

OFFICIAL STATEMENT DATED AUGUST 25, 2020

IN THE OPINION OF BOND COUNSEL, UNDER EXISTING LAW, INTEREST ON THE BONDS IS EXCLUDABLE FROM GROSS INCOME FOR FEDERAL INCOME TAX PURPOSES, AND INTEREST ON THE BONDS IS NOT SUBJECT TO THE ALTERNATIVE MINIMUM TAX ON INDIVIDUALS. SEE "TAX MATTERS" FOR A DISCUSSION OF THE OPINION OF BOND COUNSEL.

The Bonds have been designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Qualified Tax-Exempt Obligations."

NEW ISSUE – Book Entry Only

S&P (AGM Insured)..... "AA"
Moody's (AGM Insured)..... "A2"
Moody's (Underlying)..... "Baa3"
See "MUNICIPAL BOND INSURANCE" and "RATINGS."

\$2,160,000

BRAZORIA COUNTY MUNICIPAL UTILITY DISTRICT NO. 39

(A Political Subdivision of the State of Texas Located within Brazoria County)

UNLIMITED TAX ROAD BONDS

SERIES 2020

Dated: September 1, 2020

Due: September 1, as shown on inside cover

The \$2,160,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds"), are obligations of Brazoria County Municipal Utility District No. 39 (the "District") and are not obligations of the State of Texas; Brazoria County, Texas; the City of Manvel, Texas; or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of the State of Texas; Brazoria County, Texas; the City of Manvel, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable upon presentation at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest accrues from September 1, 2020, and is payable March 1, 2021, and on each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. Interest on the Bonds will be payable by check dated as of the Interest Payment Date and mailed by the Paying Agent/Registrar to registered owners ("Registered Owners") as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding each Interest Payment Date (the "Record Date"). The Bonds are fully registered bonds in principal 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/Registrar 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 "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" on inside cover.

When issued, the Bonds will constitute valid and binding obligations of the District and will be payable from the proceeds of a continuing, direct ad valorem tax, unlimited as to rate or amount, levied annually by the District against all taxable property located within the District. See "THE BONDS – Source of Payment."

The scheduled payment of principal of and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



Investment in the Bonds is subject to certain investment considerations as described herein. Prospective purchasers should review this entire Official Statement, including particularly the section of this Official Statement entitled "INVESTMENT CONSIDERATIONS," before making an investment decision.

The Bonds are offered when, as, and if issued by the District and accepted by the winning bidder (the "Initial Purchaser"), subject to the approval of the Attorney General of Texas and of Allen Boone Humphries Robinson LLP, Houston, Texas, Bond Counsel. Delivery of the Bonds through the facilities of DTC is expected on or about September 24, 2020.

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

\$710,000 Serial Bonds

Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (September 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2021	\$65,000	4.500%	0.500%	10607F JD5	2026 (c)	\$70,000	3.000%	1.000%	10607F JJ2
2022	65,000	4.500%	0.600%	10607F JE3	2027 (c)	75,000	2.000%	1.200%	10607F JK9
2023	65,000	4.500%	0.700%	10607F JF0	2028 (c)	75,000	2.000%	1.400%	10607F JL7
2024	70,000	4.500%	0.800%	10607F JG8	2029 (c)	75,000	2.000%	1.600%	10607F JM5
2025	70,000	4.500%	0.900%	10607F JH6	2030 (c)	80,000	2.000%	1.800%	10607F JN3

\$1,450,000 Term Bonds

\$250,000 Term Bonds Due September 1, 2033 (c) (d), Interest Rate: 2.000% (Price: \$99.433) (a), CUSIP No. 10607F JR4 (b)

\$265,000 Term Bonds Due September 1, 2036 (c) (d), Interest Rate: 2.000% (Price: \$97.984) (a), CUSIP No. 10607F JU7 (b)

\$290,000 Term Bonds Due September 1, 2039 (c) (d), Interest Rate: 2.000% (Price: \$96.161) (a), CUSIP No. 10607F JX1 (b)

\$310,000 Term Bonds Due September 1, 2042 (c) (d), Interest Rate: 2.125% (Price: \$96.159) (a), CUSIP No. 10607F KA9 (b)

\$335,000 Term Bonds Due September 1, 2045 (c) (d), Interest Rate: 2.250% (Price: \$97.196) (a), CUSIP No. 10607F KD3 (b)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date. Accrued interest from September 1, 2020, is to be added to the price.
- (b) CUSIP numbers have been assigned to the Bonds by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.
- (c) Bonds maturing on September 1, 2026, and thereafter, shall be subject to redemption and payment at the option of the District, in whole or from time to time in part on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds – *Optional Redemption*."
- (d) Subject to mandatory redemption by lot or other customary method of random selection on September 1 in the years and in the amounts as set forth herein under "THE BONDS – Redemption of the Bonds – *Mandatory Redemption*."

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 or the Initial Purchaser.

All of the summaries of the statutes, resolutions, orders, contracts, audited financial statements, engineering and other related reports set forth in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents, copies of which are available from Bond Counsel, for further information.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as part of, its responsibility to the District and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information.

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

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

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

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

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INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Brazoria County Municipal Utility District No. 39 (the "District") of its \$2,160,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8429 of the Texas Special District Local Laws Code; (ii) an election held within the District and passed by a majority of the participating voters; and (iii) a resolution adopted by the Board of Directors of the District on the date of sale of the Bonds (the "Bond Resolution").

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Resolution.

This Official Statement also includes information about the District and certain reports and other statistical data. The summaries and references to all documents, statutes, reports and other instruments referred to herein do not purport to be complete, comprehensive or definitive and each summary and reference is qualified in its entirety by reference to each such document, statute, report, or instrument.

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 effective interest rate to the District, which was tendered by SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.000000% of the par value thereof plus accrued interest to the date of delivery, which resulted in a net effective interest rate of 2.398430%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Prices and Marketability

Subject to certain restrictions described in the Official Notice of Sale, 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.

Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser. Subject to certain restrictions described in the Official Notice of Sale, the prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Initial Purchaser after the Bonds are released for sale, and the Bonds may be offered and sold at prices other than the initial offering prices, including sales to dealers who may sell the Bonds into investment accounts.

IN CONNECTION WITH THIS OFFERING, THE INITIAL PURCHASER 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 INSURANCE

Bond Insurance Policy

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

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

Assured Guaranty Municipal Corp.

AGM is a New York domiciled financial guaranty insurance company and an indirect subsidiary of Assured Guaranty Ltd. ("AGL"), a Bermuda-based holding company whose shares are publicly traded and are listed on the New York Stock Exchange under the symbol "AGO". AGL, through its operating subsidiaries, provides credit enhancement products to the U.S. and international public finance (including infrastructure) and structured finance markets and, as of October 1, 2019, asset management services. Neither AGL nor any of its shareholders or affiliates, other than AGM, is obligated to pay any debts of AGM or any claims under any insurance policy issued by AGM.

AGM's financial strength is rated "AA" (stable outlook) by S&P Global Ratings, a business unit of Standard & Poor's Financial Services LLC ("S&P"), "AA+" (stable outlook) by Kroll Bond Rating Agency, Inc. ("KBRA") and "A2" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). Each rating of AGM should be evaluated independently. An explanation of the significance of the above ratings may be obtained from the applicable rating agency. The above ratings are not recommendations to buy, sell or hold any security, and such ratings are subject to revision or withdrawal at any time by the rating agencies, including withdrawal initiated at the request of AGM in its sole discretion. In addition, the rating agencies may at any time change AGM's long-term rating outlooks or place such ratings on a watch list for possible downgrade in the near term. Any downward revision or withdrawal of any of the above ratings, the assignment of a negative outlook to such ratings or the placement of such ratings on a negative watch list may have an adverse effect on the market price of any security guaranteed by AGM. AGM only guarantees scheduled principal and scheduled interest payments payable by the issuer of bonds insured by AGM on the date(s) when such amounts were initially scheduled to become due and payable (subject to and in accordance with the terms of the relevant insurance policy), and does not guarantee the market price or liquidity of the securities it insures, nor does it guarantee that the ratings on such securities will not be revised or withdrawn.

Current Financial Strength Ratings

On July 16, 2020, S&P announced it had affirmed AGM's financial strength rating of "AA" (stable outlook). AGM can give no assurance as to any further ratings action that S&P may take.

On December 19, 2019, KBRA announced it had affirmed AGM's insurance financial strength rating of "AA+" (stable outlook). AGM can give no assurance as to any further ratings action that KBRA may take.

On August 13, 2019, Moody's announced it had affirmed AGM's insurance financial strength rating of "A2" (stable outlook). AGM can give no assurance as to any further ratings action that Moody's may take.

For more information regarding AGM's financial strength ratings and the risks relating thereto, see AGL's Annual Report on Form 10-K for the fiscal year ended December 31, 2019.

Capitalization of AGM

At June 30, 2020:

- The policyholders' surplus of AGM was approximately \$2,667 million.

- The contingency reserves of AGM and its indirect subsidiary Municipal Assurance Corp. (“MAC”) (as described below) were approximately \$1,018 million. Such amount includes 100% of AGM’s contingency reserve and 60.7% of MAC’s contingency reserve.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,048 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiaries Assured Guaranty (Europe) plc (“AGE UK”) and Assured Guaranty (Europe) SA (“AGE SA”), and (iii) 60.7% of the net unearned premium reserve of MAC.

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

Incorporation of Certain Documents by Reference

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

- (i) the Annual Report on Form 10-K for the fiscal year ended December 31, 2019 (filed by AGL with the SEC on February 28, 2020);
- (ii) the Quarterly Report on Form 10-Q for the quarterly period ended March 31, 2020 (filed by AGL with the SEC on May 8, 2020); and
- (iii) the Quarterly Report on Form 10-Q for the quarterly period ended June 30, 2020 (filed by AGL with the SEC on August 7, 2020).

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

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

Miscellaneous Matters

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

RATINGS

The Bonds are expected to receive an insured rating of “AA” from S&P solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. An explanation of the ratings of S&P may only be obtained from S&P. S&P is located at 55 Water Street, New York, New York 10041, telephone number (212) 208-8000 and has engaged in providing ratings for corporate bonds since 1923 and municipal bonds since 1940. Long-term debt ratings assigned by S&P reflect its analysis of the overall level of credit risk involved in financings. At present, S&P assigns long-term debt ratings with symbols “AAA” (the highest rating) through “D” (the lowest rating). The ratings express only the view of S&P at the time the ratings are given. Furthermore, a security rating is not a recommendation to buy, sell or hold securities. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by S&P, if in its judgment, circumstances so warrant.

The Bonds are expected to receive an insured rating of “A2” from Moody’s solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Bonds. Moody’s has also assigned an underlying credit rating of “Baa3” to the Bonds. An explanation of the ratings may be obtained from Moody’s, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. Furthermore, a security rating is not a recommendation to buy, sell, or hold securities. There is no assurance that such ratings will continue for any given period of time or that the ratings will not be revised downward or withdrawn entirely by Moody’s, if, in its judgment, circumstances so warrant. Any such revisions or withdrawal of the ratings may have an adverse effect on the market price of the Bonds.

The District is not aware of any rating assigned to the Bonds other than the insured rating of S&P, the insured rating of Moody’s, or the underlying rating of Moody’s.

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OFFICIAL STATEMENT SUMMARY

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

THE BONDS

The District.....	Brazoria County Municipal Utility District No. 39 (the "District"), a political subdivision of the State of Texas, is located in Brazoria County, Texas. See "THE DISTRICT."
The Bonds.....	The District's \$2,160,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds"), are dated September 1, 2020, and mature on September 1 in each of the years and in the principal amounts set forth on the inside cover page hereof. Interest on the Bonds accrues from September 1, 2020, at the rates set forth on the inside cover page hereof, and is payable March 1, 2021, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. See "THE BONDS."
Redemption.....	The Bonds maturing on or after September 1, 2026, are subject to redemption, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. See "THE BONDS – Redemption of the Bonds – <i>Optional Redemption</i> ." The Bonds maturing on September 1 of the years 2033, 2036, 2039, 2042, and 2045 are term bonds that are also subject to the mandatory redemption provisions as set out herein under "THE BONDS – Redemption of the Bonds – <i>Mandatory Redemption</i> ."
Book-Entry-Only System.....	The Bonds will be initially registered and delivered only to Cede & Co., the nominee of The Depository Trust Company, New York, New York ("DTC"), pursuant to the book-entry-only system described herein. Beneficial ownership of the Bonds may be acquired in principal denominations of \$5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the Beneficial Owners (hereinafter defined) thereof. Principal of and interest on the Bonds will be payable by Zions Bancorporation, National Association, Houston, Texas (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 the proceeds of a continuing, direct ad valorem tax, unlimited as to rate or amount, levied annually by the District against all taxable property located within the District. The Bonds are obligations of the District and are not obligations of the State of Texas; Brazoria County, Texas; the City of Manvel, Texas; or any entity other than the District. See "THE BONDS – Source of Payment."
Payment Record.....	The District has never defaulted on the timely payment of principal or interest on its bonded indebtedness.
Authority for Issuance.....	The Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas, including

particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8429 of the Texas Special District Local Laws Code; an election held within the District on May 10, 2014, as described below; and a resolution adopted by the Board of Directors of the District on the date of sale of the Bonds (the “Bond Resolution”).

At an election held within the District on May 10, 2014, voters of the District authorized the District’s issuance of an aggregate \$161,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system to serve the District (the “Road System”), and for the refunding of bonds issued by the District for the Road System. The Bonds represent the District’s fifth series of bonds to be issued from such voted authorization for the Road System. Following issuance of the Bonds, \$145,650,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System, and for the refunding of bonds issued for the Road System, will remain authorized but unissued. See “THE BONDS – Authority for Issuance” and “– Issuance of Additional Debt.”

Outstanding Bonds	The District has previously issued eight series of bonds, as follows: \$4,900,000 Unlimited Tax Road Bonds, Series 2016; \$2,070,000 Unlimited Tax Bonds, Series 2017; \$3,295,000 Unlimited Tax Road Bonds, Series 2017; \$4,410,000 Unlimited Tax Bonds, Series 2018; \$2,630,000 Unlimited Tax Road Bonds, Series 2018; \$4,450,000 Unlimited Tax Bonds, Series 2019; \$2,365,000 Unlimited Tax Road Bonds, Series 2019; and \$2,090,000 Unlimited Tax Bonds, Series 2020. Of such series of bonds previously issued by the District, \$25,295,000 principal amount will remain outstanding as of closing and delivery of the Bonds (the “Outstanding Bonds”).
Use of Proceeds	Proceeds from sale of the Bonds will be used to reimburse the Developers (herein defined) for the construction costs set out herein under “THE BONDS – Use and Distribution of Bond Proceeds.” Proceeds of the Bonds will also be used to pay costs of issuance associated with the Bonds. See “THE BONDS – Use and Distribution of Bond Proceeds” for further information.
Qualified Tax-Exempt Obligations	The Bonds have been designated “qualified tax-exempt obligations” for financial institutions. See “TAX MATTERS – Qualified Tax-Exempt Obligations.”
Municipal Bond Insurance	Assured Guaranty Municipal Corp. (“AGM”). See “MUNICIPAL BOND INSURANCE.”
Ratings.....	S&P (AGM Insured): “AA.” Moody’s (AGM Insured): “A2.” Moody’s (Underlying): “Baa3.” See “RATINGS” above.
Legal Opinion	Allen Boone Humphries Robinson LLP, Houston, Texas. See “LEGAL MATTERS.”
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Houston, Texas.

INFECTIOUS DISEASE OUTLOOK (COVID-19)

Infectious Disease Outlook (COVID-19).....	The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new
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strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. As described herein under “INVESTMENT CONSIDERATIONS – Infectious Disease Outlook (COVID-19)”, federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. Such actions are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

THE DISTRICT

Description.....The District is a political subdivision of the State of Texas, located approximately 16 miles south of the central business district of the City of Houston, Texas. The District lies entirely within the extraterritorial jurisdiction and limited purpose jurisdiction of the City of Manvel, Texas. The District is a municipal utility district created by an order of the TCEQ effective January 23, 2007. The District operates in accordance with Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8429 of the Texas Special District Local Laws Code, and other statutes of Texas applicable to municipal utility districts. The District consists of approximately 516.30 total acres. See “THE DISTRICT” and “APPENDIX B.”

Pomona.....The District is one of the two municipal utility districts, the District and Brazoria County Municipal Utility District No. 40 (“MUD 40”), that make up the approximate 1,060-acre, master-planned community known as Pomona. Development and construction activity within Pomona has occurred in both the District and MUD 40. See “DEVELOPMENT OF THE DISTRICT” for a description of the status of development within Pomona in the District. In MUD 40, construction activity is ongoing and, to date, development includes the following: two detention ponds, one lift station, and eight

completed residential subdivisions with 586 single-family lots. See “POMONA.”

Development within the District To date, approximately 176.10 acres within the District have been developed as the residential subdivisions of Pomona, Sections 1–8 (598 lots). As of July 8, 2020, the District included approximately 575 completed homes (approximately 554 occupied, 12 unoccupied, and 9 model homes); approximately 4 homes under construction; and approximately 19 vacant developed lots. In addition, the single-family residential subdivision of Pomona, Section 17, is currently under construction, and, upon completion, such section will include the development of 94 lots on approximately 23.24 acres. The remaining land within the District includes the following: approximately 2.28 acres for Water Supply Plant No. 1; approximately 7.21 acres for a wastewater treatment plant serving Pomona; approximately 6.20 acres for Brazoria County Annex; approximately 12.95 acres for Pomona Elementary School; approximately 165.95 undevelopable acres consisting of easements, rights-of-way, and greenbelts; and approximately 122.37 undeveloped but developable acres. See “THE DEVELOPERS,” “DEVELOPMENT OF THE DISTRICT,” and “THE DISTRICT.”

The Developers Land within the District is being developed by MC 288, LLC, a limited liability company jointly owned by Hillwood Development Company, LLC (“Hillwood”) and McGuyer Homebuilders, Inc. (“MHI”).

Hillwood is a Dallas-based national real estate development company owned by H. Ross Perot, Jr., with over 30 years of experience developing land in Texas. Hillwood’s development expertise and experience encompasses diverse product types, including: sports arenas, high-rise condominiums, offices, single-family residential communities, distribution centers, regional malls, mixed-use urban development, call centers, hotels, golf courses, airports, intermodal rail yards, corporate campuses, and major air facilities.

