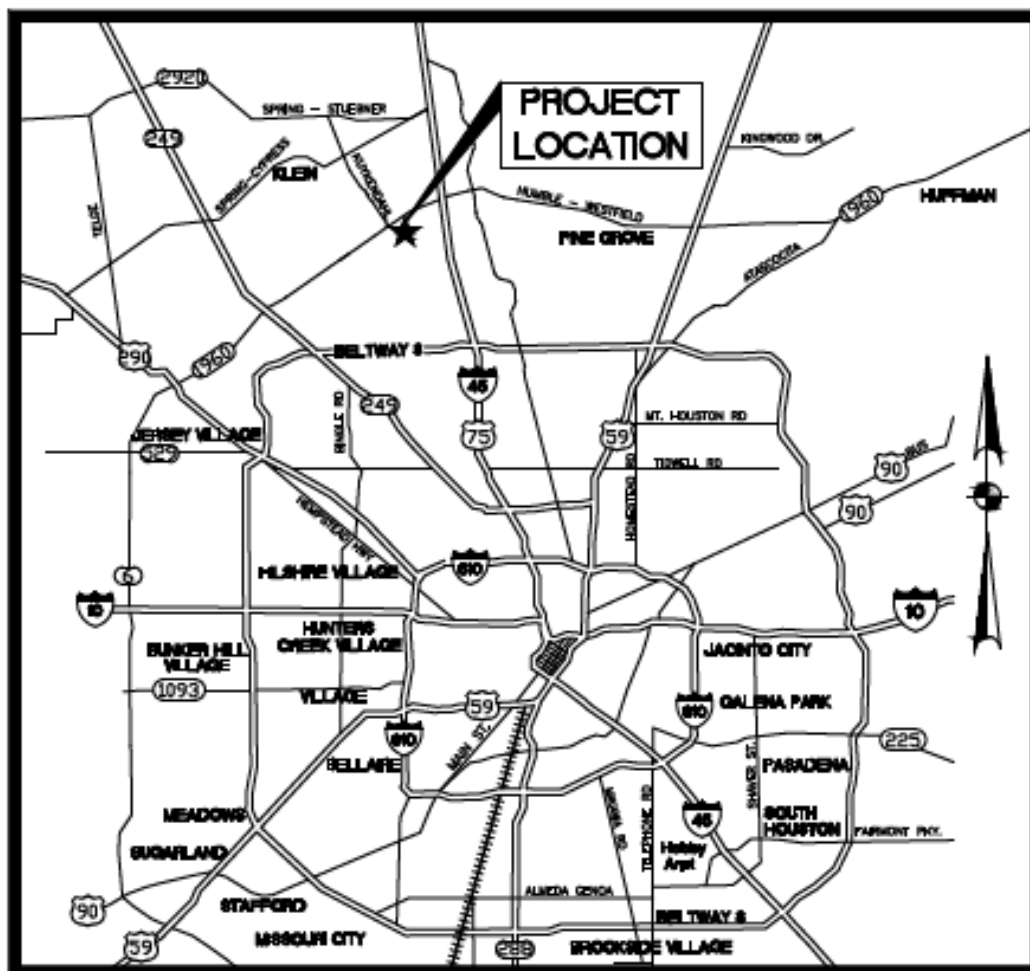
In general, the activities of developers in a utility district, such as the District, include purchasing the land within a district, designing the streets in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities, and selling improved lots and commercial reserves to builders, other developers or other third parties. In most instances, a developer will be required to pay up to 30% of the cost of financing certain water, wastewater and drainage facilities in the utility district exclusive of water and sewage treatment plants, pursuant to the rules of the TCEQ. In addition, a developer is ordinarily the major taxpayer within a utility district during the property development phase and the developer’s inability to pay the taxes assessed on its property within a district would have a materially adverse effect on the revenues of the district. The relative success or failure of a developer to perform development activities within a utility district may have a profound effect on the ability of the district to generate sufficient tax revenues to service and retire all tax bonds issued by the district. While a developer generally commits to pave streets and pay its allocable portion of the costs of utilities to be financed by the utility district through a specific bond issue, a developer is generally under no obligation to a district to undertake development activities with respect to other property that it owns within a district. Furthermore, there is no restriction on a developer’s right to sell any or all of the land that the developer owns within a district.

Description

The activities of the Developers within the District are as follows:

D.R. Horton Texas, Ltd., a Texas limited partnership (“D.R. Horton”) whose general partner is D.R. Horton, Inc., a Delaware corporation, has developed approximately 74 acres of land within the District known as the Legacy Park and The Villas at Legacy Park subdivisions; D.R. Horton is also the sole homebuilder in such subdivisions. Legacy Park, Sections 1 – 3, contains 276 single-family residential lots, all of which have homes constructed thereon and have been sold to homebuyers. The Villas at Legacy Park contains 143 single-family residential lots. According to D.R. Horton, homes in The Villas at Legacy Park are being constructed on 24-foot lots and are being marketed in the \$240,990 - \$256,990 price range. Additionally, Forestar (USA) Real Estate Group, Inc. (“Forestar”), a subsidiary of D.R. Horton Inc., a Delaware corporation, is developing approximately 16.79 acres of land within the District, known as the Legacy Park on Hafer subdivision. Legacy Park on Hafer will consist of 138 single-family residential lots, all of which are expected to be available for homebuilding during the first quarter of 2026. Upon completion of such development, D.R. Horton will serve as the homebuilder for this subdivision. According to D.R. Horton, homes in Legacy Park on Hafer will be constructed on 24-foot lots, and are expected to be marketed in the \$230,000 - \$260,000 price range. See “THE DISTRICT – Summary of Land Use” and “– Single-Family Residential Development.” D.R. Horton and Forestar currently retain ownership of certain additional acreage within the District which is anticipated to be developed into single-family residential lots based on current land plans.

Location Map



HARRIS CO. M.U.D. 86

LOCATION MAP

ATTACHMENT 4

RG Miller | **BCCM**

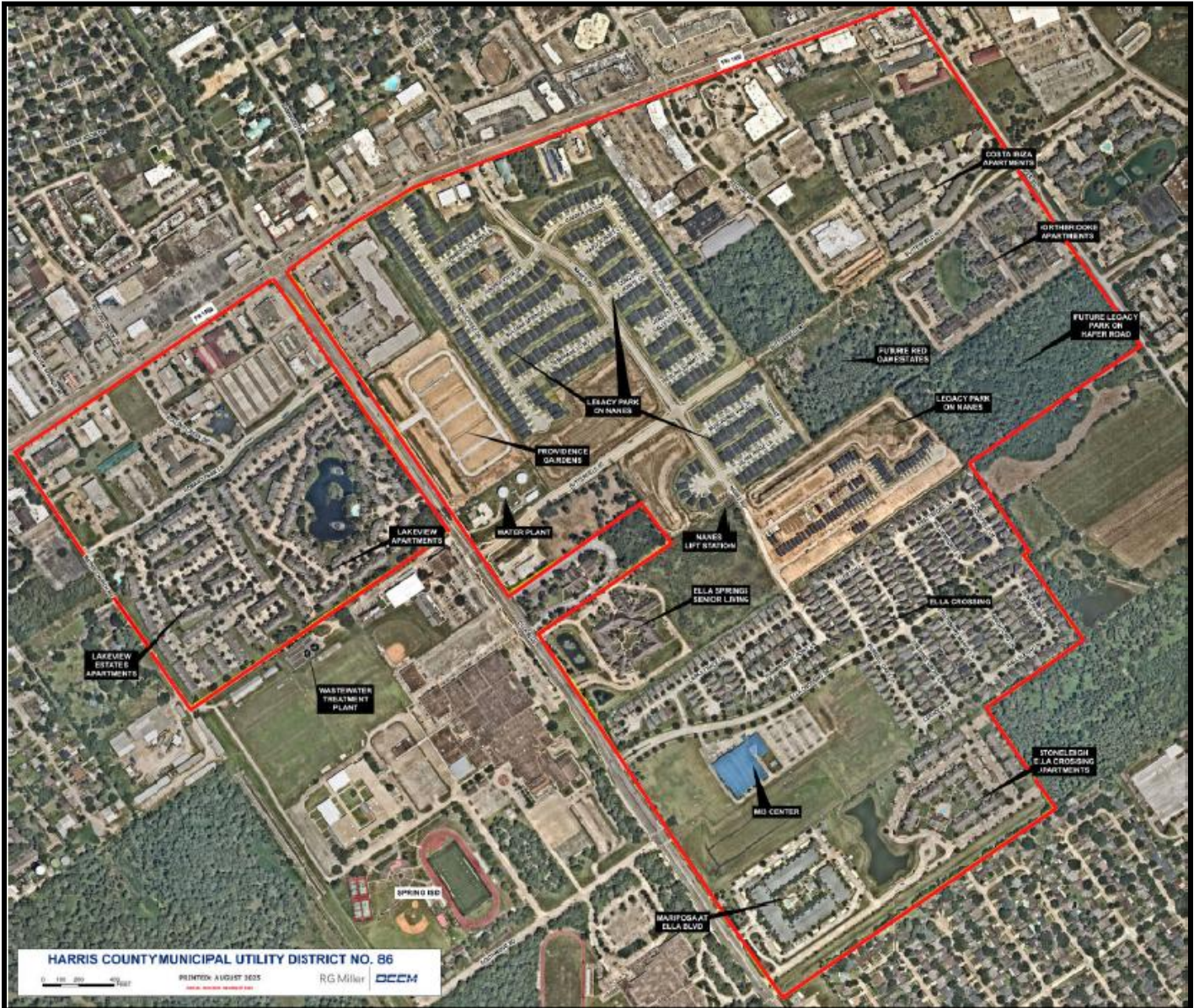
R.G. Miller Engineers, Inc. | TxEng F - 487

1080 Eldridge Parkway, Ste 600
Houston, TX 77077

713.461.9600 | rgmiller.dccm.com

DATE: MAY 2025 SCALE: NOT TO SCALE

Aerial Photograph



THE SYSTEM

Regulation

The water, wastewater and storm drainage facilities serving the District have been designed in accordance with accepted engineering practices and the rules and regulations of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City of Houston, Harris County, Harris County Flood Control District, and the Harris-Galveston Subsidence District. According to the Engineer, the design of all such facilities has been approved by all required governmental agencies.

Operation of the District's waterworks and wastewater facilities is subject to regulation by, among others, the Environmental Protection Agency, the City of Houston, the TCEQ, Harris County, and the Harris-Galveston Subsidence District. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision.

Surface Water Conversion

The District is within the boundaries of the Harris-Galveston Subsidence District (the "Subsidence District") which regulates groundwater withdrawal. The District's authority to pump groundwater from its well is subject to annual permits issued by the Subsidence District. The Subsidence District adopted a District Regulatory Plan (the "Subsidence District Plan") to reduce groundwater withdrawal through conversion to surface water in areas within the Subsidence District's jurisdiction. Under the Subsidence District Plan, the District was required to submit to the Subsidence District by January 2003 a groundwater reduction plan and begin construction of surface water conversion infrastructure by January 2005, or pay a disincentive fee for any groundwater withdrawn in excess of 20% of the District's total water demand. This same disincentive fee will be imposed under the Subsidence District Plan if the District's groundwater withdrawal exceeds 70% of the District's total water demand beginning January 2010, exceeds 40% of the District's total water demand beginning January 2025, and exceeds 20% of the District's total water demand beginning January 2035. In addition, if the District does not meet the Subsidence District's requirements as described above, the District may be required to pay the disincentive fees adopted by the Subsidence District.

Additionally, the District is located within the North Harris County Regional Water Authority (the "NHCRWA" or the "Authority"). The Authority was created to provide for the supply of surface water to north Harris County and to prepare a ground water reduction plan to comply with the Subsidence District Plan. The Authority submitted its Groundwater Reduction Proposal to the Subsidence District and it received final certification on June 11, 2003. The GRP covers the area of the District and, provided the Authority adheres to the GRP, the District will not owe any disincentive fees to the Subsidence District. The Authority entered into a contract with the City of Houston to purchase surface water beginning in 2010. The District currently pays to the Authority a ground water pumpage fee of \$2.60 per 1,000 gallons and a fee of \$3.05 per 1,000 gallons for surface water purchased from the Authority. The District began receiving surface water from the Authority in 2010. Although the District receives surface water, the District's water well is maintained and utilized from time to time in order to provide an adequate water supply during periods of peak demand. The issuance of additional bonds by the District in an undetermined amount may be necessary in the future to develop further.

Description of the System

- Water Supply and Distribution -

The District's primary source of water is surface water provided by the NHCRWA. The secondary source of water is from a water well with a capacity of 1,500 gallons per minute ("gpm"), adequate to serve an estimated 2,500 equivalent single-family connections ("ESFCs"). In addition, 63,000 gallons of pressure tank capacity, two 500,000-gallon ground storage tanks, booster pump capacity of 5,000 gpm, disinfection equipment, and a 680 KW generator have been installed. In the opinion of the Engineer, the water supply facilities will be sufficient to serve the existing and currently proposed development of the District (with the addition of certain water distribution facilities). The TCEQ rules limit the number of ESFCs to 2,500, unless a request is submitted and approved to use an alternative capacity requirement ("ACR"). Approval of an ACR was received from the TCEQ, which allows the District to provide pressure maintenance of the water system, via additional pressure tank capacity rather than elevated storage facilities, capable of serving 3,753 ESFCs.

