

**LUCE BAYOU PUBLIC
UTILITY DISTRICT**
(Harris County, Texas)

PRELIMINARY OFFICIAL STATEMENT
DATED: FEBRUARY 4, 2026

\$12,460,000
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE BONDS
SERIES 2026

BIDS DUE: 11:00 A.M., HOUSTON TIME
BONDS AWARDED: 5:00 P.M., HOUSTON TIME
WEDNESDAY, MARCH 4, 2026
HOUSTON, TEXAS



PRELIMINARY OFFICIAL STATEMENT DATED FEBRUARY 4, 2026

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

*The Bonds are **not** "qualified tax-exempt obligations" for financial institutions. See "LEGAL MATTERS – **Not** Qualified Tax-Exempt Obligations."*

NEW ISSUE - Book-Entry Only

\$12,460,000
LUCE BAYOU PUBLIC UTILITY DISTRICT
(A political subdivision of the State of Texas located within Harris County, Texas)
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE BONDS, SERIES 2026

Dated: April 1, 2026

Due: September 1, as shown on

Interest Accrual Date: Date of Delivery

the inside cover

Principal of the above bonds (the "Bonds") is payable to the registered owner thereof (the "Registered Owner") at the principal payment office of the paying agent/registrars, initially, The Bank of New York Mellon Trust Company, N. A., currently in Houston, Texas, or any successor paying agent/registrars (the "Paying Agent," "Registrar" or "Paying Agent/Registrar"). Interest on the Bonds accrues from the initial date of delivery (expected April 9, 2026) (the "Date of Delivery"), and is payable on March 1, 2027, and on each September 1 and March 1 thereafter until the earlier of maturity or prior redemption. The Bonds are issued in denominations of \$5,000 or any integral multiple thereof.

The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "THE BONDS - Book-Entry-Only System."

See Maturity Schedule on the inside cover

The Bonds maturing on and after September 1, 2032, are subject to redemption prior to maturity at the option of Luce Bayou Public Utility District (the "District"), as a whole or in part, on September 1, 2031, or any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. If fewer than all of the Bonds are redeemed at any time, the particular maturities and amounts of the Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all of the Bonds of any given maturity are to be redeemed at any time, the particular Bonds to be redeemed shall be selected by such method of random selection as determined by the Registrar (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bond so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

The Bonds constitute the third series of bonds issued by the District for the purpose of acquiring and constructing the water supply and distribution, wastewater collection and treatment and storm drainage/detention system (the "System") to serve the District. Following the issuance of the Bonds, the total of the District's direct bonded indebtedness, consisting of the Outstanding Bonds (defined in this Official Statement under the caption "THE BONDS - Outstanding Bonds and Payment Record") and the Bonds, will be \$12,635,000. THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. SEE "RISK FACTORS." Voters in the District authorized a total of \$60,550,000 principal amount of bonds for the purpose of acquiring and constructing components of the System. Following the issuance of the Bonds, \$43,090,000 for the System will remain authorized but unissued. See "THE BONDS - Issuance of Additional Debt." The Bonds, when issued, constitute valid and legally binding obligations of the District, payable from the proceeds of an ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District and are further payable from and secured by a pledge of and lien on certain Net Revenues (as defined herein), if any, of the District's System, to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. See "THE BONDS - Source of Payment."

Neither the State of Texas, the City of Houston, Texas, Harris County, Texas, nor any political subdivision other than the District shall be obligated to pay the principal of and interest on the Bonds. Neither the full faith and credit nor the taxing power of the State of Texas, the City of Houston, Texas, or Harris County, Texas, is pledged to the payment of the principal of and interest on the Bonds.

The Bonds are offered when, as and if issued by the District and accepted by the Underwriter, subject among other things to the approval of the Attorney General of Texas; and Coats Rose, P.C., Houston, Texas, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about April 9, 2026.

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

MATURITY SCHEDULE

CUSIP Prefix (a): 549415

<u>Principal Amount</u>	<u>Maturity (Due September 1)</u>	<u>Interest Rate</u>	<u>Initial Reoffering Yield (b)</u>	<u>CUSIP Suffix (a)</u>
2027	\$80,000			
2028	190,000			
2029	200,000			
2030	210,000			
2031	220,000			
2032 (c)	235,000			
2033 (c)	245,000			
2034 (c)	260,000			
2035 (c)	275,000			
2036 (c)	285,000			
2037 (c)	300,000			
2038 (c)	320,000			
2039 (c)	335,000			
2040 (c)	350,000			
2041 (c)	370,000			
2042 (c)	390,000			
2043 (c)	410,000			
2044 (c)	430,000			
2045 (c)	455,000			
2046 (c)	480,000			
2047 (c)	505,000			
2048 (c)	530,000			
2049 (c)	560,000			
2050 (c)	590,000			
2051 (c)	620,000			
2052 (c)	650,000			
2053 (c)	685,000			
2054 (c)	720,000			
2055 (c)	760,000			
2056 (c)	800,000			

-
- (a) CUSIP is a registered trademark of the American Bankers Association. CUSIP data is provided by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Global Services and are included solely for the convenience of the owners of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. Neither the District (hereinafter defined), the Financial Advisor (defined herein), nor the Underwriter (defined herein) take any responsibility for the accuracy of CUSIP numbers.
- (b) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Underwriter. Initial reoffering yields represent the initial offering price to the public which has been established by the Underwriter for public offerings, and which subsequently may be changed.
- (c) Subject to optional redemption as described on the front cover.

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT	3
SALE AND DISTRIBUTION OF THE BONDS	3
Award of the Bonds.....	3
Prices and Marketability.....	4
Securities Laws	4
Municipal Bond Ratings.....	4
OFFICIAL STATEMENT SUMMARY	5
THE BONDS.....	12
General	12
Book-Entry-Only System.....	12
Use of Certain Terms in Other Sections of this Official Statement.....	14
Record Date.....	14
Assignments, Transfers and Exchanges	14
Redemption Provisions	14
Replacement of Registrar	15
Authority for Issuance.....	15
Outstanding Bonds and Payment Record.....	15
Source of Payment	15
Issuance of Additional Debt.....	16
Funds.....	16
No Arbitrage Certificate.....	17
Annexation and Consolidation	17
Registered Owners' Remedies	17
Bankruptcy Limitation to Registered Owners' Rights	18
Legal Investment and Eligibility to Secure Public Funds in Texas.....	18
Defeasance	19
Use and Distribution of Bond Proceeds	19
THE DISTRICT	20
Authority	20
Description.....	21
Management of the District.....	21
DEVELOPMENT OF THE DISTRICT	22
FUTURE DEVELOPMENT	23
AERIAL PHOTOGRAPH OF THE DISTRICT	24
PHOTOGRAPHS TAKEN WITHIN THE DISTRICT.....	25
PHOTOGRAPHS TAKEN WITHIN THE DISTRICT.....	26
DISTRICT DEBT.....	27
Debt Service Requirement Schedule	27
Bonded Indebtedness.....	28
Estimated Direct and Overlapping Debt Statement.....	29
TAX DATA.....	30
Debt Service Tax.....	30
Maintenance Tax.....	30
Tax Rate Distribution	30
Analysis of Tax Base.....	31
Historical Values and Tax Collection History.....	32
Tax Rate Calculations	32
Principal 2025 Property Owners	33
Estimated Overlapping Taxes	33

TAXING PROCEDURES.....	34
Authority to Levy Taxes.....	34
Exempt Property.....	34
County-Wide Appraisal District.....	35
Assessment and Levy.....	36
Disaster Exemption.....	36
District and Taxpayer Remedies.....	37
Rollback of Operation and Maintenance Tax Rate.....	37
Collection.....	38
District’s Rights in the Event of Tax Delinquencies.....	38
Tax Payment Installments after Disaster.....	39
THE SYSTEM.....	39
Regulation.....	39
Description.....	39
Waterworks and Sewer System Operating Statement.....	42
RISK FACTORS.....	43
General.....	43
Factors Affecting Taxable Values and Tax Payments.....	43
Maximum Impact on District Tax Rates.....	44
Production of Net Revenues.....	45
Tax Collection Limitations.....	45
Registered Owners’ Remedies and Bankruptcy.....	45
Marketability.....	46
Future Debt.....	46
Continuing Compliance with Certain Covenants.....	46
Approval of the Bonds.....	46
Environmental Regulations.....	47
Extreme Weather Events.....	49
Potential Effects of Oil Price Volatility on the Houston Area.....	49
Changes in Tax Legislation.....	49
Cybersecurity.....	50
LEGAL MATTERS.....	50
Legal Opinions.....	50
No Arbitrage.....	50
No-Litigation Certificate.....	51
No Material Adverse Change.....	51
Tax Exemption.....	51
Tax Accounting Treatment of Discount and Premium on Certain Bonds.....	52
NOT Qualified Tax-Exempt Obligations.....	53
SOURCES OF INFORMATION.....	53
General.....	53
Experts.....	53
Certification as to Official Statement.....	53
Updating of Official Statement.....	54
CONTINUING DISCLOSURE OF INFORMATION.....	54
Annual Reports.....	54
Event Notices.....	55
Availability of Information.....	55
Limitations and Amendments.....	55
Compliance With Prior Undertakings.....	56
Official Statement “Deemed Final”.....	56

APPENDIX A - LOCATION MAP

APPENDIX B - FINANCIAL REPORT OF THE DISTRICT

USE OF INFORMATION IN OFFICIAL STATEMENT

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

This Official Statement does not constitute, and is not authorized by the District for use in connection with, an offer to sell or the solicitation of any offer to buy in any state in which such offer or solicitation is not authorized or in which the person making such offer or solicitation is not qualified to do so or to any person to whom it is unlawful to make such offer or solicitation.

All of the summaries of the statutes, orders, resolutions, contracts, audits, and engineering and other related reports set forth in the 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 Financial Advisor.

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 (as hereinafter defined), and thereafter only as described under "SOURCES OF INFORMATION - Updating of Official Statement."

Neither the District nor the Underwriter makes any representations as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

This Official Statement contains "forward-looking" statements within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended, which generally can be identified with words or phrases such as "anticipates," "believes," "could," "estimates," "expects," "foresees," "may," "predict," "should," "will," or other words or phrases of similar import. All statements included in this Official Statement that any person expects or anticipates will, should or may occur in the future are forward-looking statements. These statements are based on assumptions and analyses made in light of experience and perceptions of historical trends, current conditions, and expected future developments as well as other factors the District believes are appropriate in the circumstances. However, whether actual results and developments conform with expectations and predictions is subject to a number of risks and uncertainties, including, without limitation, the information discussed under "RISK FACTORS" in this Official Statement, as well as additional factors beyond the District's control. The important risk factors and assumptions described under that caption and elsewhere herein could cause actual results to differ materially from those expressed in any forward- looking statement. All of the forward-looking statements made in this Official Statement are qualified by these cautionary statements.

SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid resulting in the lowest net interest cost to the District, which was tendered by _____ (referred to herein as the "Underwriter" or the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "MATURITY SCHEDULE" at a price of _____ % of the principal amount thereof, which resulted in a net effective interest rate of _____ %, as calculated pursuant to Chapter 1204, Texas Government Code, as amended.

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 amount 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. The District has no control over trading of the Bonds after a bona fide offering of the Bonds is made by the Underwriter at the yields specified on the cover page. Information concerning reoffering yields or prices is the responsibility of the Underwriter.

The District has no control over the reoffering yields or prices of the Bonds or 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 prices of the Bonds may be greater than the difference between the bid 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.

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 price, 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 WHICH STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Securities Laws

No registration statement relating to the Bonds has been filed with the United States Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon 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 other jurisdictions. 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 offered, sold, or otherwise transferred. This disclaimer of responsibility for registration or qualification for sale or other disposition of the Bonds should not be construed as an interpretation of any kind with regard to the availability of any exemption from securities registration or qualification provisions.

Municipal Bond Ratings

The District has made no application for a municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such an application been made.

OFFICIAL STATEMENT SUMMARY

The following summary of certain information contained herein is qualified in its entirety by the detailed information and financial statements appearing elsewhere in this Official Statement.

THE BONDS

The Issuer.....	Luce Bayou Public Utility District (the “District”), a political subdivision of the State of Texas, is located in Harris County, Texas. See “THE DISTRICT.”
The Issue	The \$12,460,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2026 (the “Bonds”), are dated April 1, 2026, and mature on September 1 in each of the years and in the principal amounts indicated on the inside cover page of this Official Statement. Interest on the Bonds accrues from the Date of Delivery (as defined herein), at the rates shown on the inside cover hereof, and is payable on March 1, 2027, and on each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. The Bonds maturing on and after September 1, 2032, are subject to redemption, in whole or from time to time in part, on September 1, 2031, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. See “THE BONDS - General.” The Bonds will be issued pursuant to a Bond Order (the “Bond Order”) adopted by the Board of Directors of the District. The Bonds are being issued under the authority of Chapters 49 and 54, Texas Water Code, as amended.
Book-Entry-Only System.....	The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of DTC (as defined herein), 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 “THE BONDS - Book-Entry-Only System”).
Source of Payment	The Bonds are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District, and are further payable from and secured by a pledge of and lien on the net revenues (“Net Revenues”), if any, of the District’s Waterworks and Sewer System (the “System”), to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. The Bonds are obligations of the District and are not obligations of Harris County, Texas, the City of Houston, Texas, the State of Texas or any political subdivision other than the District. See “THE BONDS - Source of Payment.”
Principal Use of Bond Proceeds.....	Proceeds of the sale of the Bonds will be used by the District to (i) finance the District’s cost of the acquisition or construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention system (the “System”) to serve Idleloch, Section 1, Phase 2; Water Plant No. 1 improvements; Lift Station No. 1

replacement and force main replacement; wastewater treatment plant emergency generator; and clearing and grubbing and a stormwater pollution prevention plan to serve Idleloch, Section 1, Phase 2; (ii) pay certain engineering costs related to the aforementioned projects; (iii) pay developer advances and developer interest on the Bonds; and (iv) pay for administrative and issuance costs, legal fees, fiscal agent fees, fees to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds. See “THE BONDS - Use and Distribution of Bond Proceeds.”

Payment Record

The Bonds constitute the third series of unlimited tax and revenue bonds to be issued by the District for the purpose of acquiring or constructing the System. The District has previously issued Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1973 (the “Series 1973 Bonds”) and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2002 (the “Series 2002 Bonds”). Collective reference is made in this Official Statement to all of such bonds previously issued by the District as the “Prior Bonds.” The District has never defaulted in the timely payment of principal of and interest on the Prior Bonds. As of the date of issuance of the Bonds, the aggregate principal amount of the Prior Bonds, which will not have been defeased or otherwise paid by the District, will be \$175,000 (the “Outstanding Bonds”), and the aggregate principal amount of the District’s total direct bonded indebtedness, including the Bonds, will be \$12,635,000. See “DISTRICT DEBT - Debt Service Requirement Schedule.” In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with the proceeds of the sale of the Bonds, the District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See “THE BONDS - Issuance of Additional Debt,” and - “Use and Distribution of Bond Proceeds,” “THE SYSTEM - Description,” and “RISK FACTORS - Future Debt.”

Authorized but Unissued Bonds.....

\$43,090,000 bonds for the System will remain authorized but unissued after issuance of the Bonds. See “THE BONDS - Authority for Issuance” and “Issuance of Additional Debt.”

Municipal Bond Rating

The District has made no application for a municipal bond rating of the Bonds, nor is it expected that the District would have been successful in receiving an investment grade rating had such an application been made.

NOT Qualified Tax-Exempt Obligations.....

The Bonds are **not** “qualified tax-exempt obligations” pursuant to Section 265 (b) of the Internal Revenue Code of 1986, as amended. See “LEGAL MATTERS – **NOT** Qualified Tax-Exempt Obligations.”

Legal Opinion.....

Coats Rose, P.C., Houston, Texas, Bond Counsel. See “LEGAL MATTERS.”

Disclosure Counsel.....

McCall, Parkhurst & Horton L.L.P., Houston, Texas.

THE DISTRICT

Description..... Luce Bayou Public Utility District, a political subdivision of the State of Texas, was created by an Act of the Texas Legislature effective June 1, 1971. The District contains approximately 548.43 acres of land. The District is located entirely within the extraterritorial jurisdiction of the City of Houston, Texas, approximately 35 miles northeast of the central business district of the City of Houston, Texas. The District is bounded on its southerly boundary by FM 2100 (Crosby-Huffman Road). Luce Bayou bisects the District running north and south separating the Idleloch and Lochshire Subdivisions, and Shook Gully enters Luce Bayou from the east. Afton Way and Idleloch Drive provide access to the District off of FM 2100. The District is located entirely within Harris County, Texas. See “THE DISTRICT - Description” and “APPENDIX A - LOCATION MAP.”

Authority..... The rights, powers, privileges, authority and functions of the District are established by Article XVI, Section 59 and Article III, Section 52 of the Constitution of the State of Texas and the general laws of the State of Texas pertaining to municipal utility districts, particularly Chapters 49 and 54 of the Texas Water Code, as amended. See “THE DISTRICT - Authority.”

Development of the District..... As of January 1, 2026, the District contained (i) 370 completed single-family homes; (ii) 35 vacant single-family residential lots that are currently available for home construction, the development of which has been completed, including underground water distribution, wastewater collection and storm drainage facilities plus street paving; and (iii) certain tracts and unrestricted reserves used and expected to be used for single-family residential, commercial, multi-family residential or school purposes on a total of approximately 201 of the District's approximately 548.43 acres as described below. Taxable commercial improvements which have been constructed on approximately 1.4 acres of the unrestricted reserves located in the District include an approximately 12,524 square foot strip shopping center. A gas station is currently under construction on approximately 2 acres located within the District. The Falcon Ridge Elementary School has been constructed on approximately 24 acres within the District.

A portion of the Red Wolf Golf Resort (approximately three of its eighteen holes) and the clubhouse facility are located on approximately 51 acres in the District. Approximately 121.89 acres located within the District have been platted as Lochshire, Section 1, approximately 76.62 acres located within the District have been platted as Idleloch, Section 1, Phase I; and approximately 24.63 acres located within the District have been platted as Idleloch, Section 1, Phase II. The aforementioned 370 completed single-family homes that are located within the District have been constructed on 386 fully-developed single-family residential lots. Effects of Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, are described in this Official Statement under the caption “RISK FACTORS – Extreme Weather Events.” An unspecified number of such homes sustained varying degrees of water damage during Hurricane Harvey. Although the District did not record the number of homes that sustained water damage, all but three of such homes that

were constructed on five lots have been repaired and occupied. The three homes and five lots have been purchased by the Harris County Flood Control District and the homes have been removed from the District. Any repairs to the District's System that were necessitated by the storm were made. Approximately 30 lots located within the District that have been substantially developed and approximately 42 lots that have been partially developed are located within the 100-year flood plain and require additional development and flood plain mitigation to be available for future home construction. The District cannot represent whether or when such additional development and flood plain mitigation might occur or whether or when any home construction might commence on such lots. See "THE SYSTEM - Description - 100-Year Flood Plain."

The District financed the cost of acquiring and constructing the water supply and distribution, wastewater collection and treatment, and storm drainage system (the "System") to serve the aforementioned fully developed and partially developed single-family residential lots located in the District with proceeds of the sale of the Outstanding Bonds.

The District also includes approximately 1.4 acres contained in unrestricted reserves for which perimeter trunk water distribution, wastewater collection and storm drainage facilities and street paving have been completed. The District financed the cost of acquiring the components of the System which serve such unrestricted reserves located in the District with portions of the proceeds of the sale of the Outstanding Bonds. As is stated above, taxable commercial improvements which have been constructed on approximately 1.4 acres of the unrestricted reserves located in the District include an approximately 12,524 square foot strip shopping center. A gas station is currently under construction on approximately 2 acres located within the District. The District cannot represent whether or when the construction of any additional homes, school or commercial improvements or any multi-family residential improvements will be undertaken within the District.

The home building activity which has been undertaken in the District in recent years has consisted primarily of (i) the construction, from time to time, of homes made available for sale to the public by a home builder, or (ii) the construction of homes by contract builders retained by individual lot owners to construct homes on such lots. The District cannot represent that home construction will be undertaken at any particular pace in the District in the future.

There are approximately 126.7 acres of land located within the District available for future development which are currently undeveloped. Approximately 73.32 of such acres are owned by Academy Development. No owner of any of the remaining undeveloped acres located within the District available for future development, including Academy Development, has reported any development plan covering any of such acres to the District. Therefore, the District cannot represent whether or when the development of any of such acres might occur. A total of approximately 74.53 acres located within the District are contained within various easements, street and drainage rights-of-way, or are otherwise not available for future development. See "FUTURE DEVELOPMENT," and "THE SYSTEM."

RISK FACTORS

THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS AS SET FORTH IN THIS OFFICIAL STATEMENT. PROSPECTIVE PURCHASERS SHOULD CAREFULLY EXAMINE THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING THEIR INVESTMENT DECISIONS, ESPECIALLY THE PORTION OF THE OFFICIAL STATEMENT ENTITLED "RISK FACTORS."