MHI is a privately held real estate development company and homebuilder that currently operates in four Texas markets: Houston, Dallas, Austin, and San Antonio under its brands Coventry Homes, Plantation Homes, and Wilshire Homes.

MC 288, LLC, Hillwood, MHI and their affiliates are collectively referred to herein as the “Developers.” See “THE DEVELOPERS” and “DEVELOPMENT OF THE DISTRICT.”

Homebuilders within the District Homebuilders who are active in the District include Coventry Homes, Highland Homes, Plantation Homes, Toll Brothers, and Perry Homes. Homes being constructed in the District range in price from approximately \$249,900 to \$700,000 and in size from approximately 1,600 to 5,000 square feet. See “DEVELOPMENT OF THE DISTRICT – Homebuilders within the District.”

Hurricane Harvey The Houston area, including Brazoria County, experienced historic levels of rainfall and widespread flooding following landfall of Hurricane Harvey on August 26, 2017. According to the Engineer (herein defined), the District’s water and sewer system did not sustain any material damage as a result of Hurricane Harvey, and

there was no interruption to water and sewer service in the District. Further, to the best knowledge of the Developers and the Engineer, no homes in the District experienced structural flooding or other material damage. The District is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by hurricane, tornado, tropical storm, or other adverse weather event. See "INVESTMENT CONSIDERATIONS – Hurricane Harvey," "– Potential Impact of Natural Disaster," and "– Specific Flood Type Risks."

INVESTMENT CONSIDERATIONS

THE DISTRICT'S TAX IS LEVIED ONLY ON THE PROPERTY LOCATED WITHIN THE DISTRICT. THEREFORE, THE INVESTMENT SECURITY AND QUALITY OF THE BONDS IS DEPENDENT UPON THE SUCCESSFUL DEVELOPMENT OF PROPERTY LOCATED WITHIN THE DISTRICT AND THE PAYMENT AND COLLECTION OF TAXES LEVIED THEREON. THE BONDS ARE SUBJECT TO CERTAIN INVESTMENT CONSIDERATIONS. PROSPECTIVE PURCHASERS SHOULD REVIEW THIS ENTIRE OFFICIAL STATEMENT, INCLUDING PARTICULARLY THE SECTION OF THIS OFFICIAL STATEMENT ENTITLED "INVESTMENT CONSIDERATIONS," BEFORE MAKING AN INVESTMENT DECISION.

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SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2020 Taxable Assessed Valuation.....	\$ 216,502,690 (a)
Estimate of Value as of May 1, 2020	\$ 225,713,920 (b)
Direct Debt:	
The Outstanding Bonds (as of Closing and Delivery of the Bonds).....	\$ 25,295,000
The Bonds	<u>\$ 2,160,000</u>
Total.....	\$ 27,455,000
Estimated Overlapping Debt	<u>\$ 15,297,667 (c)</u>
Total Direct and Estimated Overlapping Debt	\$ 42,752,667 (c)
Direct Debt Ratios:	
As a percentage of the 2020 Taxable Assessed Valuation.....	12.68 %
As a percentage of the Estimate of Value as of May 1, 2020.....	12.16 %
Direct and Estimated Overlapping Debt Ratios:	
As a percentage of the 2020 Taxable Assessed Valuation.....	19.75 %
As a percentage of the Estimate of Value as of May 1, 2020.....	18.94 %
Utility System Debt Service Fund Balance (as of July 28, 2020)	\$676,967 (d)
Road System Debt Service Fund Balance (as of July 28, 2020).....	\$832,681 (e)
General Operating Fund Balance (as of July 28, 2020).....	\$1,321,122

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- (a) Represents the taxable assessed valuation as of January 1, 2020, of all taxable property in the District, as provided by the Brazoria County Appraisal District upon original certification of its 2020 tax rolls. Such value includes \$20,555,147 of value that is the taxpayer's opinion of the taxable assessed value of the taxable properties that remain under review of the Brazoria County Appraisal Review Board. The taxpayer's opinion represents the estimated minimum amount of taxable value that will ultimately be approved by the Brazoria County Appraisal Review Board upon which the District will levy its tax. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Brazoria County Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of May 1, 2020, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District through May 1, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Utility System Debt Service Fund. Monies in the Utility System Debt Service Fund cannot be used to pay debt service on bonds issued by the District for the Road System (herein defined), including the Bonds.
- (e) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Road System Debt Service Fund. Monies in the Road System Debt Service Fund cannot be used to pay debt service on bonds issued by the District for the Utility System (herein defined).

2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Utility System Debt Service	\$0.34	(a)
Road System Debt Service	\$0.44	(a)
Maintenance and Operation.....	<u>\$0.72</u>	
Total.....	\$1.50	(b)
Average Annual Debt Service Requirement (2021-2045)	\$1,571,701	(c)
Maximum Annual Debt Service Requirement (2042).....	\$1,763,544	(c)
Combined Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Average Annual Debt Service Requirement (2021-2045) at 95% Tax Collections		
Based on the 2020 Taxable Assessed Valuation.....	\$0.77	
Based on the Estimate of Value as of May 1, 2020.....	\$0.74	
Combined Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay Maximum Annual Debt Service Requirement (2042) at 95% Tax Collections		
Based on the 2020 Taxable Assessed Valuation.....	\$0.86	
Based on the Estimate of Value as of May 1, 2020.....	\$0.83	
Single-Family Homes (including 4 under construction) as of July 8, 2020	579	(d)
District Population.....	1,939	(e)

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- (a) The District is authorized to levy separate debt service taxes for road debt and water and sewer debt, both of which are unlimited as to rate or amount. See "THE BONDS – Authority for Issuance."
- (b) As of the date of this Official Statement, the Board of Directors of the District has authorized publication of a notice of public hearing to consider a total tax rate in the amount of \$1.47 for the 2020 tax year.
- (c) Requirement of debt service on the Outstanding Bonds and Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."
- (d) Approximately 554 homes are occupied.
- (e) Estimate based upon 3.5 residents per occupied single-family home.

\$2,160,000

BRAZORIA COUNTY MUNICIPAL UTILITY DISTRICT NO. 39

(A Political Subdivision of the State of Texas Located within Brazoria County)

UNLIMITED TAX ROAD BONDS

SERIES 2020

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Brazoria County Municipal Utility District No. 39 (the "District") of its \$2,160,000 Unlimited Tax Road Bonds, Series 2020 (the "Bonds").

The Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8429 of the Texas Special District Local Laws Code; (ii) an election held within the District and passed by a majority of the participating voters; and (iii) a resolution adopted by the Board of Directors of the District on the date of sale of the Bonds (the "Bond Resolution").

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Resolution.

This Official Statement includes descriptions of the Bonds, the Developers (herein defined), the Bond Resolution, and certain information about the District and its finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. Copies of such documents may be obtained from Allen Boone Humphries Robinson LLP, 3200 Southwest Freeway, Suite 2600, Houston, Texas 77027, upon payment of the costs of duplication therefor.

THE BONDS

General

The following is a description of some of the terms and conditions of the Bonds, which description is qualified in its entirety by reference to the Bond Resolution.

The Bonds are dated September 1, 2020, with interest payable on March 1, 2021, and each September 1 and March 1 thereafter (each an "Interest Payment Date") until the earlier of maturity or redemption. The Bonds are fully registered bonds maturing on September 1 of the years shown 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 at the principal payment office of the paying agent/registrar, initially, Zions Bancorporation, National Association, Houston, Texas (the "Paying Agent/Registrar"). Interest on the Bonds will be payable by check, dated as of the Interest Payment Date, and mailed by the Paying Agent/Registrar to Registered Owners as shown on the records of the Paying Agent/Registrar at the close of business on the 15th calendar day of the month next preceding the Interest Payment Date (the "Record Date") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and a Registered Owner at the risk and expense of such Registered Owner.

Book-Entry-Only System

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

The District and the Financial Advisor cannot and do not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others

will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

DTC will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC's partnership nominee) or such other name as may be required by an authorized representative of DTC. One fully-registered Bond certificate will be issued for each of the Bonds, each in the aggregate principal amount of such issue, 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 purchase 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.

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

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

Redemption proceeds, principal, and interest 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 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, Paying Agent/Registrar or the District, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, principal and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the District or Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The information in the section concerning DTC and DTC's book-entry system has been obtained from sources that the District believes to be reliable, but the District takes no responsibility for the accuracy thereof.

Successor Paying Agent/Registrar

Provision is made in the Bond Resolution for replacing the Paying Agent/Registrar. If the District replaces the Paying Agent/Registrar, such Paying Agent/Registrar shall, promptly upon the appointment of a successor, deliver the Paying Agent/Registrar's records to the successor Paying Agent/Registrar, and the successor Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the District shall be a commercial bank; a trust company organized under the laws of the State of Texas; or other entity duly qualified and legally authorized to serve and perform the duties of the Paying Agent/Registrar for the Bonds.

Registration, Transfer and Exchange

In the event the Book-Entry-Only System is discontinued, the Bonds are transferable only on the bond register kept by the Paying Agent/Registrar upon surrender at the corporate trust office of the Paying Agent/Registrar in Houston, Texas. 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 Paying Agent/Registrar. At any time after the date of initial delivery, any Bond may be transferred upon its presentation and surrender at the designated offices of the Paying Agent/Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the Registered Owner. The Bonds are exchangeable upon presentation at the designated office(s) of the Paying Agent/Registrar, for an equal principal amount of Bonds of the same maturity in authorized denominations. To the extent possible, new Bonds issued in exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner within not more than three (3) business days after the receipt by the Paying Agent/Registrar 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 the denomination of \$5,000 in principal amount for a Bond, or any integral multiple thereof for any one maturity and shall bear interest at the same rate and be for a like aggregate principal or maturity amount as the Bond or Bonds surrendered for exchange or transfer.

Neither the Paying Agent/Registrar nor the District is required to issue, 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 to transfer or exchange any Bond selected for redemption, in whole or in part, beginning fifteen (15) calendar days prior to, and ending on the date of the mailing of notice of redemption, or where such redemption is scheduled to occur within thirty (30) calendar days. No service charge will be made for any transfer or exchange, but the District or the Paying Agent/Registrar may require payment of a sum sufficient to cover any tax or governmental charge payable in connection therewith.

Redemption of the Bonds

Optional Redemption

The Bonds maturing on September 1, 2026, and thereafter shall be subject to redemption and payment at the option of the District, in whole or from time to time in part, on September 1, 2025, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given 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 less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/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.

Mandatory Redemption

The Bonds that mature on September 1 of the years 2033, 2036, 2039, 2042, and 2045 ("Term Bonds") are also subject to mandatory sinking fund redemption by the District by lot or other customary random method prior to scheduled maturity on September 1 in the years set out below ("Mandatory Redemption Dates") and in the amounts set forth below, subject to proportionate reductions as described below, at a redemption price of par plus accrued interest to the date of redemption:

\$250,000 Term Bonds Maturing on September 1, 2033	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2031	\$80,000
September 1, 2032	\$85,000
September 1, 2033 (Maturity)	\$85,000

\$265,000 Term Bonds Maturing on September 1, 2036	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2034	\$85,000
September 1, 2035	\$90,000
September 1, 2036 (Maturity)	\$90,000

\$290,000 Term Bonds Maturing on September 1, 2039	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2037	\$95,000
September 1, 2038	\$95,000
September 1, 2039 (Maturity)	\$100,000

\$310,000 Term Bonds Maturing on September 1, 2042

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2040	\$100,000
September 1, 2041	\$105,000
September 1, 2042 (Maturity)	\$105,000

\$335,000 Term Bonds Maturing on September 1, 2045

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2043	\$110,000
September 1, 2044	\$110,000
September 1, 2045 (Maturity)	\$115,000

The principal amount of the Term Bonds required to be redeemed pursuant to the operation of the mandatory sinking fund redemption provisions shall be reduced, at the direction of the District, by the principal amount of any Term Bonds which, at least 30 days prior to a Mandatory Redemption Date, (1) shall have been acquired by the District at a price not exceeding the principal amount of such Term Bonds plus accrued interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, (2) shall have been purchased and cancelled by the Paying Agent/Registrar at the request of the District with monies in the Road System Debt Service Fund at a price not exceeding the principal amount of the Term Bonds plus accrued interest to the date of purchase thereof, or (3) shall have been redeemed pursuant to the optional redemption provisions and not theretofore credited against a mandatory sinking fund redemption requirement.

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owner appearing on the registration and transfer books of the Paying Agent/Registrar at the close of business on the "Record Date" (the fifteenth calendar day of the month next preceding each interest payment date) and shall be paid by the Paying Agent/Registrar (i) by check sent United States mail, first class postage prepaid, to the address of the registered owner recorded in the registration and transfer books of the Paying Agent/Registrar or (ii) by such other method, acceptable to the Paying Agent/Registrar, requested by, and at the risk and expense of, the registered owner. If the date for the payment of the principal or interest on the Bonds shall be a Saturday, Sunday, a legal holiday, or a day when banking institutions in the city where the principal payment office of the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a Saturday, Sunday, legal holiday, or day when banking institutions are authorized to close; and payment on such date shall have the same force and effect as if made on the original date payment was due.

In the event of non-payment of interest on a scheduled payment date and for thirty (30) days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar when funds for the payment of such interest have been received. Notice of the Special Record Date and of the scheduled payment date of the past due interest ("Special Payment Date" which shall be 15 days after the Special Record Date) shall be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each registered owner of a Bond appearing in the registration and transfer books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing such notice.

Mutilated, Lost, Stolen or Destroyed Bonds

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

Annexation

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

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

Consolidation

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

Outstanding Bonds

The District has previously issued eight series of bonds, as follows: \$4,900,000 Unlimited Tax Road Bonds, Series 2016; \$2,070,000 Unlimited Tax Bonds, Series 2017; \$3,295,000 Unlimited Tax Road Bonds, Series 2017; \$4,410,000 Unlimited Tax Bonds, Series 2018; \$2,630,000 Unlimited Tax Road Bonds, Series 2018; \$4,450,000 Unlimited Tax Bonds, Series 2019; \$2,365,000 Unlimited Tax Road Bonds, Series 2019; and \$2,090,000 Unlimited Tax Bonds, Series 2020. Of such series of bonds previously issued by the District, \$25,295,000 principal amount will remain outstanding as of closing and delivery of the Bonds (the “Outstanding Bonds”).

Authority for Issuance

The Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of the State of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8429 of the Texas Special District Local Laws Code; (ii) an election held within the District and passed by a majority of the participating voters; and (iii) the Bond Resolution.

At an election held within the District on May 10, 2014, voters of the District authorized the District issuance of an aggregate \$161,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing a road system serving the District (the “Road System”), and for the refunding of bonds issued by the District for the Road System. The Bonds represent the District’s fifth series of bonds to be issued from such voted authorization for the Road System. Following issuance of the Bonds, \$145,650,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System, and for the refunding of bonds issued for the Road System will remain authorized but unissued.

To date, the District has also issued four series of bonds out of an aggregate \$312,500,000 principal amount of unlimited tax bonds authorized by the District’s voters for the purpose of acquiring or constructing water,

sanitary sewer, and storm water drainage systems serving the District (the "Utility System"), and for the refunding of bonds issued by the District for the Utility System, of which \$299,480,000 principal amount remains authorized but unissued.

Additionally, voters of the District have authorized \$59,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational improvements within the District and for refunding of bonds issued by the District for such purpose. To date, the District has issued no bonds from said voted authorization for parks and recreational improvements.

Source of Payment

The Bonds are payable from the proceeds of a continuing, direct ad valorem tax, unlimited as to rate or amount, levied annually by the District against all taxable property located within the District.

In the Bond Resolution, the District covenants to levy a sufficient tax to pay principal of and interest on the Bonds, with full allowance being made for delinquencies, costs of collections, Paying Agent/Registrar fees, and fees of the Brazoria County Appraisal District. Tax proceeds, after deduction for collection costs, will be placed in the Road System Debt Service Fund (defined below) and used solely to pay principal of and interest on the Bonds, the Outstanding Bonds issued for the Road System, any additional bonds payable from taxes which may be issued for the Road System, and fees of the Paying Agent/Registrar.

Bonds issued for the Road System and for the Utility System are each supported by a separate unlimited tax levied by the District. Amounts on deposit in the Road System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Utility System. Amounts on deposit in the District's debt service fund established for bonds issued for the Utility System may not be used to pay debt service on bonds issued for the Road System, including the Bonds.

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

Funds

The Bond Resolution confirms the District's fund for debt service on the Bonds, the Outstanding Bonds issued for the Road System, and any additional unlimited tax bonds issued by the District for the Road System (the "Road System Debt Service Fund"). Accrued interest on the Bonds will be deposited from the proceeds from sale of the Bonds into the Road System Debt Service Fund. The Road System Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Bonds, the Outstanding Bonds issued for the Road System, and any additional unlimited tax bonds issued by the District for the Road System, 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 issued for the Road System payable in whole or in part from taxes. Amounts on deposit in the Road System 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 for the Road System 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. Amounts on deposit in the Road System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Utility System. Similarly, amounts on deposit in the District's debt service fund established for bonds issued for the Utility System may not be used to pay debt service on bonds issued for the Road System, including the Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$161,000,000 unlimited tax bonds for the Road System and the refunding of such bonds and could authorize additional amounts. The District's voters have also authorized a total of \$312,500,000 unlimited tax bonds for the Utility System and refunding of such utility bonds as well as \$59,000,000 principal amount unlimited tax bonds for parks and recreational facilities and the refunding of such bonds.

The Bonds are the fifth series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the Road System. After issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$145,650,000 for the Road System and the refunding of such bonds;

\$299,480,000 for the Utility System and the refunding of such bonds; and \$59,000,000 principal amount for parks and recreational improvements and the refunding of such bonds. The Bond Resolution imposes no limitation on the amount of additional parity bonds which may be issued by the District, if authorized by the District's voters and, in the case of bonds for the Utility System or for parks and recreational improvements, approved by the Texas Commission on Environmental Quality ("TCEQ"). The District's issuance of the Bonds and the remaining \$145,650,000 principal amount of unlimited tax bonds for acquiring or constructing the Road System is not subject to approval by the TCEQ.