Emergency interconnect agreements with the adjacent Ponderosa Forest Utility District and Harris County WCID No. 91 are currently in place.

- Wastewater Collection and Treatment -

The District presently owns and operates a wastewater treatment facility; the wastewater treatment plant has a rated capacity of 950,000 gallons per day ("gpd") and is capable of serving approximately 3,800 ESFCs. In the opinion of the Engineer, the District's wastewater treatment facilities will be adequate to serve the District's existing development needs, and will allow for full building development of the District.

- Storm Drainage -

The District's stormwater is conveyed through reinforced concrete storm sewer systems, open ditches, and box culverts to outfalls that discharge to Harris County Flood Control District Unit P145-03-00. The drainage system improvements consist of box culverts, storm sewer systems, open ditches, and detention basins that serve the District's storm water runoff. Proceeds from the sale of the Bonds will be used by the District to reimburse the Developer for costs associated with certain drainage and detention improvements located within the District. See "USE OF BOND PROCEEDS." Harris County requires the installation of storm water quality features at point of discharge into a public drainage system. A floatable collection structure is included on both the Legacy Park at Nanes north and south detention ponds at the outfall points into the Butterfield Road storm sewer.

- Contracted Service -

Pursuant to a Utility Development and Service Agreement between the District and Spring Independent School District ("SISD"), the District agreed to provide up to 84,300 gpd of water and wastewater capacity to service the SISD school campus consisting of a high school, ninth grade school, middle school, administration building, and warehouse facilities. SISD paid the District certain water and wastewater capital charges when the agreement was entered in 2003. The school property is not within the District or subject to District taxation. The District charges standard commercial water and sewer rates to SISD.

The District also has contracts to serve a lumber yard and a church pursuant to Out-of-District Service Agreements.

Rate Order

The District's Rate Order, subject to change from time to time by the Board, is summarized in part below and became effective on February 3, 2023.

The Board establishes rates and fees for water and wastewater services, which are subject to change from time to time. The following rates are effective as of the date of this Official Statement:

<u>Water Rates</u>		
Residential	0 - 10,000 gallons	\$11.25 (minimum)
	10,001 - 20,000 gallons	\$1.25 per 1,000 gallons
	each 1,000 gallons thereafter	\$1.50 per 1,000 gallons
Commercial	0 - 7,000 gallons	\$11.25 (minimum)
	each 1,000 gallons thereafter	\$2.00 per 1,000 gallons
Tax-Exempt Residential	0 - 10,000 gallons	\$33.75 (minimum)
	10,001 - 20,000 gallons	\$3.75 per 1,000 gallons
	each 1,000 gallons thereafter	\$4.50 per 1,000 gallons
Tax-Exempt Multi-Family Residential		\$55.00 per unit (flat rate)
NHCRWA Fee	For all water used	\$3.05 per 1,000 gallons

<u>Sewer Rates</u>		
Residential		\$11.00 (flat rate)
Multi-Family Residential		\$11.00 per unit (flat rate)
Commercial	0 - 6,000 gallons	\$11.00
	6,001 and thereafter	\$1.00 per 1,000 gallons
Tax-Exempt Multi-Family Residential		\$55.00 per unit (flat rate)

100-Year Flood Plain

The current Federal Emergency Management Agency (FEMA) Flood Insurance Rate Maps for Harris County, Texas (Community Panel Nos. 48201C0270M and 48201C0265M, dated October 16, 2013) indicate that most of the property within the District lies within unshaded zone "X" outside of the 500-year flood plain; however, the area along North Fork Greens Bayou in the southwest portion of the District lies within shaded Zone "X," and therefore, is within the 100-year flood plain. The District is aware that FEMA revises and reissues these maps from time to time, and the Harris County floodplain management regulations may change, either of which could impact the delineation of the floodplain, future development feasibility, and assessed valuation of existing improvements.

General Fund Operating History

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

	Fiscal Year Ended September 30 (a)				
REVENUES	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
Property Taxes	\$895,000	\$796,387	\$696,504	\$587,708	\$615,479
Water Service	\$364,828	\$396,869	\$349,568	\$340,424	\$370,825
Wastewater Service	\$280,587	\$300,516	\$285,684	\$276,911	\$289,010
Water Authority Fees	\$640,492	\$788,385	\$780,856	\$739,219	\$716,096
Sales Tax Revenues	\$110,667	\$114,156	\$117,444	\$120,713	\$112,364
Penalty and Interest	\$23,938	\$24,401	\$23,207	\$5,748	-
Connection and Inspection Fees	\$362,417	\$57,759	\$78,993	\$18,055	\$73,765
Investment and Miscellaneous Revenues	\$187,627	\$138,758	\$35,338	\$26,846	\$65,065
TOTAL REVENUES	<u>\$2,865,556</u>	<u>\$2,617,231</u>	<u>\$2,367,594</u>	<u>\$2,115,624</u>	<u>\$2,242,604</u>
EXPENDITURES					
Operating and administrative:					
Professional Fees	\$180,893	\$174,698	\$209,947	\$117,409	\$110,671
Contracted Services	\$264,779	\$262,023	\$250,123	\$236,643	\$221,432
Purchased Water and Pumpage Fees (b)	\$726,007	\$795,259	\$831,967	\$771,815	\$735,204
Utilities	\$117,850	\$132,183	\$157,389	\$116,558	\$122,394
Repairs and Maintenance	\$525,247	\$587,739	\$458,544	\$449,779	\$378,380
Other	\$443,897	\$331,520	\$276,116	261,621	247,280
Capital Outlay	-	\$158,836	\$361,236	\$957,266	\$169,091
TOTAL EXPENDITURES (c)	<u>\$2,258,673</u>	<u>\$2,442,258</u>	<u>\$2,545,322</u>	<u>\$2,911,091</u>	<u>\$1,984,452</u>
EXCESS/DEFICIENCY (d)	<u>\$606,883</u>	<u>\$174,973</u>	<u>(\$177,728)</u>	<u>(\$795,467)</u>	<u>\$258,152</u>

(a) Data is taken from the District's audited financial statements. See "APPENDIX A."

(b) Reflects conversion to surface water received from the NHCRWA.

(c) As of October 3, 2025, the District's General Fund had an unaudited cash and investment balance of approximately \$3,699,257. For the fiscal year ended September 30, 2025, the District's General Fund experienced unaudited revenues of \$3,215,999 and unaudited expenditures of \$3,149,774, which included \$585,555 in capital expenditures. For the fiscal year ending September 30, 2026, the District's General Fund is currently budgeting revenues of \$3,262,000 and expenditures of \$2,761,600. Additionally, the District has identified approximately \$415,000 of capital expenditures that may be funded by the General Fund. Any capital expenditures to be made from the General Fund will depend on the availability of cash and investment balances in such fund, the necessity of the project, and the need to maintain adequate reserve balances.

(d) Annual deficits in the District's General Fund in the past have been attributable to the Board's decision to pay for certain capital improvements on a pay-as-you-go basis as opposed to funding such improvements with District bond proceeds.

DISTRICT DEBT
(Unaudited)

8/1/2025 Estimated Taxable Value	\$399,035,907 (a)
2025 Certified Taxable Value	\$375,606,146 (b)

Direct Debt

Outstanding Bonds (as of October 1, 2025)	\$6,110,000
The Bonds	<u>\$4,405,000</u>
Total Direct Debt	\$10,515,000

Estimated Overlapping Debt	<u>\$26,705,906</u> (c)
Direct and Estimated Overlapping Debt	\$37,220,906

Percentage of Direct Debt to:

8/1/2025 Estimated Taxable Value	2.64%
2025 Certified Taxable Value	2.80%

Percentage of Direct and Estimated Overlapping Debt to:

8/1/2025 Estimated Taxable Value	9.33%
2025 Certified Taxable Value	9.91%

2025 Tax Rate Per \$100 of Assessed Value:

Debt Service Tax	\$0.341
Maintenance Tax	<u>\$0.250</u>
Total 2025 Tax Rate	\$0.591

Cash and Temporary Investment Balances as of October 3, 2025:

General Fund	\$3,699,257 (d)
Debt Service Fund	\$466,571 (e)

-
- (a) Reflects data supplied by HCAD. The Estimated Taxable Value as of August 1, 2025, was prepared by HCAD and provided to the District for informational purposes only. The increase in value reflects HCAD's estimate of the value of new construction in the District since January 1, 2025 through August 1, 2025. Such values are not binding on HCAD. Any values added after January 1, 2025, will not be included on the District's tax roll until the 2026 tax roll is prepared and certified by HCAD during the second half of 2026. The District is authorized by law to levy taxes only against certified values. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Reflects the January 1, 2025 Certified Taxable Value according to data supplied to the District by HCAD, which includes \$19,362,839 of uncertified taxable value that is still in the certification process. Such amount of uncertified value represents HCAD's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest. The District is authorized by law to levy taxes only against certified values. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "– Estimated Overlapping Debt" herein.
- (d) Unaudited figure per the District's records. See "THE SYSTEM – General Fund Operating History."
- (e) Unaudited figure per the District's records. Neither Texas law nor the District's Bond Order requires the District to maintain any particular balance in the Debt Service Fund. See "TAX DATA – Adequacy of Tax Revenue."

Estimated Overlapping Debt

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

<u>Taxing Jurisdiction</u>	<u>Outstanding Debt</u>	<u>Overlapping Debt</u>	
		<u>Percent</u>	<u>Amount</u>
Spring Independent School District	\$1,300,200,000	1.84%	\$23,923,680
Harris County	\$2,343,959,736	0.05%	\$1,171,979
Harris County Flood Control District	\$958,695,000	0.05%	\$479,347
Port of Houston Authority	\$406,509,397	0.05%	\$203,254
Harris County Hospital District	\$867,820,000	0.05%	\$433,910
Harris County Department of Education	\$28,960,000	0.05%	\$14,480
Lone Star College System	\$434,530,000	0.11%	\$479,256
Total Estimated Overlapping Debt			\$26,705,906
The District's Direct Debt (a)			\$10,515,000
Total Direct and Estimated Overlapping Debt			\$37,220,906

(a) Includes the Bonds.

TAX DATA

Tax Rate and Collections

The following table sets forth the historical tax collection information of the District for the years 2021 through 2024, and includes certain information relative to the 2025 tax year. Such table has also been prepared based upon information from District records. Reference is made to such records for further and complete information.

<u>Tax Year</u>	<u>Taxable Valuation (a)</u>	<u>Tax Rate (b)</u>	<u>Tax Levy</u>	<u>Cumulative Tax Collections (c)</u>	<u>Tax Year Ended September 30</u>
2025	\$356,243,307 (d)	\$0.591	\$2,105,398 (d)	(d)	2026
2024	\$360,315,090	\$0.591	\$2,129,462	99.40%	2025
2023	\$357,628,514	\$0.591	\$2,113,585	99.74%	2024
2022	\$315,013,006	\$0.603	\$1,899,528	99.77%	2023
2021	\$281,207,135	\$0.615	\$1,729,424	99.88%	2022

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

(b) See "– Tax Rate Distribution" herein.

(c) Represents cumulative collections as of September 30, 2025.

(d) Reflects only the portion of the January 1, 2025 Certified Taxable Value that is presently certified on the District's tax roll and, therefore, excludes \$19,362,839 of uncertified taxable value that is still in the certification process; such amount of uncertified value represents HCAD's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest. The District is authorized by law to levy taxes only against certified values. The 2025 tax levy is in the process of collections; such taxes become delinquent if not paid before February 1, 2026. See "TAXING PROCEDURES."

Maintenance Tax

The Board has the statutory authority to levy and collect an annual ad valorem tax for operations and maintenance of the District's improvements. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. The District's voters authorized a maintenance tax of up to \$0.25 per \$100.00 of assessed valuation at an election held on April 15, 1980. See "– Tax Rate Distribution" herein.

Tax Rate Distribution

The following table sets forth the tax rate distribution of the District for the years 2021 through 2025.

	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Debt Service	\$0.341	\$0.345	\$0.341	\$0.353	\$0.370
Maintenance/Operation	<u>\$0.250</u>	<u>\$0.246</u>	<u>\$0.250</u>	<u>\$0.250</u>	<u>\$0.245</u>
Total	\$0.591	\$0.591	\$0.591	\$0.603	\$0.615

Additional Penalties

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

Principal Taxpayers

The list of principal taxpayers for 2025 and the other information provided by this table were provided by HCAD to the District's Tax Assessor/Collector based on certified tax rolls net of any exemptions from taxation. This table does not reflect any corrections pursuant to subsequent action of HCAD.