SELECTED FINANCIAL INFORMATION
(Unaudited)

2025 Assessed Valuation.....	\$	102,379,328 (a)
(As of January 1, 2025)		
See "TAX DATA" and "TAXING PROCEDURES"		
Direct Debt:		
Outstanding Bonds.....	\$	175,000
The Bonds		<u>12,460,000</u>
Total	\$	12,635,000 (b)
Estimated Overlapping Debt	\$	<u>8,221,682</u>
Total Direct and Estimated Overlapping Debt	\$	<u>20,856,682</u>
Ratio of Direct Debt		
: as a percentage of 2025 Assessed Valuation.....		12.34 %
Ratio of Direct and Estimated Overlapping Debt		
: as a percentage of 2025 Assessed Valuation.....		20.37 %
Debt Service Fund Balance Estimated as of Delivery of the Bonds.....	\$	1,118,414 (c)
General Fund Balance as of January 7, 2026.....	\$	354,610
2025 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax.....	\$0.44	
Maintenance Tax	<u>0.50</u>	
Total	\$	0.94 (d)
Anticipated Approximate 2026 Tax Rate per \$100 of Assessed Valuation		
Debt Service Tax.....	\$0.60	
Maintenance Tax	<u>0.50</u>	
Total	\$	1.10 (d)
Average Percentage of Total Tax Collections (2015-2024) as of December 31, 2025.....		99.60 %
Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2027-2056)	\$	840,760 (d)
Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2027)	\$	1,006,713 (d)
Tax Rate per \$100 of Assessed Valuation Required to Pay Average Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2027-2056) at 95% Tax Collections		
Based Upon 2025 Assessed Valuation.....	\$	0.87 (d)
Tax Rate per \$100 of Assessed Valuation Required to Pay Maximum Annual Debt Service Requirements on the Bonds and the Outstanding Bonds (2027) at 95% Tax Collections		
Based Upon 2025 Assessed Valuation.....	\$	1.04 (d)

Taxable Commercial Improvements Located within the District:

Completed:

Strip Shopping Center

Under Construction:

Gasoline Service Station and Convenience Store

-
- (a) As of January 1, 2025, and comprises the District's 2025 tax roll. All property located in the District is valued on the tax rolls by the Harris Central Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$1,091,640, which total is included in the amount of \$102,379,328. The Appraisal District has proposed the valuation of such protested properties to be \$1,131,640. The District is unable to predict the amount of the District's final 2025 Assessed Valuation. Such final 2025 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2025. See "TAXING PROCEDURES."
 - (b) See "DISTRICT DEBT." In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with the proceeds of the sale of the Bonds, the District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE BONDS - Issuance of Additional Debt," and - "Use and Distribution of Bond Proceeds," "THE SYSTEM" and "RISK FACTORS - Future Debt."
 - (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund. Such fund balance reflects the timely payment by the District of its debt service payments that are due on March 1, 2026, on the Outstanding Bonds. The District's initial debt service requirement on the Bonds, consisting of an interest payment thereon, is due on March 1, 2027.
 - (d) The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. The District anticipates levying a debt service tax in the approximate amount of \$0.60 per \$100 of Assessed Valuation and a maintenance tax of approximately \$0.50 per \$100 of Assessed Valuation in 2026, for a combined total tax for 2026 of approximately \$1.10 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District, including the District's 2025 total tax rate of \$0.94 per \$100 of Assessed Valuation, is \$2.632628 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of most municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "TAX DATA" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."
 - (e) See "DEVELOPMENT OF THE DISTRICT."

OFFICIAL STATEMENT

\$12,460,000

**LUCE BAYOU PUBLIC UTILITY DISTRICT
WATERWORKS AND SEWER SYSTEM COMBINATION
UNLIMITED TAX AND REVENUE BONDS
SERIES 2026**

THE BONDS

General

This Official Statement provides certain information with respect to the issuance by Luce Bayou Public Utility District (the “District”) of its \$12,460,000 Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2026 (the “Bonds”).

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the order (the “Bond Order”) of the Board of Directors of the District (the “Board”) authorizing the issuance of the Bonds. A copy of the Bond Order may be obtained from the District upon written request made to the District’s Bond Counsel, Coats Rose, P.C., 9 Greenway Plaza, Suite 1000, Houston, Texas 77046.

The Bonds are dated April 1, 2026, with interest payable on March 1, 2027, and on each September 1 and March 1 thereafter until the earlier of maturity or redemption. Interest on the Bonds initially accrues from the initial date of delivery (the “Date of Delivery”), and thereafter, from the most recent Interest Payment Date. The Bonds are fully registered bonds maturing on September 1 as shown under “MATURITY SCHEDULE” on the inside cover page of this Official Statement. Principal of the Bonds will be payable to the registered owners (the “Registered Owners”) at maturity or redemption upon presentation to the principal payment office of the paying agent/registrars, initially The Bank of New York Mellon Trust Company, N.A., in Houston, Texas, or any successor paying agent/registrars (the “Paying Agent,” “Registrar” or “Paying Agent/Registrar”). Interest on the Bonds is based on a 360-day year of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described below under “Book-Entry-Only System.”

Book-Entry-Only System

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

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

The Depository Trust Company (“DTC”), New York, NY, 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 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 certificates. Direct Participants include both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations. DTC is a wholly-owned subsidiary of The Depository Trust & Clearing Corporation ("DTCC"). DTCC is the holding company for DTC, National Securities Clearing Corporation and Fixed Income Clearing Corporation, all of which are registered clearing agencies. DTCC is owned by the users of its regulated subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at www.dtcc.com.

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

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

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

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

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 securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC, the Paying Agent/Registrar, or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment to Cede

& Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Official Statement to registered owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the Book-Entry-Only System, and, (ii) except as described above, notices that are to be given to registered owners under the Bond Order will be given only to DTC.

Record Date

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

Assignments, Transfers and Exchanges

In the event the book-entry-only system is discontinued, the Bonds may be transferred, registered and assigned only on the registration books of the Registrar, and such registration and transfer shall be without expense or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Registrar. At any time after the date of delivery of the Bonds to the Initial Purchaser (the "Initial Delivery"), any Bond may be transferred or exchanged upon its presentment and surrender at the office of the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the owner in not more than three business days after the receipt of the request in proper form to transfer or exchange the Bonds. New Bonds registered and delivered in an exchange or transfer shall be in denominations of \$5,000 or any integral multiple thereof for any one maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. Neither the District nor the Registrar is required (1) to transfer or exchange any Bond during a period beginning at the opening of business on a Record Date and ending at the close of business on the next succeeding interest payment date, or (2) to transfer or exchange any Bond selected for redemption in whole or in part within thirty (30) calendar days of the redemption date. The District has agreed to replace mutilated, destroyed, lost or stolen Bonds upon surrender of the mutilated Bonds, or on receipt of satisfactory evidence of such destruction, loss or theft and receipt by the District and the Registrar of security or indemnity to keep them harmless. The District will require payment of taxes, governmental charges and other expenses in connection with any such replacement.

Redemption Provisions

The Bonds maturing on and after September 1, 2032, are subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2031, or on any date thereafter, at a price equal to the principal amount thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given by the Registrar at least thirty (30) days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If fewer than all of the Bonds are optionally redeemed at any time, the particular maturities and amounts of Bonds to be redeemed shall be selected by the District in integral multiples of \$5,000 within any one maturity. If fewer than all

of the Bonds within one maturity are to be redeemed, the Registrar shall select the Bonds to be redeemed by lot or other method of random selection (or by DTC in accordance with its procedures while the Bonds are in book-entry-only form). The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present same to the Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Replacement of 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 act in the same capacity as the previous Paying Agent/Registrar. In order to act as Paying Agent/Registrar for the Bonds, any paying agent/registrar selected by the District shall be a national or state banking institution, organized and doing business under the laws of the United States of America or of any State, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority.

Authority for Issuance

At elections held within the District on May 13, 2006 and October 6, 2007, the voters of the District authorized a total of \$55,550,000 unlimited tax and revenue bonds for acquiring or constructing water, sanitary sewer and drainage facilities (the "System"). Following the issuance of the Bonds, \$43,090,000 bonds for the System will remain authorized but unissued. See "Issuance of Additional Debt" below.

The Bonds are issued pursuant to the Bond Order, and Chapters 49 and 54 of the Texas Water Code, as amended, and Article III, Section 52 of the Texas Constitution.

Outstanding Bonds and Payment Record

The Bonds constitute the third series of unlimited tax and revenue bonds to be issued by the District for the purpose of acquiring or constructing the System. The District has previously issued Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 1973 (the "Series 1973 Bonds") and Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2002 (the "Series 2002 Bonds"). Collective reference is made in this Official Statement to all of such bonds previously issued by the District as the "Prior Bonds." The District has never defaulted in the timely payment of principal of and interest on the Prior Bonds. As of the date of issuance of the Bonds, the aggregate principal amount of the Prior Bonds, which will not have been defeased or otherwise paid by the District, will be \$175,000 (the "Outstanding Bonds"), and the aggregate principal amount of the District's total direct bonded indebtedness, including the Bonds, will be \$12,635,000. See "DISTRICT DEBT - Debt Service Requirement Schedule." In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with the proceeds of the sale of the Bonds, the District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "Issuance of Additional Debt" and "Use and Distribution of Bond Proceeds" below, "THE SYSTEM - Description," and "RISK FACTORS - Future Debt."

Source of Payment

The Bonds, together with the Outstanding Bonds and any additional bonds payable in whole or in part from taxes, are payable from an annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District, and are further payable from and secured by a pledge of and lien on the Net Revenues, if any, of the System, to the extent and upon the conditions described herein. The System is not expected to produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. 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 District fees. Tax proceeds, after deduction for collection costs, will be placed in the debt service fund and used solely to pay principal of and interest on the Outstanding Bonds, the Bonds, and on additional bonds payable from taxes which may be issued, and Paying Agent/Registrar fees.

The Bonds are obligations of the District and are not the obligations of the State of Texas, Harris County, the City of Houston, Texas, or any entity other than the District.

Issuance of Additional Debt

The District has reserved the right in the Bond Order to issue additional bonds. Following the issuance of the Bonds, the District will have the right to issue \$43,090,000 bonds for the System, as approved by the District's voters at the elections held on May 13, 2006 and October 6, 2007.

The District has the right to issue the aforementioned bonds without the necessity of further voter authorization. Before issuing any additional bonds for waterworks, sanitary sewer, and drainage facilities, the District would have to obtain approval of the Texas Commission on Environmental Quality (the "TCEQ") for the issuance of such bonds and the projects to be financed thereby. Since the District has not financed all components of the System which it currently expects to finance, the District anticipates issuing additional bonds for such purposes as future development in the District necessitates. The District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE SYSTEM" and "RISK FACTORS - Future Debt." Based on present engineering cost estimates, in the opinion of the District's consulting engineer, Burke Engineering, LLC (the "Engineer"), the aforementioned \$43,090,000 authorized but unissued bonds for the System will be adequate to finance the extension of waterworks, wastewater and drainage facilities to serve all of the remaining undeveloped portions of the District. If additional bonds are issued in the future and property values have not increased proportionally, such issuance may increase gross debt to property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. See "RISK FACTORS - Future Debt."

The District has the right to issue such additional tax bonds, revenue bonds, or combination tax and revenue bonds as may be hereafter approved by the voters of the District. The District also has the right to issue revenue notes, bond anticipation notes and tax anticipation notes without the necessity of voter approval. In addition, the District has the right to enter into contracts and to pledge its taxing power to secure any payments the District is required to make under such a contract, provided the provisions of the contract are approved by the voters of the District. The District further has the right to issue refunding bonds, in addition to the refunding bonds described above, with additional voter approval. The Bond Order places no limitation on the amount of additional bonds which may be issued by the District.

The District also 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 issues park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District, unless the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent but not more than three percent of the value of the taxable property in the District.

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

Under certain circumstances the District also is authorized to construct roads. If additional debt obligations are issued in the future by the District for road purposes, such issuance will increase the debt/property ratios and might adversely affect the investment security of the Bonds. The District has not considered calling a road bond election.

Funds

The Bond Order creates the District's fund for debt service on the Bonds and any additional unlimited tax bonds issued by the District. The Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds and any additional unlimited tax bonds issued by the District, is to be kept separate from all other funds of the District, and is to be used for payment of debt service on the Bonds and any of the District's other duly authorized bonds payable in whole or

in part from taxes. Amounts on deposit in the Debt Service Fund may also be used to pay the fees and expenses of the Paying Agent/ Registrar, to defray the expenses of assessing and collecting taxes levied for payment of interest on and principal of the Bonds and any additional bonds payable in whole or in part from taxes, and to pay any tax anticipation notes issued, together with interest thereon, as such tax anticipation notes become due.

No Arbitrage Certificate

The District will certify that based upon all facts and estimates now 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 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 required so that the Bonds shall not become “arbitrage bonds” under the Code and the regulations prescribed from time to time thereunder.

Annexation and Consolidation

The District lies within the extraterritorial jurisdiction of the City of Houston (the “City”). Under Texas statutes, the District may be annexed in whole, but not in part, by the City without the District's consent, in which case the City must dissolve the District and assume the assets, functions and obligations of the District, including the Bonds and any other bonded indebtedness of the District existing at the time of annexation. When any bonds or other obligations of the District payable in whole or in part from ad valorem taxes have been assumed by the City, the City is required to levy and cause to be collected, upon all taxable property within the City, taxes sufficient to pay principal of and interest on any such bonds or obligations as they become due and payable. The City may issue refunding bonds in its own name to refund any bonds or obligations so assumed. No representation is made that the City will ever abolish the District and assume its debt, nor that the City would be able to pay such debt service obligations if it were to annex the District.

The District has the right to consolidate with other districts and, in connection therewith, to provide for the consolidation of its System with the water and sewer systems of the district or districts with which it is consolidating, and the net revenues of the consolidated systems may be pledged equally to all first lien bonds of the consolidating districts. No representation is made that the District will ever consolidate its System with another district or consolidate its System with other systems.

Registered Owners' Remedies

Pursuant to Texas law, the Bond Order provides that in the event the District defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make payments required by the Bond Order into the Debt Service Fund, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Order, any Registered Owner shall be entitled to seek a writ of mandamus from a court of competent jurisdiction compelling and requiring the District to make such payments or to observe and perform such covenants, obligations or conditions, including requiring the District to levy adequate taxes to make payments on the Bonds. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

Except for the remedy of mandamus, the Bond Order does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee 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. Even if the Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on the property of the District or sell property within the District in order to pay the principal of or interest on the Bonds. In addition, certain traditional legal remedies also may not be available. The enforceability of the rights and remedies of the Registered Owners may be further 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. For example, a Chapter 9 bankruptcy proceeding by the District could delay or eliminate payment of principal or interest to the Registered Owners. See “Bankruptcy Limitation to Registered Owners’ Rights” below and “RISK FACTORS - Registered Owners’ Remedies and Bankruptcy.”

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. Subject to the requirements of Texas law, the District may voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. §901-946, if the District: (1) is generally authorized to file for federal bankruptcy protection by State law; (2) is insolvent or unable to meet its debts as they mature; (3) desires to effect a plan to adjust such debts; and (4) has either obtained the agreement of or negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiation is impracticable. Under Texas law, a municipal utility district such as the District must obtain the approval of the TCEQ prior to filing for bankruptcy. The TCEQ must investigate the financial condition of the District and will authorize the District to proceed only if the TCEQ determines that 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.

If the District decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the District would develop and file a plan for the adjustment of its debts and the Bankruptcy Court would confirm the District’s plan if: (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code; (2) all payments to be made in connection with the plan are fully disclosed and reasonable; (3) the District is not prohibited by law from taking any action necessary to carry out the plan; (4) administrative expenses are paid in full; and (5) the plan is in the best interests of creditors and is feasible. If such a plan were confirmed by the bankruptcy court, it could, among other things, affect a Registered Owner 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 such Registered Owner’s claim against the District.

The District may not be placed into bankruptcy involuntarily.

Legal Investment and Eligibility to Secure Public Funds in Texas

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

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

(b) A district’s bonds, notes, and other obligations are eligible and lawful security for all deposits of public funds of the state, and all agencies, subdivisions, and instrumentalities of the state, including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.” The Public Funds Collateral Act (Chapter 2257, Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

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

Defeasance

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

Upon such deposit as described above, such Bonds shall no longer be regarded 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 which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Bond Order does not contractually limit such investments, Registered Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality of those currently permitted under Texas law.

Use and Distribution of Bond Proceeds

Proceeds of the sale of the Bonds will be used by the District to (i) finance the District's cost of the acquisition or construction of water supply and distribution, wastewater collection and treatment and storm drainage/detention system (the "System") to serve Idleloch, Section 1, Phase 2; Water Plant No. 1 improvements; Lift Station No. 1 replacement and force main replacement; wastewater treatment plant emergency generator; and clearing and grubbing and a stormwater pollution prevention plan to serve Idleloch, Section 1, Phase 2; (ii) pay certain engineering costs related to the aforementioned projects; (iii) pay developer advances and developer interest on the Bonds; and (iv) pay for administrative and issuance costs, legal fees, fiscal agent fees, fees to the Attorney General of Texas, and certain financing costs related to the issuance of the Bonds.

I. Construction Costs

	<u>District's Share</u>
A. Developer Contribution Items ^(a)	
1. Idleloch, Section 1, Phase 2 – Clearing and Grubbing	\$136,481
2. Idleloch, Section 1, Phase 2 – Detention	329,443
3. Idleloch, Section 1, Phase 2 – Water, Wastewater and Drainage	1,141,594
4. Idleloch, Section 1, Phase 2 – Stormwater Pollution Prevention Plan	129,673
5. Engineering	<u>234,566</u>
Total Developer Contribution Items	<u>\$1,971,757</u>

B. District Items	
1. Water Plant No. 1 – Improvements	\$3,670,000
2. Lift Station No. 1 – Replacement	1,250,000
3. Lift Station No. 1 – Force Main Replacement	1,100,000
4. Wastewater Treatment Plant Emergency Generator	500,000
5. Contingencies	1,304,000
6. Engineering	<u>1,173,600</u>
Total District Items	<u>\$8,997,600</u>

TOTAL CONSTRUCTION COSTS **\$10,969,357**

II. Non-Construction Costs

A. Legal Fees	\$373,800
B. Fiscal Advisor Fees	249,200
C. Developer Interest	304,054
D. Bond Discount	373,800
E. Bond Issuance Expenses	64,139
F. Bond Application Report Costs	50,000
G. Developer Advances	35,000
H. Attorney General Fee	9,500
I. TCEQ Bond Issuance Fee	31,150
J. Contingencies ^(b)	<u>0</u>

TOTAL NON-CONSTRUCTION COSTS **\$1,490,643**

TOTAL BOND ISSUE REQUIREMENTS **\$12,460,000**

- (a) The rules of the TCEQ require in certain instances that developers within a district subject to the jurisdiction of the TCEQ contribute to the construction program of such district an amount of money equal to thirty percent of the construction costs of certain water, sewer and drainage facilities in that district.
- (b) The TCEQ directed that any surplus funds resulting from the sale of the Bonds at a lower interest rate than proposed be shown as a contingency line item. The use of these funds is subject to approval by the TCEQ.

In the instance that approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for lawful uses. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional approval and the issuance of additional bonds may be required. The Engineer has advised the District that the proceeds of the sale of the Bonds should be sufficient to cover the costs of the above described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

Authority

The District is a municipal utility district created pursuant to an Act of Texas Legislature effective June 1, 1971. The District was created pursuant to the authority of Chapter 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution. 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 principal functions of the District are to finance, construct, own, and operate waterworks, wastewater, and drainage facilities and roads, and to provide such facilities and services to the customers of the District. 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 the customers of the District. Under certain circumstances the District also is authorized to construct, develop and maintain park and recreational facilities and to construct roads. The District is subject to the continuing supervision of the TCEQ in certain matters.

Description

The District contains approximately 548.43 acres of land. The District is located entirely within the extraterritorial jurisdiction of the City of Houston, Texas, approximately 27 miles northeast of the central business district of the City of Houston, Texas. The District is bounded on its southerly boundary by FM 2100 (Crosby-Huffman Road). Luce Bayou bisects the District running north and south separating the Idleloch and Lochshire Subdivisions, and Shook Gully enters Luce Bayou from the east. Afton Way and Idleloch Drive provide access to the District off of FM 2100. The District is located entirely within Harris County, Texas. See “APPENDIX A - LOCATION MAP.”

Management of the District

The District is governed by the Board of Directors, consisting of five directors. The Board of Directors has control over and management supervision of all affairs of the District. Directors serve four-year staggered terms, and elections are held within the District in May in odd numbered years. The current members and officers of the Board, along with their respective terms of office, are listed below. All but one of the Directors currently reside within the District. The Directors own separate parcels of land subject to separate non-recourse promissory notes secured by deeds of trust in favor of the Developer (hereinafter defined).

<u>Name</u>	<u>Position</u>	<u>Term Expires in May</u>
Dave Wassell	President	2026
Fletcher Gray	Vice President/Assistant Secretary	2026
David W. Francis	Secretary/Treasurer	2028
Joni Faye Drude	Assistant Vice President	2026
Will A. Rhodes	Assistant Secretary	2028

The District does not have a general manager, but has contracted for services, or employs directly, as follows:

Bookkeeper - The District's bookkeeper is Myrtle Cruz, Inc.

Tax Assessor/Collector - The District has engaged Utility Tax Service, LLC, Houston, Texas, as the District's Tax Assessor/Collector. The Tax Assessor/Collector applies the District's tax levy to tax rolls prepared by the Harris Central Appraisal District and bills and collects such levy.

Consulting Engineer - The District has engaged Burke Engineering, LLC, Houston, Texas, as Consulting Engineer on a contract basis to provide engineering services to the District.