Following issuance of the Bonds, the District will owe the Developers approximately \$22,730,000 for expenditures to construct the Utility System, the Road System, and park and recreational facilities. 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 is also authorized by statute to engage in fire-fighting activities, including the issuing of bonds payable from taxes for such purposes. Before the District could issue such bonds, the following actions would be required: (a) authorization of a detailed fire protection plan; (b) approval of the fire plan by the TCEQ; (c) approval of the fire plan by the voters of the District; and (d) approval of bonds, if any, by the Attorney General of Texas. If additional debt obligations are issued in the future by the District, such issuance may increase gross debt-property ratios and might adversely affect the investment security of the Bonds.

The District is authorized by statute to develop parks and recreational facilities, including the issuing of bonds payable from taxes for such purpose. Before the District could issue park bonds payable from taxes, the following actions would be required: (a) approval of the park bond application for the issuance of bonds by the TCEQ and (b) approval of the bonds by the Attorney General of Texas. The District has not considered the preparation of a parks bond application at this time. If the District does issue park bonds, the outstanding principal amount of such bonds may not exceed an amount equal to one percent of the value of the taxable property in the District at the time of issuance.

No Arbitrage

The District will certify, on the date of delivery of the Bonds, 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.

Defeasance

The Bond Resolution provides that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current 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, amounts sufficient to provide for the payment and/or redemption of the Bonds; provided that such deposits may be invested and reinvested only in (a) direct noncallable obligations of the United States of America, (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the governing

body of the District adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than AAA or its equivalent, and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision 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, and which mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Bonds.

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

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

Legal Investment and Eligibility to Secure Public Funds in Texas

The following is an excerpt 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.

Registered Owners' Remedies

Pursuant to Texas law, the Bond Resolution 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 Resolution 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 Resolution, 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. Such right is in addition to other rights the Registered Owners may be provided by the laws of the State of Texas.

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution 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. Although 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.

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.

Use and Distribution of Bond Proceeds

Proceeds from the sale of the Bonds will be used to reimburse the Developers for the construction costs set out below. Proceeds of the Bonds will also be used to pay those non-construction costs shown below.

<u>Construction Costs</u>	<u>Amount</u>
A. Pomona Section 7 Paving	\$ 381,267
B. Pomona Section 8 Paving	457,792
C. Pomona Section 16 Paving	61,695
C. Pomona Parkway Phase 3 Paving	566,361
D. Engineering, Surveying, Geotechnical, and Construction Phase Services	163,164
E. Land Costs	
1. Pomona Section 7 Right-of-Way	186,800
2. Pomona Section 8 Right-of-Way	<u>114,478</u>
Total Construction Costs	\$ 1,931,557
Less Surplus Funds	(40,000)
Net Total Construction Costs	\$ 1,891,557

<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 64,800
B. Fiscal Agent Fees	43,200
C. Developer Interest	56,318
D. Bond Discount (3.00%)	64,800
E. Attorney General Fee	2,160
F. Bond Issuance Expenses	<u>37,165</u>
Total Non-Construction Costs	\$ 268,443

TOTAL BOND ISSUE REQUIREMENT **\$ 2,160,000**

The construction costs described above were compiled by the Engineer (hereinafter defined), based, in some cases, on the estimated costs of facilities. Non-construction costs are based upon either contract amounts or estimates. In the instance that estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for roads or improvements in aid thereof. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

THE DISTRICT

Authority

The District was created by order of the TCEQ, dated January 23, 2007, and by a confirmation election held within the District on May 12, 2007, and operates under Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8429 of the Texas Special District Local Laws Code, and other general laws of the State of Texas applicable to municipal utility districts.

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 also is authorized to construct, develop and maintain park and recreational facilities using operating revenues or by issuing bonds payable from taxes. In 2013, legislation was enacted granting the District the power to finance roads and improvements in aid thereof. In addition, the District is authorized,

upon TCEQ and voter approval, to 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.

Description

At the time of the confirmation election, the District encompassed 513.949 acres. Thereafter, the District has undergone one exclusion and four annexations of acreage, as follows: on February 18, 2014, 97.149 acres were excluded from the District; on February 18, 2014, 20.837 acres were annexed into the District; on December 22, 2014, 27.925 acres were annexed into the District; on June 28, 2016, 10.609 acres were annexed into the District; and on May 28, 2019, 40.129 acres were annexed into the District. The District currently comprises 516.30 acres. The District is located wholly within Brazoria County, Texas, and lies approximately 16 miles south of the central business district of the City of Houston, Texas, as well as approximately 3 miles north of the intersection of State Highway 6 and Highway 288. The District is located within the extraterritorial jurisdiction and limited purpose jurisdiction of the City. See “APPENDIX B” attached hereto for an aerial photograph of the District.

Management of the District

The District is governed by the Board consisting of five directors, who have control over and management supervision of all affairs of the District. All of the Directors own property in the District. The directors serve four-year staggered terms. Elections are held in May of even-numbered years. The current members and officers of the Board are listed below:

<u>Name</u>	<u>Title</u>	<u>Term Expires May</u>
Jordan Nightingale	President	2022
Donna Davis	Vice President	2022
Ahmad Alaswad	Secretary	2024
Terry Reeves	Assistant Secretary	2022
Herman Edwards	Assistant Vice President	2024

Investment Policy

The District has adopted an Investment Policy (the “Policy”) as required by the Public Funds Investment Act, Chapter 2256, Texas Government Code (the “Act”). The District’s goal is to preserve principal and maintain liquidity in a diversified portfolio while securing a competitive yield on its portfolio. Funds of the District are to be invested only in accordance with the Policy. The Policy states that the funds of the District may be invested in short term obligations of the U.S. or its agencies or instrumentalities, in certificates of deposits insured by the Federal Deposit Insurance Corporation and secured by collateral authorized by the Act, and in TexPool and TexStar, which are public funds investment pools rated in the highest rating category by a nationally recognized rating service. The District does not currently own, nor does it anticipate, the inclusion of long term securities or derivative products in the portfolio.

Consultants

Although the District does not have a general manager or any other full-time employees, it has contracted for utility system operating, bookkeeping, tax assessing and collecting, auditing, engineering, and legal services as follows:

Tax Assessor/Collector: The tax assessor/collector for the District is Assessments of the Southwest, Inc. (the “Tax Assessor/Collector”).

Bookkeeper: The District’s bookkeeper is Municipal Accounts & Consulting, L.P.

Auditor: The audited financial statements of the District for the fiscal year ended March 31, 2020, attached as “APPENDIX A” to this Official Statement, have been audited by McGrath & Co., PLLC, independent auditors. The District did not request McGrath & Co., PLLC, to perform any updating procedures subsequent to the date of its audit opinion on the March 31, 2020 financial statements.

Utility System Operator: The District’s water and sewer system is operated by SI Environmental LLC (the “Operator”).

Engineer: The District’s engineer is LJA Engineering, Inc. (the “Engineer”).

Bond Counsel: The District has engaged Allen Boone Humphries Robinson LLP, 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 Bond Counsel in connection with the issuance of the Bonds are contingent upon the sale and delivery of the Bonds. See “LEGAL MATTERS.”

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

Financial Advisor: Robert W. Baird & Co. Incorporated is employed as financial advisor to the District in connection with the issuance of the Bonds (the “Financial Advisor”). The Financial Advisor’s fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. The Financial Advisor is not obligated to undertake, and has not undertaken to make, an independent verification or to assume responsibility for the accuracy, completeness, or fairness of the information in this Official Statement.

DEVELOPMENT AGREEMENT AND STRATEGIC PARTNERSHIP AGREEMENT

The District is a party to that certain Development Agreement dated effective March 13, 2006, made by and between the City, the Developers (herein defined), the District, and Brazoria County Municipal Utility District No. 40 (“MUD 40”). The Development Agreement has been amended numerous times, and, as amended, is herein referred to as the “Development Agreement.”

The Development Agreement acknowledges that the District and MUD 40 are created within the City’s extraterritorial jurisdiction (“ETJ”) over lands owned by the Developers (the “Land”) for the purpose of providing water supply and distribution, wastewater collection and treatment, drainage, road, and recreational facilities to service development within the District and MUD 40. The City has consented to the creation of the District for said purpose, and among other terms and provisions, the Development Agreement provides that the City will not annex the District for full purposes until the following conditions have been met: (i) all of the District’s water, wastewater, drainage, road, and recreational facilities have been constructed and (ii) the Developers have been reimbursed by the District to the maximum extent permitted by the TCEQ or the City assumes any obligation of the District for such reimbursement to the Developers under such rules. Thereafter, the City may, but is not required to, annex the portion of the Land in the District for full purposes in accordance with applicable law.

Notwithstanding the above-referenced provisions concerning full-purpose annexation, the Development Agreement provides that the City may annex any portion of the Land at any time for limited purposes in accordance with the Strategic Partnership Agreement, described below.

The District has entered into that Strategic Partnership Agreement dated May 29, 2007, as amended, with the City (the “SPA”). The terms and provisions of the SPA that relate to limited-purpose annexation provide that the City is authorized to annex any land within the District for the limited purpose of levying and collecting its sales and use taxes within the area of limited purpose annexation in accordance with applicable law. In accordance with the SPA, the City has annexed all of the District for the limited purpose of sales and use tax collections.

POMONA

The District is one of the two municipal utility districts (the District and MUD 40) that make up the approximate 1,060-acre, master-planned community known as Pomona. Development and construction activity in Pomona has occurred within the District and MUD 40. In MUD 40, construction activity is ongoing and, to date,

development includes the following: two detention ponds, one lift station, and eight completed residential subdivisions with 586 single-family lots.

DEVELOPMENT OF THE DISTRICT

To date, approximately 176.10 acres within the District have been developed as the residential subdivisions of Pomona, Sections 1–8 (598 lots). As of July 8, 2020, the District included approximately 575 completed homes (approximately 554 occupied, 12 unoccupied, and 9 model homes); approximately 4 homes under construction; and approximately 19 vacant developed lots. In addition, the single-family residential subdivision of Pomona, Section 17, is currently under construction, and, upon completion, such section will include the development of 94 lots on approximately 23.24 acres. The remaining land within the District includes the following: approximately 2.28 acres for Water Supply Plant No. 1; approximately 7.21 acres for a wastewater treatment plant serving Pomona; approximately 6.20 acres for Brazoria County Annex; approximately 12.95 acres for Pomona Elementary School; approximately 165.95 undevelopable acres consisting of easements, rights-of-way, and greenbelts; and approximately 122.37 undeveloped but developable acres.

Status of Development within the District

The following shows the status of construction of single-family housing within the District as of July 8, 2020:

Pomona	Section Acreage	Section Lots	Homes Completed	Homes Construction	Vacant Lots
Section 1	9.42	18	14	0	4
Section 2	28.95	99	97	0	2
Section 3	19.69	48	48	0	0
Section 4	31.14	137	135	0	2
Section 5	21.62	81	81	0	0
Section 6	22.98	107	106	1	0
Section 7	23.20	49	48	0	1
Section 8	<u>19.10</u>	<u>59</u>	<u>46</u>	<u>3</u>	<u>10</u>
Totals	176.10	598	575	4	19
Residential Developed	176.10				
Residential Under Development	23.24				
Water Supply Plant No. 1	2.28				
Wastewater Treatment Plant	7.21				
Brazoria County Annex	6.20				
Pomona Elementary School	12.95				
Undevelopable	165.95				
Remaining Developable	<u>122.37</u>				
District Total	516.30				

Homebuilders within the District

Homebuilders who are currently active in the District include Coventry Homes, Highland Homes, Plantation Homes, Toll Brothers, and Perry Homes. New homes being constructed in the District range in price from approximately \$249,900 to \$700,000 and in size from approximately 1,600 to 5,000 square feet. Coventry Homes and Plantation Homes are homebuilding entities associated with McGuyer Homebuilders, Inc., a developer of land within the District. See “THE DEVELOPERS – The Developers.”

Lot-Sales Contracts

The Developers have entered into lot-sales contracts with each of Coventry Homes, David Weekley Homes, Highland Homes, Plantation Homes, Toll Brothers, Trendmaker Homes, and Perry Homes. The contracts for the sale of lots between the Developers and the builders require that earnest money be deposited with a title company, typically 10% of the total price of the completed lots. The sales contracts establish certain required lot purchases quarterly, with the earnest money deposit being returned to the builders upon purchase of the

last lots under each contract. The Developers' sole remedy for builders not purchasing lots in accordance with the contracts is cancellation of the contract and retention of the earnest money on deposit, however, no such earnest money remains on deposit under the contracts. According to the Developers, each of the builders is in compliance with their respective lot-sales contracts. As of July 2020, the total number of lots contracted and purchased by each builder is listed below:

Homebuilder	Total Lots Contracted	Total Lots Purchased
Coventry Homes (a)	167	128
David Weekley Homes	60	60
Highland Homes	203	165
Plantation Homes (a)	90	90
Toll Brothers	2	2
Trendmaker Homes	49	49
Perry Homes	<u>117</u>	<u>100</u>
Totals	688	594

(a) Associated with McGuyer Homebuilders, Inc. See "THE DEVELOPERS – The Developers."

THE DEVELOPERS

Role of the Developers

In general, the activities of a developer in a municipal utility district such as the District include purchasing the land within the District, designing the subdivision, designing the utilities and streets to be constructed in the subdivision, designing any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, wastewater, and drainage facilities pursuant to the rules of the TCEQ, as well as gas, telephone, and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. In most instances, the developer will be required to pay up to thirty percent of the cost of constructing certain of the water, wastewater, and drainage facilities in a utility district pursuant to the rules of the TCEQ. The relative success or failure of a developer to perform such activities in development of the property within a utility district may have a profound effect on the security of the unlimited tax bonds issued by a district. A developer is generally under no obligation to a district to develop the property which it owns in a district. Furthermore, there is no restriction on a developer's right to sell any or all of the land which it owns within a district. In addition, a developer is ordinarily a major taxpayer within a municipal utility district during the development phase of the property.

Prospective purchasers of the Bonds should note that the prior real estate experience of a developer should not be construed as an indication that further development within the District will occur, or construction of taxable improvements upon property within the District will occur, or that marketing or leasing of taxable improvements constructed upon property within the District will be successful. Circumstances surrounding development within the District may differ from circumstances surrounding development of other land in several respects, including the existence of different economic conditions, financial arrangements, homebuilders, geographic location, market conditions, and regulatory climate.

Neither the Developers, nor any affiliate entities, are obligated to pay principal of or interest on the Bonds. Furthermore, neither the Developers, nor any affiliate entities, have a binding commitment to the District to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developers or affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the District in order to acquaint themselves with the nature of development that has occurred or is occurring within the District's boundaries.

The Developers

Land within the District is being developed by MC 288, LLC, a limited liability company jointly owned by Hillwood Development Company, LLC ("Hillwood") and McGuyer Homebuilders, Inc. ("MHI").

Hillwood is a Dallas-based national real estate development company owned by H. Ross Perot, Jr., with over 30 years of experience developing land in Texas. Hillwood's development expertise and experience encompasses diverse product types, including: sports arenas, high-rise condominiums, offices, single-family residential communities, distribution centers, regional malls, mixed-use urban development, call centers, hotels, golf courses, airports, intermodal rail yards, corporate campuses, and major air facilities.

MHI is a privately held real estate development company and homebuilder that currently operates in four Texas markets: Houston, Dallas, Austin, and San Antonio under its brands Coventry Homes, Plantation Homes, and Wilshire Homes. Coventry Homes and Planation Homes are building and marketing homes within the District. See "DEVELOPMENT OF THE DISTRICT – Homebuilders within the District."

MC 288, LLC, Hillwood, MHI, and their affiliates are collectively referred to herein as the "Developers." The Developers currently own approximately 144 acres of undeveloped but developable land, and, as of July 1, 2020, the Developers owned approximately 4 vacant developed residential lots in the District.

Development Financing

The Developers have financed development of Phase 2A within the District through a line of credit agreement dated April 14, 2020, with Texas Capital Bank, National Association. According to the Developers, of the note's modified principal sum of \$25,000,000, approximately \$21,800,000 is outstanding on July 1, 2020, and the Developers are in compliance with all terms of the loan.

The Developers have financed development of 44.2 acres within the District through a loan agreement dated October 16, 2019, with Simmons Bank. According to the Developers, of the note's principal sum of \$6,112,612, approximately \$865,000 is outstanding on May 27, 2020, and the Developers are in compliance with all terms of the loan.

THE ROAD SYSTEM

The Road System has been and will be funded with proceeds from bonds issued by the District for the Road System, including the Bonds. See "INVESTMENT CONSIDERATIONS – Future Debt" and "THE BONDS – Issuance of Additional Debt." Construction of the District's roads is subject to certain regulations by the City and Brazoria County, Texas. To date, construction of the Road System includes, but is not limited to, the following: a portion of Pomona Parkway, a portion of Kirby Drive, a bridge over State Highway 288 for County Road 101, and the internal road system which serves Pomona, Sections 1–8. The roads constructed within the District have been accepted by Brazoria County for maintenance. The roads in the District are constructed with reinforced concrete pavement with curbs on cement or lime stabilized subgrade.

THE UTILITY SYSTEM

Regulation

According to the Engineer, the water distribution and wastewater collection lines constructed by the District have been designed in accordance with accepted engineering practices and the requirements of all governmental agencies having regulatory or supervisory jurisdiction over the construction and operation of such facilities including, among others, the TCEQ, the City, Brazoria County Drainage District No. 4, and Brazoria County, Texas. According to the Engineer, the design of all such completed facilities has been approved by all required governmental agencies.

Operation of the District's waterworks and sewer treatment facilities is subject to regulation by, among others, the 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 revisions.

Water Supply

The District owns one water plant. The water plant consists of a 1,500 gallon per minute ("gpm") well, a hydropneumatic tank with capacity of 15,000 gallons, a 125,000 gallon ground storage tank, and 3,300 gpm of booster pump capacity. According to the Engineer, the water plant is currently capable of serving 625 equivalent single-family connections ("esfc"). In addition, the District has an emergency water supply interconnect with neighboring Brazoria County Municipal Utility District No. 25.

Phase two of the water plant is currently under construction, which includes the addition of a 15,000 gallon hydropneumatic tank, a 125,000 gallon ground storage tank, and a 1,500 gpm booster pump. Construction of the 125,000 gallon ground storage tank is complete, and the tank is in service. According to the Engineer, the facility will be adequate to serve 1,250 esfc upon completion of the phase two expansion.