<u>Property Owner</u>	<u>Property Description</u>	<u>Property Value</u>	<u>% of Total</u>
Houston Value Add Holdings LLC	Land and Improvement	\$70,651,465	19.83%
Cambria Cove Holdings LLC	Land and Improvement	\$21,873,346	6.14%
Northbrooke SPE LLC	Land and Improvement	\$21,198,000	5.95%
Mariposa Ella Blvd LP	Land and Improvement	\$17,734,290	4.98%
Medical Village III LLC	Land and Improvement	\$13,798,887	3.87%
Costa Ibiza Houston LLC	Land and Improvement	\$10,806,283	3.03%
D.R. Horton Texas, Ltd. (a)	Land and Improvement	\$10,686,424	3.00%
Kingfisher Canyon Senior Living LLC	Land and Improvement	\$10,642,170	2.99%
Frontier Medical Properties LLC	Land and Improvement	\$8,886,242	2.49%
Intown Suites Rolling Creek LP	Land and Improvement	\$6,590,172	1.85%
TOTALS		\$192,867,279	54.14%

(a) Represents land, lot, and improvement values owned by one of the Developers. See "RISK FACTORS – Dependence on Principal Taxpayers" and "THE DISTRICT'S DEVELOPERS."

Analysis of Tax Base

Based on information provided to the District by HCAD and its Tax Assessor/Collector, the following represents the composition of property comprising the gross tax roll valuations and exemptions for 2021 through 2025, and includes the August 1, 2025 Estimated Taxable Value.

<u>Year</u>	<u>Type of Property</u>			<u>Gross Valuations</u>	<u>Exemptions</u>	<u>Taxable Valuations</u>
	<u>Land</u>	<u>Improvements</u>	<u>Personal Property</u>			
8/1/2025						\$399,035,907 (a)
2025	\$88,788,943	\$272,039,485	\$17,770,284	\$378,598,712	\$22,355,405	\$356,243,307 (b)
2024	\$99,889,343	\$262,471,163	\$19,925,836	\$382,286,342	\$21,971,252	\$360,315,090
2023	\$93,878,649	\$267,939,781	\$16,286,091	\$378,104,521	\$20,476,007	\$357,628,514
2022	\$87,056,859	\$231,307,932	\$15,655,352	\$334,020,143	\$19,007,137	\$315,013,006
2021	\$83,340,213	\$199,511,956	\$14,433,820	\$297,285,989	\$16,078,854	\$281,207,135

(a) The Estimated Taxable Value as of August 1, 2025, was prepared by HCAD and provided to the District. Such values are not binding on HCAD and are provided for informational purposes only. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

(b) Reflects only the portion of the January 1, 2025 Certified Taxable Value that is presently certified on the District's tax roll and, therefore, excludes \$19,362,839 of uncertified taxable value that is still in the certification process; such amount of uncertified value represents HCAD's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

Homestead Exemptions

The Texas Constitution authorizes political subdivisions to exempt up to 20% of the market value of residential homesteads from ad valorem taxation. In 2025, the District granted a 10% general homestead exemption of the appraised value and an exemption of \$20,000 for residential homesteads of persons 65 or older or disabled. See "TAXING PROCEDURES."

Overlapping Taxes

The following table sets forth all 2024 taxes levied by overlapping taxing jurisdictions and includes the District's 2025 tax rate. No recognition is given to local assessments for civic association dues, fire department contributions, solid waste disposal charges, or any other levy by entities other than political subdivisions.

<u>Taxing Jurisdictions</u>	2024 Tax Rate Per \$100 <u>Assessed Valuation</u>
Spring Independent School District	\$1.106900
Harris County (a)	\$0.608689
Lone Star College System	\$0.107600
Harris County Emergency Services District No. 28	\$0.098097
Harris County Emergency Services District No. 11	<u>\$0.038294</u>
Overlapping Taxes	<u>\$1.959580</u>
 The District (2025)	 <u>\$0.591000</u>
Total Direct & Overlapping Taxes	<u>\$2.550580</u>

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

Adequacy of Tax Revenue

The calculations shown below are solely for purposes of illustration, reflect no net revenues of the System, no transfers of surplus funds from the District's Operating Fund or Construction Fund to the Debt Service Fund, and no increase or decrease in assessed valuation over the August 1, 2025 Estimated Taxable Value and the 2025 Certified Taxable Value. The calculations utilize a tax rate adequate to service the District's total debt service requirements after issuance of the Bonds. Surplus balances in the Debt Service Fund are not reflected in these computations.

Maximum Annual Debt Service Requirement (2028) \$1,218,534 (a)

Requires a \$0.33 debt service tax rate on the August 1, 2025 Estimated Taxable Value of \$399,035,907
at 95% collections \$1,250,978 (a)

Requires a \$0.35 debt service tax rate on the 2025 Certified Taxable Value of \$375,606,146 (b)
at 95% collections \$1,248,890 (a)

(a) Preliminary, subject to change.

(b) Reflects the January 1, 2025 Certified Taxable Value according to data supplied to the District by the Appraisal District, which includes \$19,362,839 of uncertified taxable value that is still in the certification process. Such amount of uncertified value represents the Appraisal District's estimate of the taxable value that will ultimately be certified on the District's tax roll after successful protest. The District is authorized by law to levy taxes only against certified values. See "TAXING PROCEDURES."

TAXING PROCEDURES

Authority to Levy Taxes

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

Tax Code and County-Wide Appraisal District

Title 1 of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized here. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units in a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Appraisal District. The Appraisal District has the responsibility for appraising property for all taxing units within their respective county. Such

appraisal values are subject to review and change by the Harris Central Appraisal Review Board (the "Appraisal Review Board"). The Texas Comptroller of Public Accounts may provide for the administration and enforcement of uniform standards and procedures for appraisal of property.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes, and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to, property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares, and merchandise in transit; farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years or older and of certain disabled persons, and travel trailers, to the extent deemed advisable by the Board. The District may be required to offer such an exemption if a majority of voters approve it at an election. In 2025, the Board approved an exemption of 10% of the appraised value of a home for residential homesteads and \$20,000 of the appraised value of residence homesteads of persons 65 years or older or disabled. The District would be required to call such an election upon petition by 20% of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District.

Furthermore, the District must grant exemptions to disabled veterans, or certain surviving dependents of disabled veterans if requested, but only to the maximum extent of \$5,000 to \$12,000 of assessed valuation depending upon the disability rating of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% is entitled to the exemption for the full amount of the residential homestead. Additionally, subject to certain conditions, the surviving spouse of a disabled veteran is entitled to an exemption for the full value of the veteran's residence homestead to which the disabled veterans' exemption applied including the surviving spouse of a disabled veteran who would have qualified for such exemption if it had been in effect on the date the disabled veteran died. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homesteads in an amount equal to the partially disabled veteran's disability rating if the residence homestead was donated by a charitable organization. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who was killed or fatally injured in the line of duty is, subject to certain conditions, also entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and, subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions. The Property Tax Code authorizes the governing body of each political subdivision in the State of Texas to exempt up to 20% of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the assessor and collector of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. In 2025, the District adopted an order granting a 10% residential homestead exemption of the appraised value.

Freeport Goods and Goods-in-Transit Exemptions. A "Freeport Exemption" applies to goods, wares, and merchandise other than oil, gas, and petroleum products (defined as liquid and gaseous materials immediately derived from refining petroleum or natural gas), and to aircraft or repair parts used by a certified air carrier acquired in or imported into Texas that are destined to be forwarded outside of Texas and that are detained in Texas for assembling, storing, manufacturing, processing, or fabricating for fewer than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property that are covered by the Freeport Exemption, if, for tax year 2011 and prior applicable years, such property is acquired in or imported into Texas for assembling, storing, manufacturing, processing, or fabricating purposes and is subsequently forwarded to another location inside or outside of Texas not later than 175 days after acquisition or importation, and the location where said property is detained during that period is not directly or indirectly owned or under the control of the property owner. For tax year 2012 and subsequent years, such Goods-in-Transit Exemption includes tangible personal property acquired in or imported into Texas for storage purposes only if such property is stored under a contract of bailment by a public warehouse operator at one or more public warehouse facilities in Texas that are not in any way owned or controlled by the owner of such property for the account of the person who acquired or imported such property. A property owner who receives the Goods-in-Transit Exemption is not eligible to receive the Freeport Exemption for the same property. Local taxing units such as the District may, by official action and after public hearing, tax goods-in-transit personal property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Strategic Partnership Agreement

Utilizing a provision of Texas law, the City and the District entered into a Strategic Partnership Agreement (“SPA”) effective as of April 8, 2003. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City’s Sales and Use Tax, voting in City elections, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes. Although available for any lawful purpose, upon Board action, the payments from the City under the SPA are not pledged to the payment of the Bonds.

Certain Tax Exemptions Provided for Affordable Housing

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

Additionally, Chapter 394 of the Texas Local Government Code, known as the Texas Housing Finance Corporations Act (the “HFC Act”) provides for the formation of housing finance corporations (“HFCs”) by municipalities and counties for the purpose of providing decent, safe, and sanitary housing at affordable prices to residents of local governments. Historically, HFCs could receive certain tax exemptions on qualified projects under the HFC Act, provided certain conditions are met under the HFC Act. This exemption applies to both ad valorem and sales taxes levied by taxing authorities where the qualified project is located. Subject to certain restrictions, a leasehold or other possessory interest granted by the HFC to the user of an HFC-owned multi-family residential development entitles that user to this same exemption. Section 394.904(d) (as added by H.B. 21, 89th Texas Legislature, Regular Session) provides in part that such ad valorem tax exemptions do not apply to taxes levied by a conservation or reclamation district created under Section 52, Article III, or Section 59, Article XVI, Texas Constitution, that provides water, sewer, or drainage service to the multi-family residential development owned by the HFC, unless the applicable HFC has entered into a written agreement with the district to make a payment to the district in lieu of taxation, in the amount specified in the agreement. The District is not aware of any public facilities located within the boundaries of the District that are either owned or leased by an HFC.

Any multi-family development within the District seeking to be designated as an affordable housing apartment community and exempted from property taxes under Chapters 303 or 394, would require the consent of the District which is unlikely to be granted.

Section 11.1825 of the Property Tax Code authorizes qualified organizations engaged in constructing or rehabilitating low-income housing projects to exempt certain property from all taxes and special assessments of a political subdivision, including a municipal utility district, provided the property is used for such purpose and a minimum percentage of units are reserved for individuals and families meeting certain income requirements. The exemption requires timely completion of the project, with potential extensions for good cause, and in Harris County, approval from the Commissioners Court is necessary. Pursuant to such authorization, Harris County Housing and Community Development was granted such exemption, and the development project within the District known as Providence Place has been exempted from taxation by the District; however, Harris County Housing and Community Development intends to transfer completed homes to individuals who qualify to purchase them, whereupon the individual home would become taxable. See “RISK FACTORS – Tax-Exempt Property.”

Tax Abatement

Harris County or the City may designate all or part of the area within the District as a reinvestment zone. Thereafter, the City (after annexation of the District), Harris County, or the District, at the option and discretion of each entity, may enter into tax abatement agreements with owners of property within the zone. Prior to entering into a tax abatement agreement, each entity must adopt guidelines and criteria for establishing tax abatement, which each entity will follow in granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including 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 the terms of the tax abatement. Each taxing jurisdiction, including

the District, has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions.

Valuation of Property for Taxation

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

The Property Tax Code permits land designated for agricultural use, open space, or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its market value. The Property Tax Code permits, under certain circumstances, that residential real property inventory held by a person in the trade or business 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 the agricultural use, open space, or timberland designation or residential real property inventory designation must apply for the designation, and the chief appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three (3) years for agricultural use, open space land, and timberland.

The Property Tax Code requires the Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (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 District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Tax Exemption for Property Damaged by a Disaster

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

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal orders of the Appraisal Review Board by filing a timely petition for review in State district court. In such event, the value of the property in question will be determined by the court or by a jury if requested by any party. Additionally, taxing units may bring suit against the Appraisal District to compel compliance with the Property Tax Code.

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 1% for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of 12% regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and

a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) 65 years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

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

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

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

The District. A determination as to a district's status as a Special Taxing Unit, Developed District or Developing District is made by the Board of Directors on an annual basis. The Board of Directors designated the District as a Developing District for purposes of setting the 2025 tax rate. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. Collection of delinquent taxes may be adversely affected by the amount of taxes owed to other taxing units, by the effects of market conditions on the foreclosure sale price, by taxpayer redemption rights (a taxpayer may redeem property within six months for commercial property, within two years for residence homesteads and land designated for agricultural use, and six months for all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings that restrict the collection of taxpayer debts. See "RISK FACTORS – Tax Collections."

Collection of Delinquent Taxes

Taxes levied by the District are a personal obligation of the owners of the taxed property as of January 1 of the year in which the taxes are levied. On January 1 of each year, a tax lien attaches to property in the District to secure the payment of all taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State and 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 all other such taxing units. A tax lien on real property has priority over the claim of most creditors and other holders of liens on the property encumbered by the tax, whether or not the debt or lien existed before the attachment of the tax lien. Further, as a general rule, the District's tax lien and a federal tax lien are on par with ultimate priority being determined by applicable federal law. Under certain circumstances, personal property is subject to seizure and sale for the payment of delinquent taxes, penalty, and interest. At any time after taxes on property become delinquent, the District may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both. In filing a suit to foreclose a tax lien on real property, the District must join other taxing units that have claims for delinquent taxes against all or part of the same property. The ability of the District to collect delinquent taxes by judicial foreclosure may be adversely affected by the amount of taxes owed to other taxing units, adverse market conditions affecting the market value of the property at the time of any tax foreclosure sale, taxpayer redemption rights, or bankruptcy proceedings which restrain the collection of a taxpayer's debt.