Auditor - The District has engaged Mark C. Eyring, CPA, PLLC, to audit its financial statements for the year ending March 31, 2026. A copy of the District's audit for the fiscal year ended March 31, 2025, is included as “APPENDIX B” to this Official Statement.

Financial Advisor - The District has engaged Rathmann & Associates, L.P. as financial advisor (the “Financial Advisor”) to the District. The fee paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds is based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fee is contingent upon the sale and delivery of the Bonds. Rathmann & Associates, L.P. is an independent municipal advisor registered with the United States Securities and Exchange Commission (the “SEC”) and the Municipal Securities Rulemaking Board (the “MSRB”). Rathmann & Associates, L.P.'s SEC registration number is 867-00217 and its MSRB registration number is K0161. Rathmann & Associates, L.P.'s SEC registration Forms MA and MA-1's, which constitute Rathmann & Associates, L.P.'s registration filings, may be accessed through <http://www.sec.gov/edgar/searchedgar/companysearch.html>.

Disclosure Counsel - McCall, Parkhurst & Horton L.L.P., Houston, Texas, serves as Disclosure Counsel to the District. The fees to be paid Disclosure Counsel for services rendered in connection with the issuance of the Bonds are contingent on the sale and delivery of the Bonds.

Attorney - The District has engaged Coats Rose, P.C., Houston, Texas, as general counsel to the District and as bond counsel (“Bond Counsel”) in connection with the issuance of the Bonds. The fees to be paid to Bond Counsel in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

DEVELOPMENT OF THE DISTRICT

As of January 1, 2026, the District contained (i) 370 completed single-family homes; (ii) 35 vacant single-family residential lots that are currently available for home construction, the development of which has been completed, including underground water distribution, wastewater collection and storm drainage facilities plus street paving; and (iii) certain tracts and unrestricted reserves used and expected to be used for single-family residential, commercial, multi-family residential or school purposes on a total of approximately 201 of the District's approximately 548.43 acres as described below. Taxable commercial improvements which have been constructed on approximately 1.4 acres of the unrestricted reserves located in the District include an approximately 12,524 square foot strip shopping center. A gas station is currently under construction on approximately 2 acres located within the District. The Falcon Ridge Elementary School has been constructed on approximately 24 acres within the District.

A portion of the Red Wolf Golf Resort (approximately three of its eighteen holes) and the clubhouse facility are located on approximately 51 acres in the District. Approximately 121.89 acres located within the District have been platted as Lochshire, Section 1, approximately 76.62 acres located within the District have been platted as Idleloch, Section 1, Phase I; and approximately 24.63 acres located within the District have been platted as Idleloch, Section 1, Phase II. The aforementioned 370 completed single-family homes that are located within the District have been constructed on 386 fully-developed single-family residential lots. Effects of Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, are described in this Official Statement under the caption “RISK FACTORS – Extreme Weather Events.” An unspecified number of such homes sustained varying degrees of water damage during Hurricane Harvey. Although the District did not record the number of homes that sustained water damage, all but three of such homes that were constructed on five lots have been repaired and occupied. The three homes and five lots have been purchased by the Harris County Flood Control District and the homes have been removed from the District. Any repairs to the District's System that were necessitated by the storm were made. Approximately 30 lots located within the District that have been substantially developed and approximately 42 lots that have been partially developed are located within the 100-year flood plain and require additional development and flood plain mitigation to be available for future home construction. The District cannot represent whether or when such additional development and flood plain mitigation might occur or whether or when any home construction might commence on such lots. See “THE SYSTEM - Description - 100-Year Flood Plain.”

The District financed the cost of acquiring and constructing the water supply and distribution, wastewater collection and treatment, and storm drainage system (the “System”) to serve the aforementioned fully developed and partially developed single-family residential lots located in the District with proceeds of the sale of the Outstanding Bonds.

The District also includes approximately 1.4 acres contained in unrestricted reserves for which perimeter trunk water distribution, wastewater collection and storm drainage facilities and street paving have been completed. The District financed the cost of acquiring the components of the System which serve such unrestricted reserves located in the District with portions of the proceeds of the sale of the Outstanding Bonds. As is stated above, taxable commercial improvements which have been constructed on approximately 1.4 acres of the unrestricted reserves located in the District include an approximately 12,524 square foot strip shopping center. A gas station is currently under construction on approximately 2 acres located within the District. The District cannot represent whether or when the construction of any additional homes, school or commercial improvements or any multi-family residential improvements will be undertaken within the District.

The home building activity which has been undertaken in the District in recent years has consisted primarily of (i) the construction, from time to time, of homes made available for sale to the public by a home builder, or (ii) the construction of homes by contract builders retained by individual lot owners to construct homes on such lots. The District cannot represent that home construction will be undertaken at any particular pace in the District in the future.

There are approximately 126.7 acres of land located within the District available for future development which are currently undeveloped. Approximately 73.32 of such acres are owned by Academy Development. No owner of any of the remaining undeveloped acres located within the District available for future development, including Academy Development, has reported any development plan covering any of such acres to the District. Therefore, the District cannot represent whether or when the development of any of such acres might occur. A total of approximately 74.53 acres located within the District are contained within various easements, street and drainage rights-of-way, or are otherwise not available for future development. See “FUTURE DEVELOPMENT,” and “THE SYSTEM.”

As of January 1, 2026, the status of residential development and home construction in the District was as follows:

Residential Units:

Subdivision	LOTS				HOMES				Models	Totals
	Fully Developed	Acres	Under Development	Acres	Under Construction Sold	Unsold	Completed Sold	Unsold		
Lochshire Section 1*	149	121.89			0	0	91	0	0	91
Idleloch Section 1, Phase 1*	197	76.62			0	0	164	0	0	164
Idleloch Section 1, Phase 2	115	24.63			0	0	115	0	0	115
TOTALS	461	223.14	0	0	0	0	370	0	0	370**

* As is described in this Official Statement under the caption “THE SYSTEM - Description - 100-Year Flood Plain,” approximately 30 lots located within the District that have been substantially developed and approximately 42 lots that have been partially developed are located within the 100-year flood plain and require additional development and flood plain mitigation to be available for future home construction. The District cannot represent whether or when such additional development and flood plain mitigation might occur or whether or when any home construction might commence on such lots.

** Constructed on 386 fully-developed single-family residential lots.

FUTURE DEVELOPMENT

There are approximately 126.7 acres of land located within the District available for future development which are currently undeveloped. Approximately 73.32 of such acres are owned by Academy Development. No owner of any of the remaining undeveloped acres located within the District available for future development, including Academy Development, has reported any development plan covering any of such acres to the District. Therefore, the District cannot represent whether or when the development of any of such acres might occur. A total of approximately 74.53 acres located within the District are contained within various easements, street and drainage rights-of-way, or are otherwise not available for future development. See “RISK FACTORS” and “THE SYSTEM.”

The District’s Engineer estimates that the \$43,090,000 authorized bonds which remain unissued after the sale of the Bonds will be adequate to finance the construction of such facilities to provide service to all of the undeveloped portions of the District. See “THE BONDS - Issuance of Additional Debt,” “THE SYSTEM - Description,” and “RISK FACTORS - Future Debt.” No party is under any obligation to initiate development of any of the currently undeveloped land located within the District or to complete any development, if begun, and any party initiating any future development thereon could modify or discontinue development plans, or may sell any of such land at its sole discretion at any time. Accordingly, the District makes no representation that future development will occur. See “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments.”

AERIAL PHOTOGRAPH OF THE DISTRICT
(taken February 2026)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken February 2026)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(taken February 2026)



DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements of the Outstanding Bonds and the principal and estimated interest requirements of the Bonds.

Year Ending December 31	Current Total Debt Service	Plus: The Bonds		New Total Debt Service
		Principal	Interest*	
2026	\$184,406			\$184,406
2027		\$80,000	\$926,713	1,006,713
2028		190,000	649,950	839,950
2029		200,000	639,975	839,975
2030		210,000	629,475	839,475
2031		220,000	618,450	838,450
2032		235,000	606,900	841,900
2033		245,000	594,563	839,563
2034		260,000	581,700	841,700
2035		275,000	568,050	843,050
2036		285,000	553,613	838,613
2037		300,000	538,650	838,650
2038		320,000	522,900	842,900
2039		335,000	506,100	841,100
2040		350,000	488,513	838,513
2041		370,000	470,138	840,138
2042		390,000	450,713	840,713
2043		410,000	430,238	840,238
2044		430,000	408,713	838,713
2045		455,000	386,138	841,138
2046		480,000	362,250	842,250
2047		505,000	337,050	842,050
2048		530,000	310,538	840,538
2049		560,000	282,713	842,713
2050		590,000	253,313	843,313
2051		620,000	222,338	842,338
2052		650,000	189,788	839,788
2053		685,000	155,663	840,663
2054		720,000	119,700	839,700
2055		760,000	81,900	841,900
2056		800,000	42,000	842,000
	\$184,406	\$12,460,000	\$12,928,745	\$25,573,151

Average Annual Requirements: (2027-2056)	\$840,760
Maximum Annual Requirement: (2027).....	\$1,006,713

* Interest is estimated at 5.25% per annum for purposes of illustration.

Bonded Indebtedness

2025 Assessed Valuation.....		\$	102,379,328 (a)
(As of January 1, 2025)			
See "TAX DATA" and "TAXING PROCEDURES"			
Direct Debt:			
Outstanding Bonds.....		\$	175,000
The Bonds			<u>12,460,000</u>
Total		\$	12,635,000 (b)
Estimated Overlapping Debt		\$	<u>8,221,682</u>
Total Direct and Estimated Overlapping Debt		\$	<u>20,856,682</u>
Ratio of Direct Debt			
: as a percentage of 2025 Assessed Valuation.....			12.34 %
Ratio of Direct and Estimated Overlapping Debt			
: as a percentage of 2025 Assessed Valuation.....			20.37 %
Debt Service Fund Estimated as of Delivery of the Bonds		\$	1,118,414 (c)
General Fund Balance as of January 7, 2026.....		\$	354,610
2025 Tax Rate per \$100 of Assessed Valuation			
Debt Service Tax	\$0.44		
Maintenance Tax	<u>0.50</u>		
Total		\$	0.94 (d)
Anticipated Approximate 2026 Tax Rate per \$100 of Assessed Valuation			
Debt Service Tax	\$0.60		
Maintenance Tax	<u>0.50</u>		
Total		\$	1.10 (d)

-
- (a) As of January 1, 2025, and comprises the District's 2025 tax roll. All property located in the District is valued on the tax rolls by the Harris Central Appraisal District (the "Appraisal District") at 100% of assessed value as of January 1 of each year. The District's tax roll is certified by the Harris County Appraisal Review Board (the "Appraisal Review Board"). Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$1,091,640, which total is included in the amount of \$102,379,328. The Appraisal District has proposed the valuation of such protested properties to be \$1,131,640. The District is unable to predict the amount of the District's final 2025 Assessed Valuation. Such final 2025 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2025. See "TAXING PROCEDURES."
- (b) In addition to the components of the System that the District has financed with the proceeds of the sale of the Prior Bonds and is financing with the proceeds of the sale of the Bonds, the District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See "THE BONDS - Issuance of Additional Debt," and - "Use and Distribution of Bond Proceeds," "THE SYSTEM" and "RISK FACTORS - Future Debt."

- (c) Neither Texas law nor the Bond Order requires the District to maintain any particular sum in the Debt Service Fund. Such fund balance reflects the timely payment by the District of its debt service payments that are due on March 1, 2026, on the Outstanding Bonds. The District's initial debt service requirement on the Bonds, consisting of an interest payment thereon, is due on March 1, 2027.
- (d) The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. The District anticipates levying a debt service tax in the approximate amount of \$0.60 per \$100 of Assessed Valuation and a maintenance tax of approximately \$0.50 per \$100 of Assessed Valuation in 2026, for a combined total tax for 2026 of approximately \$1.10 per \$100 of Assessed Valuation. As is described in this Official Statement under the caption "TAX DATA - Estimated Overlapping Taxes," the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District, including the District's 2025 total tax rate of \$0.94 per \$100 of Assessed Valuation, is \$2.632628 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate tax levies of some municipal utility districts in the Houston metropolitan area, including the area of the District, but are within the range of the aggregate levies of most municipal utility districts in the Houston metropolitan area and the area of the District which are in stages of development comparable with the District. See "TAX DATA" and "RISK FACTORS - Factors Affecting Taxable Values and Tax Payments."

Estimated Direct and Overlapping Debt Statement

The following statement indicates the direct and estimated overlapping debt of the District. The table includes the estimated amount of indebtedness of governmental entities overlapping the District, defined as outstanding bonds payable from ad valorem taxes, and the estimated percentages and amounts of such indebtedness attributable to property located within the District. This information is based upon data secured from the individual jurisdictions and/or the Texas Municipal Reports published by the Municipal Advisory Council of Texas. The calculations by which the statement was derived were made in part by comparing the reported assessed valuation of the property in the overlapping taxing jurisdictions with the Assessed Valuation of property within the District. No effect has been given to the tax burden levied by any applicable taxing jurisdiction for maintenance and operational or other purposes.

<u>Taxing Jurisdiction</u>	<u>Debt as of January 1, 2026</u>	<u>Estimated Overlapping Percent</u>	<u>Amount</u>
Harris County ^(a)	\$2,257,734,736	0.01488%	\$335,858
Harris County Department of Education	28,960,000	0.01488%	4,308
Harris County Flood Control District	937,165,000	0.01488%	139,412
Harris County Hospital District	867,820,000	0.01488%	129,096
Port of Houston Authority	386,074,397	0.01488%	57,432
Huffman Independent School District	147,775,000	5.11289%	<u>7,555,576</u>
 TOTAL ESTIMATED OVERLAPPING DEBT			 \$8,221,682
 TOTAL DIRECT DEBT ^(b)			 <u>12,635,000</u>
 TOTAL DIRECT AND ESTIMATED OVERLAPPING DEBT			 \$20,856,682
 Ratio of Total Direct and Estimated Overlapping Debt to:			
		% of 2025 <u>Assessed Valuation</u>	
Direct Debt.....		12.34%	
Direct and Overlapping Debt		20.37%	

(a) Harris County Toll Bonds are considered to be self-supporting and are not included in this schedule.
(b) See "Bonded Indebtedness" above.

Under Texas law ad valorem taxes levied by each taxing authority other than the District create a lien which is on a parity with the lien in favor of the District on all taxable property within the District. In addition to the ad valorem taxes required to retire the foregoing direct and overlapping debt, the various taxing authorities mentioned above also are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administration and/or general revenue purposes. Certain of the jurisdictions have in the past levied such taxes. The District has the power to assess, levy and collect ad valorem taxes for operation and maintenance purposes in an amount not to exceed \$0.50 per \$100 of Assessed Valuation, and such taxes have been authorized by the duly qualified voters of the District. The District has levied a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025 and anticipates levying a maintenance tax of approximately \$0.60 per \$100 of Assessed Valuation for 2026. See “TAX DATA - Maintenance Tax” and - “Tax Rate Distribution.”

TAX DATA

Debt Service Tax

All taxable property within the District is subject to the assessment, levy and collection by the District of an annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Outstanding Bonds, the Bonds and any future tax-supported bonds which may be issued from time to time as authorized. Taxes are levied by the District each year against the District’s assessed valuation at January 1 of that year. The Board covenants in the Bond Order to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District’s tax base, its debt service requirements and available funds. The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation for 2025 and anticipates levying a debt service tax of approximately \$0.50 per \$100 of Assessed Valuation for 2026.

Maintenance Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for maintenance of the District's improvements, if such maintenance tax is authorized by a vote of the District's electorate. The District voters have authorized the levy of such a maintenance tax for operation and maintenance of the System in an amount not to exceed \$0.50 per \$100 of Assessed Valuation. 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 supported bonds which may be issued in the future. The District has levied a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025 and anticipates levying a maintenance tax of approximately \$0.60 per \$100 of Assessed Valuation for 2026. See “Tax Rate Distribution” below.

Tax Rate Distribution

	<u>2026</u>	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Debt Service	\$0.60	\$0.44	\$0.41	\$0.435	\$0.465	\$0.50
Maintenance & Operations	<u>0.50</u>	<u>0.50</u>	<u>0.50</u>	<u>0.500</u>	<u>0.500</u>	<u>0.50</u>
Total	\$1.10*	\$0.94	\$0.91	\$0.935	\$0.965	\$1.00

* Anticipated approximate tax rate.

Analysis of Tax Base

The following table illustrates the composition of property located within the District for the past five years.

<u>Type of Property</u>	2025		2024		2023	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$28,838,690	28.17%	\$23,419,329	26.26%	\$20,073,909	26.58%
Ag	16,956	0.02%	0	0.00%	0	0.00%
Improvements	76,508,912	74.73%	68,379,761	76.69%	58,316,905	77.21%
Personal Property	3,274,722	3.20%	3,254,860	3.65%	2,392,842	3.17%
Uncertified	1,091,640	1.07%	0	0.00%	0	0.00%
Exemptions	<u>(7,351,592)</u>	<u>-7.18%</u>	<u>(5,885,939)</u>	<u>-6.60%</u>	<u>(5,250,433)</u>	<u>-6.95%</u>
TOTAL	\$102,379,328	100.00%	\$89,168,011	100.00%	\$75,533,223	100.00%

<u>Type of Property</u>	2022		2021	
	<u>Assessed Valuation</u>	<u>%</u>	<u>Assessed Valuation</u>	<u>%</u>
Land	\$18,472,041	27.53%	\$14,254,635	24.93%
Improvements	50,591,343	75.40%	45,322,576	79.28%
Personal Property	2,717,735	4.05%	2,114,467	3.70%
Exemptions	<u>(4,684,578)</u>	<u>-6.98%</u>	<u>(4,522,421)</u>	<u>-7.91%</u>
TOTAL	\$67,096,541	100.00%	\$57,169,257	100.00%

* Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District's "Estimated Final Taxable Value with Hearing Loss" of such protested properties is \$1,091,640, which total is included in the amount of \$102,379,328. The Appraisal District has proposed the valuation of such protested properties to be \$1,131,640. The District is unable to predict the amount of the District's final 2025 Assessed Valuation. Such final 2025 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2025.

Historical Values and Tax Collection History

The following statement of tax collections sets forth, in condensed form, the historical Assessed Valuation and tax collections of the District. Such summary has been prepared for inclusion herein based upon information obtained from District records. Reference is made to such records, including the District’s annual audited financial statements, for more complete information.

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate^(a)</u>	<u>Total Levy</u>	<u>% Collections</u>	
				<u>Current & Prior Years^(b)</u>	<u>Year Ended 09/30</u>
2015	\$38,209,211	\$0.930	\$355,346	99.97%	2016
2016	41,316,085	\$0.930	384,240	99.98	2017
2017	43,835,842	\$0.930	407,673	99.98	2018
2018	43,413,998	\$1.020	442,823	99.95	2019
2019	50,256,594	\$1.020	512,617	99.63	2020
2020	54,580,969	\$1.020	556,726	99.92	2021
2021	57,169,257	\$1.000	571,693	99.63	2022
2022	67,096,541	\$0.965	647,481	99.30	2023
2023	75,533,223	\$0.935	706,236	99.15	2024
2024	89,168,011	\$0.910	811,429	98.52	2025
2025	102,379,328(c)	\$0.940(d)	962,366(d)	12.24(d)	2026

- (a) Per \$100 of Assessed Valuation.
- (b) Such percentages reflect cumulative total collections for each year from the time each respective annual tax was levied through December 31, 2025.
- (c) Such sum includes certain values which have not been certified by the Appraisal Review Board, including the value of certain properties which has been proposed by the Appraisal District but protested by the owners thereof to the Appraisal District. The Appraisal District’s “Estimated Final Taxable Value with Hearing Loss” of such protested properties is \$1,091,640, which total is included in the amount of \$102,379,328. The Appraisal District has proposed the valuation of such protested properties to be \$1,131,640. The District is unable to predict the amount of the District’s final 2025 Assessed Valuation. Such final 2025 Assessed Valuation will not be determined until the valuation of all taxable property located within the District is certified by the Appraisal Review Board for 2025.
- (d) The District has levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. In process of collection.

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of Assessed Valuation which would be required to meet certain debt service requirements if no growth in the District occurs beyond the 2025 Assessed Valuation. The calculations also assume collection of 95% of taxes levied, no use of other legally available District funds on hand, and the sale of no additional bonds by the District. As outlined above under the caption “Historical Values and Tax Collection History,” the District has, as of December 31, 2025, collected an average annual percentage of its property taxes of 99.60% for the period 2015 through 2024.