The District and MUD 40 have authorized the Engineer to design phase 1 of water plant no. 2 which is planned to include a 15,000 gallon hydropneumatic tank, a 250,000 gallon ground storage tank, three 1,500 gpm booster pumps, and a 1,500 gpm water well. According to the Engineer, the combined water system will have the capacity to serve 2,500 esfcs upon completion of the water plant no. 2, phase 1 project.

Wastewater Treatment

The District shares a lease-to-purchase contract with MUD 40 for a 250,000 gallon per day ("gpd") wastewater treatment facility to serve Pomona. According to the Engineer, the facility is capable of serving 794 esfc.

The District and MUD 40 have awarded a contract to construct phase three of the wastewater treatment facility which will expand capacity of the plant to 375,000 gpd. According to the Engineer, the facility will be capable of serving 1,190 esfcs upon completion of the phase 3 expansion.

100 Year Flood Plain

According to the FEMA Flood Insurance Rate Map Panel No. 48039 C0020H dated June 5, 1989, and revised by a Letter of Map Revision (LOMR) effective June 29, 2018 (Case No. 17-06-3110P), approximately 174 acres within the District are located in the 100-year flood plain. Approximately 96 acres of flood plain will be filled in connection with future development and a Letter of Map Revision based on Fill will be filed to remove the future developed areas from the flood plain. The remaining area within the flood plain is not considered to be developable.

"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.

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

Joint Facilities/Cost Sharing Agreement

The District has entered into a certain Joint Facilities/Cost Sharing Agreement (the "Agreement") with MUD 40. Under the Agreement, the District and MUD 40 will share in the operation and use of water supply facilities and sewage treatment plant facilities for the benefit of both parties and to meet the demands for water supply and wastewater treatment in each district. Among other terms and provisions, the Agreement provides that the District may purchase or lease excess capacity within the facilities. In MUD 40, construction activity is ongoing and, to date, development includes the following: two detention ponds, one lift station, and eight completed residential subdivisions with 586 single-family lots.

General Fund Operating Statement

The following statement sets forth in condensed form the results of operation of the Utility System. The summary below has been prepared by the Financial Advisor for inclusion herein based upon information obtained from the District's audited financial statements for the year ended March 31, 2020. Reference is made to such statements for further and more complete information. See "APPENDIX A."

	Fiscal Year Ended March 31				
	2020	2019	2018	2017	2016
<u>Revenues</u>					
Water service	\$ 278,804	\$ 251,867	\$ 130,524	\$ 66,338	\$ 17,275
Sewer service	354,078	287,644	131,762	67,179	13,921
Property taxes	1,330,020	803,751	591,641	416,588	86,549
Penalties and Interest	10,041	11,780	5,532	3,649	679
Groundwater pumpage fees	1,926	1,378	1,121	458	87
Tap connection and inspection	61,836	385,926	470,542	211,662	148,450
Miscellaneous	3,750	10,590	7,613	8,120	5,585
Investment earnings	13,667	4,556	585	159	36
Total Revenues	\$ 2,054,122	\$ 1,757,492	\$ 1,339,320	\$ 774,153	\$ 272,582
<u>Expenditures</u>					
Purchased services	\$ 270,569	\$ 124,546	\$ -	\$ 258	\$ 7,900
Professional fees	120,640	152,180	105,168	153,776	101,997
Contracted services	211,804	311,234	309,730	156,087	107,015
Repairs and maintenance	293,330	394,394	352,418	269,659	47,456
Utilities	26,866	65,508	61,667	32,731	16,811
Groundwater pumpage fees	-	-	1,155	-	-
Lease expense	4,430	107,988	89,990	89,990	192,988
Administrative	36,377	50,938	24,700	30,390	25,235
Other	13,659	18,597	30,361	10,947	6,041
Intergovernmental	284,654	287,564	218,706	30,980	-
Total Expenditures	\$ 1,262,329	\$ 1,512,949	\$ 1,193,895	\$ 774,818	\$ 505,443
Excess Revenues (Exp.)	\$ 791,793	\$ 244,543	\$ 145,425	\$ (665)	\$ (232,861)
Developer Advances	\$ -	\$ -	\$ -	\$ 231,980	\$ 308,000
Net Change in Fund Balance	\$ 791,793	\$ 244,543	\$ 145,425	\$ 231,315	\$ 75,139

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(June 2020)



PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(June 2020)



DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements on the Outstanding Bonds as well as the principal and interest requirements on the Bonds.

Calendar Year	Outstanding Debt Service	Plus: The Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2021	\$1,531,413	\$65,000	\$53,500	\$118,500	\$1,649,913
2022	1,536,576	65,000	50,575	115,575	1,652,151
2023	1,531,431	65,000	47,650	112,650	1,644,081
2024	1,545,331	70,000	44,725	114,725	1,660,056
2025	1,532,414	70,000	41,575	111,575	1,643,989
2026	1,552,964	70,000	38,425	108,425	1,661,389
2027	1,548,064	75,000	36,325	111,325	1,659,389
2028	1,563,679	75,000	34,825	109,825	1,673,504
2029	1,562,854	75,000	33,325	108,325	1,671,179
2030	1,581,049	80,000	31,825	111,825	1,692,874
2031	1,586,356	80,000	30,225	110,225	1,696,581
2032	1,595,219	85,000	28,625	113,625	1,708,844
2033	1,591,919	85,000	26,925	111,925	1,703,844
2034	1,602,231	85,000	25,225	110,225	1,712,456
2035	1,610,463	90,000	23,525	113,525	1,723,988
2036	1,622,146	90,000	21,725	111,725	1,733,871
2037	1,621,143	95,000	19,925	114,925	1,736,068
2038	1,628,363	95,000	18,025	113,025	1,741,388
2039	1,627,638	100,000	16,125	116,125	1,743,763
2040	1,625,100	100,000	14,125	114,125	1,739,225
2041	1,630,438	105,000	12,000	117,000	1,747,438
2042	1,648,775	105,000	9,769	114,769	1,763,544
2043	969,600	110,000	7,538	117,538	1,087,138
2044	495,338	110,000	5,063	115,063	610,400
2045	117,875	115,000	2,588	117,588	235,463
Total	\$36,458,375	\$2,160,000	\$674,156	\$2,834,156	\$39,292,532

Average Annual Debt Service Requirement (2021–2045) \$1,571,701

Maximum Annual Debt Service Requirement (2042)..... \$1,763,544

Bonded Indebtedness

2020 Taxable Assessed Valuation.....	\$ 216,502,690	(a)
Estimate of Value as of May 1, 2020	\$ 225,713,920	(b)
Direct Debt:		
The Outstanding Bonds (as of Closing and Delivery of the Bonds).....	\$ 25,295,000	
The Bonds	\$ <u>2,160,000</u>	
Total.....	\$ 27,455,000	
Estimated Overlapping Debt	\$ <u>15,297,667</u>	(c)
Total Direct and Estimated Overlapping Debt	\$ 42,752,667	(c)
Direct Debt Ratios:		
As a percentage of the 2020 Taxable Assessed Valuation.....	12.68	%
As a percentage of the Estimate of Value as of May 1, 2020.....	12.16	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2020 Taxable Assessed Valuation.....	19.75	%
As a percentage of the Estimate of Value as of May 1, 2020.....	18.94	%
Utility System Debt Service Fund Balance (as of July 28, 2020)	\$676,967	(d)
Road System Debt Service Fund Balance (as of July 28, 2020).....	\$832,681	(e)
General Operating Fund Balance (as of July 28, 2020).....	\$1,321,122	
2019 Tax Rate per \$100 of Taxable Assessed Valuation		
Utility System Debt Service	\$0.34	(f)
Road System Debt Service	\$0.44	(f)
Maintenance and Operation.....	<u>\$0.72</u>	
Total.....	\$1.50	(g)

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- (a) Represents the taxable assessed valuation as of January 1, 2020, of all taxable property in the District, as provided by the Brazoria County Appraisal District upon original certification of its 2020 tax rolls. Such value includes \$20,555,147 of value that is the taxpayer's opinion of the taxable assessed value of the taxable properties that remain under review of the Brazoria County Appraisal Review Board. The taxpayer's opinion represents the estimated minimum amount of taxable value that will ultimately be approved by the Brazoria County Appraisal Review Board upon which the District will levy its tax. See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Brazoria County Appraisal District for informational purposes only, this amount is an estimate of the taxable value of all taxable property located within the District as of May 1, 2020, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District through May 1, 2020. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) See "DISTRICT DEBT – Direct and Estimated Overlapping Debt Statement."
- (d) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Utility System Debt Service Fund. Monies in the Utility System Debt Service Fund cannot be used to pay debt service on bonds issued by the District for the Road System, including the Bonds.
- (e) Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Road System Debt Service Fund. Monies in the Road System Debt Service Fund cannot be used to pay debt service on bonds issued by the District for the Utility System.
- (f) The District is authorized to levy separate debt service taxes for road debt and water and sewer debt, both of which are unlimited as to rate or amount. See "THE BONDS – Authority for Issuance."
- (g) As of the date of this Official Statement, the Board has authorized publication of a notice of public hearing to consider a total tax rate in the amount of \$1.47 for the 2020 tax year.

Direct and Estimated Overlapping Debt Statement

Other governmental entities whose boundaries overlap the District have outstanding bonds payable from ad valorem taxes. The following statement of direct and estimated overlapping ad valorem tax debt was developed from information contained in *Texas Municipal Reports*, published by the Municipal Advisory Council of Texas, or other available information. Except for the amount relating to the District, the District has not independently verified the accuracy or completeness of such information, and no person is entitled to rely upon such information as being accurate or complete. Furthermore, certain of the entities listed below may have issued additional bonds since the dates stated in this table, and such entities may have programs requiring the issuance of substantial amounts of additional bonds, the amount of which cannot presently be determined. Political subdivisions overlapping the District are authorized by Texas law to levy and collect ad valorem taxes for operation, maintenance and/or general revenue purposes in addition to taxes for payment of their debt, and some are presently levying and collecting such taxes.

Taxing Jurisdiction	Outstanding Debt July 31, 2020	Overlapping	
		Percent	Amount
Brazoria County	\$ 139,678,313	0.63%	\$ 877,760
Alvin Independent School District	695,295,000	2.00%	13,930,872
Alvin Community College District	28,625,000	1.71%	<u>489,035</u>
Total Estimated Overlapping Debt			\$ 15,297,667
The District (a).....			<u>\$ 27,455,000</u>
Total Direct & Estimated Overlapping Debt (a)			\$ 42,752,667

(a) Includes the Bonds.

Debt Ratios

Direct Debt Ratios:

As a percentage of the 2020 Taxable Assessed Valuation.....	12.68	%
As a percentage of the Estimate of Value as of May 1, 2020.....	12.16	%

Direct and Estimated Overlapping Debt Ratios:

As a percentage of the 2020 Taxable Assessed Valuation.....	19.75	%
As a percentage of the Estimate of Value as of May 1, 2020.....	18.94	%

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TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Bonds, the Outstanding Bonds issued for the Utility System and any additional bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing the Utility System and to pay the expenses of assessing and collecting such taxes. In the Bond Resolution, the District agrees to levy such a tax from year to year as described more fully above under "THE BONDS – Source of Payment." The Board is also authorized to levy an annual ad valorem tax, without legal limitation as to rate or amount, on all taxable property within the District in sufficient amount to pay the principal of and interest on the Outstanding Bonds issued for the Road System and any additional bonds payable from taxes that the District may hereafter issue for the purpose of acquiring or constructing the Road System and to pay the expenses of assessing and collecting such taxes. Under Texas law, the Board may also levy and collect annual ad valorem taxes for the operation and maintenance of the District for the payment of certain contractual obligations. See "TAX DATA – Maintenance Tax."

Property Tax Code and County-Wide Appraisal District

Title I of the Texas Tax Code (the "Property Tax Code") specifies the taxing procedures of all political subdivisions of the State of Texas, including the District. Provisions of the Property Tax Code are complex and are not fully summarized herein. The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the Brazoria County Appraisal District (the "Appraisal District"). The Appraisal District has the responsibility of appraising property for all taxing units within Brazoria County, including the District. Such appraisal values will be subject to review and change by the Brazoria County Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, will be used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the District are subject to taxation by the District. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions, if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies and personal effects; certain goods, wares, and merchandise in transit; certain farm products owned by the producer; certain property of charitable organizations, youth development associations, religious organizations, and qualified schools; designated historical sites; travel trailers; and most individually owned automobiles. In addition, the District may by its own action exempt residential homesteads of persons 65 years of age or older and certain disabled persons, to the extent deemed advisable by the Board of Directors of the District. The District may be required to offer such exemptions if a majority of voters approve the same at an election. The District would be required to call an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. The District is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. Furthermore, the District must grant exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, but only to the maximum extent of between \$5,000 and \$12,000 depending upon the disability rating of the veteran claiming the exemption. A veteran who receives a disability rating of 100% is entitled to an exemption of full value of the veteran's residential homestead. Furthermore, qualifying surviving spouses of persons 65 years of age and older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse, and surviving spouses of a deceased veteran who had received a disability rating of 100% are entitled to receive a residential homestead exemption equal to the exemption received by the deceased spouse until such surviving spouse remarries.

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 the residence homestead was donated by a charitable organization. This exemption also applies to a residence homestead that was donated by a charitable organization at some cost to such veterans. Also, the surviving spouse of a member of the armed forces who was killed in action is, subject to certain conditions, entitled to an exemption of the total appraised value of the surviving spouse's residence homestead, and subject to certain conditions, an exemption up to the same amount may be transferred to a subsequent residence homestead of the surviving spouse.

The surviving spouse of a first responder who is killed or fatally injured in the line of duty is entitled to an exemption of the total appraised value of the surviving spouse's residence homestead if the surviving spouse has not remarried since the first responder's death, and said property was the first responder's residence homestead at the time of death. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse, if the surviving spouse has not remarried, in an amount equal to the exemption received on the prior residence in the last year in which such exemption was received.

Residential Homestead Exemptions: The Property Tax Code authorizes the governing body of each political subdivision in the state to exempt up to twenty percent (20%) of the appraised market value of residential homesteads but not less than \$5,000, if any exemption is granted, from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption may be considered each year, but must be adopted before July 1. The District has never adopted a homestead exemption. See "TAX DATA."

Freeport Goods and Goods-in-Transit Exemption: 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 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 property. A taxing unit must exercise its option to tax goods-in-transit property before January 1 of the first tax year in which it proposes to tax the property at the time and in the manner prescribed by applicable law. The District has taken official action to allow taxation of all such goods-in-transit personal property for all prior and subsequent years.

Tax Abatement

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

granting tax abatement to owners of property. The tax abatement agreements may exempt from ad valorem taxation by each of the applicable taxing jurisdictions, including the District, for a period of up to ten (10) years, all or any part of any increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed on the condition that the property owner make specified improvements or repairs to the property in conformity with the terms of the tax abatement. Each taxing jurisdiction has discretion to determine terms for its tax abatement agreements without regard to the terms approved by the other taxing jurisdictions. At this time, Brazoria County has not designated any of the area within the District as a reinvestment zone.

Valuation of Property for Taxation

Generally, property in the District must be appraised by the Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by the Appraisal Review Board, it is used by the District in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value, as such is defined in the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10 percent annually regardless of the market value of the property.

The Property Tax Code permits land designated for agricultural use, open space or timberland to be appraised at its value based on the land's capacity to produce agricultural or timber products rather than at its fair market value. The Property Tax Code permits under certain circumstances that residential real property inventory held by a person in the trade or business be valued at the price all of such property would bring if sold as a unit to a purchaser who would continue the business. Provisions of the Property Tax Code are complex and are not fully summarized here. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by one political subdivision while claiming it for another. If a claimant receives the agricultural use designation and later loses it by changing the use of the property or selling it to an unqualified owner, the District can collect taxes based on the new use, including taxes for the previous three years for agricultural use, open space land, and timberland.

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

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

Tax Payment Installments after Disaster

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

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

Levy and Collection of Taxes

The District is responsible for the levy and collection of its taxes unless it elects to transfer such functions to another governmental entity. The rate of taxation is set by the Board of Directors, after the legally required notice has been given to owners of property within the District, based upon: a) the valuation of property within the District as of the preceding January 1, and b) the amount required to be raised for debt service, maintenance purposes, and authorized contractual obligations. Taxes are due October 1, or when billed, whichever comes later, and become delinquent if not paid before February 1 of the year following the year in which imposed. A delinquent tax incurs a penalty of six percent (6%) of the amount of the tax for the first calendar month it is delinquent, plus one percent (1%) for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of twelve percent (12%) regardless of the number of months the tax has been delinquent and incurs an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of one percent (1%) for each month or portion of a month it remains unpaid. The Property Tax Code makes provisions for the split payment of taxes, discounts for early payment and the postponement of the delinquency date of taxes under certain circumstances which, at the option of the District, which may be rejected by taxing units. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties, and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) sixty-five (65) years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continue to accrue during the period of deferral.

Rollback of Operation and Maintenance Tax Rate

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

to increase its maintenance and operations tax rate is described for each classification below. Debt service and contract tax rates cannot be reduced by a rollback election held within any of the districts described below.

Special Taxing Units

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

Developed Districts

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

Developing Districts

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

The District

A determination as to the District's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis, beginning with the 2020 tax rate. For the 2020 tax year, the Board has determined that the District's classification is that of a Developing District. The District cannot give any assurances as to what classification will be determined for tax years subsequent to 2020 or whether the District's future tax rates or financings of improvements and facilities will result in a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

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

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

TAX DATA

General

All taxable property within the District is subject to the assessment, levy, and collection by the District of a continuing direct annual ad valorem tax, without legal limitation as to rate or amount, sufficient to pay principal of and interest on the Bonds. See "TAXING PROCEDURES." The Board has in its Bond Resolution covenanted 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. See "THE BONDS" and "INVESTMENT CONSIDERATIONS." For the 2019 tax year, the District levied a total tax rate of \$1.50 per \$100 taxable assessed valuation composed of the following: a tax of \$0.34 per \$100 of taxable assessed valuation for payment of debt service on the bonds issued by the District for the Utility System; a tax of \$0.44 per \$100 of taxable assessed valuation for payment of debt service on bonds issued by the District for the Road System; and a tax of \$0.72 per \$100 of taxable assessed valuation for maintenance and operations. The District is authorized to levy separate debt service taxes, both of which are unlimited as to rate or amount, for payment of debt service on bonds issued for the Utility System and bonds issued for the Road System. For the 2020 tax year, as of the date of this Official Statement, the Board has authorized publication of a notice of public hearing to consider a total tax rate in the amount of \$1.47.