Further, 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 United States Code Section 1825, as amended.

In addition to actions under the tax lien describe above, the District has legal authority to terminate water service to any taxpayer whose taxes remain delinquent after August 1st of each year.

Delinquent Tax Payments for Disaster Areas

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

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

The Effect of FIRREA on Tax Collections of the District

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 ("FIRREA") contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation ("FDIC") when the FDIC is acting as the conservator or receiver of an insolvent financial institution.

Under FIRREA, real property held by the FDIC is still subject to ad valorem taxation, but such act states (i) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (ii) the FDIC shall not be liable for any penalties, interest, or fines, including those arising from the failure to pay any real or personal property tax when due, and (iii) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed.

To the extent the FIRREA provisions are valid and applicable to any property in the District and to the extent that the affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the District and may prevent the collection of penalties and interest on such taxes.

ANNEXATION, STRATEGIC PARTNERSHIP AGREEMENT, AND CONSOLIDATION

Annexation by the City of Houston

Under existing Texas law, since the District lies wholly within the extraterritorial jurisdiction of the City, the District must conform to a City consent ordinance. Generally, the District may be annexed by the City without the District's consent, and the City cannot annex territory within the District unless it annexes the entire District; however, the City may not annex the District unless (i) such annexation has been approved by a majority of those voting in an election held for that purpose within the area to be annexed, and (ii) if the registered voters in the area to be annexed do not own more than 50 percent of the land in the area, a petition has been signed by more than 50 percent of the landowners consenting to the annexation. Notwithstanding the preceding sentence, the described election and petition process does not apply during the term of a strategic partnership agreement between the City and the District specifying the procedures for full purpose annexation of all or a portion of the District. See "TAXING PROCEDURES – Strategic Partnership Agreements." If the District is annexed, the City will assume the District's assets and obligations (including the Bonds) and dissolve the District, except as provided below under "– Strategic Partnership Agreement." Annexation of territory by the City is a policy-making matter within the discretion of the Mayor and City Council of the City, and therefore, the District makes no representation that the City will ever annex the District and assume its debt. Moreover, no representation is made concerning the ability of the City to make debt service payments should annexation occur.

Strategic Partnership Agreement

Utilizing a provision of Texas law, the City and the District entered into a Strategic Partnership Agreement ("SPA") effective as of April 8, 2003. The SPA provides for the limited purpose annexation of certain developed commercial tracts within the District into the City for the limited purposes of imposition of the City's Sales and Use Tax, voting in City elections, certain municipal court jurisdictions, and health inspection services and enforcement. No other City services are provided. The properties made subject to the SPA may not be taxed for ad valorem purposes by the City. Additional properties may become subject to the SPA by amending the SPA upon the consent of the City and the District. The City pays the District an amount equal to 50 percent of all Sales and Use Tax revenues generated from the properties subject to the SPA. The term of the SPA is 30 years. During the term of the SPA, the City has agreed not to annex all or part of the District or commence any action to annex all or part of the District for full purposes. Although available for any lawful purpose, upon Board action, the payments from the City under the SPA are not pledged to the payment of the Bonds.

Consolidation

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

THE BONDS

General

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

The Bonds are dated and will bear interest from December 1, 2025, at the per annum rates shown on the cover page hereof. The Bonds are fully registered, serial bonds maturing on March 1 in the years and in the principal amounts set forth on the cover page hereof. Interest on the Bonds is payable March 1, 2026, and each September 1 and March 1 thereafter until the earlier of maturity or redemption. The Record Date on the Bonds is the 15th day of the calendar month next preceding the interest payment date.

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

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

Authority for Issuance

The Bonds are issued pursuant to the authority of the Bond Order, Article XVI, Section 59, of the Texas Constitution, Chapters 49 and 54 of the Texas Water Code, as amended, and an approving order of the TCEQ. At elections held within the District on April 5, 1980 and April 5, 1986, the District's voters authorized the issuance of a total of \$30,000,000 of unlimited tax bonds for construction of water, wastewater, and drainage facilities (the "System"). After the issuance of the Bonds, the District will have \$8,915,000 unlimited tax bonds that remain authorized but unissued for construction of the System.

Optional Redemption

The Bonds maturing on and after March 1, 2031, are subject to redemption prior to scheduled maturity at the option of the District, in whole or from time to time in part, on March 1, 2030, and on any date thereafter, at a redemption price equal to the principal amount thereof plus accrued interest from the most recent interest payment date to the redemption date. In the event the Bonds are to be redeemed in part, the maturities and principal amounts to be redeemed shall be selected by the District. In the event of redemption of fewer than all of the Bonds of a particular maturity, the Paying Agent/Registrar, on behalf of the District, will select the Bonds of such maturity to be redeemed by lot or by such other customary method as the Paying Agent/Registrar deems fair and appropriate or while the Bonds are in Book-Entry-Only form the portions to be redeemed shall be selected by DTC in accordance with its procedures.

Sources of and Security for Payment

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

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

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

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

Funds

The Bond Order confirms the District's Debt Service Fund, which is to be kept separate from all other funds of the District and used for payment of debt service on the Bonds, the Outstanding Bonds, and any additional bonds payable from taxes that may be issued in the future by the District. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Registrar.

Accrued interest on the Bonds shall be deposited into the Debt Service Fund upon receipt. The remaining proceeds of sale of the Bonds shall be deposited into the Capital Projects Fund to be used for the purpose of paying certain construction costs and for paying the costs of issuance of the Bonds. Any monies remaining in the Capital Projects Fund will be used as described in the Bond Order or ultimately transferred to the Debt Service Fund in accordance with TCEQ rules.

Issuance of Additional Debt

The District may issue additional bonds, with the approval of the TCEQ, necessary to provide and rehabilitate improvements and facilities consistent with the purposes for which the District was created. See "THE DISTRICT – Authority." The District's voters have authorized the issuance a total of \$30,000,000 of unlimited tax bonds, \$8,915,000 of which will remain authorized but unissued after the issuance of the Bonds. Depending upon the District's future issuance of tax-supported debt and the development of the District's tax base, increases in the District's annual ad valorem tax rate may be required to provide for the payment of principal of, and interest on, the District's current bonded indebtedness and any future tax-supported debt issued by the District. The Bond Order imposes no limitation on the amount of additional parity bonds that may be issued by the District (if authorized by the District's voters and approved by the Board and the TCEQ).

The Board called an election to be held within the boundaries of the District on November 4, 2025, for the purpose of submitting a proposition on the issuance of bonds of the District for the purpose of providing water, sewer, and drainage facilities and improvements to serve the District in the maximum aggregate principal amount of \$15,500,000 and the levy of taxes in payment of such bonds.

The District's Engineer has compiled a schedule reflecting potential water, sewer, and drainage bonds that the District may issue in the future for certain water, sewer, and drainage facilities and improvements located in and around the District. The financing of such facilities and improvements could result in a bond application to be submitted to the TCEQ for approval that could deplete the remaining authorized bonds. It is assumed that the District's continued growth in taxable value will support the District's ability to issue such bonds without threatening the current total tax rate of \$0.591.

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

No Arbitrage

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

Paying Agent/Registrar

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

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

Registration, Transfer, and Exchange

In the event the Book-Entry-Only System should be discontinued, the Bonds will be transferable only on the Bond Register kept by the Registrar upon surrender and reissuance. The Bonds are exchangeable for an equal principal amount of Bonds of the same maturity and of any authorized denomination upon surrender of the Bonds to be exchanged at the operations office of the Registrar in Dallas, Texas. See "BOOK-ENTRY-ONLY SYSTEM" herein for a description of the system to be utilized initially in regard to the ownership and transferability of the Bonds. Every Bond presented or surrendered for transfer is required to be duly endorsed, or be accompanied by a written instrument of transfer, in a form satisfactory to the Registrar. Neither the Registrar nor the District is required (i) to transfer or exchange any Bond during the period beginning at the opening of business on a Record Date (defined herein) and ending at the close of business on the next succeeding interest payment date, or (ii) to transfer or exchange any Bond

selected for redemption in whole or in part within 30 calendar days of the redemption date. No service charge will be made for any transfer or exchange, but the District or the Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Replacement of Mutilated, Lost, or Stolen Bonds

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

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds. No representation is made concerning other laws, rules, regulations, or investment criteria which might be utilized by any of such persons or entities to limit the acceptability or suitability of the Bonds for any of the foregoing purposes. Prospective purchasers are urged to carefully evaluate the investment quality of the Bonds as to the suitability or acceptability of the Bonds for investment or collateral purposes.

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

& Poor's rating of AA+. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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

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

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

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

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

LEGAL MATTERS

Legal Opinion

The District will furnish the Underwriter with a transcript of certain certified proceedings held incident to the authorization and issuance of the Bonds, including a certified copy of the approving 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 Bonds are valid and legally binding obligations of the District. The District will also furnish the legal opinion of Wallace & Philbin, L.L.P. ("Bond Counsel") to the effect that, based upon an examination of such transcript, the Bonds are legal, valid, and binding obligations of the District and that the interest on the Bonds is exempt from federal income taxation under existing statutes, regulations, published rulings and court decisions. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds.

The opinion of Bond Counsel is expected to be reproduced on the back panel of the Bonds. Failure to print such legal opinion on any Bond shall not constitute cause for a failure or refusal by the Underwriter to accept delivery of, and pay for the Bonds.

Legal Review

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

Wallace & Philbin, L.L.P. acts as General Counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with the issuance of the Bonds are based on a percentage of the bonds actually issued, sold, and delivered. Therefore, such fees are contingent upon the sale and delivery of the Bonds.

No-Litigation Certificate

On the date of delivery of the Bonds to the Underwriter, the District will execute and deliver to the Underwriter a certificate to the effect that no litigation of any nature has been filed or is pending, as of that date of which the District has notice, to restrain or enjoin the issuance or delivery of the Bonds, or which would affect the provisions made for their payment or security, or in any manner question the validity of the Bonds.

No Material Adverse Change

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

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, Wallace & Philbin, L.L.P., Houston, Texas, Bond Counsel, will render the opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof ("Existing Law"), interest on the Bonds (1) will be excludable from the "gross income" of the holders thereof and (2) is not subject to the alternative minimum tax on individuals. Except as stated above, Bond Counsel will express no opinion as to any other federal, state, or local tax consequences of the purchase, ownership, or disposition of the Bonds.

In rendering the opinion, Bond Counsel will rely upon (a) the District's federal tax certificate and (b) covenants of the District with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds, and certain other matters. Failure of the District to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Internal Revenue Code of 1986 (the "Code") and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel is conditioned on compliance by the District with such requirements, and Bond Counsel has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

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

A ruling was not sought from the Internal Revenue Service by the District with respect to the Bonds or the property financed or refinanced with proceeds of the Bonds. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an Internal Revenue Service audit is commenced, under current procedures the Internal Revenue Service is likely to treat the District as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

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 statutes, regulations, published rulings, and court decisions, all of which are subject to change or modification retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, certain S corporations with subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM THE PURCHASE, OWNERSHIP, AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

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

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 50 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, the 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.

Federal Income Tax Accounting Treatment of Original Issue Discount

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

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

Qualified Tax-Exempt Obligations

The Code requires a pro rata reduction in the interest expense deduction of a financial institution to reflect such financial institution's investment in tax-exempt obligations acquired after August 7, 1986. An exception to the foregoing provision is provided in the Code for "qualified tax-exempt obligations," which include tax-exempt obligations, such as the Bonds, (a) designated by the issuer as "qualified tax-exempt obligations" and (b) issued by or on behalf of a political subdivision for which the aggregate amount of tax-exempt obligations (not including private activity bonds other than qualified 501(c)(3) bonds) to be issued during the calendar year is not expected to exceed \$10,000,000.

The District will designate the Bonds as "qualified tax-exempt obligations" and has represented that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2025 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2025.

Notwithstanding this exception, financial institutions acquiring the Bonds will be subject to a 20% disallowance of allocable interest expense.

REGISTRATION AND QUALIFICATION UNDER SECURITIES LAWS

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

OFFICIAL STATEMENT

Sources of Information

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

Financial Advisor

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

Consultants

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

Engineer – The information contained in this Official Statement relating to engineering matters generally and to the description of the System and in particular that information included in the sections entitled "THE SYSTEM," "USE OF BOND PROCEEDS," and certain engineering matters included in "THE DISTRICT – Description" and "– Summary of Land Use" has been provided by R.G. Miller Engineers, Inc., and has been included in reliance upon the authority of such firm as an expert in the field of civil engineering.

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

Auditor – The financial statements of the District as of September 30, 2024, and for the year then ended, included in this offering document, have been audited by McCall Gibson Swedlund Barfoot Ellis PLLC, Certified Public Accountants, as stated in their report appearing herein. See "APPENDIX A" for a copy of the District's September 30, 2024, audited financial statements.