Average Annual Debt Service Requirements (2027-2056).....	\$840,760
Tax Rate of \$0.87 on the 2025 Assessed Valuation (\$102,379,328) produces.....	\$846,165
Maximum Annual Debt Service Requirement (2027)	\$1,006,713
Tax Rate of \$1.04 on the 2025 Assessed Valuation (\$102,379,328) produces.....	\$1,011,508

The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. The District anticipates levying a debt service tax in the approximate amount of \$0.60 per \$100 of Assessed Valuation and a maintenance tax of approximately \$0.50 per \$100 of Assessed Valuation in 2026, for a combined total tax for 2026 of approximately \$1.10 per \$100 of Assessed Valuation. As the above table indicates, the anticipated 2026 combined total tax rate of approximately \$1.10 per \$100 of Assessed Valuation will not be sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds assuming taxable values in the District at the level of the 2025 Assessed Valuation, assuming collection of 95% of taxes levied, the use of no other legally available District funds on hand, and the issuance of no additional bonds by the District. However, as is illustrated in this Official Statement under the caption “TAX DATA - Historical Values Tax Collection History,” the District has collected an average of 99.60% of its 2015 through 2024 tax levies as of December 31, 2025. Moreover, the District’s Debt Service Fund balance is estimated to be \$1,118,414 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see “APPENDIX B - FINANCIAL REPORT OF THE DISTRICT”). Therefore, the District anticipates that it will be able to meet the debt service requirements on the Bonds and the Outstanding Bonds without increasing the tax rate for debt service above the combined total rate which the District anticipates levying for 2026 – approximately \$1.10 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rate or to justify continued payment of taxes by property owners. See “TAXING PROCEDURES” and “RISK FACTORS - Factors Affecting Taxable Values and Tax Payments.”

Principal 2025 Property Owners

Based upon information supplied by the District’s Tax Assessor/Collector, the following table lists principal District taxpayers, type of property owned by such taxpayers, and the assessed valuation of such property as of January 1, 2025. The information reflects the composition of property ownership reflected on the District’s 2025 tax roll.

<u>Taxpayer</u>	<u>Type of Property</u>	<u>Assessed Valuation 2025 Tax Roll</u>	<u>% of 2025 Tax Roll</u>
S&F Oliver Est LLC	Land and Improvements	\$1,800,000	1.76%
Idleloch Community Association	Land and Improvements	1,714,271	1.67%
Homeowner	Land and Improvements	1,276,550	1.25%
Pine Ridge Interests Ltd	Land	1,149,036	1.12%
Homeowner	Land and Improvements	1,128,884	1.10%
Aims Ventures Group & Developers LLC	Land	1,112,950	1.09%
MR RG Investments Inc.	Land and Improvements	1,087,331	1.06%
Homeowner	Land and Improvements	1,048,320	1.02%
Panjwani Energy Properties	Land and Improvements	958,579	0.94%
Pipe Line Unique Services LLC	Land and Improvements	<u>902,937</u>	<u>0.88%</u>
		\$12,178,858	11.90%

Estimated Overlapping Taxes

Property located within the District is subject to taxation by several taxing authorities in addition to the District. Set forth below is a compilation of all 2025 taxes levied upon property located within the District plus the District’s 2025 tax rate. Under Texas law, ad valorem taxes levied by each taxing authority other than the District entitled to levy taxes against property located within the District create a lien which is on a parity with the tax lien of the District. In addition to the ad valorem taxes required to make the debt service payments on bonded debt of the District and of such other jurisdictions (see “DISTRICT DEBT - Estimated Direct and Overlapping Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative and/or general revenue purposes.

<u>Taxing Jurisdiction</u>	<u>2025 Tax Rate Per \$100 of A.V.</u>
The District *	\$0.940000
Harris County	0.380960
Harris County Department of Education	0.004798
Harris County Flood Control District	0.049660
Harris County Hospital District	0.187610
Port of Houston Authority	0.005900
Huffman Independent School District	<u>1.063700</u>
Total Tax Rate	\$2.632628

* The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. The District anticipates levying a debt service tax in the approximate amount of \$0.60 per \$100 of Assessed Valuation and a maintenance tax of approximately \$0.50 per \$100 of Assessed Valuation in 2026, for a combined total tax for 2026 of approximately \$1.10 per \$100 of Assessed Valuation.

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, against all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds and any additional bonds payable from taxes which the District may hereafter issue and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Order to levy such a tax from year to year as described more fully above under the caption “THE BONDS - Source of Payment.” The Board is also authorized to levy and collect annual ad valorem taxes for the administration and maintenance of the District and the System and for the payment of certain contractual obligations if such taxes are authorized by vote of the District’s electors at an election. The District’s electors have authorized the levy of such a maintenance tax in an amount not to exceed \$0.50 per \$100 of Assessed Valuation. See “TAX DATA - Maintenance Tax.”

Exempt Property

Except for certain exemptions provided by Texas law, all real property and tangible personal property and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District; however, no effort is expected to be made by the Harris Central Appraisal District (the “Appraisal District”) described below to assess taxes against tangible or intangible personal property not devoted to commercial or industrial use. Principal categories of exempt real property include: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; nonprofit cemeteries; and certain property owned by qualified charitable, religious, veterans, fraternal, or educational organizations. Partially exempt to the maximum extent of between \$5,000 and \$12,000 of assessed value, depending upon the disability rating of the veteran, is property owned by a disabled veteran or by the spouse or certain children of a deceased disabled veteran or a veteran who died while on active duty. Totally exempt is property owned by a veteran who receives a disability rating of 100%. A partially disabled veteran or certain surviving spouses of partially disabled veterans are entitled to an exemption from taxation of a percentage of the appraised value of their residence homestead in an amount equal to the partially disabled veteran’s disability rating if (i) the residence homestead was donated by a charitable organization at no cost to the disabled veteran or, (ii) the residence was donated by a charitable organization at some cost to the disabled veteran if such cost is less than or equal to fifty percent (50%) of the total good faith estimate of the market value of the residence as of the date the donation is made. Also, the surviving spouse of (i) a member of the armed forces, (ii) a first responder as defined under Texas law, 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. Also partially exempt, if approved by the

Board or at an election called by the Board upon petition of at least 20% of the number of the qualified voters who voted in the District's preceding election, are residence homesteads of certain persons who are disabled or at least 65 years old to the extent of \$3,000 of appraised value or such higher amount as the Board or the District's voters may approve. The District's tax assessor 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.

The Board may exempt up to 20% of the market value of residential homesteads from ad valorem taxation. Such exemption would be in addition to any other applicable exemptions provided by law. However, if ad valorem taxes have previously been pledged for the payment of debt and the cessation of the levy would impair the obligation of the contract by which the debt was created, then the Board may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged. To date the Board has not voted to exempt any percentage of the market value of residential homesteads from ad valorem taxation, but no representation may be made that the Board will not determine to grant such exemption in the future.

A "Freeport Exemption" applies to goods, wares, ores, 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 which are destined to be forwarded outside of Texas and which are detained in Texas for assembling, storing, manufacturing, processing or fabricating for less than 175 days. Although certain taxing units may take official action to tax such property in transit and negate such exemption, the District does not have such an option. A "Goods-in-Transit" Exemption is applicable to the same categories of tangible personal property which 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 the tax year 2012 and subsequent years.

Harris County may designate all or part of the area within the District as a reinvestment zone, and the District or Harris County may thereafter enter into tax abatement agreements with owners of real property within the zone. The tax abatement agreements may exempt from ad valorem taxation by the applicable taxing jurisdiction, and by the District, for a period of up to 10 years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property in conformity with a comprehensive plan. None of the area within the District has been designated as a reinvestment zone to date. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by other taxing jurisdictions.

County-Wide Appraisal District

The Texas Property Tax Code (the "Property Tax Code") establishes an appraisal district and an appraisal review board in each county of the State of Texas. The appraisal district is governed by a board of directors elected by the governing bodies of cities, towns, school districts and, if entitled to vote, the conservation and reclamation districts that participate in the appraisal district and of the county. The District is entitled to vote upon and participate in the selection of members of the board of directors of the Appraisal District. The board of directors selects a chief appraiser to manage the appraisal office of the appraisal district. All taxing units within Harris County, including the District, are included in the Appraisal District. The Appraisal District is responsible for appraising property within the District, subject to review by the Harris County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll as approved by the Appraisal Review Board

must be used by the District in establishing its tax rolls and tax rate. The valuation and assessment of taxable property within the District is governed by the Property Tax Code.

Under current Texas law, the District is responsible for the levy and collection of its taxes and will continue to be so responsible unless the Board of Directors of the District, or the qualified voters of the District or of Harris County at an election held for such purpose, determines to transfer such functions to the Appraisal District or another taxing unit.

Assessment and Levy

Generally, all taxable property in the District (other than any qualifying agricultural and timberland) must be appraised at 100% of market value as of January 1 of each tax year, subject to review and approval by the Appraisal Review Board. However, houses held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income, are required to be assessed at the price for which they would sell as a unit to a purchaser who would continue the owner's business. See "TAX DATA - Principal 2025 Property Owners." The Property Tax Code requires each appraisal district to implement a plan providing for reappraisal of all real property in the appraisal district at least once every three years. It is not known what frequency of reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis.

The Property Tax Code permits land designated for agricultural use or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use designation must apply for the designation, and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. If a claimant receives the designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including for three years for agricultural use and for five years for open space and timberland, prior to the loss of the designation.

The chief appraiser must give written notice on May 15, or as soon thereafter as practicable, to each owner if the appraised value of his property is greater than it was in the preceding year, if the appraised value of the property is greater than the value rendered by the property owner, or if the property was not on the appraisal roll in the preceding year. In addition, the chief appraiser must give written notice to each property owner whose property was reappraised in the current year or if ownership of the property changed during the preceding year. The Appraisal Review Board has the ultimate responsibility for determining the value of all taxable property within the District; however, any owner who has timely filed notice with the Appraisal Review Board may appeal the final determination by the Appraisal Review Board by filing suit in Texas district court. Prior to such appeal and prior to the delinquency date, however, the owner must pay the tax due on the amount of value of the property involved that is not in dispute or the amount of tax paid in the prior year, whichever is greater, or the amount of tax due under the order from which the appeal is taken. In the event of such suit, the value of the property is determined by the court, or a jury if requested by any party. Additionally, the District is entitled to challenge certain matters before the Appraisal Review Board, including the level of appraisals of a certain category of property, the exclusion of property from the appraisal records, or the grant in whole or in part of a partial exemption. The District may not, however, protest a valuation of individual property. After the District receives the certified appraisal roll, the rate of taxation is set by the Board based upon the assessed valuation of property within the District as of the preceding January 1 and the amount required to be raised for debt service, maintenance purposes and authorized contractual obligations.

Disaster Exemption

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% damaged by a disaster and located within an area declared to be a disaster area by the Governor. This temporary exemption is automatic if the disaster is declared prior to a taxing unit, such as the District, adopting its tax rate for the tax year. A taxing unit, such as the District, may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of

the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

District and Taxpayer Remedies

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

The Property Tax Code 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.

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 “Low Tax Rate Districts.” 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 are 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.

Low Tax Rate Districts

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

Developed Districts

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

Developing Districts

Districts that do not meet the classification of a Low Tax Rate District or a Developed District are 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 a rollback election is called and passes, the total tax rate for Developing Districts is the current year's debt service and contract tax rate plus the operation and maintenance tax rate that would impose 1.08 times the amount of operation and maintenance tax imposed by the district in the preceding tax year on a residence homestead appraised at the average appraised value of a resident homestead in the district in that year, subject to certain homestead exemptions.

The District

A determination as to a district's status as a Low Tax Rate District, Developed District or Developing District will be made on an annual basis, at the time a district sets its 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 rollback election calculation. For the 2025 tax year, a determination was made that the District is classified as a Developing District.

Collection

The District is responsible for the collection of its taxes, unless it elects to transfer such functions to another governmental entity. Taxes are due on receipt of the tax bill and become delinquent after January 31 of the following year. However, a person who is (i) 65 years of age or older; (ii) disabled or (iii) qualifies as a disabled veteran under Texas law is entitled by law to pay current taxes on his residential homestead in installments or to receive a deferral or abatement of delinquent taxes without penalty during the time he owns or occupies his property as his residential homestead. The date of the delinquency may be postponed if the tax bills are mailed after September 30 (if the Board has authorized discounts for early payment) or otherwise after January 10. So long as the Board has not transferred responsibility for collection of the taxes to another taxing unit or the Appraisal District, the Board may permit payment without penalty or interest of the final tax installment by July 1, if one-half of taxes assessed for the current year are paid prior to December 1. The Board may approve a 3% discount for taxes paid in October, 2% for November and 1% for December. Delinquent taxes are subject to a 6% penalty for the first month of delinquency, 1% for each month thereafter to July 1 and 12% total if any taxes are unpaid on July 1. Delinquent taxes also accrue interest at the rate of 1% per month during the period they remain outstanding. In addition, the Board may impose a further penalty on all taxes, penalties, and interest unpaid on July 1 which is used to defray the cost of engaging an attorney for collection of delinquent taxes.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the person who owns or acquires the property on January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties, and interest ultimately imposed for the year upon the property. The District's tax lien is on a parity with the tax liens of the other jurisdictions levying taxes on property within the District. 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. In the absence of such federal law, the District's tax lien takes priority over a lien of the United States. In the event a taxpayer fails to make timely payment of taxes due the District, the District may file suit at any time after taxes become delinquent to foreclose its 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 also be adversely affected by the amount of taxes owed to other federal, state and local taxing jurisdictions, by the effects of market conditions on the foreclosure sales price, by the taxpayer's redemption rights (a taxpayer may redeem property within two (2) years for residence homesteads or land designated for agricultural use and within six (6) months for all other types of real property after the purchaser's deed issued at the foreclosure sale is filed in the county records), or by bankruptcy proceedings which restrain or stay the collection of a

taxpayer's debts. The District's ability to foreclose its tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended. Federal bankruptcy law provides that an automatic stay of actions by creditors and other entities, including governmental units, goes into effect with the filing of any petition in bankruptcy. The automatic stay prevents governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In many cases post-petition taxes are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court. See "RISK FACTORS - Principal Land Owners' Obligations to the District."

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 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 Property 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 SYSTEM

Regulation

The water, wastewater and storm drainage facilities serving land within the District (the "System") have been designed in conformance with accepted engineering practices and the requirements of certain governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the City of Houston, Harris County, the Harris County Flood Control District, and the TCEQ.

Operation of the System is subject to regulation by, among others, the United States Environmental Protection Agency and the TCEQ. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revision. According to the District's Engineer, the total number of equivalent single-family connections ("ESFCs") projected for the District at the full development of its approximate 548.43 acres is approximately 1,138 with a total estimated population of 3,983 people. A description of portions of the System follows and is based upon information supplied by the District's Engineer.

Description

The construction or acquisition of underground water supply and distribution, wastewater collection and treatment, and storm drainage facilities to serve the single-family residential lots located within the District that are described in this Official Statement was financed with proceeds of the sale of the Outstanding Bonds. As is described below under the caption "100-Year Flood Plain," 30 lots located within the District that have been substantially developed and approximately 42 lots that have been partially developed are located within the 100-year flood plain and require additional development and flood plain mitigation to be available for future home construction. The District will finance improvements to the District's water plant, improvements to the District's wastewater collection system, and construction of an emergency generator at the District's wastewater treatment plant with the proceeds of the sale of the Bonds.

- Storm Drainage -

Storm water drainage for the District is accomplished by a channel improvement and storm sewer system financed with proceeds of the sale of the Outstanding Bonds. See “100-Year Flood Plain” below. According to the Engineer, the District's drainage system is sufficient to serve the present development within the District. Future development within the District will follow the current requirements of the Harris County Flood Control District and will dictate that storm water detention facilities are required.

- Water Supply -

Portions of the proceeds of the sale of the Outstanding Bonds were used to finance the construction of (i) the District's water supply facilities which consist of a 540 gallons-per-minute (“g.p.m.”) water well capacity; 250,000 gallon ground storage tank capacity; 20,000 gallons of hydropneumatic tank capacity; and 1,500 g.p.m. of booster pump capacity, and (ii) an emergency water interconnection line with the adjacent Fairway Crossing, a private subdivision. The District intends to finance Water Plant improvements with a portion of the proceeds of the sale of the Bonds. According to the District's Engineer, the capacity contained in the existing well and facilities plus the improvements which the District is financing with the proceeds of the sale of the Bonds will provide sufficient capacity to serve 750 connections in the District.

- Wastewater Treatment -

Wastewater treatment in the District is provided by a permanent wastewater treatment plant owned by the District which has a permitted capacity of 225,000 gallons-per-day (“g.p.d.”), which is sufficient to provide service to 642 equivalent single-family connections (“ESFCs”), based on the indicated design criteria of 350 g.p.d./ESFC. A portion of the proceeds of the sale of the Bonds will be used wastewater treatment plant emergency generator.

- 100-Year Flood Plain -

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

According to the District's Engineer, none of the improvements proposed for construction funding through this bond issue is currently in the 100-year flood plain, or, as in the case of Lift Station No. 1 (see “THE BONDS – Use and Distribution of Bonds Proceeds”), will be constructed above the 100-year flood plain elevation as designated by the Federal Emergency Management Administration Flood Insurance Rate Map for the area dated June 18, 2007. Approximately 56 completed homes in the District appear to be located geographically within the 100-year flood plain; however, the District has not undertaken a slab survey to determine the elevation of homes in relation to the 100-year flood plain elevation. Additionally, approximately 30 lots located within the District that have been substantially developed and approximately 42 lots that have been partially developed are located within the 100-year flood plain and require additional development and flood plain mitigation to be available for future home construction. The District cannot represent whether or when such additional development and flood plain mitigation might occur or whether or when any home construction might commence on such lots. See “DEVELOPMENT OF THE DISTRICT.”

The National Weather Service has 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 which is based on a higher statistical rainfall amount, resulting in interim floodplain regulations applying to a larger number of properties and consequently leaving less developable property within the District. Such regulations

could additionally result in higher insurance rates, increased development fees, and stricter building codes for any property located within the expanded boundaries of the floodplain.

- 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 is subject to an annual permit issued by the Subsidence District. The Subsidence District has adopted regulations requiring reduction of groundwater withdrawals through conversion to alternate source water (e.g., surface water) in certain areas within the Subsidence District’s jurisdiction, including the area within the District.

In order to meet the Subsidence District’s requirements, the District entered into an agreement with the City of Houston (the “City”) to be included in the City’s Groundwater Reduction Plan (“GRP”). As a participant in the City’s GRP, the District has met the Subsidence District’s requirements, but the District is required to pay a groundwater pumpage fee for all groundwater produced and used by the District. In the future, the District may be required to purchase surface water from the City and further may be required to construct surface water transmission lines from City’s system to the District’s water plants.

Although the City does not currently have a projected date for delivery of surface water to the District, the District may be required to issue additional bonds at some time in the future for such surface water infrastructure, should the City require the District to convert to surface water and connect to the City’s water supply system.

Under the Subsidence District regulations and the GRP, the City is required to: (i) have limited groundwater withdrawals to no more than 70% of the total water demand beginning in the year 2014; (ii) have limited groundwater withdrawals to no more than 40% of the total water demand beginning in the year 2025; and (iii) limit groundwater withdrawals to no more than 20% of the total water demand beginning in the year 2035. If the City fails to comply with the above Subsidence District regulations, the City is subject to a substantial disincentive fee penalty (“Disincentive Fees”) imposed by the Subsidence District for any groundwater withdrawn in excess of target amounts.

In the event of the City’s failure to comply, the Subsidence District may also seek to collect Disincentive Fees from the District. If the District fails to comply with surface water conversion requirements required by the City, the City would likely seek monetary or other penalties against the District. The District cannot predict the amount or level of fees and charges, which may be due the City in the future, but anticipates the need to pass such fees through to its customers: (i) through higher water rates and/or (ii) with portions of maintenance tax proceeds, if any. No representation is made that the City: (i) will build the necessary facilities to meet the requirements of the Subsidence District for conversion to surface water, (ii) will comply with the Subsidence District’s surface water conversion requirements, or (iii) will comply with its GRP.

Waterworks and Sewer System Operating Statement

The following statement summarizes the operating history of the District's System for the fiscal years ended March 31, 2022, through 2025. The summary has been condensed from information contained in the District's audited financial statements for the fiscal years ended March 31, 2022, through 2025, to which reference is made for more complete and further information. The derivation of Net Revenues which follows excludes depreciation expenses. See "APPENDIX B - ANNUAL FINANCIAL REPORT."

	Fiscal Year Ended March 31			
	<u>2025</u>	<u>2024</u>	<u>2023</u>	<u>2022</u>
GENERAL FUND				
REVENUES				
Property Taxes	\$433,317	\$381,286	\$340,861	\$275,120
Water Service	91,639	95,851	75,228	70,886
Sewer Service	185,481	171,947	138,103	125,839
Surface Water Fees	76,866	86,241	36,640	26,498
Penalty and Other	28,281	49,583	21,764	16,719
Tap Connection and Sewer Inspection Fees	94,542	124,400	91,950	0
Interest on Deposits	23,674	23,382	8,444	107
TOTAL REVENUES	\$933,800	\$932,690	\$712,990	\$515,169
EXPENDITURES				
Professional Fees	124,151	131,735	130,618	108,877
Contracted Services	65,093	59,511	57,591	58,411
Utilities	36,947	33,377	40,817	27,512
Groundwater Pumpage Fees	100,884	109,109	46,189	25,445
Repairs, Maintenance and Other Operating Expenditures	279,171	167,276	172,254	87,852
Garbage Disposal	98,343	88,832	73,664	64,236
Administrative Expenditures	73,737	60,632	49,548	48,419
Capital Outlay	68,810	209,213	49,300	6,388
TOTAL EXPENDITURES	\$847,136	\$859,685	\$619,981	\$427,140
EXCESS REVENUES (EXPENDITURES)	\$86,664	\$73,005	\$93,009	\$88,029

Net Revenues are pledged to the payment of the Bonds and are basically defined by the Bond Order as all income that is derived from the ownership and operation of the District's System as the same is purchased, constructed or otherwise acquired, which remains after deducting the operation and maintenance expenses of the System, but not including income derived from contracts that is pledged for payment of any special project bonds that may be issued. The District does not expect that the operation of its System will produce Net Revenues sufficient to make significant contributions, if any, to the District's debt service requirements. The District's General Fund balance at March 1, 2025, was \$653,743 and at January 7, 2026 (unaudited), was \$354,610.