Tax Rate Limitation

Utility System Debt Service:	Unlimited (no legal limit as to rate or amount).
Road System Debt Service:	Unlimited (no legal limit as to rate or amount).
Maintenance:	\$1.50 per \$100 taxable assessed valuation.

Maintenance Tax

The Board 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 vote of the District's electors. The Board is authorized by the District's voters to levy such maintenance tax in an amount not to exceed \$1.50 per \$100 of assessed valuation. Such tax, when levied, is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any parity bonds which have been issued or may be issued in the future. See "Tax Rate Distribution" below.

Additional Penalties

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

Estimated Overlapping Taxes

Property within the District is subject to taxation by several taxing authorities in addition to the District. Under Texas law, if ad valorem taxes levied by a taxing authority become delinquent, a lien is created upon the property which has been taxed. A tax lien on property in favor of the District is on a parity with tax liens of other taxing jurisdictions. In addition to ad valorem taxes required to make debt service payments on bonded debt of the District and of such other jurisdictions (see "DISTRICT DEBT – Direct and Estimated Overlapping

Debt Statement”), certain taxing jurisdictions are authorized by Texas law to assess, levy and collect ad valorem taxes for operation, maintenance, administrative, or general revenue purposes.

Set forth below is an estimation of all 2019 taxes per \$100 of assessed valuation levied by such jurisdictions. No recognition is given to local assessments for civic association dues, emergency medical service contributions, fire department contributions or any other charges made by entities other than political subdivisions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

<u>Taxing Jurisdiction</u>	<u>2019 Tax Rate</u>
The District	\$1.500000
Brazoria County	0.365233
Brazoria County Road and Bridge	0.050000
Brazoria County Drainage District No. 4	0.146000
Brazoria County Emergency Services District No. 3	0.100000
Alvin Independent School District	1.397700
Alvin Community College	<u>0.185862</u>
Total Tax Rate	\$3.744795

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the combined debt service tax rates per \$100 of taxable assessed valuation that would be required to meet certain debt service requirements on the Outstanding Bonds and the Bonds if no growth in the District’s tax base occurs beyond the taxable assessed valuation as of January 1, 2020 (\$216,502,690), or the estimate of value as of May 1, 2020 (\$225,713,920). The calculations assume collection of 95% of taxes levied, the sale of the Bonds but not the sale of any additional bonds by the District. Taxes levied and collected for debt service payments on the District’s bonds for the Utility System cannot be used to pay debt service of the District’s bonds issued for the Road System, and taxes levied and collected for debt service payments on the District’s bonds for the Road System cannot be used to pay debt service on the District’s bonds issued for the Utility System.

Average Annual Debt Service Requirement (2021–2045)	\$1,571,701
Combined Debt Service Tax Rate of \$0.77 on the 2020 Taxable Assessed Valuation produces.....	\$1,583,717
Combined Debt Service Tax Rate of \$0.74 on the Estimate of Value as of May 1, 2020, produces.....	\$1,586,769
Maximum Annual Debt Service Requirement (2042).....	\$1,763,544
Combined Debt Service Tax Rate of \$0.86 on the 2020 Taxable Assessed Valuation produces.....	\$1,768,827
Combined Debt Service Tax Rate of \$0.83 on the Estimate of Value as of May 1, 2020, produces.....	\$1,779,754

Tax Rate Distribution

	<u>2019</u>	<u>2018</u>	<u>2017</u>	<u>2016</u>	<u>2015</u>
Utility System Debt Service	\$0.3400	\$0.2800	\$0.1600	\$0.0000	\$0.0000
Road System Debt Service	\$0.4400	\$0.4700	\$0.3000	\$0.0000	\$0.0000
Maintenance and Operations	<u>\$0.7200</u>	<u>\$0.7500</u>	<u>\$1.0400</u>	<u>\$1.5000</u>	<u>\$1.5000</u>
Total	\$1.5000	\$1.5000	\$1.5000	\$1.5000	\$1.5000

Historical Tax Collections

<u>Tax Year</u>	<u>Assessed Valuation</u>	<u>Tax Rate</u>	<u>Adjusted Levy</u>	<u>Collections Current Year</u>	<u>Current Year Ended 9/30</u>	<u>Collections 04/30/20</u>
2015	\$3,072,939	\$1.50	\$46,094	100.00%	2016	100.00%
2016	28,432,525	1.50	426,488	99.03	2017	100.00
2017	56,594,320	1.50	848,915	100.00	2018	100.00
2018	106,620,447	1.50	1,599,307	99.95	2019	100.00
2019	172,999,264	1.50	2,594,989	98.69 (a)	2020	98.69

(a) For the 2019 tax year, represents collections through April 30, 2020.

Taxable Assessed Valuation Summary

The following represents the type of property comprising the 2016–2020 tax rolls as certified by the Appraisal District.

Type of Property	2020 Taxable Assessed Valuation (a)	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation	2016 Taxable Assessed Valuation
Land	\$41,655,368	\$43,571,888	\$40,868,405	\$26,865,689	\$25,565,927
Improvements	168,005,643	140,062,730	74,787,374	36,277,804	10,223,170
Personal Property	2,961,040	1,897,640	993,740	365,660	217,300
Exemptions	<u>(16,674,508)</u>	<u>(12,532,994)</u>	<u>(10,029,072)</u>	<u>(6,914,833)</u>	<u>(7,573,872)</u>
Total	\$195,947,543	\$172,999,264	\$106,620,447	\$56,594,320	\$28,432,525

(a) Does not include any value that is under review of the Brazoria County Appraisal Review Board as of the original certification of the 2020 tax rolls by the Brazoria County Appraisal District.

Principal Taxpayers

The following are the principal taxpayers in the District as shown on the Appraisal District's original certification of the appraisal rolls for the 2020 tax year.

Taxpayer	Types of Property	Taxable Value 2020 Tax Roll	Percent of District Value
Highland Homes Houston LLC (a)	Land, Improvements & Personal	\$2,235,020	1.03%
MHI Partnership LTD (a) (b)	Land, Improvements & Personal	1,998,450	0.92%
Perry Homes LLC (a)	Land, Improvements & Personal	1,203,510	0.56%
Pomona Phase 2A LLC (b) (c)	Land	1,143,780	0.53%
Pomona Investments LLC (b) (c)	Land	1,043,400	0.48%
MHI Models LTD (a)	Land & Improvements	907,940	0.42%
Toll Southwest LLC (a)	Land, Improvements & Personal	861,830	0.40%
Homeowner	Land & Improvements	679,780	0.31%
Homeowner	Land & Improvements	642,580	0.30%
Homeowner	Land & Improvements	<u>629,410</u>	<u>0.29%</u>
Total		\$11,345,700	5.24%

(a) See "DEVELOPMENT OF THE DISTRICT – Homebuilders within the District."

(b) See "THE DEVELOPERS."

(c) Such entity is an affiliate of the Developers. See "THE DEVELOPERS."

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INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of the State of Texas, Brazoria County, Texas, the City, or any political subdivision other than the District, will be secured by the proceeds of an ad valorem tax, without legal limitation as to rate or amount, levied annually by the District against all taxable property located within the District. Therefore, the ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the District 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. 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. 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. See “DEVELOPMENT OF THE DISTRICT,” “TAX DATA,” and “TAXING PROCEDURES.”

Infectious Disease Outlook (COVID-19)

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the “Pandemic”), which is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States in connection with COVID-19. On March 13, 2020, the President of the United States (the “President”) declared the Pandemic a national emergency and the Texas Governor (the “Governor”) declared COVID-19 an imminent threat of disaster for all counties in Texas (collectively, the “disaster declarations”). The Governor has issued successive renewals of the disaster declarations, most recently renewing such declaration on August 8, 2020. On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State of Texas.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with this disaster and issuing executive orders that have the force and effect of law. Many of the federal, state and local actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects economic growth within Texas.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide and within Texas. Stock values and crude oil prices, in the U.S. and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the state and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, could result in declines in the demand for residential and commercial property in the Houston area and could reduce or negatively affect property values or homebuilding activity within the District. The Bonds are secured by an unlimited ad valorem tax, and a reduction in property values may require an increase in the ad valorem tax rate required to pay the Bonds as well as the District’s share of operations and maintenance expenses payable from ad valorem taxes.

While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition. The financial and operating data contained herein are the latest available, but are as of dates and for periods prior to the economic impact of the Pandemic and measures instituted to slow it. Accordingly, they are not indicative of the economic impact of the Pandemic on the District’s financial condition.

Factors Affecting Taxable Values and Tax Payments

Economic Factors: The rate of development of the District is directly related to the vitality of the residential housing industry in the Houston metropolitan area. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. Decreased levels of home construction activity would restrict the growth of property values in the District. The District cannot predict the pace or magnitude of any future development or home construction in the District.

Principal Landowner/Developers: There is no commitment by, or legal requirement of, the principal landowners, the Developers, or any other landowner in the District to proceed at any particular rate or according to any specified plan with the development of land in the District, or of any homebuilder to proceed at any particular pace with the construction of homes in the District. Moreover, there is no restriction on any landowner's right to sell its land. Therefore, the District can make no representation about the probability of future development, if any, or the rate of future home construction activity in the District. Failure to construct taxable improvements on developed lots would restrict the rate of growth of taxable values in the District and result in higher tax rates. See "DEVELOPMENT OF THE DISTRICT," "THE DEVELOPERS," and "TAX DATA – Principal Taxpayers."

Dependence on Principal Taxpayers: The ability of any principal landowner to make full and timely payments of taxes levied against its property by the District and similar taxing authorities will directly affect the District's ability to meet its debt service obligations. As illustrated in this Official Statement under the caption "TAX DATA – Principal Taxpayers," for the 2020 tax year, the District's principal taxpayers owned property located within the District the aggregate assessed valuation of which comprised approximately 5.24% of the District's total taxable assessed valuation. In the event that the Developers, any other taxpayer, or any combination of taxpayers should default in the payment of taxes in an amount which exceeds the District's debt service fund surplus, the ability of the District to make timely payment of debt service on the Bonds will be dependent on its ability to enforce and liquidate its tax liens, which is a time-consuming process. Failure to recover or borrow funds in a timely fashion could result in an excessive District tax rate. The District is not required by law or the Bond Resolution to maintain any specified amount of surplus in its interest and sinking fund. See "TAX DATA – Principal Taxpayers" and "TAXING PROCEDURES – Levy and Collection of Taxes."

Maximum Impact on District Tax Rates: Assuming no further development or home construction, the value of the land and improvements currently within the District will be the major determinant of the ability or willingness of property owners to pay their taxes. The taxable assessed valuation as of January 1, 2020, of all taxable property located within the District is \$216,502,690, and the estimate of value as of May 1, 2020, is \$225,713,920. See "TAX DATA." After issuance of the Bonds, the maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,763,544 (2042), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,571,701 (2021–2045). Assuming no decrease to the District's taxable assessed valuation as of January 1, 2020, tax rates of \$0.86 and \$0.77 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. Assuming no decrease from the estimate of value as of May 1, 2020, tax rates of \$0.83 and \$0.74 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the maximum annual debt service requirement and the average annual debt service requirement, respectively. 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 proposed District tax rate or to justify continued payment of taxes by property owners.

In 2019, the District levied a total tax rate of \$1.50 per \$100 taxable assessed valuation composed of the following: a tax of \$0.34 per \$100 of taxable assessed valuation for payment of debt service on the bonds issued by the District for the Utility System; a tax of \$0.44 per \$100 of taxable assessed valuation for payment of debt service on bonds issued by the District for the Road System; and a tax of \$0.72 per \$100 of taxable assessed valuation for maintenance and operations. The District is authorized to levy separate debt service taxes, both of which are unlimited as to rate or amount, for road debt and for water, sewer, and drainage debt. For the 2020 tax year, as of the date of this Official Statement, the

Board has authorized publication of a notice of public hearing to consider a total tax rate in the amount of \$1.47 per \$100 of taxable assessed valuation.

Potential Effects of Oil Price Declines on the Houston Area

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

Competitive Nature of Houston Residential Housing Market

The housing industry in the Houston area is very competitive, and the District can give no assurance that the building programs which are planned by any homebuilder will be continued or completed. The respective competitive position of the homebuilders listed herein and any other developer or homebuilder which might attempt future home building or development projects in the District, the sale of developed lots or in the construction and sale of single-family residential units, are affected by most of the factors discussed in this section, and such competitive positions are directly related to tax revenues received by the District and the growth and maintenance of taxable values in the District.

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 taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property, or (d) the taxpayer's right to redeem the property within two (2) years of foreclosure for residential homestead and agricultural use property and within six (6) months of foreclosure for other property. While the District has a lien on taxable property within the District for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Moreover, the value of property to be sold for delinquent taxes and thereby the potential sales proceeds available to pay debt service on the Bonds, may be limited by among other factors, the existence of other tax liens on the property, by the current aggregate tax rate being levied against the property, or by the taxpayer's right to redeem residential or agricultural use property within two (2) years of foreclosure and all other property within six (6) months of foreclosure. Finally, a bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to Federal Bankruptcy Code could stay any attempt by the District to collect delinquent ad valorem taxes assessed against such taxpayer. See "TAXING PROCEDURES."

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 sufficient taxes each year to make such payments. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. Although the 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 limited further 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, the remedy of mandamus or the right of the District to seek judicial foreclosure of its tax lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge.

Marketability

The District has no understanding (other than the initial reoffering yields) with the winning bidder for the Bonds (the "Initial Purchaser") regarding the reoffering yields or prices of the Bonds and has no control over the trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made 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 Bonds are the fifth series of bonds to be issued by the District out of an aggregate \$161,000,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing the Road System, and for the refunding of bonds issued by the District for the Road System. Following issuance of the Bonds, \$145,650,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System, and for the refunding of bonds issued for the Road System, will remain authorized but unissued.

To date, the District has also issued four series of bonds out of an aggregate \$312,500,000 principal amount of unlimited tax bonds authorized by the District's voters for the purpose of acquiring or constructing the Utility System, and for the refunding of bonds issued by the District for the Utility System, of which \$299,480,000 principal amount remains authorized but unissued.

Additionally, voters of the District have authorized \$59,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational improvements within the District and for refunding of bonds issued by the District for such purpose. To date, the District has issued no bonds from said voted authorization for parks and recreational improvements.

Following issuance of the Bonds, the District has the right to issue the remaining \$145,650,000 principal amount of unlimited tax bonds authorized but unissued for the Road System and for the refunding of such bonds; \$299,480,000 unlimited tax bonds authorized but unissued for the Utility System and for the refunding of such bonds; \$59,000,000 unlimited tax bonds authorized but unissued for park and recreational improvements and for refunding of such bonds; and any additional bonds as may hereafter be approved by both the Board of Directors of the District and voters of the District. See "THE BONDS – Issuance of Additional Debt." The District also has the right to issue certain other additional bonds, revenue bonds, special project bonds, and other obligations as described in the Bond Resolution.

Issuance of the remaining \$299,480,000 principal amount of unlimited tax bonds for the Utility System and the \$59,000,000 principal amount of unlimited tax bonds authorized for park and recreational improvements shall be subject to prior approval by the TCEQ. The District's issuance of the Bonds and the remaining \$145,650,000 principal amount of unlimited tax bonds for acquiring or constructing the Road System is not subject to approval by the TCEQ.

Following issuance of the Bonds, the District will owe the Developers approximately \$22,730,000 for expenditures to construct the Utility System, the Road System, and park and recreational facilities. 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.

Continuing Compliance with Certain Covenants

The Bond Resolution contains covenants by the District intended to preserve the exclusion from gross income of interest on the Bonds. 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 "TAX MATTERS."

Environmental Regulations

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

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

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

Air Quality Issues. Air quality control measures required by the United States Environmental Protection Agency (the “EPA”) and the TCEQ may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act (“CAA”) Amendments of 1990, the eight-county Houston-Galveston-Brazoria area (“HGB Area”)—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under three separate federal ozone standards: the one-hour (124 parts per billion (“ppb”) and eight-hour (84 ppb) standards promulgated by the EPA in 1997 (the “1997 Ozone Standards”); the tighter, eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (the “2008 Ozone Standard”), and the EPA’s most-recent promulgation of an even lower, 70 ppb eight-hour ozone standard in 2015 (the “2015 Ozone Standard”). While 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 ozone nonattainment area under the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, the EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB Area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB Area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2015, the EPA approved the TCEQ’s “redesignation substitute” for the HGB Area under the revoked 1997 Ozone Standards, leaving the HGB Area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in *South Coast Air Quality Management District v. EPA*, 882 F.3d 1138 (D.C. Cir. 2018) vacating the EPA redesignation substitute rule that provided the basis for the EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB Area under the 1997 Ozone Standard. The court has not responded to the EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ has developed a formal request that the HGB Area be redesignated to attainment under the 1997 Ozone Standards. The TCEQ Commissioners approved publication of a proposed HGB Area redesignation request under the 1997 Ozone Standards on September 5, 2018.

The HGB Area is currently designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018. If the EPA ultimately determines that the HGB Area has failed to meet the attainment deadline based on the relevant data, the area is subject to reclassification to a nonattainment classification that provides for more stringent controls on emissions from the industrial sector. In addition, the EPA may impose a moratorium on the awarding of federal highway construction grants and

other federal grants for certain public works construction projects if it finds that an area fails to demonstrate progress in reducing ozone levels.

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

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) 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.

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

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

Operations of utility districts, including the District, are also potentially subject to requirements and restrictions under the CWA regarding the use and alteration of wetland areas that are within the “waters of the

United States.” The District must obtain a permit from the United States Army Corps of Engineers (“USACE”) if operations of the District require that wetlands be filled, dredged, or otherwise altered.

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

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

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

Due to existing and possible future litigation, there remains uncertainty regarding the ultimate scope of “waters of the United States” and the extent of EPA and USACE jurisdiction. Depending on the final outcome of such proceedings, operations of municipal utility districts, including the District, could potentially be subject to additional restrictions and requirements, including additional permitting requirements.