Updating of Official Statement

The District will keep the Official Statement current by amendment or sticker to reflect material changes in the affairs of the District and, to the extent that information comes to its attention, to the other matters described in the Official Statement until the delivery of the Bonds to the Underwriter, unless the Underwriter notifies the District that less than all of the Bonds have been sold to ultimate customers on or before such date, in which case the obligation will extend until the earlier of the time when all of the Bonds have been sold or 90 days after delivery of the Bonds.

Forward-Looking Statements

The statements contained in this Official Statement and in any other information provided by the District that are not purely historical are forward-looking statements, including statements regarding the District's expectations, hopes, intentions, or strategies for the future. Readers should not place undue reliance on forward-looking statements. All forward-looking statements included in this Official Statement are based on information available to the District on the date hereof, and the District assumes no obligation to update any such forward-looking statements. The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates, possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions, and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, legislative, judicial, and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and therefore, there can be no assurance that any forward-looking statements included in this Official Statement would prove to be accurate.

Continuing Availability of Financial Information

Pursuant to Texas law, the District has its financial statements prepared in accordance with generally accepted accounting principles, and has its financial statements audited by a certified public accountant in accordance with generally accepted auditing standards within 120 days after the close of its fiscal year. The District's audit report is filed with the TCEQ within 135 days after the close of its fiscal year. Copies of each audit report are also filed in the office of the District. The District's financial records and audit reports are available for public inspection during regular business hours at the office of the District and copies will be provided on written request, to the extent permitted by law, upon payment of copying charges. Requests for copies should be addressed to the District in care of Wallace & Philbin, L.L.P., 6363 Woodway, Suite 800, Houston, Texas 77057.

Certification as to Official Statement

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

MISCELLANEOUS

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

This Official Statement was approved by the Board of Directors of Harris County Municipal Utility District No. 86 as of the date shown on the cover page.

APPENDIX A

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT No. 86
HARRIS COUNTY, TEXAS**

ANNUAL FINANCIAL REPORT

FOR THE FISCAL YEAR ENDED SEPTEMBER 30, 2024

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86

HARRIS COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2024

MCCALL GIBSON SWEDLUND BARFOOT ELLIS PLLC
Certified Public Accountants

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McCall Gibson Swedlund Barfoot Ellis PLLC

Certified Public Accountants

*Chris Swedlund
Noel W. Barfoot
Joseph Ellis
Ashlee Martin*

*Mike M. McCall
(retired)
Debbie Gibson
(retired)*

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Harris County Municipal Utility District No. 86
Harris County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and each major fund of Harris County Municipal Utility District No. 86 (the "District") as of and for the year ended September 30, 2024, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the District as of September 30, 2024, 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.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The 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 an 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 Ellis PLLC

McCall Gibson Swedlund Barfoot Ellis PLLC
Certified Public Accountants
Houston, Texas

January 17, 2025

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024

Management's discussion and analysis of the financial performance of Harris County Municipal Utility District No. 86 (the "District") provides an overview of the District's financial activities for the fiscal year ended September 30, 2024. Please read it in conjunction with the District's financial statements.

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 fiscal 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 two governmental fund types. The General Fund accounts for resources not accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

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 year. 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, assets and deferred outflows of resources exceeded liabilities by \$5,518,790 as of September 30, 2024. A portion of the District's net position reflects its net investment in capital assets (land and buildings as well as the water, wastewater and drainage facilities, less any debt used to acquire those assets that is still outstanding).

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

The following is a comparative analysis of the government-wide changes in net position:

	Summary of Changes in the Statement of Net Position		
	2024	2023	Change Positive (Negative)
Current and Other Assets	\$ 4,859,478	\$ 4,091,523	\$ 767,955
Capital Assets (Net of Accumulated Depreciation)	<u>11,329,009</u>	<u>8,233,865</u>	<u>3,095,144</u>
Total Assets	<u>\$ 16,188,487</u>	<u>\$ 12,325,388</u>	<u>\$ 3,863,099</u>
Deferred Outflows of Resources	<u>\$ 321,225</u>	<u>\$ 379,122</u>	<u>\$ (57,897)</u>
Bonds Payable	\$ 6,952,962	\$ 7,777,321	\$ 824,359
Due to Developer	3,464,629		(3,464,629)
Other Liabilities	<u>573,331</u>	<u>532,195</u>	<u>(41,136)</u>
Total Liabilities	<u>\$ 10,990,922</u>	<u>\$ 8,309,516</u>	<u>\$ (2,681,406)</u>
Net Position:			
Net Investment in Capital Assets	\$ 1,232,643	\$ 835,666	\$ 396,977
Restricted	512,904	386,774	126,130
Unrestricted	<u>3,773,243</u>	<u>3,172,554</u>	<u>600,689</u>
Total Net Position	<u>\$ 5,518,790</u>	<u>\$ 4,394,994</u>	<u>\$ 1,123,796</u>

The following table provides a summary of the District's operations for the years ended September 30, 2024, and September 30, 2023. The District's net position increased by \$1,123,796.

	Summary of Changes in the Statement of Activities		
	2024	2023	Change Positive (Negative)
Revenues:			
Property Taxes	\$ 2,122,679	\$ 1,921,330	\$ 201,349
Charges for Services	1,700,266	1,595,638	104,628
Other Revenues	<u>311,746</u>	<u>263,616</u>	<u>48,130</u>
Total Revenues	<u>\$ 4,134,691</u>	<u>\$ 3,780,584</u>	<u>\$ 354,107</u>
Expenses for Services	<u>3,010,895</u>	<u>3,188,518</u>	<u>177,623</u>
Change in Net Position	\$ 1,123,796	\$ 592,066	\$ 531,730
Net Position, Beginning of Year	<u>4,394,994</u>	<u>3,802,928</u>	<u>592,066</u>
Net Position, End of Year	<u>\$ 5,518,790</u>	<u>\$ 4,394,994</u>	<u>\$ 1,123,796</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUNDS

The District's combined fund balances as of September 30, 2024, were \$4,043,478, an increase of \$724,551 from the prior year.

The General Fund fund balance increased by \$606,883, primarily due to service revenues, maintenance tax revenues and sales tax revenues exceeding operating expenditures.

The Debt Service Fund fund balance increased by \$117,668, primarily due to the structure of the District's outstanding debt service requirements.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current fiscal year. Actual revenues were \$193,456 more than budgeted revenues and actual expenditures were \$998,327 less than budgeted expenditures which resulted in a positive budget variance of \$1,191,783. See the budget to actual comparison for more information.

CAPITAL ASSETS

Capital assets as of September 30, 2024, total \$11,329,009 (net of accumulated depreciation) and include an administrative building as well as the water, wastewater and drainage systems.

Capital Assets At Year-End			
	2024	2023	Change Positive (Negative)
Capital Assets Not Being Depreciated:			
Land and Land Improvements	\$ 1,225,271	\$ 1,225,271	\$
Capital Assets Subject to Depreciation:			
Office Building	424,276	424,276	
Water System	6,605,248	6,084,518	520,730
Wastewater System	7,536,019	6,800,372	735,647
Drainage System	8,936,910	6,728,658	2,208,252
Less Accumulated Depreciation	(13,398,715)	(13,029,230)	(369,485)
Total Net Capital Assets	<u>\$ 11,329,009</u>	<u>\$ 8,233,865</u>	<u>\$ 3,095,144</u>

**HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
MANAGEMENT’S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2024**

LONG-TERM DEBT ACTIVITY

At year-end, the District had total bond debt payable of \$6,965,000. The changes in the debt position of the District during the fiscal year ended September 30, 2024, are summarized as follows:

Bond Debt Payable, October 1, 2023	\$ 7,790,000
Less: Bond Principal Paid	<u>825,000</u>
Bond Debt Payable, September 30, 2024	<u><u>\$ 6,965,000</u></u>

The District carries an underlying rating of “BBB”. The District’s Series 2013 Refunding and Series 2015 bonds carry insured ratings of “AA” by virtue of bond insurance issued by Build America Mutual Assurance Company. The Series 2016 bonds were issued as a private placement and were not rated nor insured. Credit enhanced ratings provided through bond insurance policies are subject to change based on changes to the rating of the bond insurance company.

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 Harris County Municipal Utility District No. 86, c/o Bacon, Wallace & Philbin, L.L.P., 6363 Woodway, Suite 800, Houston, TX 77057.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2024

	<u>General Fund</u>	<u>Debt Service Fund</u>
ASSETS		
Cash	\$ 178,079	\$ 122,059
Investments	3,765,238	360,150
Receivables:		
Property Taxes	13,071	19,313
Penalty and Interest on Delinquent Taxes		
Service Accounts	115,627	
City of Houston - Sales Tax Revenues	27,198	
Due from Developer	25,942	
Due from Other Funds		64,449
Prepaid Costs	2,547	
Chloramine Conversion Reimbursement Receivable		
Land		
Capital Assets (Net of Accumulated Depreciation)		
TOTAL ASSETS	<u>\$ 4,127,702</u>	<u>\$ 565,971</u>
DEFERRED OUTFLOWS OF RESOURCES		
Deferred Charges on Refunding Bonds	<u>\$ -0-</u>	<u>\$ -0-</u>
TOTAL ASSETS AND DEFERRED OUTFLOWS OF RESOURCES	<u><u>\$ 4,127,702</u></u>	<u><u>\$ 565,971</u></u>

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

<u>Total</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
\$ 300,138	\$	\$ 300,138
4,125,388		4,125,388
32,384		32,384
	17,204	17,204
115,627		115,627
27,198		27,198
25,942		25,942
64,449	(64,449)	
2,547	50,937	53,484
	162,113	162,113
	1,225,271	1,225,271
	10,103,738	10,103,738
<u>\$ 4,693,673</u>	<u>\$ 11,494,814</u>	<u>\$ 16,188,487</u>
<u>\$ -0-</u>	<u>\$ 321,225</u>	<u>\$ 321,225</u>
<u><u>\$ 4,693,673</u></u>	<u><u>\$ 11,816,039</u></u>	<u><u>\$ 16,509,712</u></u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUNDS BALANCE SHEET
SEPTEMBER 30, 2024

	General Fund	Debt Service Fund
LIABILITIES		
Accounts Payable	\$ 208,611	\$ 50,302
Accrued Interest Payable		
Due to Other Governmental Units	12,223	
Due to Developer		
Due to Other Funds	64,449	
Security Deposits	282,226	
Long-Term Liabilities:		
Bonds Payable, Due Within One Year		
Bonds Payable, Due After One Year		
TOTAL LIABILITIES	<u>\$ 567,509</u>	<u>\$ 50,302</u>
DEFERRED INFLOWS OF RESOURCES		
Property Taxes	<u>\$ 13,071</u>	<u>\$ 19,313</u>
FUND BALANCES		
Nonspendable:		
Prepaid Costs	\$ 2,547	\$
Restricted for Debt Service		496,356
Unassigned	<u>3,544,575</u>	
TOTAL FUND BALANCES	<u>\$ 3,547,122</u>	<u>\$ 496,356</u>
TOTAL LIABILITIES, DEFERRED INFLOWS OF RESOURCES AND FUND BALANCES	<u>\$ 4,127,702</u>	<u>\$ 565,971</u>
NET POSITION		
Net Investment in Capital Assets		
Restricted for Debt Service		
Unrestricted		
TOTAL NET POSITION		

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

Total	Adjustments	Statement of Net Position
\$ 258,913	\$	\$ 258,913
	19,969	19,969
12,223		12,223
	3,464,629	3,464,629
64,449	(64,449)	
282,226		282,226
	855,000	855,000
	6,097,962	6,097,962
<u>\$ 617,811</u>	<u>\$ 10,373,111</u>	<u>\$ 10,990,922</u>
<u>\$ 32,384</u>	<u>\$ (32,384)</u>	<u>\$ -0-</u>
\$ 2,547	\$ (2,547)	\$
496,356	(496,356)	
<u>3,544,575</u>	<u>(3,544,575)</u>	
<u>\$ 4,043,478</u>	<u>\$ (4,043,478)</u>	<u>\$ -0-</u>
<u>\$ 4,693,673</u>		
	\$ 1,232,643	\$ 1,232,643
	512,904	512,904
	3,773,243	3,773,243
	<u>\$ 5,518,790</u>	<u>\$ 5,518,790</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
RECONCILIATION OF THE GOVERNMENTAL FUNDS BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2024

Total Fund Balances - Governmental Funds	\$	4,043,478
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Interest paid in advance as part of a refunding bond sale is recorded as a deferred outflow in the governmental activities and systematically charged to interest expense over the remaining life of the new debt or the old debt, whichever is shorter. The District also amortizes prepaid bond insurance over the term of the bonds.		372,162
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Capital assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		11,329,009
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Deferred inflows of resources related to property tax revenues and penalty and interest receivable on delinquent taxes for the 2023 and prior tax levies became part of recognized revenue in the governmental activities of the District.		49,588
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Credits due from the North Harris County Regional Water Authority for reimbursable chloramine conversion costs are recorded as a long-term receivable in governmental activities.		162,113
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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	\$ (3,464,629)	
Accrued Interest Payable	(19,969)	
Bonds Payable	(6,952,962)	(10,437,560)
Total Net Position - Governmental Activities		\$ 5,518,790