RISK FACTORS

General

The Bonds, which are obligations of District and not of the State of Texas; Harris County, Texas; the City of Houston, Texas; or any political subdivision other than the District, are secured by an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property located within the District, and are further payable from and secured by a pledge of and lien on certain Net Revenues, if any, derived from the operation of the District's waterworks and sewer system (the "System"), to the extent and upon the conditions described herein. See "THE BONDS - Source of Payment." The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District (i) to collect from the property owners within the District taxes levied against all taxable property located within the District or, in the event taxes are not collected and foreclosure proceedings are instituted by the District, upon the value of the taxable property with respect to taxes levied by the District and by other taxing authorities, and (ii) to generate Net Revenues from the operation of the System. The District makes no representations that over the life of the Bonds the property within the District will maintain a value sufficient to justify continued payment of taxes by the property owners or that the System will produce sufficient Net Revenues to make significant contributions, if any, to future debt service payments. See "Production of Net Revenues" below. The potential increase in taxable valuation of District property is directly related to the economics of the residential housing industry, not only due to general economic conditions, but also due to the particular factors discussed below.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The land located within the District has been developed primarily for single-family residential and commercial purposes. A substantial percentage of the assessed valuation of the property located within the District is attributable to the current market value of single-family residences that have been constructed within the District. The market value of such homes is related to general economic conditions affecting the demand for residences. Demand for lots of this type and the construction of residential dwellings thereon and the construction of commercial buildings can be significantly affected by factors such as interest rates, credit availability, construction costs, energy costs and availability and the prosperity and demographic characteristics of the urban area toward which the marketing of lots, homes and commercial enterprises is directed. Recent changes in federal tax law limiting deductions for ad valorem taxes may adversely affect the demand for housing and the prices thereof. Declines in the price of oil could adversely affect job stability, wages and salaries, thereby negatively affecting the demand for housing and the values of existing homes (see "Potential Effects of Oil Price Volatility on the Houston Area"). Were the District to experience a significant number of residential foreclosures, the value of all homes within the District could be adversely affected. Although development of the District has occurred as is described in this Official Statement under the caption "DEVELOPMENT OF THE DISTRICT" and "THE SYSTEM," the District cannot predict the pace or magnitude of the construction of any other taxable improvements than those that have been constructed therein to date.

National Economy: The housing and building industry has historically been a cyclical industry, affected by both short-term and long-term interest rates, availability of mortgage and development funds, employment levels and general economic conditions. Although development in the District has occurred as is described in this Official Statement under the captions "DEVELOPMENT OF THE DISTRICT" and "THE SYSTEM," the District cannot predict the pace or magnitude of any future development in the District other than that which has been undertaken to date. The District cannot predict what impact, if any, a downturn in the local housing markets or in the national housing and financial markets may have on the Houston market generally and the District specifically. See "TAXING PROCEDURES."

Credit Markets and Liquidity in the Financial Markets: Interest rates and the availability of mortgage and development funding have a direct impact on residential and commercial development activity and the construction of homes and commercial projects, particularly short-term interest rates at which developers are able to obtain financing for development costs and at which homebuilders are able to finance the construction of new homes for sale and at which commercial developers are able to finance new commercial projects. Interest rate levels may affect

the ability of a developer with undeveloped property to undertake and complete development activities within the District and of homebuilders to initiate the construction of new homes for sale and of commercial developers to initiate the construction of commercial projects. Because of the numerous and changing factors affecting the availability of funds, particularly liquidity in the national credit markets, the District is unable to assess the future availability of such funds for continued development and/or home construction or the construction of new commercial projects within the District. In addition, since the District is located approximately 35 miles northeast of the central downtown business district of the City of Houston, the success of development within the District and growth of District taxable property values are, to a great extent, a function of the Houston metropolitan and regional economies and national credit and financial markets. A downturn in the economic conditions of Houston and in real estate and financial markets in the United States could adversely affect development and homebuilding plans or the construction of future commercial buildings in the District and restrain the growth of the District's property tax base.

Maximum Impact on District Tax Rates

Assuming no further construction of homes and other taxable improvements within the District other than those which have heretofore been constructed, and no additional development in the District other than the development which has occurred to date, the value of the land and improvements currently located within the District will be a major determinant of the ability of the District to collect, and the willingness of District 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 will be \$1,006,713 (2027), and the Average Annual Debt Service Requirements will be \$840,760 (2027 through 2056, inclusive). The 2025 Assessed Valuation of property within the District is \$102,379,328. Assuming no increase to or decrease from the 2025 Assessed Valuation, the issuance of no additional bonds by the District, and no use of other legally available District funds, tax rates of \$1.04 and \$0.87 per \$100 of Assessed Valuation at a 95% collection rate would be necessary to pay the Maximum Annual Debt Service Requirement and the Average Annual Debt Service Requirements, respectively. The District levied a debt service tax rate of \$0.44 per \$100 of Assessed Valuation and a maintenance tax of \$0.50 per \$100 of Assessed Valuation for 2025. The District anticipates levying a debt service tax in the approximate amount of \$0.60 per \$100 of Assessed Valuation and a maintenance tax of approximately \$0.50 per \$100 of Assessed Valuation in 2026, for a combined total tax for 2026 of approximately \$1.10 per \$100 of Assessed Valuation. The anticipated 2026 combined total tax rate of approximately \$1.10 per \$100 of Assessed Valuation will not be sufficient to pay the Average Annual Debt Service Requirements and the Maximum Annual Debt Service Requirement on the Bonds and the Outstanding Bonds assuming taxable values in the District at the level of the 2025 Assessed Valuation, assuming collection of 95% of taxes levied, the use of no other legally available District funds on hand, and the issuance of no additional bonds by the District. However, as is illustrated in this Official Statement under the caption "TAX DATA - Historical Values Tax Collection History," the District has collected an average of 99.60% of its 2015 through 2024 tax levies as of December 31, 2025. Moreover, the District's Debt Service Fund balance is estimated to be \$1,118,414 as of the date of delivery of the Bonds. Although neither Texas law nor the Bond Order requires that any specific amount be retained in the Debt Service Fund at any time, the District has in the past applied earnings from the investment of monies held in the Debt Service Fund to meet the debt service requirements of the Prior Bonds (see "APPENDIX B - FINANCIAL REPORT OF THE DISTRICT"). Therefore, the District anticipates that it will be able to meet the debt service requirements on the Bonds and the Outstanding Bonds without increasing the total tax rate above the total tax rate which the District anticipates levying for 2026 – approximately \$1.10 per \$100 of Assessed Valuation. However, the District can make no representation that the taxable property values in the District will increase in the future or will maintain a value sufficient to support the aforementioned tax rates or to justify continued payment of taxes by property owners. See "TAX DATA - Tax Rate Calculations."

Increases in the District's tax rate to levels higher than the total tax rate of \$0.94 per \$100 of Assessed Valuation which the District has levied for 2025 or the total tax rate of approximately \$1.10 that the District anticipates levying for 2026 may have an adverse impact upon future development within the District, the future construction of homes and other taxable improvements within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay, ad valorem taxes levied by the District. In addition, the collection by the District of delinquent taxes owed to it and the enforcement by a Registered Owner of the District's obligations to collect sufficient taxes may be a costly and lengthy processes. See "TAXING PROCEDURES - District's Rights in the Event of Tax Delinquencies."

As is described in this Official Statement under the caption “TAX DATA - Estimated Overlapping Taxes,” the aggregate of the 2025 tax levies of all units of government which levy taxes against the property located within the District plus the District’s 2025 tax rate is \$2.632628 per \$100 of Assessed Valuation. Such aggregate levies are higher than the aggregate of the tax levies of some municipal utility districts located within the Houston metropolitan area, including the area of the District, but they are within the range of the aggregate levies of most municipal utility districts in the Houston metropolitan area in the area of the District which are in stages of development comparable with the District. One must consider the total tax burden of all overlapping jurisdictions imposed upon property located within the District as contrasted with property located in comparable real estate developments to gauge the relative tax burden on property within the District. The tax rate necessary to service the debt issued or to be issued by the District, and the tax rates levied by other overlapping jurisdictions, are subject to numerous uncertainties and variables, and thus the District can give no assurance that the composite tax rates imposed by overlapping jurisdictions, plus the District’s tax rate, will be competitive with the tax rates of competing projects. To the extent that the District’s composite tax rates are not competitive with competing developments, the growth of property tax values in the District and the investment quality or security of the Bonds could be adversely affected.

Production of Net Revenues

The Net Revenues, if any, to be derived from the operation of the System are entirely dependent upon sales of water and sewer services to current and future residents and users of the System and related operating expenses. The District does not expect that the operation of the System will produce Net Revenues sufficient to make a significant contribution, if any, to the District's debt service requirements. The District's General Fund balance at March 31, 2025, was \$653,743 and at January 7, 2026 (unaudited), was \$354,610. An audit of the District's accounts for the fiscal year ended March 31, 2025, is included as “APPENDIX B” to this Official Statement. See “WATERWORKS AND SEWER SYSTEM OPERATIONS - Waterworks and Sewer System Operating Statement.”

Tax Collection Limitations

The District’s ability to make debt service payments may be adversely affected by its inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the District constitutes a lien in favor of the District on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District’s ability to collect ad valorem taxes through such foreclosure may be impaired by (i) cumbersome, time-consuming, and expensive collection procedures, (ii) a bankruptcy court’s stay of tax collection procedures against a taxpayer, (iii) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (iv) the taxpayer’s right to redeem the property within two years of foreclosure. 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. See “TAXING PROCEDURES - District’s Rights in the Event of Tax Delinquencies.”

Registered Owners’ Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners have a right to seek a writ of mandamus requiring the District to levy adequate taxes each year to make such payments. Except for mandamus, the Bond Order does not 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. Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government’s sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas legislature, a default by the District in its covenants in the Bond Order may not be reduced to a judgement for money damages. Even if Registered Owners could obtain a judgment against the District, such a judgment could not be enforced by a 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 in order to pay the principal of and interest on the Bonds. Since there is no trust indenture or trustee, the Registered Owners would have to initiate and finance the legal process to enforce their remedies.

The enforceability of the rights and remedies of the Registered Owners may be further 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. In this regard, should the District file a petition for protection from creditors under federal bankruptcy laws, a suit seeking the remedy of mandamus would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See “THE BONDS - Bankruptcy Limitation to Registered Owners’ Rights.”

The District may not be placed into bankruptcy involuntarily.

Marketability

The District has no understanding (other than the initial reoffering yields) with the Underwriter regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. There is no assurance that a secondary market will be made for the Bonds. If there is a secondary market, the difference between the bid and asked price of the Bonds may be greater than the bid and asked spread of other bonds generally bought, sold or traded in the secondary market. See “SALE AND DISTRIBUTION OF THE BONDS.”

Future Debt

The District has reserved in the Bond Order the right to issue the remaining \$43,090,000 bonds authorized but unissued for the System, and such additional bonds as may hereafter be approved by both the Board of Directors and voters of the District. The District also has reserved the right to issue certain other additional bonds, special project bonds, and other obligations described in the Bond Order. All of the remaining bonds authorized for the System, and for refunding purposes, which have heretofore been authorized by voters of the District may be issued by the District from time to time as needed. The issuance of the aforementioned \$43,090,000 bonds for the System is also subject to TCEQ approval. The District's Engineer estimates that the \$43,090,000 authorized bonds which remain unissued after the sale of the Bonds will be adequate to finance the construction of such facilities to provide service to all of the undeveloped portions of the District. If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt to property valuation ratios and thereby adversely affect the investment quality or security of the Bonds. The District expects to finance additional components of the System with the proceeds of the sale of bonds, if any, that the District expects to issue in the future. See “THE BONDS - Issuance of Additional Debt” and “THE SYSTEM - Description.”

Continuing Compliance with Certain Covenants

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

Approval of the Bonds

As required by law, engineering plans, specifications and estimates of construction costs for the facilities and services to be purchased or constructed by the District with the proceeds of the Bonds have been approved, subject to certain conditions, by the TCEQ. See “THE BONDS - Use and Distribution of Bond Proceeds.” In addition, the Attorney General of Texas must approve the legality of the Bonds prior to their delivery.

Neither the TCEQ nor the Attorney General of Texas passes upon or guarantees the security of the Bonds as an investment, nor have the foregoing authorities passed upon the adequacy or accuracy of the information contained in this Official Statement.

Environmental Regulations

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

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

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

Air Quality Issues

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

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

The HGB Area is currently designated as a “moderate” nonattainment area under the 2015 Ozone Standard, with an attainment deadline of August 3, 2024. For purposes of the 2015 Ozone Standard, the HGB Area consists of only six counties: Brazoria, Chambers, Fort Bend, Galveston, Harris, and Montgomery Counties.

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

Water Supply & Discharge Issues

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

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

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

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

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.

Extreme Weather Events

The greater Houston area, including the District, is subject to occasional severe weather events, including tropical storms and hurricanes. If the District were to sustain damage to its facilities requiring substantial repair or replacement, or if substantial damage were to occur to taxable property within the District as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the District, has experienced multiple storms exceeding a 0.2% probability (i.e., “500 year flood” events) since 2015, including Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. An unspecified number of homes sustained varying degrees of water damage during Hurricane Harvey. Although the District did not record the number of homes that sustained water damage, all but three of such homes that were constructed on five lots have been repaired and occupied. The three homes and five lots have been purchased by the Harris County Flood Control District and the homes have been removed from the District. Any repairs to the District’s System that were necessitated by the storm were made.

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), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the District could be adversely affected.

Specific Flood Type Risks

Ponding, or pluvial, 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.

Coastal (or Storm Surge) Flood

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.

Potential Effects of Oil Price Volatility on the Houston Area

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

Changes in Tax Legislation

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

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.

LEGAL MATTERS

Legal Opinions

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General of Texas as recorded in the Bond Register of the Comptroller of Public Accounts of the State of Texas, to the effect that the Bonds are valid and binding obligations of the District under the Constitution and laws of the State of Texas, and all taxable property within the District is subject to the levy of ad valorem taxes to pay the same, without legal limitation as to rate or amount, and that the Bonds are further payable from and secured by a pledge of Net Revenues, if any, from operation of the District's System, based upon examination of a transcript of certified proceedings held incident to the issuance and authorization of the Bonds, and the approving legal opinion of Coats Rose, P.C., Bond Counsel for the District, to a like effect. Such opinions express no opinion with respect to the sufficiency of the security for or the marketability of the Bonds. Bond Counsel's opinion also will address the matters described below under "Tax Exemption." Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "Book-Entry-Only System" and "Use and Distribution of Bond Proceeds"), "THE DISTRICT - Management of the District - Attorney," "TAXING PROCEDURES," "LEGAL MATTERS - Legal Opinions," " - No Arbitrage," " - Tax Exemption," " - Tax Accounting Treatment of Discount and Premium on Certain Bonds," and " - Qualified Tax-Exempt Obligations" and "CONTINUING DISCLOSURE OF INFORMATION" solely to determine whether such information, insofar as it relates to matters of law, is true and correct and whether such information fairly summarizes matters of law, the provisions of the documents referred to therein and conforms to the provisions of the Order of the TCEQ approving the Bonds and to the requirements of the City of Houston with respect to the sale of the Bonds. Bond Counsel has not, however, independently verified any of the factual information contained in this Official Statement nor has it conducted an investigation of the affairs of the District for the purpose of passing upon the accuracy or completeness of 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.

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

No Arbitrage

The District will certify on the date the Bonds are delivered and paid for that based upon all facts and estimates now known or reasonably expected to be in existence, 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 Section 148 of the Internal Revenue Code of 1986, as amended (the "Code"), and the regulations prescribed from time to time 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 have been authorized to certify to the facts, 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 will covenant in the Bond Order that it will make such use of the proceeds of the Bonds, regulate investments of proceeds of the Bonds and take such other and further actions and follow such procedures, including without limitation, calculation of the yield on the Bonds, as may be required so that the Bonds will not become "arbitrage bonds" under the Code and the regulations prescribed from time to time thereunder.

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, executed by the President and Secretary of the Board, and dated as of the date of delivery of the Bonds, that to their knowledge, no litigation is pending or threatened affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the District, or the title of the officers thereof to their respective offices.

No Material Adverse Change

The obligations 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 financial condition of the District subsequent to the date of sale from that set forth in the Preliminary Official Statement, as it may have been supplemented or amended, through the date of sale.

Tax Exemption

Delivery of the Bonds is subject to an opinion of Coats Rose, P.C., Bond Counsel, to the effect that, as of the date of issuance of the Bonds, pursuant to section 103 of the Internal Revenue Code of 1986 (the "Code"), as amended, existing regulations, published rulings, and court decisions, (1) interest on the Bonds will be excludable from the gross income, as defined in section 61 of the Code, of the owners thereof for federal income tax purposes assuming continuing compliance by the District with the provisions of the Bond Order and the No Arbitrage Certificate subsequent to the issuance of the Bonds; however, such interest is taken into account in determining the adjusted financial statement income of applicable corporations for the purpose of determining the alternative minimum tax imposed on such corporations, and (2) the Bonds will not be "specified private activity bonds" and, accordingly, the interest thereon will not be included as an item of tax preference under Section 57(a)(5) of the Code. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering such opinion, Bond Counsel will rely upon representations and certifications of the District made in a certificate pertaining to the use, expenditure, and investment of the proceeds of the Bonds and certain other funds and will assume continuing compliance by the District with the representations and warranties in and covenants of the Bond Order and the No Arbitrage Certificate subsequent to the issuance of the Bonds. Failure to comply with any of these covenants would cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinions are not a guarantee of result and are not binding on the Internal Revenue Service (the "IRS"); rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law to the extent deemed relevant to render such opinions and the representations and covenants referenced above. The IRS has an ongoing audit program to determine whether interest on selected state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to the likelihood that the IRS will commence an audit of the Bonds. If an audit is commenced, under current procedures, the IRS is likely to treat the District as the taxpayer, and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the District may have different or conflicting interests from the owners. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

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

Except as described above, Bond Counsel will express no other opinion with respect to any other federal, state, or local tax consequences under present law or proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, “S” corporations with “subchapter C” earnings and profits, owners of interests in FASIT and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry (or who have paid or incurred certain expenses all allocable to) tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain of the Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount, allocable to the holding period of such Discount Bond by the initial purchaser, will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond taking into account the semiannual compounding of accrued interest at the yield to maturity on such Discount Bond, and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during his taxable year.

However, such interest may be required to be taken into account in determining the amount of branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, “S” corporations with “subchapter C” earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of interests in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination for federal income tax purposes of accrued interest upon disposition of Discount Bonds and with respect to the state and local tax consequences of owning Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain of the Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bond. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser may be reduced each year by the amortizable bond premium. Such reduction in basis will increase the amount of any gain or decrease the amount of any loss to be recognized for federal income tax purposes upon the sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity. Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium with respect to the state and local tax consequences of owning Premium Bonds.

NOT Qualified Tax-Exempt Obligations

The Internal Revenue Code of 1986, as amended (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 (a) designated by the issuer as “qualified tax-exempt obligations” and (b) issued by 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 **not** designate the Bonds as “qualified tax-exempt obligations” since the aggregate amount of tax-exempt obligations (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2026 is expected to exceed \$10,000,000.

Financial institutions acquiring the Bonds will be subject to 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.

SOURCES OF INFORMATION

General

The information contained in this Official Statement has been obtained primarily from the District’s records, the Harris Central Appraisal District, the Engineer, and other sources believed to be reliable; however, no representation is made by the District as to the accuracy or completeness of the information contained herein, except as described below under “Certification of Official Statement.” The summaries of the statutes, resolutions and engineering and other related reports set forth herein are included 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.

The District’s financial statements for the year ended March 31, 2025, were audited by Mark C. Eyring, CPA, PLLC, and have been included herein as “APPENDIX B.” Mark C. Eyring, CPA, PLLC, have agreed to the publication of such financial statements in this Official Statement.

Experts

The information contained in this Official Statement relating to engineering, to the description of the System generally and, in particular, the engineering information included in the section captioned “THE SYSTEM” has been provided by Burke Engineering, LLC, Houston, Texas. Such information has been included herein in reliance upon the authority of Burke Engineering, LLC as an expert in the field of civil engineering.

The information contained in this Official Statement relating to assessed valuations of property generally and, in particular, that information concerning principal taxpayers, tax collection rates and valuations contained in the sections captioned “TAX DATA” and “DISTRICT DEBT” has been provided by the Harris Central Appraisal District and Utility Tax Service, LLC. The District has included certain information herein in reliance upon such firm’s authority as an expert in the field of tax assessing and real property appraisal.

Certification as to Official Statement

At the time of payment for and delivery of the Bonds, the District will furnish the Underwriter a certificate, executed by the President or Vice President and Secretary or Assistant Secretary of the Board, acting in their official capacities, to the effect that to the best of their knowledge and belief: (a) the information, descriptions and statements of or pertaining to the District contained in this Official Statement, on the date thereof and on the date of delivery were and are true and correct in all material respects; (b) insofar as the District and its affairs, including its financial affairs, are concerned, this Official

Statement did not and does not contain an untrue statement of a material fact or omit to state a material fact required to be stated herein or necessary to make the statements herein, in the light of the circumstances under which they were made, not misleading; and (c) insofar as the descriptions and statements, including financial data contained in this Official Statement, of or pertaining to entities other than the District and their activities are concerned, such statements and data have been obtained from sources which the District believes to be reliable and that the District has no reason to believe that they are untrue in any material respect or 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; however, the District has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the District.