Potential Impact of Natural Disaster

The District is located approximately 40 miles from the Texas Gulf Coast and, as it has in the past, could be impacted by high winds, heavy rains, and flooding caused by a hurricane, tornado, tropical storm, or other adverse weather event. In the event that a natural disaster should damage or destroy improvements and personal property in the District, the assessed value of such taxable properties could be substantially reduced, resulting in a decrease in the taxable assessed value of the District or an increase in the District’s tax rates. See “TAXING PROCEDURES – Valuation of Property for Taxation,” “– Reappraisal of Property after Disaster,” and “– Tax Payment Installments after Disaster.”

There can be no assurance that a casualty loss to taxable property within the District will be covered by insurance (certain casualties, including flood, are usually excepted unless specific insurance is purchased), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild, repair, or replace any taxable properties in the District that were damaged. Even if insurance proceeds are available and damaged properties are rebuilt, there could be a lengthy period in which assessed values in the District are adversely affected.

Specific Flood Type Risks

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

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

Hurricane Harvey

On August 26, 2017, Hurricane Harvey made landfall on the Texas Gulf Coast and severely impacted numerous localities in the region. According to the Engineer, Operator, and Developers, the District and its facilities did not sustain any interruption of service, structural flooding, or any other material damage due to Hurricane Harvey. The Gulf Coast region where the District is located is subject to occasional destructive weather events, and there is no assurance that the District will not suffer damages from such destructive weather events in the future. See “INVESTMENT CONSIDERATIONS – Potential Impact of Natural Disaster.”

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.

Bond Insurance Risk Factors

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

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

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

The long-term ratings on the Bonds are dependent in part on the financial strength of the Bond Insurer and its claim paying ability. The Bond Insurer’s financial strength and claims paying ability are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of the Bond Insurer and of the ratings on the Bonds insured by the Bond Insurer will not be subject to downgrade and such

event could adversely affect the market price of the Bonds or the marketability (liquidity) for the Bonds. See "MUNICIPAL BOND INSURANCE" herein.

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

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

LEGAL MATTERS

Legal Opinions

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

Bond Counsel has reviewed the information appearing in this Official Statement under "THE BONDS" (except for information under the subheadings "- Book-Entry-Only System," "- Use and Distribution of Bond Proceeds"), "THE DISTRICT - Authority," "TAXING PROCEDURES," "LEGAL MATTERS," "TAX MATTERS," "DEVELOPMENT AGREEMENT AND STRATEGIC PARTNERSHIP AGREEMENT" 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 and the provisions of the documents referred to therein. 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.

Allen Boone Humphries Robinson LLP, also serves as general counsel to the District on matters other than the issuance of bonds. The legal fees paid to Bond Counsel for services rendered in connection with 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.

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

No-Litigation Certificate

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

TAX MATTERS

In the opinion of Allen Boone Humphries Robinson LLP, Bond Counsel, under existing law, interest on the Bonds is excludable from gross income for federal income tax purposes and interest on the Bonds is not subject to the alternative minimum tax on individuals.

The Internal Revenue Code of 1986, as amended (the "Code") imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of proceeds and the source of repayment, limitations on the investment of proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the "Service"). The District has covenanted in the Bond Resolution that it will comply with these requirements.

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

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

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

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

Bond Counsel's opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel's knowledge of facts as of the date hereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel's attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel's opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel's legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an

ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the District as the taxpayer and the owners of the Bonds may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit regardless of the ultimate outcome of the audit.

Tax Accounting Treatment of Original Issue Discount Bonds

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

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

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

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

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

Qualified Tax-Exempt Obligations

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

The District has designated the Bonds as "qualified tax-exempt obligations" and represents that the aggregate amount of tax-exempt bonds (including the Bonds) issued by the District and entities aggregated with the District under the Code during calendar year 2020 is not expected to exceed \$10,000,000 and that the District and entities aggregated with the District under the Code have not designated more than \$10,000,000 in "qualified tax-exempt obligations" (including the Bonds) during calendar year 2020.

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

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the District has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The District is required to observe these agreements 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, as well as timely notice of specified events, to the Municipal Securities Rulemaking Board or any successor to its function as a repository (the "MSRB"), through its Electronic Municipal Market Access ("EMMA") system.

Annual Reports

The District will provide certain updated financial information and operating data to the MSRB. The information to be updated with respect to the District includes all quantitative financial information and operating data with respect to the District of the general type included in this Official Statement included under the headings "DISTRICT DEBT," "TAX DATA," and in "APPENDIX A." The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2021. The District will provide the updated information to the MSRB.

Any information so provided shall be prepared in accordance with generally accepted accounting principles or other such principles as the District may be required to employ from time to time pursuant to state law or regulation, and audited if the audit report is completed within the period during which it must be provided. If the audit report is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to the MSRB within such six month period, and audited financial statements when and if the audit report becomes available. The District's current fiscal year end is March 31. Accordingly, it must provide updated information by the last day in 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 determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13)

consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under SEC Rule 15c2-12 (the “Rule”). The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described above under “Annual Reports.”

Availability of Information from EMMA

The District has agreed to provide the information only to the MSRB. The MSRB has prescribed that such information must be filed via EMMA. The MSRB makes the information available to the public without charge and investors will be able to access continuing disclosure information filed with the MSRB at www.emma.msrb.org.

Limitations and Amendments

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

The District may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or operations of the District but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule, taking into account any amendments and interpretations of the Rule to the date of such amendment, as well as changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the District (such as 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 United States Securities and Exchange Commission 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 Initial Purchaser from lawfully purchasing the Bonds in the offering described herein. If the District so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance with Prior Undertakings

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

OFFICIAL STATEMENT

General

The information contained in this Official Statement has been obtained primarily from the Developers, the District's records, the Engineer, the Tax Assessor/Collector, the Appraisal District, and other sources believed to be reliable; however, no representation is made as to the accuracy or completeness of the information contained herein, except as described below. 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 audited financial statements for the year ended March 31, 2020, were prepared by McGrath & Co., PLLC, and have been attached hereto as "APPENDIX A." McGrath & Co., PLLC has consented to the publication of such financial statements in this Official Statement.

Experts

The information contained in this Official Statement relating to engineering and to the description of the Utility System and the Road System, and, in particular, that engineering information included in the sections entitled "THE BONDS – Use and Distribution of Bond Proceeds," "THE DISTRICT – Description," "DEVELOPMENT OF THE DISTRICT – Status of Development within the District," "THE ROAD SYSTEM," and "THE UTILITY SYSTEM" has been provided by the Engineer and has been included herein in reliance upon the authority of said firm as experts 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 collection rates and valuations contained in the sections captioned "TAX DATA" and "DISTRICT DEBT" was provided by the Tax Assessor/Collector and the Appraisal District. Such information has been included herein in reliance upon the Tax Assessor/Collector's authority as an expert in the field of tax collection and the Appraisal District's authority as an expert in the field of appraisal.

Certification as to Official Statement

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

Updating of Official Statement

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

CONCLUDING STATEMENT

The information set forth herein has been obtained from the District's records, audited financial statements and other sources which are considered to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will ever be realized. All of the summaries of the statutes, documents, and

resolutions contained in this Official Statement are made subject to all of the provisions of the provisions of such statutes, documents, and resolutions. These summaries do not purport to be complete statements of such provisions and reference is made to such summarized documents for further information. Reference is made to official documents in all respects.

This Official Statement was approved by the Board of Directors of Brazoria County Municipal Utility District No. 39 as of the date shown on the cover page hereof.

/s/ Jordan Nightingale
President, Board of Directors
Brazoria County Municipal Utility District No. 39

ATTEST:

/s/ Ahmad Alaswad
Secretary, Board of Directors
Brazoria County Municipal Utility District No. 39

APPENDIX A
Audited Financial Statements of the District

**BRAZORIA COUNTY MUNICIPAL
UTILITY DISTRICT NO. 39**

BRAZORIA COUNTY, TEXAS

FINANCIAL REPORT

March 31, 2020

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McGRATH & CO., PLLC

Certified Public Accountants
2500 Tanglewilde, Suite 340
Houston, Texas 77063

Independent Auditors' Report

Board of Directors
Brazoria County Municipal Utility District No. 39
Brazoria County, Texas

We have audited the accompanying financial statements of the governmental activities and each major fund of Brazoria County Municipal Utility District No. 39, as of and for the year ended March 31, 2020, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting principles used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

***Board of Directors
Brazoria County Municipal Utility District No. 39
Brazoria County, Texas***

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of Brazoria County Municipal Utility District No. 39, as of March 31, 2020, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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

Other Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The Texas Supplementary Information is presented for purposes of additional analysis and is not a required part of the basic financial statements. The Texas Supplementary 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. The information has been subjected to the auditing procedures applied to 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 our opinion, the information is fairly stated in all material respects in relation to the financial statements taken as a whole.

McGuire & Co, LLC

Houston, Texas
July 28, 2020

Management's Discussion and Analysis

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Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

Using this Annual Report

Within this section of the financial report of Brazoria County Municipal Utility District No. 39 (the "District"), the District's Board of Directors provides a narrative discussion and analysis of the financial activities of the District for the fiscal year ended March 31, 2020. This analysis should be read in conjunction with the independent auditors' report and the basic financial statements that follow this section.

In addition to this discussion and analysis, this annual report consists of:

- The District's basic financial statements;
- Notes to the basic financial statements, which provide additional information essential to a full understanding of the data provided in the financial statements;
- Supplementary information required by the Governmental Accounting Standards Board (GASB) concerning the District's budget; and
- Other Texas supplementary information required by the District's state oversight agency, the Texas Commission on Environmental Quality (TCEQ).

Overview of the Financial Statements

The District prepares its basic financial statements using a format that combines fund financial statements and government-wide statements onto one financial statement. The combined statements are the *Statement of Net Position and Governmental Funds Balance Sheet* and the *Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. Each statement contains an adjustments column which quantifies the differences between the government-wide and fund level statements. Additional details of the adjustments are provided in Note 2 to the basic financial statements.

Government-Wide Financial Statements

The focus of government-wide financial statements is on the overall financial position and activities of the District, both long-term and short-term. The District's government-wide financial statements consist of the *Statement of Net Position* and the *Statement of Activities*, which are prepared using the accrual basis of accounting. The *Statement of Net Position* includes all of the District's assets, deferred outflows of resources, liabilities, and deferred inflows of resources with the residual reported as net position. Over time, changes in net position may provide a useful indicator of whether the financial position of the District as a whole is improving or deteriorating.

Accounting standards establish three components of net position. The net investment in capital assets component represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets. Resources needed to repay this debt must be provided from other sources, since the capital assets themselves cannot be used to liquidate these liabilities. The restricted component of net position consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties. The unrestricted component of net position represents resources not included in the other components.

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

The *Statement of Activities* reports how the District's net position has changed during the fiscal year. All revenues and expenses are included on this statement, regardless of whether cash has been received or paid.

Fund Financial Statements

The fund financial statements include the *Governmental Funds Balance Sheet* and the *Governmental Funds Revenues, Expenditures and Changes in Fund Balances*. The focus of fund financial statements is on specific activities of the District rather than the District as a whole, reported using modified accrual accounting. These statements report on the District's use of available financial resources and the balances of available financial resources at the end of the year. Except for the General Fund, a specific fund is established to satisfy managerial control over resources or to satisfy finance-related legal requirements established by external parties, governmental statutes or regulations.

For further discussion on the government-wide and fund financial statements, please refer to Note 1 in the financial statements.

Financial Analysis of the District as a Whole

The District's net position at March 31, 2020, was negative \$18,341,445. This amount is negative because the District incurs debt to construct public roads which it conveys to Brazoria County. A comparative summary of the District's overall financial position, as of March 31, 2020 and 2019, is as follows:

	2020	2019
Current and other assets	\$ 3,723,188	\$ 2,177,603
Capital assets	30,806,497	30,774,543
Total assets	<u>34,529,685</u>	<u>32,952,146</u>
Current liabilities	2,394,584	2,838,185
Long-term liabilities	50,476,546	46,852,076
Total liabilities	<u>52,871,130</u>	<u>49,690,261</u>
Net position		
Net investment in capital assets	(7,689,108)	(5,935,371)
Restricted	1,436,665	941,649
Unrestricted	(12,089,002)	(11,744,393)
Total net position	<u>\$ (18,341,445)</u>	<u>\$ (16,738,115)</u>

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

The total net position of the District decreased during the current fiscal year by \$1,603,330. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	2020	2019
Revenues		
Water and sewer service	\$ 632,882	\$ 539,511
Property taxes, penalties and interest	2,638,417	1,693,732
Other	113,850	419,396
Total revenues	<u>3,385,149</u>	<u>2,652,639</u>
Expenses		
Current service operations	1,117,803	1,378,047
Intergovernmental	284,654	287,564
Interest and fees	751,631	569,728
Developer interest	531,280	627,541
Debt issuance costs	630,477	671,244
Depreciation	842,291	833,991
Total expenses	<u>4,158,136</u>	<u>4,368,115</u>
Change in net position before other item	(772,987)	(1,715,476)
Other item		
Transfers to other governments	<u>(830,343)</u>	<u>(798,935)</u>
Change in net position	(1,603,330)	(2,514,411)
Net position, beginning of year	<u>(16,738,115)</u>	<u>(14,223,704)</u>
Net position, end of year	<u>\$ (18,341,445)</u>	<u>\$ (16,738,115)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of March 31, 2020, were \$3,488,188, which consists of \$1,485,527 in the General Fund, \$1,492,766 in the Debt Service Fund, and \$509,895 in the Capital Projects Fund.

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

General Fund

A comparative summary of the General Fund's financial position as of March 31, 2020 and 2019, is as follows:

	2020	2019
Total assets	<u>\$ 1,698,503</u>	<u>\$ 946,528</u>
Total liabilities	\$ 196,459	\$ 165,602
Total deferred inflows	16,517	87,192
Total fund balance	<u>1,485,527</u>	<u>693,734</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,698,503</u>	<u>\$ 946,528</u>

A comparative summary of the General Fund's activities for the current and prior fiscal year is as follows:

	2020	2019
Total revenues	\$ 2,054,122	\$ 1,757,492
Total expenditures	<u>(1,262,329)</u>	<u>(1,512,949)</u>
Revenues over expenditures	<u>\$ 791,793</u>	<u>\$ 244,543</u>

The District manages its activities with the objectives of ensuring that expenditures will be adequately covered by revenues each year and that an adequate fund balance is maintained. The District's primary financial resources in the General Fund are from a property tax levy, the provision of water and sewer services to customers within the District and tap connection fees charged to homebuilders in the District. Financial resources are influenced by a variety of factors each year:

- Property tax revenues are dependent upon assessed values in the District and the maintenance tax rate set by the District. While the District decreased its maintenance tax levy, property tax revenues increased because assessed values in the District increased from the prior year
- Water and sewer revenues are dependent upon customer usage, which fluctuates from year to year as a result of factors beyond the District's control.
- Tap connection fees fluctuate with homebuilding activity within the District

***Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020***

Debt Service Fund

A comparative summary of the Debt Service Fund's financial position as of March 31, 2020 and 2019, is as follows:

	2020	2019
Total assets	<u>\$ 1,514,732</u>	<u>\$ 1,013,847</u>
Total liabilities	\$ 974	\$ 127
Total deferred inflows	20,992	8,226
Total fund balance	<u>1,492,766</u>	<u>1,005,494</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,514,732</u>	<u>\$ 1,013,847</u>

A comparative summary of the Debt Service Fund's activities for the current and prior fiscal year is as follows:

	2020	2019
Total revenues	\$ 1,381,989	\$ 814,920
Total expenditures	<u>(980,411)</u>	<u>(529,652)</u>
Revenues over expenditures	401,578	285,268
Other changes in fund balance	85,694	268,550
Net change in fund balance	<u>\$ 487,272</u>	<u>\$ 553,818</u>

The District's financial resources in the Debt Service Fund in both the current year and prior year are from property tax revenues and capitalized interest from the sale of bonds. The difference between these financial resources and debt service requirements resulted in changes in fund balance each year. It is important to note that the District sets its annual debt service tax rate as recommended by its financial advisor, who monitors projected cash flows in the Debt Service Fund to ensure that the District will be able to meet its future debt service requirements.

Capital Projects Fund

A comparative summary of the Capital Projects Fund's financial position as of March 31, 2020 and 2019 is as follows:

	2020	2019
Total assets	<u>\$ 524,755</u>	<u>\$ 217,228</u>
Total liabilities	\$ 14,860	\$ 385
Total fund balance	<u>509,895</u>	<u>216,843</u>
Total liabilities and fund balance	<u>\$ 524,755</u>	<u>\$ 217,228</u>

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

A comparative summary of activities in the Capital Projects Fund for the current and prior fiscal year is as follows:

	2020	2019
Total revenues	\$ 6,949	\$ 3,084
Total expenditures	(5,503,203)	(5,980,806)
Revenues under expenditures	(5,496,254)	(5,977,722)
Other changes in fund balance	5,789,306	6,174,450
Net change in fund balance	<u>\$ 293,052</u>	<u>\$ 196,728</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of unlimited tax bonds and bond anticipation notes to finance infrastructure improvements within the District.

General Fund Budgetary Highlights

The Board of Directors adopts an annual unappropriated budget for the General Fund prior to the beginning of each fiscal year. The Board amended the budget during the year to reflect changes in anticipated revenues and expenditures.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$2,596 less than budgeted. The *Budgetary Comparison Schedule* on page 38 of this report provides variance information per financial statement line item.

Capital Assets

The District has entered into financing agreements with its developers for the financing of the construction of capital assets within the District. Developers will be reimbursed from proceeds of future bond issues or other lawfully available funds. These developer funded capital assets are recorded on the District's financial statements upon completion of construction.

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

Capital assets held by the District at March 31, 2020 and 2019 are summarized as follows:

	2020	2019
Capital assets not being depreciated		
Land and improvements	\$ 7,377,024	\$ 7,006,275
Capital assets being depreciated		
Water, wastewater, and drainage facilities	14,585,202	14,377,978
Interest in joint facilities	6,959,850	6,663,580
Landscaping improvements	5,218,831	5,218,831
	<u>26,763,883</u>	<u>26,260,389</u>
Less accumulated depreciation		
Water, wastewater, and drainage facilities	(1,411,474)	(1,087,362)
Interest in joint facilities	(694,134)	(542,358)
Landscaping improvements	(1,228,802)	(862,401)
	<u>(3,334,410)</u>	<u>(2,492,121)</u>
Depreciable capital assets, net	<u>23,429,473</u>	<u>23,768,268</u>
Capital assets, net	<u>\$ 30,806,497</u>	<u>\$ 30,774,543</u>

Capital asset additions during the current year include:

- Interest in joint facilities for the lift station no. 1 and wastewater treatment plant, phase II
- Water, sanitary sewer, and drainage facilities to serve Pomona, sections 13 and 15.