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	General Fund	Debt Service Fund
REVENUES		
Property Taxes	\$ 895,000	\$ 1,220,672
Water Service	364,828	
Wastewater Service	280,587	
Water Authority Fees	640,492	
Sales Tax Revenues	110,667	
Penalty and Interest	23,938	25,397
Connection and Inspection Fees	362,417	
Investment and Miscellaneous Revenues	187,627	19,003
TOTAL REVENUES	\$ 2,865,556	\$ 1,265,072
EXPENDITURES/EXPENSES		
Service Operations:		
Professional Fees	\$ 180,893	\$ 3,168
Contracted Services	264,779	55,283
Utilities	117,850	
Purchased Water and Pumpage Fees	726,007	
Repairs and Maintenance	525,247	
Depreciation		
Other	443,897	10,342
Debt Service:		
Bond Principal		825,000
Bond Interest		253,611
TOTAL EXPENDITURES/EXPENSES	\$ 2,258,673	\$ 1,147,404
NET CHANGE IN FUND BALANCES	\$ 606,883	\$ 117,668
CHANGE IN NET POSITION		
FUND BALANCES/NET POSITION -		
OCTOBER 1, 2023	2,940,239	378,688
FUND BALANCES/NET POSITION -		
SEPTEMBER 30, 2024	\$ 3,547,122	\$ 496,356

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

Total	Adjustments	Statement of Activities
\$ 2,115,672	\$ 7,007	\$ 2,122,679
364,828		364,828
280,587		280,587
640,492		640,492
110,667		110,667
49,335	2,607	51,942
362,417		362,417
206,630	(5,551)	201,079
<u>\$ 4,130,628</u>	<u>\$ 4,063</u>	<u>\$ 4,134,691</u>
\$ 184,061	\$	\$ 184,061
320,062		320,062
117,850		117,850
726,007		726,007
525,247		525,247
	369,485	369,485
454,239		454,239
825,000	(825,000)	
253,611	60,333	313,944
<u>\$ 3,406,077</u>	<u>\$ (395,182)</u>	<u>\$ 3,010,895</u>
\$ 724,551	\$ (724,551)	\$
	1,123,796	1,123,796
3,318,927	1,076,067	4,394,994
<u>\$ 4,043,478</u>	<u>\$ 1,475,312</u>	<u>\$ 5,518,790</u>

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

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
RECONCILIATION OF THE GOVERNMENTAL FUNDS STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCES
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

Net Change in Fund Balances - Governmental Funds	\$ 724,551
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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.	7,007
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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.	2,607
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The principal portion of the Regional Water Authority chloramine conversion credits reduces the long-term receivable in the Statement of Net Position.	(5,551)
--	---------

Governmental funds do not account for depreciation. However, in the Statement of Net Position, capital assets are depreciated and depreciation expense is recorded in the Statement of Activities.	(369,485)
--	-----------

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.	825,000
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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.	(60,333)
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Change in Net Position - Governmental Activities	\$ 1,123,796
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The accompanying notes to the financial
statements are an integral part of this report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 1. CREATION OF DISTRICT

Harris County Municipal Utility District No. 86 of Harris County, Texas was created effective March 21, 1974, by an Order of the Texas Water Commission presently known as 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, 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 first meeting on April 23, 1974, and the first bonds were sold August 19, 1986.

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 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:

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

- 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.
- 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 to obtain net total revenues and expenses of the government-wide Statement of Activities.

Fund Financial Statements

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Governmental Funds

The District has two governmental funds and considers each to be a major fund. The General Fund accounts for resources not required to be accounted for in another fund, customer service revenues, operating costs and general expenditures. The Debt Service Fund accounts for ad valorem taxes and financial resources restricted, committed or assigned for servicing bond debt and the cost of assessing and collecting taxes.

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 collectible within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectible within 60 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 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 reasonably 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 September 30, 2024, the General Fund recorded a payable to the Debt Service Fund of \$64,449 for the over transfer of maintenance tax collections.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets, are reported in the government-wide Statement of Net Position. All capital assets are valued at historical cost or estimated historical cost if actual historical cost is not available. Donated assets are valued at their fair market value on the date donated. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets (Continued)

Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized, including infrastructure assets, if they have an original cost greater than \$5,000 and a useful life over two years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation. Estimated useful lives are as follows:

	<u>Years</u>
Buildings	40
Water System	10-45
Wastewater System	10-45
Drainage System	10-45

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 amended. The Schedule of Revenues, Expenditures and Changes in Fund Balance – Budget and Actual – General Fund presents the budgeted amounts compared to the actual amounts of revenues and expenditures for the current year.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

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.

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.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 3. LONG-TERM DEBT

The following is a summary of transactions regarding bonds payable for the year ended September 30, 2024:

	October 1, 2023	Additions	Retirements	September 30, 2024
Bonds Payable	\$ 7,790,000	\$	\$ 825,000	\$ 6,965,000
Unamortized Discounts	(95,582)		(6,745)	(88,837)
Unamortized Premiums	82,903		6,104	76,799
Bonds Payable, Net	<u>\$ 7,777,321</u>	<u>\$ -0-</u>	<u>\$ 824,359</u>	<u>\$ 6,952,962</u>
			Amount Due Within One Year	\$ 855,000
			Amount Due After One Year	<u>6,097,962</u>
			Bonds Payable, Net	<u>\$ 6,952,962</u>

	Series 2013 Refunding	Series 2015	Series 2016 Refunding
Amount Outstanding – September 30, 2024	\$ 5,030,000	\$ 1,660,000	\$ 275,000
Interest Rates	3.00% - 4.00%	3.00% - 4.00%	2.09%
Maturity Dates – Serially Beginning/Ending	March 1, 2025/2037	March 1, 2026/2039	March 1, 2025
Interest Payment Dates	March 1/ September 1	March 1/ September 1	March 1/ September 1
Callable Dates	March 1, 2025*	March 1, 2021*	March 1, 2020*

* At the option of the District, in whole or in part, on the call option date or any date thereafter, at par plus accrued interest to the date of redemption. Series 2013 term bonds maturing March 1, 2035, and 2037, are subject to mandatory redemption beginning March 1, 2031, 2034, and 2036, respectively. Series 2015 term bonds maturing March 1, 2027, 2029, 2031, 2033, 2035, 2037, and 2039, are subject to mandatory redemption beginning March 1, 2026, 2028, 2030, 2032, 2034, 2036, and 2038, respectively.

The bonds are payable from the proceeds of an ad valorem tax levied upon all property subject to taxation within the District, without limitation as to rate or amount. The District has remaining bond authorization of \$13,320,000. The Series 2016 Bonds are private placement bonds.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 3. LONG-TERM DEBT (Continued)

As of September 30, 2024, the debt service requirements on the bonds outstanding were as follows:

Fiscal Year	Principal	Interest	Total
2025	855,000	228,067	1,083,067
2026	795,000	200,594	995,594
2027	820,000	168,293	988,293
2028	835,000	138,909	973,909
2029	645,000	115,569	760,569
2030-2034	1,825,000	339,085	2,164,085
2035-2039	1,190,000	94,285	1,284,285
	\$ 6,965,000	\$ 1,284,802	\$ 8,249,802

During the year ended September 30, 2024, the District levied an ad valorem debt service tax rate of \$0.341 per \$100 of assessed valuation, which resulted in a tax levy of \$1,283,004 on the adjusted taxable valuation of \$376,247,416 for the 2023 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 certain general financial information and operating data to the certain information repositories. This information is of the general type included in the audited annual financial statements and is to be provided within six months after the end of each fiscal year and shall continue to be provided through the life of the bonds.

The bond orders state that the District should 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

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 \$300,138 and the bank balance was \$386,817. The District was not exposed to custodial credit risk at year-end. The carrying values of the deposits at September 30, 2024, are as follows:

	<u>Cash</u>
GENERAL FUND	\$ 178,079
DEBT SERVICE FUND	<u>122,059</u>
TOTAL DEPOSITS	<u>\$ 300,138</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. 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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 5. DEPOSITS AND INVESTMENTS (Continued)

Investments (Continued)

The District invests in TexPool, an external investment pool that is not SEC-registered. The State Comptroller of Public Accounts of the State of Texas has oversight of the pool. Federated Hermes, Inc. manages the daily operations of the pool under a contract with the Comptroller. TexPool measures all of its portfolio assets at amortized cost. The District measures its investments in TexPool at amortized cost for financial reporting purposes. There are no limitations or restrictions on withdrawals from TexPool.

As of September 30, 2024, the District had the following investments and maturities:

Funds and Investment Type	Fair Value	Maturities of Less Than 1 Year
<u>GENERAL FUND</u>		
TexPool	\$ 3,765,238	\$ 3,765,238
<u>DEBT SERVICE FUND</u>		
TexPool	<u>360,150</u>	<u>360,150</u>
TOTAL INVESTMENTS	<u>\$ 4,125,388</u>	<u>\$ 4,125,388</u>

Credit risk is the risk that the issuer or other counterparty to an investment will not fulfill its obligations. At September 30, 2024, the District's investment in TexPool was rated AAAm by Standard and Poor's.

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. The District considers the investment in TexPool to have a maturity of less than one year due to the fact the share position can usually be redeemed each day at the discretion of the District, unless there has been a significant change in value.

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.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 6. CAPITAL ASSETS

Capital asset activity for the current fiscal year is summarized in the following table:

	October 1, 2023	Increases	Decreases	September 30, 2024
Capital Assets Not Being Depreciated				
Land and Land Improvements	\$ 1,225,271	\$ - 0 -	\$ - 0 -	\$ 1,225,271
Capital Assets Subject to Depreciation				
Office Building	\$ 424,276	\$	\$	\$ 424,276
Water System	6,084,518	520,730		6,605,248
Wastewater System	6,800,372	735,647		7,536,019
Drainage System	6,728,658	2,208,252		8,936,910
Total Capital Assets Subject to Depreciation	\$ 20,037,824	\$ 3,464,629	\$ - 0 -	\$ 23,502,453
Less Accumulated Depreciation				
Office Building	\$ 174,727	\$ 10,694	\$	\$ 185,421
Water System	4,043,990	98,085		4,142,075
Wastewater System	3,917,914	176,337		4,094,251
Drainage System	4,892,599	84,369		4,976,968
Total Accumulated Depreciation	\$ 13,029,230	\$ 369,485	\$ - 0 -	\$ 13,398,715
Total Depreciable Capital Assets, Net of Accumulated Depreciation	\$ 7,008,594	\$ 3,095,144	\$ - 0 -	\$ 10,103,738
Total Capital Assets, Net of Accumulated Depreciation	\$ 8,233,865	\$ 3,095,144	\$ - 0 -	\$ 11,329,009

NOTE 7. MAINTENANCE TAX

On April 5, 1980, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$0.25 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 water and wastewater systems and any other lawful purpose. During the current fiscal year, the District levied an ad valorem maintenance tax rate of \$0.25 per \$100 of assessed valuation, which resulted in a tax levy of \$940,619 on the adjusted taxable valuation of \$376,247,416 for the 2023 tax year.

NOTE 8. RISK MANAGEMENT

The District is exposed to various risks of loss related to torts; theft of, damage to and destruction of assets; errors and omissions; and natural disasters for which the District carries commercial insurance. There have been no significant reductions in coverage from the prior year and settlements have not exceeded coverage in the past three years.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 9. EMERGENCY WATER SUPPLY CONTRACT

On March 7, 2017, the District and Harris County Water Control and Improvement District No. 91 (“District No. 91”) entered into a 40-year emergency water supply contract for the operation of an emergency water supply interconnect between the districts. This contract replaces an earlier contract which expired in 2015. The supplying district bills the receiving district \$0.75 plus the supplying district’s regional water authority rate per 1,000 gallons of average daily usage. At the option of the supplying district, the water may be repaid in-kind.

NOTE 10. STRATEGIC PARTNERSHIP AGREEMENT

Effective April 8, 2003, the District entered into a Strategic Partnership Agreement with the City of Houston, Texas (the “City”). The agreement provides that in accordance with Subchapter F of Chapter 43 of the Local Government Code and the Act, the City shall annex a tract or tracts of land for the limited purposes of applying the City’s Planning, Zoning, Health, and Safety Ordinances within the Tract within the boundaries of the District. The District will continue to develop, own, operate, and maintain the water, wastewater, and drainage systems in the District.

The City imposes a Sales and Use Tax within the boundaries of the Tract on the receipts from the sale and use at retail of taxable items at the rate of one percent or the rate specified under the future amendments to Chapter 321 of the Tax Code. The City pays the District one-half of all Sales and Use Tax revenues generated within the boundaries of the Tract within 30 days of the City receiving the funds from the State Comptroller’s office. The City agrees that it will not annex the District for full purposes or commence any action to annex the District for full purposes during the term of this agreement. The term of this agreement is 30 years from the effective date of the agreement.