Updating of Official Statement

If, subsequent to the date of the Official Statement, to and including the date the Underwriter is no longer required to provide an Official Statement to customers who request same pursuant to Rule 15c2-12 of the United States Securities and Exchange Commission (the "SEC"), the District learns, or is notified by the Underwriter, of any adverse event which causes the Official Statement to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the District to so amend or supplement the Official Statement will terminate upon the earlier of (i) 90 days after the "end of the underwriting period" as defined in SEC Rule 15c2-12 or (ii) the date the Official Statement is filed with the MSRB (hereinafter defined), but in no case less than 25 days after the "end of the underwriting period."

CONTINUING DISCLOSURE OF INFORMATION

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

Annual Reports

The information to be updated with respect to the District includes the quantitative financial information and operating data of the District of the general type included in this Official Statement under the headings "DISTRICT DEBT" (except for "Estimated Direct and Overlapping Debt Statement"), "TAX DATA," and in "APPENDIX B" (Financial Report of the District). The District will update and provide this information to EMMA within six months after the end of each of its fiscal years ending in or after 2026.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12. The updated information will include audited financial statements, if the District's audit is completed by the required time. If audited financial statements are not available by the required time, the District will provide unaudited financial statements within the required time, and audited financial statements when the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Order or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is March 31. Accordingly, it must provide updated information by the last day of September in each year, unless the District changes its fiscal year. If the District changes its fiscal year, it will notify the MSRB of the change.

Event Notices

The District will provide timely notices of certain specified 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 determination 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 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 within the meaning of SEC Rule 15c2-12; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of SEC Rule 15c2-12 or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the SEC Rule 15c2-12, 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 within the meaning of the Rule, 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 within the meaning of the Rule, 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 within the meaning of the Rule, any of which reflect financial difficulties. 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 provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide financial information, operating data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information

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

Limitations and Amendments

The District has agreed to update information and to provide notices of 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 from time to time 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 type of operations of the District, but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with SEC Rule 15c2-12, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the

beneficial owners of the Bonds. The District may also amend or repeal the agreement if the SEC amends or repeals the applicable provisions of such rule or a court of final jurisdiction determines that such provisions are invalid, but in either case only to the extent that its right to do so would not prevent the Underwriter from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The District is in compliance with all continuing disclosure agreements in connection with SEC Rule 15c2-12.

Official Statement “Deemed Final”

For purposes of compliance with SEC Rule 15c2-12, this document, as the same may be supplemented or corrected by the District from time to time, may be treated as an “official statement” with respect to the Bonds described herein “deemed final” by the District as of the date hereof (or of any such supplement or correction) except for the omission of certain information referred to in the succeeding paragraph.

The Official Statement, when further supplemented by adding information specifying the interest rates and certain other information relating to the Bonds, shall constitute a “final official statement” of the District with respect to the Bonds, as that term is defined in SEC Rule 15c2-12.

This Official Statement was approved by the Board of Directors of Luce Bayou Public Utility District as of the date shown on the first page hereof.

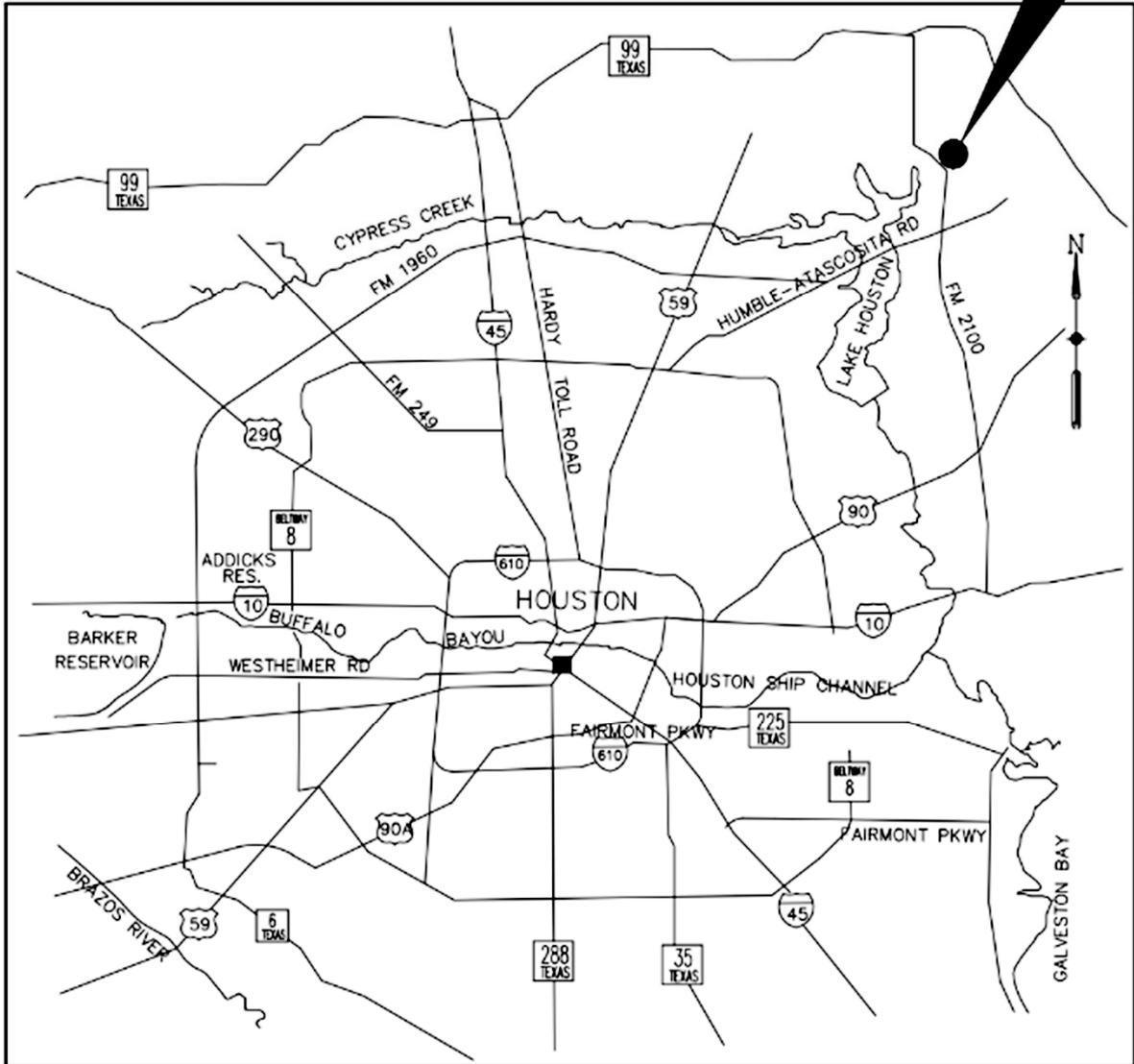
President, Board of Directors
Luce Bayou Public Utility District

ATTEST:

Secretary, Board of Directors
Luce Bayou Public Utility District

APPENDIX A
LOCATION MAP

LUCE BAYOU PUBLIC UTILITY DISTRICT



APPENDIX B

**LUCE BAYOU PUBLIC UTILITY DISTRICT
HARRIS COUNTY, TEXAS
FINANCIAL REPORT OF THE DISTRICT
MARCH 31, 2025**

LUCE BAYOU PUBLIC UTILITY DISTRICT

HARRIS COUNTY, TEXAS

ANNUAL AUDIT REPORT

MARCH 31, 2025

C O N T E N T S

INDEPENDENT AUDITOR'S REPORT	1-3
MANAGEMENT'S DISCUSSION AND ANALYSIS	4-8
BASIC FINANCIAL STATEMENTS	
STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET	9
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES	10
NOTES TO THE FINANCIAL STATEMENTS	11-19
SUPPLEMENTARY INFORMATION	
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND	20
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY	21
SCHEDULE OF SERVICES AND RATES	22-23
EXPENDITURES FOR THE YEAR ENDED MARCH 31, 2025	24-25
ANALYSIS OF CHANGES IN DEPOSITS, ALL GOVERNMENTAL FUND TYPES	26
SCHEDULE OF TEMPORARY INVESTMENTS	27
TAXES LEVIED AND RECEIVABLE	28-29
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS	30
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT	31
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, GENERAL FUND	32
COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES, DEBT SERVICE FUND	33
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS	34-35

Mark C. Eyring, CPA, PLLC

12702 Century Drive • Suite C2 • Stafford, Texas 77477 • 281-277-9595 • Mark@EyringCPA.com

August 6, 2025

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Luce Bayou Public
Utility District
Harris County, Texas

Opinions

I have audited the accompanying financial statements of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Luce Bayou Public Utility District as of and for the year ended March 31, 2025, and the related notes to the financial statements, which collectively comprise Luce Bayou Public Utility District's basic financial statements as listed in the table of contents.

In my opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the aggregate discretely presented component units, each major fund, and the aggregate remaining fund information of the Luce Bayou Public Utility District, as of March 31, 2025, and the respective changes in financial position and, where applicable, cash flows there of for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

INDEPENDENT AUDITOR'S REPORT (Continued)

Auditor's Responsibilities for the Audit of the Financial Statements

My 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 my 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, I exercise professional judgment and maintain professional skepticism throughout the audit. I 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. I 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 Luce Bayou Public Utility District's internal control. Accordingly, no such opinion is expressed. I 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. I conclude whether, in my judgment, there are conditions or events, considered in the aggregate, that raise substantial doubt about Luce Bayou Public Utility District's ability to continue as a going concern for a reasonable period of time.

I am 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 I identified during the audit.

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis and budgetary comparison information be presented to supplement the basic financial statements. Such information is the responsibility of management and, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. I 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 I obtained during my audit of the basic financial statements. I do not express an opinion or provide any assurance on the information because the limited procedures do not provide me with sufficient evidence to express an opinion or provide any assurance.

INDEPENDENT AUDITOR'S REPORT (Continued)**Supplementary Information**

My audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise Luce Bayou Public Utility District's basic financial statements. The supplementary information on Pages 21 to 35 is presented for purposes of additional analysis and is not a required part of the 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 financial statements. Except for the portion marked "unaudited," the information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In my opinion, the information is fairly stated in all material respects in relation to the financial statements as a whole. The supplementary information marked "unaudited" has not been subjected to the auditing procedures applied in the audit of the basic financial statements and, accordingly, I do not express an opinion or provide any assurance on it. The accompanying supplementary information includes financial data excerpted from prior year financial statements which were audited by my firm.

A handwritten signature in black ink, appearing to read "M. A. J.", is located in the lower right portion of the page.

Management's Discussion and Analysis

Using this Annual Report

Within this section of the Luce Bayou Public Utility District (the "District") annual report, the District's Board of Directors provides narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2025.

The annual report consists of a series of financial statements plus additional supplemental information to the financial statements as required by its state oversight agency, the Texas Commission on Environmental Quality. In accordance with required reporting standards, the District reports its financial activities as a special-purpose government. Special-purpose governments are governmental entities which engage in a single governmental program. In the District's case, the single governmental program is provision of water and sewer services. Other activities, such as garbage collection, are minor activities and are not budgeted or accounted for as separate programs. The financial statements of special-purpose governments combine two types of financial statements into one statement. These two types of financial statements are the government-wide financial statements and the fund financial statements. The fund financial statements are presented on the left side of the statements, a column for adjustments is to the right of the fund financial statements, and the government-wide financial statements are presented to the right side of the adjustments column. The following sections describe the measurement focus of the two types of statements and the significant differences in the information they provide.

Government-Wide Financial Statements

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

The difference between the District's total assets and total liabilities is labeled as *net position*, and this difference is similar to the total owners' equity presented by a commercial enterprise.

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

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

Fund Financial Statements

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

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

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

Because the focuses of the government-wide and fund financial statements are different, there are significant differences between the totals presented in these financial statements. For this reason, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total fund balances to the amount of net position presented in the governmental activities column on the statement of net position. Also, there is an analysis in Note 3 of the notes to the financial statements that reconciles the total change in fund balances for all governmental funds to the change in net position as reported in the governmental activities column in the statement of activities.

Financial Analysis of the District as a Whole

Financial Analysis of the District as a Whole begins with an understanding of how financial resources flow through the District's funds. Resources in the Capital Projects Fund are derived principally from proceeds of the sale of bonds, and expenditures from this fund are subject to the Rules of the Texas Commission on Environmental Quality. Resources in the Debt Service Fund are derived principally from the collection of property taxes and are used for the payment of tax collection costs and bond principal and interest. Resources in the General Fund are derived principally from property taxes and billings for water and sewer services and are used to operate and maintain the system and to pay costs of administration of the District.

Management has financial objectives for each of the District's funds. The financial objective for the Capital Projects Fund is to spend the funds as necessary in accordance with the Rules of the Texas Commission on Environmental Quality. The financial objective for the Debt Service Fund is to levy the taxes necessary to pay the fiscal year debt service requirements plus the cost of levying and collecting taxes, leaving the appropriate fund balance as recommended by the District's financial advisor. The financial objective for the General Fund is to keep the fund's expenditures as low as possible while ensuring that revenues are adequate to cover expenditures and maintaining the fund balance that Management believes is prudent. Management believes that these financial objectives were met during the fiscal year.

Management believes that the required method of accounting for certain elements of the government-wide financial statements makes the government-wide financial statements as a whole not useful for financial analysis. In the government-wide financial statements, capital assets and depreciation expense have been required to be recorded at historical cost. Management's policy is to maintain the District's capital assets in a condition greater than or equal to the condition required by regulatory authorities, and management does not believe that depreciation expense is relevant to the management of the District. In the government-wide financial statements, certain non-cash costs of long-term debt are capitalized and amortized over the life of the related debt. Management believes that this required method of accounting is not useful for financial analysis of the District and prefers to consider the required cash flows of the debt as reported in the fund statements and the notes to the financial statements. In the government-wide financial statements, property tax revenues are required to be recorded in the fiscal year for which the taxes are levied, regardless of the year of collection. Management believes that the cash basis method of accounting for property taxes in the funds provides more useful financial information.

The following required summaries of the District's overall financial position and operations for the past two years are based on the information included in the government-wide financial statements. For the reasons described in the preceding paragraph, a separate analysis of the summaries is not presented.

Summary of Net Position

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Current and other assets	\$ 2,069,947	\$ 1,770,014	\$ 299,933
Capital assets	<u>3,578,988</u>	<u>3,619,770</u>	<u>(40,782)</u>
Total assets	<u>5,648,935</u>	<u>5,389,784</u>	<u>259,151</u>
Long-term liabilities	2,838,887	3,003,887	(165,000)
Other liabilities	<u>298,816</u>	<u>312,754</u>	<u>(13,938)</u>
Total liabilities	<u>3,137,703</u>	<u>3,316,641</u>	<u>(178,938)</u>
Net position:			
Invested in capital assets, net of related debt	575,101	460,883	114,218
Restricted	1,300,432	1,073,339	227,093
Unrestricted	<u>635,699</u>	<u>538,921</u>	<u>96,778</u>
Total net position	<u>\$ 2,511,232</u>	<u>\$ 2,073,143</u>	<u>\$ 438,089</u>

Summary of Changes in Net Position

	<u>2025</u>	<u>2024</u>	<u>Change</u>
Revenues:			
Property taxes, including related penalty and interest	\$ 823,757	\$ 720,209	\$ 103,548
Charges for services	476,809	528,022	(51,213)
Other revenues	<u>71,931</u>	<u>65,447</u>	<u>6,484</u>
Total revenues	<u>1,372,497</u>	<u>1,313,678</u>	<u>58,819</u>
Expenses:			
Service operations	912,030	835,627	76,403
Debt service	<u>22,378</u>	<u>30,597</u>	<u>(8,219)</u>
Total expenses	<u>934,408</u>	<u>866,224</u>	<u>68,184</u>
Change in net position	438,089	447,454	(9,365)
Net position, beginning of year	<u>2,073,143</u>	<u>1,625,689</u>	<u>447,454</u>
Net position, end of year	<u>\$ 2,511,232</u>	<u>\$ 2,073,143</u>	<u>\$ 438,089</u>

Financial Analysis of the District's Funds

The District's combined fund balances as of the end of the fiscal year ended March 31, 2025, were \$1,848,276, an increase of \$302,931 from the prior year.

The General Fund balance increased by \$86,664, in accordance with the District's financial plan.

The Debt Service Fund balance increased by \$216,267, in accordance with the District's financial plan.

General Fund Budgetary Highlights

The Board of Directors did not amend the budget during the fiscal year. The District's budget is primarily a planning tool. Accordingly, actual results varied from the budgeted amounts. A comparison of actual to budgeted amounts is presented on Page 20 of this report. The budgetary fund balance as of March 31, 2025, was expected to be \$588,343 and the actual end of year fund balance was \$593,307.

Capital Asset and Debt Administration

Capital Assets

Changes to capital assets during the fiscal year ended March 31, 2025, are summarized as follows:

	<u>Capital Assets (Net of Accumulated Depreciation)</u>		
	<u>2025</u>	<u>2024</u>	<u>Change</u>
Land	\$ 15,918	\$ 15,918	\$ 0
Construction in progress	2,663,887	2,663,887	0
Water facilities	317,951	349,313	(31,362)
Sewer facilities	581,232	590,652	(9,420)
Totals	<u>\$ 3,578,988</u>	<u>\$ 3,619,770</u>	<u>\$ (40,782)</u>

Changes to capital assets during the fiscal year ended March 31, 2025, are summarized as follows:

Additions:		
Sewer system improvements		\$ 19,510
Decreases:		
Depreciation		<u>(60,292)</u>
Net change to capital assets		<u>\$ (40,782)</u>

Debt

Changes in the bonded debt position of the District during the fiscal year ended March 31, 2025, are summarized as follows:

Bonded debt payable, beginning of year	\$ 495,000
Bonds paid	<u>(155,000)</u>
Bonded debt payable, end of year	<u>\$ 340,000</u>

At March 31, 2025, the District had \$55,550,000 of bonds authorized but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage system within the District.

The District's bonds are not rated.

As further described in Note 5 of the notes to the financial statements, a developer within the District is currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The developer's engineer stated that cost of the construction in progress at March 31, 2025, was \$2,663,887.

RELEVANT FACTORS AND WATER SUPPLY ISSUES

Property Tax Base

The District's tax base increased approximately \$13,650,000 for the 2024 tax year (approximately 18%), primarily due to the addition of property to the tax base.

Relationship to the City of Houston

Under existing Texas law, because the District lies wholly within the extraterritorial jurisdiction of the City of Houston, the District must conform to a City of Houston ordinance consenting to the creation of the District. In addition, the District may be annexed by the City of Houston. If the District is annexed, the City will assume the District's assets and obligations (including the bonded indebtedness) and dissolve the District within ninety (90) days.

The District is authorized to enter into a strategic partnership agreement with the City of Houston to provide the terms and conditions under which services would be provided and funded by the parties and under which the District would continue to exist for an extended period if the land within the District would be annexed for limited purposes by the City. The terms of any such agreement would be determined by the City and the District.

The District is not aware of any plans regarding annexation or a strategic partnership with the City of Houston.

Water Supply Issues

The Harris-Galveston Subsidence District (the "Subsidence District") was created by the Texas Legislature to reduce subsidence by regulating the withdrawal of groundwater within Harris and Galveston Counties. In 1999, the Subsidence District adopted its District Regulatory Plan ("Regulatory Plan") to control ground water withdrawals. The Regulatory Plan divides the Subsidence District's jurisdiction into regulatory areas. The Subsidence District's Regulatory Area 3 ("Area 3") generally encompasses northwest and western Harris County, including the District. Pursuant to the Regulatory Plan, specific major water users, including those in Area 3, must reduce groundwater withdrawals to no more than 70% of water use by January 2010, to no more than 40% by January 2025 and to no more than 20% by January 2035. As further described in Note 10 of the notes to the financial statements, the District has entered into a Water Supply and Groundwater Reduction Plan Wholesale Agreement with the City of Houston (the "City") in order to meet regulatory compliance requirements of the Harris Galveston Coastal Subsidence District. The District is included in the Groundwater Reduction Plan ("GRP") prepared by the City. As a participant in the City's GRP, the District has complied with all Subsidence District requirements in regard to the conversion to surface water, but is obligated to pay to the City a groundwater withdrawal fee for all groundwater produced and used by the District and a water purchase fee for any water actually purchased from the City by the District in the future. The issuance of additional bonds by the District in an undetermined amount may be necessary at some time in the future in order to develop surface water conversion infrastructure should the City require the District to convert to surface water and connect to the City's water supply system.