Brazoria County assumes responsibility for road facilities constructed within the county. Consequently, these projects are not recorded as capital assets on the District's financial statements, but are recorded as transfers to other governments upon completion of construction. For the year ended March 31, 2020, capital assets pertaining to road facilities in the amount of \$798,379 have been recorded as transfers to other governments in the government-wide statements.

Long-Term Debt and Related Liabilities

As of March 31, 2020, the District owes \$27,390,508 to developers for completed projects and operating advances. The initial cost of the completed project and related liability is estimated based on actual construction costs plus 10-15% for engineering and other fees and is recorded on the District's financial statements upon completion of construction. As discussed in Note 7, the District has an additional commitment in the amount of \$952,573 for projects under construction by the developers. As noted, the District will owe its developer for these projects upon completion of construction. The District intends to reimburse the developer from proceeds of future bond issues or other lawfully available funds. The estimated cost of amounts owed to the developer is trued up when the developer is reimbursed.

Brazoria County Municipal Utility District No. 39
Management's Discussion and Analysis
March 31, 2020

At March 31, 2020 and 2019, the District had total bonded debt outstanding as shown below:

Series	2020	2019
2016 Road	\$ 4,775,000	\$ 4,900,000
2017	2,020,000	2,070,000
2017 Road	3,210,000	3,295,000
2018	4,410,000	4,410,000
2018 Road	2,630,000	2,630,000
2019	4,450,000	
2019 Road	2,365,000	
	<u>\$ 23,860,000</u>	<u>\$ 17,305,000</u>

During the year, the District issued \$4,450,000 in unlimited tax bonds for the utility system and \$2,365,000 in unlimited tax road bonds. At March 31, 2020, the District had \$301,570,000 unlimited tax bonds authorized, but unissued for the purposes of acquiring, constructing and improving the water, sanitary sewer and drainage systems within the District and the refunding of such bonds; \$59,000,000 for parks and recreational facilities and then refunding of such bonds; and \$147,810,000 for road improvements and the refunding of such bonds.

During the year, the District issued a \$1,465,000 bond anticipation note (BAN) to provide short-term financing for developer reimbursements. The District intends to repay the BAN with proceeds from the issuance of long-term debt. See Note 6 for additional information.

Next Year's Budget

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

	2020 Actual	2021 Budget
Total revenues	\$ 2,054,122	\$ 2,208,608
Total expenditures	<u>(1,262,329)</u>	<u>(1,277,812)</u>
Revenues over expenditures	791,793	930,796
Beginning fund balance	693,734	1,485,527
Ending fund balance	<u>\$ 1,485,527</u>	<u>\$ 2,416,323</u>

Property Taxes

The District's property tax base increased approximately \$57,449,000 for the 2020 tax year from \$175,437,430 to \$232,886,035, based on preliminary values. This increase was primarily due to new construction.

Infectious Disease Outlook (COVID-19)

As further discussed in Note 14, the World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory virus currently affecting many parts of the world, including the United States and Texas. The pandemic has negatively affected the economic growth and financial markets worldwide and within Texas. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak could have an adverse effect on the District's operations and financial condition by negatively affecting property taxes and ad valorem tax revenues within the District

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Basic Financial Statements

Brazoria County Municipal Utility District No. 39
Statement of Net Position and Governmental Funds Balance Sheet
March 31, 2020

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Net Position
Assets						
Cash and investments	\$ 1,493,429	\$ 1,515,546	\$ 524,755	\$ 3,533,730	\$ -	\$ 3,533,730
Taxes receivable	16,517	20,992		37,509		37,509
Customer service receivables	77,624			77,624		77,624
Internal balances	36,608	(21,806)	(14,802)			
Due from other districts	12,589			12,589		12,589
Prepaid items	2,114			2,114		2,114
Operating reserves	59,622			59,622		59,622
Capital assets not being depreciated					7,377,024	7,377,024
Capital assets, net					23,429,473	23,429,473
Total Assets	<u>\$ 1,698,503</u>	<u>\$ 1,514,732</u>	<u>\$ 509,953</u>	<u>\$ 3,723,188</u>	<u>30,806,497</u>	<u>34,529,685</u>
Liabilities						
Accounts payable	\$ 105,410	\$ -	\$ 58	\$ 105,468		105,468
Other payables	24	974		998		998
Customer deposits	91,025			91,025		91,025
Accrued interest payable					77,093	77,093
Bond anticipation note payable					1,465,000	1,465,000
Due to developers					27,390,508	27,390,508
Long-term debt						
Due within one year					655,000	655,000
Due after one year					23,086,038	23,086,038
Total Liabilities	<u>196,459</u>	<u>974</u>	<u>58</u>	<u>197,491</u>	<u>52,673,639</u>	<u>52,871,130</u>
Deferred Inflows of Resources						
Deferred property taxes	<u>16,517</u>	<u>20,992</u>		<u>37,509</u>	<u>(37,509)</u>	
Fund Balance/Net Position						
Fund Balance						
Nonspendable	2,114			2,114	(2,114)	
Restricted		1,492,766	509,895	2,002,661	(2,002,661)	
Unassigned	1,483,413			1,483,413	(1,483,413)	
Total Fund Balance	<u>1,485,527</u>	<u>1,492,766</u>	<u>509,895</u>	<u>3,488,188</u>	<u>(3,488,188)</u>	
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,698,503</u>	<u>\$ 1,514,732</u>	<u>\$ 509,953</u>	<u>\$ 3,723,188</u>		
Net Position						
Net investment in capital assets					(7,689,108)	(7,689,108)
Restricted for debt service					1,436,665	1,436,665
Unrestricted					(12,089,002)	(12,089,002)
Total Net Position					<u>\$ (18,341,445)</u>	<u>\$ (18,341,445)</u>

See notes to basic financial statements.

Brazoria County Municipal Utility District No. 39**Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2020**

	General Fund	Debt Service Fund	Capital Projects Fund	Total	Adjustments	Statement of Activities
Revenues						
Water service	\$ 278,804	\$ -	\$ -	\$ 278,804	\$ -	\$ 278,804
Sewer service	354,078			354,078		354,078
Property taxes	1,330,020	1,354,695		2,684,715	(59,754)	2,624,961
Penalties and interest	10,041	1,572		11,613	1,843	13,456
Groundwater pumpage fees	1,926			1,926		1,926
Tap connection and inspection	61,836			61,836		61,836
Miscellaneous	3,750	6,182		9,932		9,932
Investment earnings	13,667	19,540	6,949	40,156		40,156
Total Revenues	<u>2,054,122</u>	<u>1,381,989</u>	<u>6,949</u>	<u>3,443,060</u>	<u>(57,911)</u>	<u>3,385,149</u>
Expenditures/Expenses						
Current service operations						
Purchased services	270,569			270,569		270,569
Professional fees	120,640		108,544	229,184		229,184
Contracted services	211,804	11,754		223,558		223,558
Repairs and maintenance	293,330			293,330		293,330
Utilities	26,866			26,866		26,866
Lease	4,430			4,430		4,430
Administrative	36,377	14,711	47	51,135		51,135
Other	13,659	5,072		18,731		18,731
Intergovernmental						
Capital contribution	284,654			284,654		284,654
Capital outlay			4,180,290	4,180,290	(4,180,290)	
Debt service						
Principal		260,000		260,000	(260,000)	
Interest and fees		688,874	52,565	741,439	10,192	751,631
Developer interest			531,280	531,280		531,280
Debt issuance costs			630,477	630,477		630,477
Depreciation					842,291	842,291
Total Expenditures/Expenses	<u>1,262,329</u>	<u>980,411</u>	<u>5,503,203</u>	<u>7,745,943</u>	<u>(3,587,807)</u>	<u>4,158,136</u>
Revenues Over/(Under)						
Expenditures/Expenses	791,793	401,578	(5,496,254)	(4,302,883)	3,529,896	(772,987)
Other Financing Sources/(Uses)						
Proceeds from sale of bonds		85,694	6,729,306	6,815,000	(6,815,000)	
Proceeds from bond anticipation note			1,465,000	1,465,000	(1,465,000)	
Repayment of bond anticipation note			(2,340,000)	(2,340,000)	2,340,000	
Repayment of operating advances			(65,000)	(65,000)	65,000	
Other Item						
Transfers to other governments					(830,343)	(830,343)
Net Change in Fund Balance	791,793	487,272	293,052	1,572,117	(1,572,117)	
Change in Net Position					(1,603,330)	(1,603,330)
Fund Balance/Net Position						
Beginning of the year	693,734	1,005,494	216,843	1,916,071	(18,654,186)	(16,738,115)
End of the year	<u>\$ 1,485,527</u>	<u>\$1,492,766</u>	<u>\$ 509,895</u>	<u>\$ 3,488,188</u>	<u>\$ (21,829,633)</u>	<u>\$ (18,341,445)</u>

See notes to basic financial statements.

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Note 1 – Summary of Significant Accounting Policies

The accounting policies of Brazoria County Municipal Utility District No. 39 (the “District”) conform with accounting principles generally accepted in the United States of America as promulgated by the Governmental Accounting Standards Board (“GASB”). The following is a summary of the most significant policies:

Creation

The District was organized, created and established pursuant to an order of the Texas Commission on Environmental Quality dated January 23, 2007, and operates in accordance with the Texas Water Code, Chapters 49 and 54. The Board of Directors held its first meeting on February 12, 2007 and the first bonds were issued on November 17, 2016.

The District’s primary activities include construction, maintenance and operation of water, sewer, drainage and park facilities. As further discussed in Note 10, the District constructs roads that are conveyed to Brazoria County for maintenance upon completion of construction. The District has contracted with various consultants to provide services to operate and administer the affairs of the District. The District has no employees, related payroll or pension costs.

Reporting Entity

The District is a political subdivision of the State of Texas governed by an elected five-member board. The GASB has established the criteria for determining the reporting entity for financial statement reporting purposes. To qualify as a primary government, a government must have a separately elected governing body, be legally separate, and be fiscally independent of other state and local governments, while a component unit is a legally separate government for which the elected officials of a primary government are financially accountable. Fiscal independence implies that the government has the authority to adopt a budget, levy taxes, set rates, and/or issue bonds without approval from other governments. Under these criteria, the District is considered a primary government and is not a component unit of any other government. Additionally, no other entities meet the criteria for inclusion in the District’s financial statements as component units.

Government-Wide and Fund Financial Statements

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

Note 1 – Summary of Significant Accounting Policies (continued)

Government-Wide and Fund Financial Statements (continued)

Fund financial statements display information at the individual fund level. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for a specific purpose. Each fund is considered to be a separate accounting entity. Most governments typically have many funds; however, governmental financial statements focus on the most important or “major” funds with non-major funds aggregated in a single column. The District has three governmental funds, which are all considered major funds.

The following is a description of the various funds used by the District:

- The General Fund is used to account for the operations of the District’s water and sewer system and all other financial transactions not reported in other funds. The principal sources of revenue are property taxes and water and sewer service fees. Expenditures include costs associated with the daily operations of the District.
- The Debt Service Fund is used to account for the payment of interest and principal on the District’s general long-term debt. The primary source of revenue for debt service is property taxes. Expenditures include costs incurred in assessing and collecting these taxes.
- The Capital Projects Fund is used to account for the expenditures of bond proceeds for the construction of the District’s water, sewer and drainage facilities.

As a special-purpose government engaged in a single governmental program, the District has opted to combine its government-wide and fund financial statements in a columnar format showing an adjustments column for reconciling items between the two.

Measurement Focus and Basis of Accounting

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

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

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

Note 2 further details the adjustments from the governmental fund presentation to the government-wide presentation.

Use of Restricted Resources

When both restricted and unrestricted resources are available for use, the District uses restricted resources first, then unrestricted resources as they are needed.

Prepaid Items

Certain payments made by the District reflect costs applicable to future accounting periods and are recorded as prepaid items in both the government-wide and fund financial statements.

Receivables

All receivables are reported at their gross value and, where appropriate, are reduced by the estimated portion that is expected to be uncollectible. Receivables from and payables to external parties are reported separately and are not offset, unless a legal right of offset exists. At March 31, 2020, allowances for uncollectible accounts was not considered necessary.

Unbilled Service Revenues

Utility revenue is recorded when earned. Customers are billed monthly. The estimated value of services provided but unbilled at year-end has been included in the accompanying financial statements.

Interfund Activity

During the course of operations, transactions occur between individual funds. This can include internal transfers, payables and receivables. This activity is combined as internal balances and is eliminated in both the government-wide and fund financial statement presentation.

Capital Assets

Capital assets do not provide financial resources at the fund level, and, therefore, are reported only in the government-wide statements. The District defines capital assets as assets with an initial cost of \$5,000 or more and an estimated useful life in excess of one year. Capital assets are recorded at historical cost or estimated historical cost. Donated capital assets are recorded at acquisition value, which is the price that would be paid to acquire the asset on the acquisition date. The District has not capitalized interest incurred during the construction of its capital assets. The costs of normal maintenance and repairs that do not add to the value of the assets or materially extend asset lives are not capitalized.

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 1 – Summary of Significant Accounting Policies (continued)

Capital Assets (continued)

Depreciable capital assets, which primarily consist of water, wastewater and drainage facilities, are depreciated using the straight-line method as follows:

<u>Assets</u>	<u>Useful Life</u>
Water, wastewater, and drainage facilities	45 years
Interest in joint facilities	45 years
Landscaping improvements	10-30 years

The District's detention facilities and drainage channels are considered improvements to land and are non-depreciable.

Deferred Inflows and Outflows of Financial Resources

A deferred inflow of financial resources is the acquisition of resources in one period that is applicable to a future period, while a deferred outflow of financial resources is the consumption of financial resources in one period that is applicable to a future period. A deferred inflow results from the acquisition of an asset without a corresponding revenue or assumption of a liability. A deferred outflow results from the use of an asset without a corresponding expenditure or reduction of a liability.

At the fund level, property taxes receivable not collected within 60 days of fiscal year end do not meet the availability criteria required for revenue recognition and are recorded as deferred inflows of financial resources.

Net Position – Governmental Activities

Governmental accounting standards establish the following three components of net position:

Net investment in capital assets – represents the District's investments in capital assets, less any outstanding debt or other borrowings used to acquire those assets.

Restricted – consists of financial resources that are restricted for a specific purpose by enabling legislation or external parties.

Unrestricted – resources not included in the other components.

Note 1 – Summary of Significant Accounting Policies (continued)

Fund Balances – Governmental Funds

Governmental accounting standards establish the following fund balance classifications:

Nonspendable - amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District's nonspendable fund balance consists of prepaid items and operating reserves paid to Brazoria County Municipal District 40 for the joint water and wastewater facilities.

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments. The District's restricted fund balances consist of unspent bond proceeds in the Capital Projects Fund and property taxes levied for debt service in the Debt Service Fund.

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

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

Unassigned - all other spendable amounts in the General Fund.

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

Use of Estimates

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

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 2 – Adjustment from Governmental to Government-wide Basis

Reconciliation of the *Governmental Funds Balance Sheet* to the *Statement of Net Position*

Total fund balance, governmental fund	\$ 3,488,188
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Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.

Historical cost	\$ 34,140,907	
Less accumulated depreciation	<u>(3,334,410)</u>	
Change due to capital assets		30,806,497

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

Bonds payable, net	(23,741,038)	
Interest payable on bonds	(77,093)	
Bond anticipation note payable	<u>(1,465,000)</u>	
Change due to long-term debt		(25,283,131)

Amounts due to the District's developers for prefunded construction and operating advances are recorded as a liability in the <i>Statement of Net Position</i> .	(27,390,508)
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Property taxes receivable and related penalties and interest have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.	37,509
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Total net position - governmental activities	<u><u>\$ (18,341,445)</u></u>
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Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 2 – Adjustment from Governmental to Government-wide Basis (continued)

Reconciliation of the Governmental Funds Statement of Revenues, Expenditures and Changes in Fund Balances to the Statement of Activities

Net change in fund balances - total governmental funds \$ 1,572,117

Governmental funds do not report revenues that are not available to pay current obligations. In contrast, such revenues are reported in the *Statement of Activities* when earned. The difference is for property taxes and related penalties and interest. (57,911)

Governmental funds report capital outlays for developer reimbursements and construction costs as expenditures in the funds; however, in the *Statement of Activities*, the cost of capital assets is charged to expense over the estimated useful life of the asset.

Capital outlays	\$ 4,180,290	
Depreciation expense	(842,291)	
		3,337,999

The issuance of long-term debt provides current financial resources to governmental funds, while the repayment of principal uses current financial resources. However, neither transaction has any effect on net assets. Other elements of debt financing are reported differently between the fund and government wide statements.

Issuance of long term debt	(6,815,000)	
Principal repayments	260,000	
Issuance of bond anticipation note	(1,465,000)	
Repayment of bond anticipation note	2,340,000	
Interest expense accrual	(10,192)	
		(5,690,192)

Amounts paid to the District's developers for operating advances use financial resources at the fund level, but are recorded as a reduction in the liability in the *Statement of Net Position*. 65,000

The District conveys public roads to Brazoria County upon completion of construction. Since these improvements are funded by the developers, financial resources are not expended in the fund financial statements; however, in the *Statement of Activities*, these amounts are reported as transfers to other governments. (830,343)

Change in net position of governmental activities	\$ (1,603,330)
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Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash) is the risk that, in the event of the failure of the depository institution, a government will not be able to recover its deposits or will not be able to recover collateral securities. The *Public Funds Collateral Act* (Chapter 2257, Texas Government Code) requires that all of the District's deposits with financial institutions be covered by federal depository insurance and, if necessary, pledged collateral held by a third-party custodian. The act further specifies the types of securities that can be used as collateral. The District's written investment policy establishes additional requirements for collateralization of deposits.