During the current fiscal year, the District received \$110,667 in sales tax revenues, of which \$27,198 was recorded as a receivable.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 11. NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY

The District is located within the boundaries of the North Harris County Regional Water Authority (the “Authority”). The Authority was created under Article 16, Section 59 of the Texas Constitution by House Bill 2965 (the “Act”), as passed by the 75th Texas Legislature, in 1999. The Act empowers the Authority to provide for the conservation, preservation, protection, recharge and prevention of waste of groundwater, and for the reduction of groundwater withdrawals. The Authority charges a fee, based on the amount of water pumped from a well, to the owner of wells located within the boundaries of the Authority, unless exempted. This fee enables the Authority to fulfill its purpose and regulatory functions.

The current fee charged is \$3.60 per 1,000 gallons of water pumped from each well. The District recorded expenditures of \$16,852 for pumpage fees during the current fiscal year. The District also purchases surface water from the Authority at the current rate of \$4.05 per 1,000 gallons. The District incurred costs of \$718,095 for purchased water in the current fiscal year.

Chloramine Conversion Reimbursement

The Authority required the District to convert its water system to chloramine disinfection for as long as it is connected to the Authority’s system. The eligible costs to be reimbursed by the Authority totaled \$214,884. The Authority calculated the reimbursement at 6% interest over a 30-year period. The District began receiving chloramine conversion credits on the July 2011, Authority billing. Credits received in the current fiscal year totaled \$15,611. Of this amount, \$5,551 was a return of principal with the balance being applicable to interest. The following is a schedule of the remaining chloramine conversion credits to be received under the terms of the agreement.

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2025	5,884	9,727	15,611
2026	6,237	9,374	15,611
2027	6,612	8,999	15,611
2028	7,008	8,603	15,611
2029	7,429	8,182	15,611
2030-2034	44,389	33,666	78,055
2035-2039	59,403	18,653	78,055
2040-2041	25,151	2,006	27,157
	<u>\$ 162,113</u>	<u>\$ 99,210</u>	<u>\$ 261,322</u>

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2024

NOTE 12. DEVELOPER FINANCING AGREEMENT

The District entered into a Development Financing Agreement effective as of June 8, 2023 with D.R. Horton, Inc. (“Developer”), pursuant to which approximately 58.29 acres were to be developed into 269 single family residential lots and to build single-family homes as Legacy Park, Sections 1-3. The Developer subsequently acquired 15.62 acres to be developed as 140 townhomes as Legacy Park Section 4. Construction on all four sections commenced during the current fiscal year. Housing is complete in all of Section 1. Sections 2-4 are in various states of construction. The District has committed to issue bonds to reimburse the Developer for the eligible water, sewer, and drainage costs for this project. As of September 30, 2024, the District has recorded an estimated liability of \$3,464,629 in relation to this agreement for facilities that have been completed.

NOTE 13. PROVIDENCE GARDENS DEVELOPMENT AND SERVICE AGREEMENT

On November 3, 2023, the District entered a Development and Service Agreement with Harris County, Texas to serve 10.57 acres for single-family affordable housing. The County has commenced construction of utilities, roadways, and detention to serve approximately sixty (60) single-family residential lots. As a nontaxable project, the County has agreed to pay the District a Nontaxable Capital Fee of \$7,115.75 per connection in advance of connection, and to pay nontaxable water and sewer rates to the District. In the event a housing unit is conveyed by the County to a qualified buyer, the unit would become subject to taxation by the District, whereupon the District is required to rebate to the County the difference between the Nontaxable Capital Fee and the standard residential tap fee, and the housing unit would thereafter be charged standard residential water and sewer rates.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2024

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL - GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	Original Budget	Final Amended Budget	Actual	Variance Positive (Negative)
REVENUES				
Property Taxes	\$ 940,000	\$ 940,000	\$ 895,000	\$ (45,000)
Water Service	360,000	360,000	364,828	4,828
Wastewater Service	300,000	300,000	280,587	(19,413)
Water Authority Fees	780,000	780,000	640,492	(139,508)
Sales Tax Revenues	125,000	125,000	110,667	(14,333)
Penalty and Interest	18,500	22,000	23,938	1,938
Connection and Inspection Fees	25,000	35,100	362,417	327,317
Investment and Miscellaneous Revenues	<u>98,000</u>	<u>110,000</u>	<u>187,627</u>	<u>77,627</u>
TOTAL REVENUES	<u>\$ 2,646,500</u>	<u>\$ 2,672,100</u>	<u>\$ 2,865,556</u>	<u>\$ 193,456</u>
EXPENDITURES				
Service Operations:				
Professional Fees	\$ 154,000	\$ 169,000	\$ 180,893	\$ (11,893)
Contracted Services	276,000	285,500	264,779	20,721
Utilities	135,000	148,000	117,850	30,150
Purchased Water and Pumpage Fees	860,000	860,000	726,007	133,993
Repairs and Maintenance	565,000	575,000	525,247	49,753
Other	335,500	344,500	443,897	(99,397)
Capital Outlay	<u>875,000</u>	<u>875,000</u>	<u></u>	<u>875,000</u>
TOTAL EXPENDITURES	<u>\$ 3,200,500</u>	<u>\$ 3,257,000</u>	<u>\$ 2,258,673</u>	<u>\$ 998,327</u>
NET CHANGE IN FUND BALANCE	<u>\$ (554,000)</u>	<u>\$ (584,900)</u>	<u>\$ 606,883</u>	<u>\$ 1,191,783</u>
FUND BALANCE - OCTOBER 1, 2023	<u>2,940,239</u>	<u>2,940,239</u>	<u>2,940,239</u>	<u></u>
FUND BALANCE - SEPTEMBER 30, 2024	<u>\$ 2,386,239</u>	<u>\$ 2,355,339</u>	<u>\$ 3,547,122</u>	<u>\$ 1,191,783</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86

SUPPLEMENTARY INFORMATION – REQUIRED BY THE

WATER DISTRICT FINANCIAL MANAGEMENT GUIDE

SEPTEMBER 30, 2024

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

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

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

2. RETAIL SERVICE PROVIDERS

a. RETAIL RATES FOR A 3/4" METER (OR EQUIVALENT):

The rates below are based on the rate order approved February 3, 2023.

	Minimum Charge	Minimum Usage	Flat Rate Y/N	Rate per 1,000 Gallons over Minimum Use	Usage Levels
WATER:	\$ 11.25	10,000	N	\$ 1.25 \$ 1.50	10,001 to 20,000 20,001 and up
WASTEWATER:	\$ 11.00		Y		
SURCHARGE:					
Water Authority Fees			N	\$4.30	Each 1,000 gallons over -0- usage
District employs winter averaging for wastewater usage?					<u> </u> <u> X </u> Yes No

Total monthly charges per 10,000 gallons usage: Water: \$11.25 Wastewater: \$11.00 Surcharge: \$43.00

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

2. RETAIL SERVICE PROVIDERS (Continued)

b. WATER AND WASTEWATER RETAIL CONNECTIONS: (Unaudited)

<u>Meter Size</u>	<u>Total Connections</u>	<u>Active Connections</u>	<u>ESFC Factor</u>	<u>Active ESFCs</u>
Unmetered	<u>6</u>	<u>6</u>	x 1.0	<u>6</u>
≤¾"	<u>453</u>	<u>451</u>	x 1.0	<u>451</u>
1"	<u>17</u>	<u>17</u>	x 2.5	<u>43</u>
1½"	<u>4</u>	<u>3</u>	x 5.0	<u>15</u>
2"	<u>51</u>	<u>51</u>	x 8.0	<u>408</u>
3"	<u>2</u>	<u>2</u>	x 15.0	<u>30</u>
4"	<u>1</u>	<u>1</u>	x 25.0	<u>25</u>
6"	<u>7</u>	<u>7</u>	x 50.0	<u>350</u>
8"	<u>3</u>	<u>3</u>	x 80.0	<u>240</u>
10"	<u></u>	<u></u>	x 115.0	<u></u>
Total Water Connections	<u><u>544</u></u>	<u><u>541</u></u>		<u><u>1,568</u></u>
Total Wastewater Connections	<u><u>504</u></u>	<u><u>503</u></u>	x 1.0	<u><u>503</u></u>

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Unaudited)

Gallons pumped into system:	4,681,000	Water Accountability Ratio: 84% (Gallons billed/Gallons pumped and purchased)
Gallons billed to customers:	149,820,000	
Gallons purchased:	174,618,000	From: North Harris County Regional Water Authority

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

4. STANDBY FEES (authorized only under TWC Section 49.231):

Does the District have Debt Service standby fees? Yes ☐ No ☒

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

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes ☒ No ☐

County in which District is located:

Harris County, Texas

Is the District located within a city?

Entirely ☐ Partly ☐ Not at all ☒

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

Entirely ☒ Partly ☐ Not at all ☐

ETJ in which District is located:

City of Houston, Texas

Are Board Members appointed by an office outside the District?

Yes ☐ No ☒

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2024

PROFESSIONAL FEES:	
Auditing	\$ 18,000
Engineering	77,400
Legal	82,993
Financial Advisor	2,500
TOTAL PROFESSIONAL FEES	<u>\$ 180,893</u>
CONTRACTED SERVICES:	
Bookkeeping	\$ 41,800
Operations and Billing	122,160
Consulting	76,800
Solid Waste Disposal	1,099
Security	22,920
TOTAL CONTRACTED SERVICES	<u>\$ 264,779</u>
PURCHASED WATER	<u>\$ 709,155</u>
UTILITIES	<u>\$ 117,850</u>
REPAIRS AND MAINTENANCE	<u>\$ 525,247</u>
ADMINISTRATIVE EXPENDITURES:	
Director Fees, Including Payroll Taxes	\$ 30,413
Election Costs	6,376
Insurance	27,428
Office Supplies and Postage	29,658
Travel and Meetings	8,177
Other	6,343
TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 108,395</u>
TAP CONNECTIONS	<u>\$ 94,500</u>
OTHER EXPENDITURES:	
Chemicals	\$ 90,625
Laboratory Fees	27,436
Permit Fees	9,915
Connection, Inspection and Reconnection Fees	68,555
Pumpage Fees	16,852
Regulatory Assessment	3,317
Sludge Hauling	41,154
TOTAL OTHER EXPENDITURES	<u>\$ 257,854</u>
TOTAL EXPENDITURES	<u>\$ 2,258,673</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
INVESTMENTS
SEPTEMBER 30, 2024

<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>
<u>GENERAL FUND</u>					
TexPool	XXXX0003	Varies	Daily	\$ 3,765,238	\$
<u>DEBT SERVICE FUND</u>					
TexPool	XXXX0001	Varies	Daily	\$ 360,150	\$
TOTAL - ALL FUNDS				<u>\$ 4,125,388</u>	<u>\$ - 0 -</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	<u>Maintenance Taxes</u>		<u>Debt Service Taxes</u>	
TAXES RECEIVABLE -				
OCTOBER 1, 2023	\$	9,665	\$	15,712
Adjustments to Beginning				
Balance		<u>(42,213)</u>	\$	<u>(58,731)</u>
		\$ (32,548)	\$	(43,019)
Original 2023 Tax Levy	\$	891,682	\$	1,216,254
Adjustment to 2023 Tax Levy		<u>48,937</u>	<u>66,750</u>	<u>1,283,004</u>
		940,619		
TOTAL TO BE				
ACCOUNTED FOR		\$ 908,071	\$	1,239,985
TAX COLLECTIONS:				
Prior Years	\$	(40,002)	\$	(54,671)
Current Year		<u>935,002</u>	<u>1,275,343</u>	<u>1,220,672</u>
		895,000		
TAXES RECEIVABLE -				
SEPTEMBER 30, 2024		<u>\$ 13,071</u>	<u>\$ 19,313</u>	
TAXES RECEIVABLE BY				
YEAR:				
2023	\$	5,617	\$	7,661
2022		3,713		5,243
2021		1,324		2,000
2020		1,212		2,214
2019 and prior		<u>1,205</u>	<u>2,195</u>	
TOTAL	\$	<u>13,071</u>	<u>\$ 19,313</u>	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2024

	<u>2023</u>	<u>2022</u>	<u>2021</u>	<u>2020</u>
PROPERTY VALUATIONS:				
Land	\$ 92,783,351	\$ 87,056,859	\$ 82,245,015	\$ 77,089,035
Improvements	287,781,328	243,682,690	205,970,053	199,667,612
Personal Property	16,129,468	15,485,071	13,839,150	14,264,358
Exemptions	<u>(20,446,731)</u>	<u>(18,827,916)</u>	<u>(15,803,320)</u>	<u>(15,422,830)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 376,247,416</u>	<u>\$ 327,396,704</u>	<u>\$ 286,250,898</u>	<u>\$ 275,598,175</u>
TAX RATES PER \$100 VALUATION:				
Debt Service	\$ 0.341	\$ 0.353	\$ 0.370	\$ 0.400
Maintenance	<u>0.250</u>	<u>0.250</u>	<u>0.245</u>	<u>0.219</u>
TOTAL TAX RATES PER \$100 VALUATION	<u>\$ 0.591</u>	<u>\$ 0.603</u>	<u>\$ 0.615</u>	<u>\$ 0.619</u>
ADJUSTED TAX LEVY*	<u>\$ 2,223,623</u>	<u>\$ 1,974,201</u>	<u>\$ 1,760,443</u>	<u>\$ 1,705,953</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>99.40 %</u>	<u>99.55 %</u>	<u>99.81 %</u>	<u>99.80 %</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 \$0.25 per \$100 of assessed valuation approved by voters on April 5, 1980.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2024