LUCE BAYOU PUBLIC UTILITY DISTRICT

STATEMENT OF NET POSITION AND GOVERNMENTAL FUNDS BALANCE SHEET

MARCH 31, 2025

	<u>General</u>	<u>Debt Service</u>	<u>Capital Projects</u>	<u>Total</u>	<u>Adjustments (Note 3)</u>	<u>Statement of Net Position</u>
ASSETS						
Cash, including interest-bearing accounts, Note 7	\$ 4,835	\$ 40,629	\$	\$ 45,464	\$	\$ 45,464
Temporary investments, at cost, Note 7	653,743	1,230,578		1,884,321		1,884,321
Receivables:						
Property taxes	42,392	35,794		78,186		78,186
Accrued penalty and interest on property taxes				0	11,192	11,192
Service accounts	32,760			32,760		32,760
Due from other district	15,774			15,774		15,774
Prepaid expenditures	2,250			2,250		2,250
Maintenance taxes collected not yet transferred from other fund	16,238			16,238	(16,238)	0
Capital assets, net of accumulated depreciation, Note 4:						
Capital assets not being depreciated				0	2,679,805	2,679,805
Depreciable capital assets				0	899,183	899,183
Total assets	<u>\$ 767,992</u>	<u>\$ 1,307,001</u>	<u>\$ 0</u>	<u>\$ 2,074,993</u>	<u>3,573,942</u>	<u>5,648,935</u>
LIABILITIES						
Accounts payable	\$ 65,334	\$	\$	65,334		65,334
Accrued interest payable				0	1,523	1,523
Customer and other deposits	66,959			66,959		66,959
Maintenance taxes collected not yet transferred to other fund		16,238		16,238	(16,238)	0
Long-term liabilities, Note 5:						
Due within one year				0	165,000	165,000
Due in more than one year				0	2,838,887	2,838,887
Total liabilities	<u>132,293</u>	<u>16,238</u>	<u>0</u>	<u>148,531</u>	<u>2,989,172</u>	<u>3,137,703</u>
DEFERRED INFLOWS OF RESOURCES						
Property tax revenues	<u>42,392</u>	<u>35,794</u>	<u>0</u>	<u>78,186</u>	<u>(78,186)</u>	<u>0</u>
FUND BALANCES / NET POSITION						
Fund balances:						
Assigned to:						
Debt service		1,254,969		1,254,969	(1,254,969)	0
Unassigned	593,307			593,307	(593,307)	0
Total fund balances	<u>593,307</u>	<u>1,254,969</u>	<u>0</u>	<u>1,848,276</u>	<u>(1,848,276)</u>	<u>0</u>
Total liabilities, deferred inflows, and fund balances	<u>\$ 767,992</u>	<u>\$ 1,307,001</u>	<u>\$ 0</u>	<u>\$ 2,074,993</u>		
Net position:						
Invested in capital assets, net of related debt					575,101	575,101
Restricted for debt service					1,300,432	1,300,432
Unrestricted					635,699	635,699
Total net position					<u>\$ 2,511,232</u>	<u>\$ 2,511,232</u>

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

LUCE BAYOU PUBLIC UTILITY DISTRICT
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUNDS REVENUES, EXPENDITURES, AND
CHANGES IN FUND BALANCES
FOR THE YEAR ENDED MARCH 31, 2025

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments (Note 3)	Statement of Activities
REVENUES						
Property taxes	\$ 433,317	\$ 356,409	\$	\$ 789,726	\$ 17,183	\$ 806,909
Water service	91,639			91,639		91,639
Sewer service	185,481			185,481		185,481
Surface water fees, Note 9	76,866			76,866		76,866
Penalty, interest and other	28,281	13,801		42,082	3,047	45,129
Tap connection and inspection fees	94,542			94,542		94,542
Interest on deposits	23,674	48,257		71,931		71,931
Total revenues	<u>933,800</u>	<u>418,467</u>	<u>0</u>	<u>1,352,267</u>	<u>20,230</u>	<u>1,372,497</u>
EXPENDITURES / EXPENSES						
Service operations:						
Professional fees	124,151	4,007		128,158		128,158
Contracted services	65,093	15,127		80,220		80,220
Utilities	36,947			36,947		36,947
Groundwater pumpage fees, Note 9	100,884			100,884		100,884
Repairs, maintenance and other operating expenditures	279,171			279,171		279,171
Garbage disposal	98,343			98,343		98,343
Administrative expenditures	73,737	4,978		78,715		78,715
Depreciation				0	60,292	60,292
Capital outlay / non-capital outlay	68,810			68,810	(19,510)	49,300
Debt service:						
Principal retirement		155,000		155,000	(155,000)	0
Interest and fees		23,088		23,088	(710)	22,378
Total expenditures / expenses	<u>847,136</u>	<u>202,200</u>	<u>0</u>	<u>1,049,336</u>	<u>(114,928)</u>	<u>934,408</u>
Excess (deficiency) of revenues over expenditures	<u>86,664</u>	<u>216,267</u>	<u>0</u>	<u>302,931</u>	<u>135,158</u>	<u>438,089</u>
Net change in fund balances / net position	86,664	216,267	0	302,931	135,158	438,089
Beginning of year	<u>506,643</u>	<u>1,038,702</u>	<u>0</u>	<u>1,545,345</u>	<u>527,798</u>	<u>2,073,143</u>
End of year	<u>\$ 593,307</u>	<u>\$ 1,254,969</u>	<u>\$ 0</u>	<u>\$ 1,848,276</u>	<u>\$ 662,956</u>	<u>\$ 2,511,232</u>

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

LUCE BAYOU PUBLIC UTILITY DISTRICT
NOTES TO THE FINANCIAL STATEMENTS
MARCH 31, 2025

NOTE 1: REPORTING ENTITY

Luce Bayou Public Utility District (the "District") was created by House Bill 460, Acts of the 62nd Legislature, Regular Session 1971, effective June 1, 1971, and operates in accordance with Texas Water Code Chapters 49 and 54. The District is a political subdivision of the State of Texas, governed by an elected five member Board of Directors. The Board of Directors held its first meeting on August 26, 1971, and the first bonds were sold on October 3, 1973. The District is subject to the continuing supervision of the Texas Commission on Environmental Quality.

The District is empowered, among other things, 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 may provide garbage disposal and collection services. In addition, the District is empowered, if approved by the electorate, the Texas Commission on Environmental Quality and other governmental entities having jurisdiction, to establish, operate and maintain a fire department, either independently or jointly with certain other districts.

In evaluating how to define the District for financial reporting purposes, the Board of Directors of the District has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria established by the Governmental Accounting Standards Board. The basic, but not the only, criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations and accountability for fiscal matters. The other criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the District is able to exercise oversight responsibilities. Based upon the application of these criteria, there were no other entities which were included as a component unit in the District's financial statements.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 2: SIGNIFICANT ACCOUNTING POLICIES

The District's financial statements are prepared in accordance with generally accepted accounting principles ("GAAP"). The Governmental Accounting Standards Board (the "GASB") is responsible for establishing GAAP for state and local governments through its pronouncements (Statements and Interpretations). Governments are also required to follow the pronouncements of the Financial Accounting Standards Board issued through November 30, 1989 (when applicable), that do not conflict with or contradict GASB pronouncements. The more significant accounting policies established in GAAP and used by the District are discussed below.

Basic Financial Statements

The District's basic financial statements include both government-wide (reporting the District as a whole) and governmental fund financial statements (reporting the District's funds). Because the District is a single-program government as defined by the GASB, the District has combined the government-wide statements and the fund financial statements using a columnar format that reconciles individual line items of fund financial data to government-wide data in a separate column on the face of the financial statements. An additional reconciliation between the fund and the government-wide financial data is presented in Note 3.

The government-wide financial statements (i.e., the statement of net position and the statement of activities) report information on all of the nonfiduciary activities of the District. The effect of interfund activity has been removed from these statements. The District's net position is reported in three parts – invested in capital assets, net of related debt; restricted net position; and unrestricted net position. The government-wide statement of activities reports the components of the changes in net position during the reporting period.

The financial transactions of the District are reported in individual funds in the fund financial statements. Each fund is accounted for in a separate set of self-balancing accounts that comprises its assets, liabilities, fund balances, revenues and expenditures and changes in fund balances. The District's fund balances are reported as nonspendable, restricted, committed, assigned or unassigned. Nonspendable fund balances are either not in spendable form or are contractually required to remain intact. Restricted fund balances include amounts that can only be used for the specific purposes stipulated by constitution, external resource providers or enabling legislation. Committed fund balances include amounts that can only be used for the specific purposes determined by formal action of the District's Board of Directors. Assigned fund balances are intended for a specific purpose but do not meet the criteria to be classified as restricted or committed. Unassigned fund balance is the residual classification for the District's General Fund and includes all spendable amounts not contained in the other classifications. The transactions of the District are accounted for in the following funds:

General Fund -- To account for all revenues and expenditures not required to be accounted for in other funds.

Debt Service Fund -- To account for the accumulation of financial resources for, and the payment of, bond principal and interest, paid principally from property taxes levied by the District.

Capital Projects Fund -- To account for financial resources designated to construct or acquire capital assets. Such resources are derived principally from proceeds of the sale of bonds.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Basis of Accounting

The government-wide statements are reported using the economic resources measurement focus and the accrual basis of accounting which recognizes all long-term assets and receivables as well as long-term debt and obligations. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Ad valorem property taxes are recognized as revenues in the fiscal year for which they have been levied and related penalties and interest are recognized in the fiscal year in which they are imposed. An allowance for uncollectibles is estimated for delinquent property taxes and reported separately in the financial statements.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. Expenditures generally are recorded when a liability is incurred except for principal and interest on bonds payable which are recorded only when payment is due.

Interfund Activity

Activity between funds that is representative of lending/borrowing arrangements outstanding at the end of the fiscal year is reported as interfund receivables or payables, as appropriate, as are all other outstanding balances between funds. Operating transfers between funds represent legally authorized transfers from the fund receiving resources to the fund through which the resources are to be expended.

Receivables

Service accounts receivable as reported are considered collectible. The District uses the direct write off method for uncollectible service accounts. Unbilled water and sewer revenues are not material and are not recorded at year end. The District considers service accounts revenues to be available if they are to be collected within 60 days after the end of the fiscal year.

In the fund financial statements, ad valorem taxes and penalties and interest are reported as revenues in the fiscal year in which they become available to finance expenditures of the fiscal year for which they have been levied. Property taxes which have been levied and are not yet collected (or have been collected in advance of the fiscal year for which they have been levied) are recorded as deferred inflow of resources. Property taxes collected after the end of the fiscal year are not included in revenues..

Capital Assets

Capital assets, which include property, plant, equipment, and immovable public domain or "infrastructure" assets are reported in the government-wide financial statements. Capital assets are defined by the District as assets with an initial individual cost of more than \$5,000 (including installation costs, if any, and associated professional fees) and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed by the District. Donated capital assets are recorded at historical cost. Additions, improvements and other capital outlays that significantly extend the useful life of an asset or increase the value of an asset are capitalized. Costs incurred for repairs and maintenance are expensed as incurred.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Depreciation on capital assets is computed using the straight-line method over the following estimated useful lives:

Plant and equipment	10-45 years
Underground lines	45 years

Long-term Liabilities

Long-term debt and other long-term obligations are reported in the government-wide financial statements. Bond premiums and discounts, are deferred and amortized over the life of the bonds. Bonds payable are reported net of the applicable premium or discount. If bonds are refunded and the carrying amount of the new debt is different than the net carrying amount of the old debt, the difference is netted against the new debt and amortized using the effective interest method over the shorter of the remaining life of the refunded debt or the life of the new debt issued.

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

NOTE 3: RECONCILIATION OF FUND TO GOVERNMENT-WIDE FINANCIAL STATEMENTS

Reconciliation of year end fund balances to net position:

Total fund balances, end of year		\$ 1,848,276
Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds:		
Total capital assets, net		3,578,988
Some long-term liabilities, including bonds payable, are not due and payable in the current period and therefore are not reported in the funds:		
Bonds payable	\$ (340,000)	
Due to developer for construction	<u>(2,663,887)</u>	(3,003,887)
Some receivables that do not provide current financial resources are not reported as receivables in the funds:		
Accrued penalty and interest on property taxes receivable	11,192	
Uncollected property taxes	<u>78,186</u>	89,378
Some liabilities that do not require the use of current financial resources are not reported as liabilities in the funds:		
Accrued interest		<u>(1,523)</u>
Net position, end of year		<u>\$ 2,511,232</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Reconciliation of net change in fund balances to change in net position:

Total net change in fund balances		\$ 302,931
<p>The funds report capital outlays as expenditures. However, in the statement of activities the cost of those assets is allocated over their estimated useful lives and reported as depreciation expense:</p>		
Capital outlay	\$ 19,510	
Depreciation	<u>(60,292)</u>	(40,782)
<p>The issuance of long-term debt (bonds payable) provides current financial resources to the funds, while the repayment of the principal of long-term debt consumes the current financial resources of the funds. Neither transaction, however, has any effect on net position. The effect of these differences in the treatment of long-term debt:</p>		
Principal reduction		155,000
<p>Some revenues reported in the statement of activities do not provide current financial resources and therefore are not reported as revenues in the funds:</p>		
Accrued penalty and interest on property taxes receivable	3,047	
Uncollected property taxes	<u>17,183</u>	20,230
<p>Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in the funds:</p>		
Accrued interest		<u>710</u>
Change in net position		<u>\$ 438,089</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 4: CAPITAL ASSETS

Capital asset activity for the fiscal year ended March 31, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Increases</u>	<u>Decreases</u>	<u>Ending Balance</u>
Capital assets not being depreciated:				
Land	\$ 15,918	\$	\$	\$ 15,918
Construction in progress	<u>2,663,887</u>	<u> </u>	<u> </u>	<u>2,663,887</u>
Total capital assets not being depreciated	<u>2,679,805</u>	<u>0</u>	<u>0</u>	<u>2,679,805</u>
Depreciable capital assets:				
Water system	1,380,624			1,380,624
Sewer system	<u>2,004,423</u>	<u>19,510</u>	<u> </u>	<u>2,023,933</u>
Total depreciable capital assets	<u>3,385,047</u>	<u>19,510</u>	<u>0</u>	<u>3,404,557</u>
Less accumulated depreciation for:				
Water system	(1,031,311)	(31,362)		(1,062,673)
Sewer system	<u>(1,413,771)</u>	<u>(28,930)</u>	<u> </u>	<u>(1,442,701)</u>
Total accumulated depreciation	<u>(2,445,082)</u>	<u>(60,292)</u>	<u>0</u>	<u>(2,505,374)</u>
Total depreciable capital assets, net	<u>939,965</u>	<u>(40,782)</u>	<u>0</u>	<u>899,183</u>
Total capital assets, net	<u>\$ 3,619,770</u>	<u>\$ (40,782)</u>	<u>\$ 0</u>	<u>\$ 3,578,988</u>
Changes to capital assets:				
Capital outlay		\$ 19,510	\$	
Less depreciation expense for the fiscal year		<u>(60,292)</u>	<u> </u>	
Net increases / decreases to capital assets		<u>\$ (40,782)</u>	<u>\$ 0</u>	

NOTE 5: LONG-TERM LIABILITIES AND CONTINGENT LIABILITIES

Long-term liability activity for the fiscal year ended March 31, 2025, was as follows:

	<u>Beginning Balance</u>	<u>Additions</u>	<u>Reductions</u>	<u>Ending Balance</u>	<u>Due within One Year</u>
Bonds payable	<u>\$ 495,000</u>	<u>\$ 0</u>	<u>\$ 155,000</u>	<u>\$ 340,000</u>	<u>\$ 165,000</u>
Due to developer for construction (see below)	<u>2,663,887</u>	<u>0</u>	<u>0</u>	<u>2,663,887</u>	<u>-----</u>
Total long-term liabilities	<u>\$ 3,158,887</u>	<u>\$ 0</u>	<u>\$ 155,000</u>	<u>\$ 3,003,887</u>	<u>\$ 165,000</u>

NOTES TO THE FINANCIAL STATEMENTS (Continued)

As of March 31, 2025, the debt service requirements on the bonds outstanding were as follows:

<u>Fiscal Year</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2026	\$ 165,000	\$ 13,841	\$ 178,841
2027	<u>175,000</u>	<u>4,703</u>	<u>179,703</u>
	<u>\$ 340,000</u>	<u>\$ 18,544</u>	<u>\$ 358,544</u>

Bonds voted	\$ 60,550,000
Bonds approved for sale and sold	5,000,000
Bonds voted and not issued	55,550,000

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 and are further payable and secured by a lien on and pledge of the net revenues to be received from the operation of the District's waterworks and sanitary sewer system.

The bond issues payable at March 31, 2025, were as follows:

	<u>Series 2002</u>
Amounts outstanding, March 31, 2025	\$340,000
Interest rates	5.375%
Maturity dates, serially beginning/ending	September 1, 2025/2026
Interest payment dates	March 1/September 1
Callable dates	September 1, 2011*

*Or any date thereafter, callable at par plus accrued interest in whole or in part at the option of the District.

Developer Construction Commitments and Liabilities

A developer within the District is currently constructing certain underground facilities within the District's boundaries. The District has agreed to reimburse the developer for these construction and related engineering costs plus interest not to exceed the interest rate of the applicable District bond issue. These amounts are to be reimbursed from the proceeds of a future bond issue to the extent approved by the Texas Commission on Environmental Quality. The District's engineer stated that cost of the construction in progress at March 31, 2025, was \$2,663,887. This amount has been recorded in the government-wide financial statements and in the schedules in Notes 4 and 5.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

NOTE 6: PROPERTY TAXES

The Harris County Appraisal District has the responsibility for appraising property for all taxing units within the county as of January 1 of each year, subject to review and change by the county Appraisal Review Board. The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax roll and tax rate. The District's taxes are usually levied in the fall, are due when billed and become delinquent after January 31 of the following year or 30 days after the date billed, whichever is later. On January 1 of each year, a statutory tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed for the year on the property.

The Bond Resolution requires that the District 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.

At an election held May 13, 2006, the voters within the District authorized a maintenance tax not to exceed \$0.50 per \$100 valuation on all property subject to taxation within the District. This maintenance tax is being used by the General Fund to pay expenditures of operating the District.

On November 6, 2024, the District levied the following ad valorem taxes for the 2024 tax year on the adjusted taxable valuation of \$89,215,167:

	<u>Rate</u>	<u>Amount</u>
Debt service	\$ 0.4100	\$ 365,782
Maintenance	<u>0.5000</u>	<u>446,076</u>
	<u>\$ 0.9100</u>	<u>\$ 811,858</u>

A reconciliation of the tax levy to property tax revenues on the Statement of Activities is as follows:

2024 tax year total property tax levy	\$ 811,858
Appraisal district adjustments to prior year taxes	<u>(4,949)</u>
Statement of Activities property tax revenues	<u>\$ 806,909</u>

NOTE 7: DEPOSITS

The District complied with the requirements of the Public Funds Investment Act during the current fiscal year including the preparation of quarterly investment reports required by the Act.

State statutes authorize the District to invest and reinvest in direct or indirect obligations of the United States, the State of Texas, any county, city, school district, or other political subdivision of the state, or in local government investment pools authorized under the Public Funds Investment Act. Funds of the District may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds under the laws of the State of Texas. In accordance with the District's investment policies, during the current year the District's funds were invested in interest bearing accounts at authorized financial institutions and TexSTAR, a private sector local government investment pool. TexSTAR is rated AAAM by Standard & Poor's.

In accordance with state statutes and the District's investment policies, the District requires that insurance or security be provided by depositories for all funds held by them. At the balance sheet date, the District's deposits were covered by federal insurance.

At the balance sheet date the carrying value and market value of the investments in TexSTAR was \$1,884,321.

NOTES TO THE FINANCIAL STATEMENTS (Continued)

Deposits restricted by state statutes and the Bond Resolution:

Debt Service Fund

For payment of debt principal and interest,
paying agent fees and costs of assessing and
collecting taxes:

Cash		\$	40,629
Temporary investments			<u>1,230,578</u>
		\$	<u>1,271,207</u>

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; personal injuries and natural disasters. Significant losses are covered by insurance as described below. There were no significant reductions in insurance coverage from the prior fiscal year. There have been no settlements which have exceeded the insurance coverage for each of the past three fiscal years.

At March 31, 2025, the District had physical damage and boiler and machinery coverage of \$5,650,000, general liability coverage with a per occurrence limit of \$2,000,000 and \$4,000,000 general aggregate, pollution liability coverage of \$2,000,000, automobile liability coverage of \$2,000,000, consultant’s crime coverage of \$50,000, a tax assessor-collector bond of \$10,000 and statutory worker’s compensation coverage with the Texas Municipal League Intergovernmental Risk Pool (the "Pool"). The Pool is a public entity risk pool currently operating as a common risk management and insurance program for various Texas public entities. The District pays annual premiums for its general insurance coverage. The Pool purchases reinsurance for protection against catastrophic losses that exceed the Pool’s self-insurance retention. This reinsurance is purchased from companies rated A- or higher by A. M. Best Company.

NOTE 9: GROUNDWATER FEES

On July 11, 2003, the District entered into a Water Supply and Groundwater Reduction Plan Wholesale Agreement (the “Agreement”) with the City of Houston (the “City”) in order to meet regulatory compliance requirements of the Harris Galveston Subsidence District (the “Subsidence District”). Under the terms of the Agreement, the City of Houston is the manager of the Groundwater Reduction Plan (the “GRP”) that includes the District as a participant. In order to achieve overall compliance with the Subsidence District regulation for reduction of groundwater use in Regulatory Area 3, treated surface water will be supplied by the City to some of the participants in the GRP area in sufficient quantities to meet the requirements. The District will pay to the City a monthly pumpage charge based on the District’s water pumpage. The District’s surface water pumpage fees payable to the City for the fiscal year ended March 31, 2025, were \$100,884. The District billed its customers \$76,866 for surface water fees during the fiscal year ended March 31, 2025.

LUCE BAYOU PUBLIC UTILITY DISTRICT
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES
IN FUND BALANCE, BUDGET AND ACTUAL, GENERAL FUND
FOR THE YEAR ENDED MARCH 31, 2025

	<u>Budgeted Amounts</u>		<u>Actual</u>	<u>Variance with Final Budget Positive (Negative)</u>
	<u>Original</u>	<u>Final</u>		
REVENUES				
Property taxes	\$ 350,000	\$ 350,000	\$ 433,317	\$ 83,317
Water service	150,000	150,000	91,639	(58,361)
Sewer service	160,000	160,000	185,481	25,481
Surface water fees	80,000	80,000	76,866	(3,134)
Penalty and other	0	0	28,281	28,281
Tap connection and sewer inspection fees	68,000	68,000	94,542	26,542
Interest on deposits	<u>20,000</u>	<u>20,000</u>	<u>23,674</u>	<u>3,674</u>
TOTAL REVENUES	<u>828,000</u>	<u>828,000</u>	<u>933,800</u>	<u>105,800</u>
EXPENDITURES				
Service operations:				
Professional fees	128,000	128,000	124,151	(3,849)
Contracted services	71,600	71,600	65,093	(6,507)
Utilities	40,000	40,000	36,947	(3,053)
Groundwater pumpage fees	110,000	110,000	100,884	(9,116)
Repairs, maintenance and other operating expenditures	196,000	196,000	279,171	83,171
Garbage disposal	98,000	98,000	98,343	343
Administrative expenditures	66,450	66,450	73,737	7,287
Capital outlay	<u>36,250</u>	<u>36,250</u>	<u>68,810</u>	<u>32,560</u>
TOTAL EXPENDITURES	<u>746,300</u>	<u>746,300</u>	<u>847,136</u>	<u>100,836</u>
EXCESS REVENUES (EXPENDITURES)	81,700	81,700	86,664	4,964
FUND BALANCE, BEGINNING OF YEAR	<u>506,643</u>	<u>506,643</u>	<u>506,643</u>	<u>0</u>
FUND BALANCE, END OF YEAR	<u>\$ 588,343</u>	<u>\$ 588,343</u>	<u>\$ 593,307</u>	<u>\$ 4,964</u>

The District's Board of Directors adopts an annual nonappropriated budget. This budget may be amended throughout the fiscal year and is prepared on a basis consistent with generally accepted accounting principles.

LUCE BAYOU PUBLIC UTILITY DISTRICT
SCHEDULE OF TEXAS SUPPLEMENTARY INFORMATION
REQUIRED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

MARCH 31, 2025

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

- [X] TSI-1. Services and Rates
- [X] TSI-2. General Fund Expenditures
- [X] TSI-3. Temporary Investments
- [X] TSI-4. Taxes Levied and Receivable
- [X] TSI-5. Long-Term Debt Service Requirements by Years
- [X] TSI-6. Changes in Long-Term Bonded Debt
- [X] TSI-7. Comparative Schedule of Revenues and Expenditures -
General Fund and Debt Service Fund - Five Year
- [X] TSI-8. Board Members, Key Personnel and Consultants

LUCE BAYOU PUBLIC UTILITY DISTRICT
SCHEDULE OF SERVICES AND RATES (Continued)
MARCH 31, 2025

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	0	0	1.0	0
< or = 3/4"	379	371	1.0	371
1"	9	9	2.5	23
1-1/2"	0	0	5.0	0
2"	5	5	8.0	40
3"	0	0	15.0	0
4"	0	0	25.0	0
6"	0	0	50.0	0
8"	0	0	80.0	0
10"	0	0	115.0	0
Total Water	<u>393</u>	<u>385</u>		<u>434</u>
Total Wastewater	<u>385</u>	<u>377</u>	1.0	<u>377</u>

*Single family equivalents

3. Total Water Consumption during the Fiscal Year (rounded to thousands):

Gallons pumped into system (unaudited): 38,507
 Gallons billed to customers (unaudited): 27,277

Water Accountability Ratio
 (Gallons billed/ gallons pumped): 71%

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

Does the District have Debt Service standby fees? Yes No

If yes, date of the most recent Commission Order: _____

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

If yes, date of the most recent Commission Order: _____

LUCE BAYOU PUBLIC UTILITY DISTRICT
EXPENDITURES
FOR THE YEAR ENDED MARCH 31, 2025

	General Fund	Debt Service Fund	Capital Projects Fund	Totals (Memorandum Only)
CURRENT				
Professional fees:				
Auditing	\$ 12,175	\$	\$	\$ 12,175
Legal	66,316	4,007		70,323
Engineering	45,660			45,660
	124,151	4,007	0	128,158
Contracted services:				
Bookkeeping	12,994			12,994
Operation and billing	52,099			52,099
Tax assessor-collector		9,214		9,214
Central appraisal district		5,913		5,913
	65,093	15,127	0	80,220
Utilities	36,947	0	0	36,947
Groundwater pumpage fees	100,884	0	0	100,884
Repairs, maintenance and Other operating expenditures:				
Repairs and maintenance	212,579			212,579
Sludge hauling	37,865			37,865
Chemicals	6,137			6,137
Laboratory costs	13,447			13,447
Sewer inspection costs	7,800			7,800
TCEQ assessment	1,343			1,343
	279,171	0	0	279,171
Garbage disposal	98,343	0	0	98,343
Administrative expenditures:				
Director's fees	11,934			11,934
Office supplies and postage	31,968			31,968
Insurance	26,738	50		26,788
Permit fees	2,184			2,184
Other	913	4,928		5,841
	73,737	4,978	0	78,715

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT

EXPENDITURES (Continued)

FOR THE YEAR ENDED MARCH 31, 2025

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
CAPITAL OUTLAY				
Authorized expenditures	\$ 19,510	\$	\$	\$ 19,510
Tap connection costs	<u>49,300</u>	<u>0</u>	<u>0</u>	<u>49,300</u>
	<u>68,810</u>	<u>0</u>	<u>0</u>	<u>68,810</u>
DEBT SERVICE				
Principal retirement	<u>0</u>	<u>155,000</u>	<u>0</u>	<u>155,000</u>
Interest and fees:				
Interest		22,538		22,538
Paying agent fees		550		550
	<u>0</u>	<u>23,088</u>	<u>0</u>	<u>23,088</u>
TOTAL EXPENDITURES	<u>\$ 847,136</u>	<u>\$ 202,200</u>	<u>\$ 0</u>	<u>\$ 1,049,336</u>

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT

ANALYSIS OF CHANGES IN DEPOSITS
ALL GOVERNMENTAL FUND TYPES

FOR THE YEAR ENDED MARCH 31, 2025

	<u>General Fund</u>	<u>Debt Service Fund</u>	<u>Capital Projects Fund</u>	<u>Totals (Memorandum Only)</u>
SOURCES OF DEPOSITS				
Cash receipts from revenues excluding maintenance taxes	\$ 493,463	\$ 418,467	\$	\$ 911,930
Maintenance tax receipts		433,317		433,317
Transfer of maintenance taxes	425,637			425,637
Overpayments from taxpayers		<u>6,750</u>		<u>6,750</u>
TOTAL DEPOSITS PROVIDED	<u>919,100</u>	<u>858,534</u>	<u>0</u>	<u>1,777,634</u>
APPLICATIONS OF DEPOSITS				
Cash disbursements for:				
Current expenditures	789,571	24,115		813,686
Capital outlay	68,810			68,810
Debt service		178,088		178,088
Prepaid expenditures	2,250			2,250
Transfer of maintenance taxes		425,637		425,637
Decrease in customer and other deposits	11,469			11,469
Refund of taxpayer overpayments		<u>7,261</u>		<u>7,261</u>
TOTAL DEPOSITS APPLIED	<u>872,100</u>	<u>635,101</u>	<u>0</u>	<u>1,507,201</u>
INCREASE (DECREASE) IN DEPOSITS	47,000	223,433	0	270,433
DEPOSIT BALANCES, BEGINNING OF YEAR	<u>611,578</u>	<u>1,047,774</u>	<u>0</u>	<u>1,659,352</u>
DEPOSIT BALANCES, END OF YEAR	<u>\$ 658,578</u>	<u>\$ 1,271,207</u>	<u>\$ 0</u>	<u>\$ 1,929,785</u>

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT
SCHEDULE OF TEMPORARY INVESTMENTS
MARCH 31, 2025

	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Year End Balance</u>	<u>Accrued Interest Receivable</u>
GENERAL FUND				
TexSTAR				
No. 1704022220	Market	On demand	\$ 651,006	\$ 0
No. 1704055550	Market	On demand	<u>2,737</u>	<u>0</u>
			<u>\$ 653,743</u>	<u>\$ 0</u>
DEBT SERVICE FUND				
TexSTAR				
No. 1704033330	Market	On demand	<u>1,230,578</u>	<u>0</u>
Total – All Funds			<u>\$ 1,884,321</u>	<u>\$ 0</u>

LUCE BAYOU PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED MARCH 31, 2025

	<u>Maintenance Taxes</u>	<u>Debt Service Taxes</u>
RECEIVABLE, BEGINNING OF YEAR	\$ 32,278	\$ 28,725
Additions and corrections to prior year taxes	<u>(2,645)</u>	<u>(2,304)</u>
Adjusted receivable, beginning of year	29,633	26,421
2024 ADJUSTED TAX ROLL	<u>446,076</u>	<u>365,782</u>
Total to be accounted for	475,709	392,203
Tax collections: Current tax year	(414,097)	(339,559)
Prior tax years	<u>(19,220)</u>	<u>(16,850)</u>
RECEIVABLE, END OF YEAR	<u>\$ 42,392</u>	<u>\$ 35,794</u>
RECEIVABLE, BY TAX YEAR		
2013 and prior	\$ 125	\$ 123
2014	48	42
2015	48	42
2016	48	42
2017	101	105
2018	925	962
2019	224	233
2020	1,056	1,056
2021	2,458	2,286
2022	5,380	4,680
2024	<u>31,979</u>	<u>26,223</u>
RECEIVABLE, END OF YEAR	<u>\$ 42,392</u>	<u>\$ 35,794</u>

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT
TAXES LEVIED AND RECEIVABLE (Continued)
FOR THE YEAR ENDED MARCH 31, 2025

ADJUSTED PROPERTY VALUATIONS
AS OF JANUARY 1 OF TAX YEAR

	<u>2024</u>	<u>2023</u>	<u>2022</u>	<u>2021</u>
Land	\$ 23,405,338	\$ 20,073,909	\$ 18,472,041	\$ 14,254,635
Improvements	68,358,109	58,324,795	50,591,343	45,322,576
Personal property	3,254,971	2,392,842	2,717,735	2,114,467
Less exemptions	<u>(5,803,251)</u>	<u>(5,230,433)</u>	<u>(4,684,578)</u>	<u>(4,522,421)</u>
 TOTAL PROPERTY VALUATIONS	 <u>\$ 89,215,167</u>	 <u>\$ 75,561,113</u>	 <u>\$ 67,096,541</u>	 <u>\$ 57,169,257</u>

TAX RATES PER \$100 VALUATION

Debt service tax rates	\$ 0.41000	\$ 0.43500	\$ 0.46500	\$ 0.50000
Maintenance tax rates*	<u>0.50000</u>	<u>0.50000</u>	<u>0.50000</u>	<u>0.50000</u>
 TOTAL TAX RATES PER \$100 VALUATION	 <u>\$ 0.91000</u>	 <u>\$ 0.93500</u>	 <u>\$ 0.96500</u>	 <u>\$ 1.00000</u>

TAX ROLLS	<u>\$ 811,858</u>	<u>\$ 706,496</u>	<u>\$ 647,481</u>	<u>\$ 571,693</u>
-----------	-------------------	-------------------	-------------------	-------------------

PERCENT OF TAXES COLLECTED
TO TAXES LEVIED

<u>92.8 %</u>	<u>98.6 %</u>	<u>99.3 %</u>	<u>99.6 %</u>
---------------	---------------	---------------	---------------

*Maximum tax rate approved by voters on May 13, 2006: \$0.50

LUCE BAYOU PUBLIC UTILITY DISTRICT
LONG-TERM DEBT SERVICE REQUIREMENTS, BY YEARS
MARCH 31, 2025

	Series 2002		
Due During Fiscal Years Ending March 31	Principal Due September 1	Interest Due September 1, March 1	Total
2026	\$ 165,000	\$ 13,841	\$ 178,841
2027	175,000	4,703	179,703
TOTALS	\$ 340,000	\$ 18,544	\$ 358,544

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT
ANALYSIS OF CHANGES IN LONG-TERM BONDED DEBT
FOR THE YEAR ENDED MARCH 31, 2025

Bond Series:	2002
Interest Rate:	5.375%
Dates Interest Payable:	March 1/ September 1
Maturity Dates:	September 1, 2025/2026
Bonds Outstanding at Beginning of Current Year	\$ 495,000
Less Retirements:	<u>(155,000)</u>
Bonds Outstanding at End of Current Year	<u>\$ 340,000</u>
Current Year Interest Paid:	<u>\$ 22,538</u>

Bond Descriptions and Original Amount of Issue

Luce Bayou Public Utility District Waterworks and Sewer System Combination Unlimited Tax and Revenue Bonds, Series 2002 (\$2,650,000)

Paying Agent/Registrar

Wells Fargo Bank Texas, N.A., Houston, Texas

<u>Bond Authority</u>	<u>Tax Bonds</u>	<u>Other Bonds</u>	<u>Refunding Bonds</u>
Amount Authorized by Voters:	\$ 60,550,000	\$ 0	\$ 0
Amount Issued:	5,000,000		
Remaining to be Issued:	55,550,000		

Net Debt Service Fund deposits balances as of March 31, 2025:	\$1,254,969
Average annual debt service payment for remaining term of all debt:	179,272

LUCE BAYOU PUBLIC UTILITY DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
GENERAL FUND

FOR YEARS ENDED MARCH 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
REVENUES										
Property taxes	\$ 433,317	\$ 381,286	\$ 340,861	\$ 275,120	\$ 274,971	46.5 %	41.0 %	47.7 %	53.5 %	53.6 %
Water service	91,639	95,851	75,228	70,886	72,567	9.8	10.3	10.6	13.8	14.1
Sewer service	185,481	171,947	138,103	125,839	123,818	19.9	18.4	19.4	24.4	24.2
Surface water fees	76,866	86,241	36,640	26,498	29,015	8.2	9.2	5.1	5.1	5.6
Penalty and other	28,281	49,583	21,764	16,719	10,363	3.0	5.3	3.1	3.2	2.0
Tap connection and sewer inspection fees	94,542	124,400	91,950	0	2,600	10.1	13.3	12.9	0.0	0.5
Interest on deposits	23,674	23,382	8,444	107	254	2.5	2.5	1.2	0.0	0.0
TOTAL REVENUES	933,800	932,690	712,990	515,169	513,588	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	124,151	131,735	130,618	108,877	115,853	13.3	14.1	18.4	21.2	22.6
Contracted services	65,093	59,511	57,591	58,411	57,315	7.0	6.4	8.1	11.3	11.2
Utilities	36,947	33,377	40,817	27,512	27,793	4.0	3.6	5.7	5.3	5.4
Groundwater pumpage fees	100,884	109,109	46,189	25,445	42,744	10.8	11.7	6.5	4.9	8.3
Repairs, maintenance and other operating expenditures	279,171	167,276	172,254	87,852	90,371	29.8	17.9	24.2	17.0	17.6
Garbage disposal	98,343	88,832	73,664	64,236	54,359	10.5	9.5	10.3	12.6	10.6
Administrative expenditures	73,737	60,632	49,548	48,419	36,134	7.9	6.5	6.9	9.4	7.0
Capital outlay	68,810	209,213	49,300	6,388	1,075	7.4	22.5	6.9	1.2	0.2
TOTAL EXPENDITURES	847,136	859,685	619,981	427,140	425,644	90.7	92.2	87.0	82.9	82.9
EXCESS REVENUES (EXPENDITURES)	\$ 86,664	\$ 73,005	\$ 93,009	\$ 88,029	\$ 87,944	9.3 %	7.8 %	13.0 %	17.1 %	17.1 %
TOTAL ACTIVE RETAIL WATER CONNECTIONS	385	351	299	269	275					
TOTAL ACTIVE RETAIL WASTEWATER CONNECTIONS	377	343	293	257	269					

See accompanying independent auditor's report.

LUCE BAYOU PUBLIC UTILITY DISTRICT

COMPARATIVE STATEMENTS OF REVENUES AND EXPENDITURES,
DEBT SERVICE FUND

FOR YEARS ENDED MARCH 31

	AMOUNT					PERCENT OF TOTAL REVENUES				
	2025	2024	2023	2022	2021	2025	2024	2023	2022	2021
REVENUES										
Property taxes	\$ 356,409	\$ 333,571	\$ 319,607	\$ 275,775	\$ 285,865	85.2 %	85.3 %	88.5 %	95.6 %	93.4 %
Penalty and interest	13,801	15,765	25,201	12,619	19,812	3.3	4.0	7.0	4.4	6.5
Interest on deposits	48,257	42,065	16,297	24	388	11.5	10.7	4.5	0.0	0.1
TOTAL REVENUES	418,467	391,401	361,105	288,418	306,065	100.0	100.0	100.0	100.0	100.0
EXPENDITURES										
Current:										
Professional fees	4,007	4,502	9,912	4,372	7,410	1.0	1.2	2.7	1.5	2.4
Contracted services	15,127	13,733	11,884	12,366	11,534	3.6	3.5	3.3	4.3	3.8
Other expenditures	4,978	4,374	4,546	4,191	3,156	1.2	1.1	1.3	1.5	1.0
Debt service:										
Principal retirement	155,000	145,000	140,000	130,000	125,000	37.0	37.0	38.7	45.0	40.9
Interest and fees	23,088	31,247	38,854	46,009	52,766	5.5	8.0	10.8	16.0	17.2
TOTAL EXPENDITURES	202,200	198,856	205,196	196,938	199,866	48.3	50.8	56.8	68.3	65.3
EXCESS REVENUES (EXPENDITURES)	\$ 216,267	\$ 192,545	\$ 155,909	\$ 91,480	\$ 106,199	51.7 %	49.2 %	43.2 %	31.7 %	34.7 %

LUCE BAYOU PUBLIC UTILITY DISTRICT
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS

MARCH 31, 2025

Complete District Mailing Address: Luce Bayou Public Utility District
 c/o Coats Rose, P.C.
 9 Greenway Plaza, Suite 1000
 Houston, Texas 77046

District Business Telephone No.: 713-651-0111

Submission date of the most recent District Registration Form: December 4, 2024

Limit on Fees of Office that a Director may receive during a fiscal year: \$6,000

BOARD MEMBERS

<u>Name and Address</u>	<u>Term of Office (Elected/ Appointed)</u>	<u>Fees of Office Paid</u>	<u>Expense Reimb.</u>	<u>Title at Year End</u>
David Wassell 27314 Caperidge Drive Huffman, Texas 77336	Elected 5/07/22- 5/02/26	\$ 2,873	\$ 0	President
David W. Francis 226 Vista Del Lago Huffman, Texas 77336	Elected 5/04/24- 5/06/28	2,431	0	Secretary/ Treasurer
Fletcher Gray 28610 Oak Den Court Huffman, Texas 77336	Elected 5/07/22- 5/02/26	2,652	0	Assistant Vice President
Randel J. Durdin 28606 Lochleven Huffman, Texas 77336	Elected 5/04/24- 5/06/28	2,210	0	Assistant Secretary

Four directors at March 31, 2025.

LUCE BAYOU PUBLIC UTILITY DISTRICT

BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS (Continued)

MARCH 31, 2025

CONSULTANTS

<u>Name and Address</u>	<u>Date Hired</u>	<u>Fees and Expense Reimbursements</u>	<u>Title at Year End</u>
Coats Rose, P.C. 9 Greenway Plaza, Suite 1000 Houston, Texas 77046	12/03/80	\$ 66,316	Attorney
Perdue, Brandon, Fielder, Collins & Mott, L.L.P. 1235 N. Loop West, Suite 600 Houston, Texas 77008	2/06/96	4,007	Delinquent Tax Attorney
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	Prior to 4/01/88	15,404	Bookkeeper
Myrtle Cruz, Inc. 3401 Louisiana, Suite 400 Houston, Texas 77002	3/06/01	0	Investment Officer
M. Marlon Ivy & Associates P.O. Box 9 Spring, Texas 77383	3/25/20	297,369	Operator
Burke Engineering, LLC 10590 Westoffice Drive, Suite 125 Houston, Texas 77042	3/23/22	45,660	Engineer
Utility Tax Service, LLC 11500 Northwest Freeway, Suite 465 Houston, Texas 77092	1/04/05	11,266	Tax Assessor- Collector
Harris County Appraisal District P.O. Box 900275 Houston, Texas 77292	Legislative Action	5,913	Central Appraisal District
Rathmann & Associates, L.P. 8584 Katy Freeway, Suite 250 Houston, Texas 77024	Prior to 1992	0	Financial Advisor
Mark C. Eyring, CPA, PLLC 12702 Century Drive, Suite C2 Stafford, Texas 77477	Prior to 1992	12,175	Independent Auditor

See accompanying independent auditor's report.