S E R I E S - 2 0 1 3 R E F U N D I N G			
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2025	\$ 580,000	\$ 167,737	\$ 747,737
2026	695,000	145,138	840,138
2027	720,000	116,837	836,837
2028	735,000	90,953	825,953
2029	545,000	70,613	615,613
2030	695,000	50,028	745,028
2031	135,000	35,937	170,937
2032	140,000	31,125	171,125
2033	150,000	26,050	176,050
2034	155,000	20,616	175,616
2035	155,000	14,997	169,997
2036	160,000	9,187	169,187
2037	165,000	3,094	168,094
2038			
2039			
	<u>\$ 5,030,000</u>	<u>\$ 782,312</u>	<u>\$ 5,812,312</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2024

S E R I E S - 2 0 1 5			
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2025	\$	\$ 57,456	\$ 57,456
2026	100,000	55,456	155,456
2027	100,000	51,456	151,456
2028	100,000	47,956	147,956
2029	100,000	44,956	144,956
2030	100,000	41,894	141,894
2031	100,000	38,769	138,769
2032	100,000	35,519	135,519
2033	125,000	31,722	156,722
2034	125,000	27,425	152,425
2035	125,000	23,050	148,050
2036	125,000	18,675	143,675
2037	150,000	13,863	163,863
2038	150,000	8,519	158,519
2039	160,000	2,900	162,900
	<u>\$ 1,660,000</u>	<u>\$ 499,616</u>	<u>\$ 2,159,616</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2024

S E R I E S - 2 0 1 6 R E F U N D I N G			
Due During Fiscal Years Ending September 30	Principal Due March 1	Interest Due March 1/ September 1	Total
2025	\$ 275,000	\$ 2,874	\$ 277,874
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
	<u>\$ 275,000</u>	<u>\$ 2,874</u>	<u>\$ 277,874</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
LONG-TERM DEBT SERVICE REQUIREMENTS
SEPTEMBER 30, 2024

ANNUAL REQUIREMENTS
FOR ALL SERIES

Due During Fiscal Years Ending September 30	Total Principal Due	Total Interest Due	Total Principal and Interest Due
2025	\$ 855,000	\$ 228,067	\$ 1,083,067
2026	795,000	200,594	995,594
2027	820,000	168,293	988,293
2028	835,000	138,909	973,909
2029	645,000	115,569	760,569
2030	795,000	91,922	886,922
2031	235,000	74,706	309,706
2032	240,000	66,644	306,644
2033	275,000	57,772	332,772
2034	280,000	48,041	328,041
2035	280,000	38,047	318,047
2036	285,000	27,862	312,862
2037	315,000	16,957	331,957
2038	150,000	8,519	158,519
2039	160,000	2,900	162,900
	<u>\$ 6,965,000</u>	<u>\$ 1,284,802</u>	<u>\$ 8,249,802</u>

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
CHANGES IN LONG-TERM BOND DEBT
FOR THE YEAR ENDED SEPTEMBER 30, 2024

Description	Original Bonds Issued	Bonds Outstanding October 1, 2023
Harris County Municipal Utility District No. 86 Waterworks and Sewer System Unlimited Tax Refunding Bonds - Series 2013	\$ 8,030,000	\$ 5,590,000
Harris County Municipal Utility District No. 86 Unlimited Tax Bonds - Series 2015	1,660,000	1,660,000
Harris County Municipal Utility District No. 86 Unlimited Tax Refunding Bonds - Series 2016	<u>2,675,000</u>	<u>540,000</u>
TOTAL	<u>\$ 12,365,000</u>	<u>\$ 7,790,000</u>

Bond Authority:	<u>Tax Bonds and Refunding Bonds</u>
Amount Authorized by Voters	\$ 30,000,000
Amount Issued	<u>16,680,000</u>
Remaining to be Issued	<u>\$ 13,320,000</u>

Debt Service Fund cash and investment balances as of September 30, 2024:	<u>\$ 482,209</u>
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Average annual debt service payment (principal and interest) for remaining term of all debt:	<u>\$ 549,987</u>
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See Note 3 for interest rates, interest payment dates and maturity dates.

See accompanying independent auditor's report.

Current Year Transactions					
	Retirements			Bonds Outstanding September 30, 2024	
Bonds Sold	Principal	Interest			Paying Agent
\$	\$ 560,000	\$ 187,638		\$ 5,030,000	Amegy Bank N.A. Houston, TX
		57,456		1,660,000	Amegy Bank N.A. Houston, TX
	265,000	8,517		275,000	Trustmark National Bank Houston, TX
\$ - 0 -	\$ 825,000	\$ 253,611		\$ 6,965,000	

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
GENERAL FUND - FIVE YEARS

	Amounts		
	2024	2023	2022
REVENUES			
Property Taxes	\$ 895,000	\$ 796,387	\$ 696,504
Water Service	364,828	396,869	349,568
Wastewater Service	280,587	300,516	285,684
Water Authority Fees	640,492	788,385	780,856
Sales Tax Revenues	110,667	114,156	117,444
Penalty and Interest	23,938	24,401	23,207
Connection and Inspection Fees	362,417	57,759	78,993
Investment and Miscellaneous Revenues	<u>187,627</u>	<u>138,758</u>	<u>35,338</u>
TOTAL REVENUES	<u>\$ 2,865,556</u>	<u>\$ 2,617,231</u>	<u>\$ 2,367,594</u>
EXPENDITURES			
Professional Fees	\$ 180,893	\$ 174,698	\$ 209,947
Contracted Services	264,779	262,023	250,123
Purchased Water and Pumpage Fees	726,007	795,259	831,967
Utilities	117,850	132,183	157,389
Repairs and Maintenance	525,247	587,739	458,544
Other	443,897	331,520	276,116
Capital Outlay	<u> </u>	<u>158,836</u>	<u>361,236</u>
TOTAL EXPENDITURES	<u>\$ 2,258,673</u>	<u>\$ 2,442,258</u>	<u>\$ 2,545,322</u>
NET CHANGE IN FUND BALANCE	\$ 606,883	\$ 174,973	\$ (177,728)
BEGINNING FUND BALANCE	<u>2,940,239</u>	<u>2,765,266</u>	<u>2,942,994</u>
ENDING FUND BALANCE	<u>\$ 3,547,122</u>	<u>\$ 2,940,239</u>	<u>\$ 2,765,266</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues						
2021	2020	2024	2023	2022	2021	2020		
\$ 587,708	\$ 615,479	31.3 %	30.4 %	29.3 %	27.7 %	27.5 %		
340,424	370,825	12.7	15.2	14.8	16.1	16.5		
276,911	289,010	9.8	11.5	12.1	13.1	12.9		
739,219	716,096	22.4	30.1	33.0	34.9	31.9		
120,713	112,364	3.9	4.4	5.0	5.7	5.0		
5,748		0.8	0.9	1.0	0.3			
18,055	73,765	12.6	2.2	3.3	0.9	3.3		
26,846	65,065	6.5	5.3	1.5	1.3	2.9		
<u>\$ 2,115,624</u>	<u>\$ 2,242,604</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>		
\$ 117,409	\$ 110,671	6.3 %	6.7 %	8.9 %	5.5 %	4.9 %		
236,643	221,432	9.2	10.0	10.6	11.2	9.9		
771,815	735,204	25.3	30.4	35.1	36.5	32.8		
116,558	122,394	4.1	5.1	6.6	5.5	5.5		
449,779	378,380	18.3	22.5	19.4	21.3	16.9		
261,621	247,280	15.5	12.7	11.7	12.4	11.0		
957,266	169,091		6.1	15.3	45.2	7.5		
<u>\$ 2,911,091</u>	<u>\$ 1,984,452</u>	<u>78.7 %</u>	<u>93.5 %</u>	<u>107.6 %</u>	<u>137.6 %</u>	<u>88.5 %</u>		
\$ (795,467)	\$ 258,152	21.3 %	6.5 %	(7.6) %	(37.6) %	11.5 %		
<u>3,738,461</u>	<u>3,480,309</u>							
\$ 2,942,994	\$ 3,738,461							

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
COMPARATIVE SCHEDULE OF REVENUES AND EXPENDITURES
DEBT SERVICE FUND - FIVE YEARS

	Amounts		
	2024	2023	2022
REVENUES			
Property Taxes	\$ 1,220,672	\$ 1,118,075	\$ 1,051,277
Penalty, Interest, and Miscellaneous Revenues	<u>44,400</u>	<u>38,101</u>	<u>19,445</u>
TOTAL REVENUES	<u>\$ 1,265,072</u>	<u>\$ 1,156,176</u>	<u>\$ 1,070,722</u>
EXPENDITURES			
Tax Collection Expenditures	\$ 66,543	\$ 65,651	\$ 62,236
Debt Service Principal	825,000	795,000	790,000
Debt Service Interest and Fees	<u>255,861</u>	<u>279,245</u>	<u>296,772</u>
TOTAL EXPENDITURES	<u>\$ 1,147,404</u>	<u>\$ 1,139,896</u>	<u>\$ 1,149,008</u>
NET CHANGE IN FUND BALANCE	\$ 117,668	\$ 16,280	\$ (78,286)
BEGINNING FUND BALANCE	<u>378,688</u>	<u>362,408</u>	<u>440,694</u>
ENDING FUND BALANCE	<u>\$ 496,356</u>	<u>\$ 378,688</u>	<u>\$ 362,408</u>
TOTAL ACTIVE RETAIL WATER CONNECTIONS	<u>541</u>	<u>402</u>	<u>404</u>
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	<u>503</u>	<u>366</u>	<u>370</u>

See accompanying independent auditor's report.

		Percentage of Total Revenues				
2021	2020	2024	2023	2022	2021	2020
\$ 1,073,496	\$ 1,123,404	96.5 %	96.7 %	98.2 %	96.3 %	97.8 %
40,903	25,625	3.5	3.3	1.8	3.7	2.2
\$ 1,114,399	\$ 1,149,029	100.0 %	100.0 %	100.0 %	100.0 %	100.0 %
\$ 77,714	\$ 65,163	5.3 %	5.7 %	5.8 %	7.0 %	5.7 %
775,000	735,000	65.2	68.8	73.8	69.5	64.0
314,661	330,644	20.2	24.2	27.7	28.2	28.8
\$ 1,167,375	\$ 1,130,807	90.7 %	98.7 %	107.3 %	104.7 %	98.5 %
\$ (52,976)	\$ 18,222	9.3 %	1.3 %	(7.3) %	(4.7) %	1.5 %
493,670	475,448					
\$ 440,694	\$ 493,670					
404	402					
369	368					

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2024

District Mailing Address - Harris County Municipal Utility District No. 86
c/o Bacon, Wallace & Philbin, L.L.P.
6363 Woodway, Suite 800
Houston, TX 77057

District Telephone Number - (713) 739-1060

Board Members:	Term of Office (Elected or Appointed)	Fees of Office for the year ended September 30, 2024	Expense Reimbursements for the year ended September 30, 2024	Title
Betty L. Grugan	05/2022 05/2026 (Elected)	\$ 6,851	\$ 665	President
Deidre M. Reed	05/2022 05/2026 (Appointed)	\$ 5,304	\$ 698	Vice President
Patricia Smith	05/2022 05/2026 (Appointed)	\$ 5,967	\$ 845	Secretary/ Treasurer
Connie L. Cole	05/2024 05/2028 (Appointed)	\$ 4,862	\$ 1,811	Assistant Secretary/ Treasurer
Andrew P. Sloan	05/2024 05/2028 (Appointed)	\$ 2,210	\$ 174	Director

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. In accordance with Texas Water Code Section 49.060, the limit on Fees of Office that a Director may receive during a fiscal year is \$7,200 as set by Board Resolution on August 11, 2003. Fees of Office are the amounts actually paid to a Director during the District's current fiscal year. The submission date of most recent District Registration Form was August 19, 2024.

See accompanying independent auditor's report.

HARRIS COUNTY MUNICIPAL UTILITY DISTRICT NO. 86
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2024

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2024</u>	<u>Title</u>
Bacon, Wallace & Philbin, L.L.P.	01/01/2001	\$ 89,369	General Counsel
McCall Gibson Swedlund Barfoot Ellis PLLC	09/16/2005	\$ 18,000	Auditor
Myrtle Cruz, Inc.	03/12/1983	\$ 44,653	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, L.L.P.	02/25/2015	\$ 3,168	Delinquent Tax Attorney
R.G. Miller Engineers, Inc.	02/11/1998	\$ 77,400	Engineer
The GMS Group, L.L.C.	02/11/1998	\$ 2,500	Financial Advisor
Systems Project Management LLC	01/04/2008	\$ 83,329	General Manager
Mary Jarmon	09/20/1999	\$ -0-	Investment Officer
Municipal District Services, LLC	10/01/2009	\$ 731,400	Operator
Utility Tax Service, LLC	09/24/2004	\$ 43,196	Tax Assessor/ Collector

See accompanying independent auditor's report.

APPENDIX B

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

(To be included in the Final Official Statement, if applicable)