Investments

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

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

As of March 31, 2020, the District's investments consist of the following:

Type	Fund	Carrying Value	Rating	Weighted Average Maturity
Texas CLASS	General	\$ 1,435,909	AAAm	43 days
	Debt Service	1,490,910		
	Capital Projects	524,655		
	Total	<u>\$ 3,451,473</u>		

Note 3 – Deposits and Investments (continued)

Texas CLASS

The District participates in Texas Cooperative Liquid Assets Securities System (Texas CLASS). Texas CLASS is managed by an elected Board of Trustees consisting of members of the pool. Additionally, the Board of Trustees has established an advisory board, the function of which is to provide guidance on investment policies and strategies. The Board of Trustees has selected Public Trust Advisors, LLC as the program administer and Wells Fargo Bank as the custodian.

The District's investment in Texas CLASS is reported at fair value because Texas CLASS uses fair value to report investments (other than repurchase agreements which are valued at amortized cost). Governmental accounting standards establish the following hierarchy of inputs used to measure fair value: Level 1 inputs are based on quoted prices in active markets, Level 2 inputs are based on significant other observable inputs, and Level 3 inputs are based on significant unobservable inputs. The District's investment in Texas CLASS is measured using published fair value per share (level 1 inputs).

Investments in Texas CLASS may be withdrawn via wire transfer on a same day basis, as long as the transaction is executed by 4 p.m. ACH withdrawals made by 4 p.m. will settle on the next business day.

Investment Credit and Interest Rate Risk

Investment credit risk is the risk that the investor may not recover the value of an investment from the issuer, while interest rate risk is the risk that the value of an investment will be adversely affected by changes in interest rates. The District's investment policies do not address investment credit and interest rate risk beyond the rating and maturity restrictions established by state statutes.

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at March 31, 2020, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 21,806	Maintenance tax collections not remitted as of year end
General Fund	Capital Projects Fund	14,802	Bond application fees and capital outlay paid by the General Fund

Amounts reported as internal balances between funds are considered temporary balances and will be paid during the following fiscal year.

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended March 31, 2020, is as follows:

	Beginning Balances	Additions/ Adjustments	Ending Balances
Capital assets not being depreciated			
Land and improvements	\$ 7,006,275	\$ 370,749	\$ 7,377,024
Capital assets being depreciated			
Water, wastewater, and drainage facilities	14,377,976	207,226	14,585,202
Interest in joint facilities	6,663,580	296,270	6,959,850
Landscaping improvements	5,218,831		5,218,831
	<u>26,260,387</u>	<u>503,496</u>	<u>26,763,883</u>
Less accumulated depreciation			
Water, wastewater, and drainage facilities	(1,087,360)	(324,114)	(1,411,474)
Interest in joint facilities	(542,358)	(151,776)	(694,134)
Landscaping improvements	(862,401)	(366,401)	(1,228,802)
	<u>(2,492,119)</u>	<u>(842,291)</u>	<u>(3,334,410)</u>
Subtotal depreciable capital assets, net	<u>23,768,268</u>	<u>(338,795)</u>	<u>23,429,473</u>
Capital assets, net	<u>\$ 30,774,543</u>	<u>\$ 31,954</u>	<u>\$ 30,806,497</u>

Depreciation expense for the current year was \$842,291.

Note 6 – Bond Anticipation Note

The District uses a bond anticipation note (BAN) to provide short-term financing for reimbursements to its developers. Despite its short-term nature, a BAN is not recorded as a fund liability, since it will not be repaid from current financial resources and will be repaid through the issuance of long-term debt or another BAN. It is, however, recorded as a liability at the government-wide level.

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$2,340,000. This BAN was repaid on September 26, 2019 with proceeds from the issuance of the District's Series 2019 Unlimited Tax Bonds.

On October 29, 2019, the District issued a \$1,465,000 BAN with an interest rate of 1.93%, which is due on October 27, 2020.

The effect of these transactions on the District's short-term obligations are as follows:

Beginning balance	\$ 2,340,000
Amounts borrowed	1,465,000
Amounts repaid	<u>(2,340,000)</u>
Ending balance	<u>\$ 1,465,000</u>

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 7 – Due to Developers

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

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

Changes in amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$	29,931,210
Developer funded construction and adjustments		1,704,588
Developer reimbursements		(4,180,290)
Repayment of operating advances		(65,000)
Due to developers, end of year	\$	<u>27,390,508</u>

In addition, the District will owe the developers approximately \$952,573 which is included in the following schedule of contractual commitments. The exact amount is not known until approved by the TCEQ and verified by the District's auditor. As previously noted, these projects will be reported in the government-wide financial statements upon completion of construction.

	Contract Amount	Amounts Paid	Remaining Commitment
Water supply plant no. 1, Phase II*	\$ 22,526	\$ 16,386	\$ 6,140
Pomona Parkway, Phase 4	365,171	186,856	178,315
Big Island clearing and grubbing	196,890	177,201	19,689
Croix Parkway water line extension and storm sewer outfall	367,986	331,187	36,799
	<u>\$ 952,573</u>	<u>\$ 711,630</u>	<u>\$ 240,943</u>

*District's share of contract

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 23,860,000
Unamortized discounts	(118,962)
	<u>\$ 23,741,038</u>
Due within one year	<u>\$ 655,000</u>

The District's bonds payable at March 31, 2020, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Date
2016 Road	\$ 4,775,000	\$ 4,900,000	2.00% to 4.00%	September 1, 2019/2042	September 1, March 1	September 1, 2024
2017	2,020,000	2,070,000	2.00% to 3.75%	September 1, 2019/2042	September 1, March 1	September 1, 2025
2017 Road	3,210,000	3,295,000	1.70% to 4.00%	September 1, 2019/2042	September 1, March 1	September 1, 2025
2018	4,410,000	4,410,000	3.00% to 5.50%	September 1, 2020/2043	September 1, March 1	September 1, 2023
2018 Road	2,630,000	2,630,000	3.00% to 5.50%	September 1, 2020/2043	September 1, March 1	September 1, 2023
2019	4,450,000	4,450,000	2.00% to 3.00%	September 1, 2020/2044	September 1, March 1	September 1, 2024
2019 Road	2,365,000	2,356,000	2.50% to 4.00%	September 1, 2020/2044	September 1, March 1	September 1, 2024
	<u>\$ 23,860,000</u>					

Payments of principal and interest on all series of bonds are to be provided from taxes levied on all properties within the District. Investment income realized by the Debt Service Fund from investment of idle funds will be used to pay outstanding bond principal and interest. The District is in compliance with the terms of its bond resolutions.

At March 31, 2020, the District had authorized but unissued bonds in the amount of \$301,570,000 for water, sewer and drainage facilities and the refunding of such bonds; \$59,000,000 for park and recreational facilities and the refunding of such bonds; and \$147,810,000 for road improvements and the refunding of such bonds.

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 8 – Long-Term Debt (continued)

On September 26, 2019, the District issued its \$4,450,000 Series 2019 Unlimited Tax Bonds at a net effective interest rate of 2.693998%. Proceeds of the bonds were used to (1) reimburse developers for the cost of capital assets constructed within the District plus interest expense at the net effective interest rate of the bonds; (2) to repay a \$2,340,000 BAN issued in the previous fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

Also on September 26, 2019, the District issued its \$2,365,000 Series 2019 Unlimited Tax Road Bonds at a net effective interest rate of 2.777405%. Proceeds of the bonds were used to reimburse developers for the cost of road improvements constructed within the District plus interest expense at the net effective interest rate of the bonds and to pay capitalized interest into the Debt Service Fund.

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

Bonds payable, beginning of year	\$ 17,305,000
Bonds issued	6,815,000
Bonds retired	<u>(260,000)</u>
Bonds payable, end of year	<u>\$ 23,860,000</u>

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 8 – Long-Term Debt (continued)

As of March 31, 2020, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2021	\$ 655,000	\$ 771,570	\$ 1,426,570
2022	660,000	750,750	1,410,750
2023	690,000	728,355	1,418,355
2024	705,000	703,982	1,408,982
2025	745,000	678,274	1,423,274
2026	760,000	653,390	1,413,390
2027	800,000	630,065	1,430,065
2028	820,000	606,823	1,426,823
2029	860,000	583,117	1,443,117
2030	880,000	558,253	1,438,253
2031	925,000	531,504	1,456,504
2032	955,000	502,689	1,457,689
2033	995,000	472,170	1,467,170
2034	1,025,000	439,875	1,464,875
2035	1,065,000	405,956	1,470,956
2036	1,110,000	370,324	1,480,324
2037	1,155,000	332,632	1,487,632
2038	1,195,000	292,879	1,487,879
2039	1,240,000	250,938	1,490,938
2040	1,285,000	206,682	1,491,682
2041	1,325,000	160,519	1,485,519
2042	1,380,000	112,357	1,492,357
2043	1,445,000	62,001	1,507,001
2044	815,000	22,969	837,969
2045	370,000	4,856	374,856
	<u>\$ 23,860,000</u>	<u>\$ 10,832,930</u>	<u>\$ 34,692,930</u>

Note 9 – Property Taxes

On May 10, 2014, the voters of the District authorized the District's Board of Directors to levy taxes annually for use in financing general operations limited to \$1.50 per \$100 of assessed value. The District's bond resolutions require that property taxes be levied for use in paying interest and principal on long-term debt and for use in paying the cost of assessing and collecting taxes. Taxes levied to finance debt service requirements on long-term debt are without limitation as to rate or amount.

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

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 9 – Property Taxes (continued)

Property taxes are collected based on rates adopted in the year of the levy. The District's 2020 fiscal year was financed through the 2019 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, of which \$0.72 was allocated to maintenance and operations, \$0.34 to utility system debt service, and \$0.44 to road system debt service. The resulting tax levy was \$2,631,561 on the adjusted taxable value of \$175,437,430.

Property taxes receivable, at March 31, 2020, consisted of the following:

Current year taxes receivable	\$ 34,411
Penalty and interest receivable	3,098
Property taxes receivable	<u>\$ 37,509</u>

Note 10 – Transfers to Other Governments

Brazoria County assumes responsibility for the maintenance of public roads constructed within the boundaries of the District. Accordingly, these facilities are considered to be capital assets of Brazoria County, not the District. The estimated cost of each project is trued-up when the developer is subsequently reimbursed. For the year ended March 31, 2020, the District recorded transfers to other governments in the amount of \$798,379 for road facilities constructed by developers within the District that will be maintained by Brazoria County.

Note 11 – Development and Maintenance of Recreational Facilities Agreement

On November 15, 2016, the District entered into an agreement with the Pomona Residential Community Association ("Association") for the development and maintenance of recreational facilities which serve the public within the District's boundaries. Under the terms of the agreement, the District designs and constructs recreational facilities within the District. The Association agrees to operate, maintain, and repair the recreational facilities with the District contributing up to one-half of the annual agreed upon budgeted maintenance and operation expenses of the facilities. The budgets will be decided at least 30 days prior to the beginning of each of the District's fiscal years. During the current fiscal year, the District reported \$284,654 to the repairs and maintenance of the recreational facilities within the District.

On March 24, 2020, the District, the Association and Brazoria County Municipal Utility District 40 ("MUD 40") executed an amended and restated agreement for the development and maintenance of recreational facilities which serve the public within the boundaries of both districts. This agreement rescinded and replaced the original agreement. Under the terms of the new agreement, the districts are responsible for the design and construction of recreational facilities within their respective boarders. The Association agrees to operate, maintain, and repair the recreational facilities with the districts contributing one-half of the annual agreed upon budgeted maintenance and operation expenses of the facilities. Each district's share of the contribution will be determined on the basis of active equivalent single-family connections to be calculated each December. The budgets will be decided at least 30 days prior to the beginning of each of the district's fiscal years.

Note 12 – Joint Facilities and Cost Sharing Agreement

On February 27, 2018, the District and MUD 40 entered into an agreement for the construction and ownership of shared water, wastewater, detention, and recreational facilities. Pursuant to the agreement, the districts will operate the water and wastewater facilities as an open system with costs shared between the districts. MUD 40 will be responsible for the operation and maintenance of the shared facilities. The term of the agreement is 40 years.

Water Supply and Sewer Plant Facilities

Since development within the District commenced prior to development within MUD 40, the District entered into various leases and contracts for the construction and installation of water and wastewater treatment facilities in order to provide water supply and wastewater treatment facilities within the District. The District is to transfer legal title of any completed water supply and sewer plant facilities currently in use by the District to MUD 40 for the benefit of both districts. During the current fiscal year, the District submitted an application to the TCEQ to transfer the wastewater discharge permit from the District to MUD 40. This application was approved by TCEQ subsequent to fiscal year end.

Capacity in the facilities may be leased to the other district or may be sold to an external party. The pro rata shares of the facilities shall be redetermined based on any such new allocation. As the districts develop, expansions of the facilities are expected to meet needs. Any such expansion shall be carried out by MUD 40 on behalf of the districts with all capital costs shared based on a pro rata basis.

Regional Detention and Recreational Facilities

Each district is authorized, individually or in conjunction with the other district, to construct and maintain regional detention and recreational facilities. The districts agree that each district shall own legal title to the facilities within its boundaries for the benefit of both districts, although MUD 40 shall be the operator of the regional detention and recreational facilities on behalf of both districts. As of March 31, 2020, the District has constructed such facilities within its boundaries and MUD 40 has also constructed such facilities within its boundaries. Each district will continue to construct regional detention and recreational facilities as development continues in each district.

Operation and Maintenance of Water Plant and Wastewater Treatment Plant

Both districts recognize that MUD 40 will be the sole operator of the facilities to serve both districts and agree that each district shall pay their respective shares of operation and maintenance expenses on a monthly basis. Fixed expenses are allocated to each district based on their pro rata share of total capacity in the facilities. Variable expenses are allocated to each district based on the active equivalent-single family-connections (“ESFCs”) of each district as a percentage of the total ESFCs served by the facilities. MUD 40 has established a separate accounting fund to account for each of the facilities. MUD 40 also established an operating reserve in each accounting fund, which is based on two months average budgeted operation and maintenance costs.

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 12 – Joint Facilities and Cost Sharing Agreement (continued)

As of March 31, 2020, the District has paid operating reserves of \$16,494 to MUD 40 for the water plant and \$43,128 for the joint wastewater treatment plant. During the current year, the District recorded \$69,803 in purchased services for water plant billings and \$200,766 in purchased services for joint wastewater treatment plant billings.

Lease Agreements

On June 24, 2014, the District entered into an operating lease agreement for a temporary wastewater treatment plant with Gaylord Investment Company. This lease is for a 60-month term, unless otherwise terminated, with monthly payments of \$8,999. On August 8, 2018, the District entered into an operating lease agreement for an expansion of the existing wastewater treatment plant with AUC Group, LP. This lease is for a 60-month term, unless otherwise terminated, with monthly lease payments of \$2,215. The District has the option to extend the leases on a month to month basis following expiration of the initial terms. Since MUD 40 is responsible for the operation and maintenance of the joint sewer facilities, MUD 40 began funding the District's lease payment obligations during the current fiscal year.

Future minimum payments as of March 31, 2020, for the leases are as follows:

<u>Year</u>	<u>Amount</u>
2021	\$ 44,578
2022	26,580
2023	26,580
2024	26,580
	<u>\$ 124,318</u>

Note 13 – Risk Management

The District is exposed to various risks of loss related to torts: theft of, damage to and destruction of assets; errors and omissions; and personal injuries. The risk of loss is covered by commercial insurance. There have been no significant reductions in insurance coverage from the prior year. Settlement amounts have not exceeded insurance coverage for the current year or the three prior years.

Note 14 – COVID-19

The World Health Organization has declared a pandemic following the outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus (the "Pandemic"), which is currently affecting many parts of the world, including the United States and Texas. Federal, state and local governments have all taken actions to respond to the Pandemic, including disaster declarations by both the President of the United States and the Governor of Texas. On March 31, 2020, the Governor issued an executive order closing all non-essential businesses in the State. This order expired on April 30, 2020.

Brazoria County Municipal Utility District No. 39
Notes to Basic Financial Statements
March 31, 2020

Note 14 – COVID-19 (continued)

Additionally, all the counties in the greater Houston area adopted various “Work Safe – Stay Home” orders. Such actions are focused on limiting instances where the public can congregate or interact with each other. These precautions resulted in the temporary closure of all non-essential businesses in the State.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets locally and globally, and is widely expected to continue negatively affecting the economic growth and financial markets worldwide and within Texas. These negative impacts may reduce or negatively affect property taxes and ad valorem tax revenues within the District. While the potential impact of COVID-19 on the District cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the District’s operations and financial condition.

Note 15 – Subsequent Event

On July 28, 2020, the District approved a notice of sale and preliminary official statement for its Series 2020 Unlimited Tax Road Bonds in the amount of \$2,140,000. The acceptance of bids and award of sale is scheduled for August 25, 2020. Proceeds of the bonds will be used to reimburse developers for amounts currently reported in “Due to developer.”

Required Supplementary Information

Brazoria County Municipal Utility District No. 39**Required Supplementary Information - Budgetary Comparison Schedule - General Fund****For the Year Ended March 31, 2020**

	Original Budget	Final Budget	Actual	Variance Positive (Negative)
Revenues				
Water service	\$ 363,300	\$ 320,000	\$ 278,804	\$ (41,196)
Sewer service	403,400	403,400	354,078	(49,322)
Property taxes	1,192,483	1,237,387	1,330,020	92,633
Penalties and interest	18,700	14,000	10,041	(3,959)
Groundwater pumpage fees	2,200	2,040	1,926	(114)
Tap connection and inspection	148,200	114,220	61,836	(52,384)
Miscellaneous	10,800	8,800	3,750	(5,050)
Investment earnings	17,396	17,456	13,667	(3,789)
Total Revenues	2,156,479	2,117,303	2,054,122	(63,181)
Expenditures				
Current service operations				
Purchased services	21,367	352,881	270,569	82,312
Professional fees	143,700	143,700	120,640	23,060
Contracted services	267,990	230,800	211,804	18,996
Repairs and maintenance	235,765	256,622	293,330	(36,708)
Utilities	80,000	26,000	26,866	(866)
Lease	108,807		4,430	(4,430)
Administrative	58,150	51,627	36,377	15,250
Other	16,863	15,863	13,659	2,204
Intergovernmental				
Capital contribution	143,782	267,107	284,654	(17,547)
Total Expenditures	1,076,424	1,344,600	1,262,329	82,271
Revenues Over Expenditures	1,080,055	772,703	791,793	19,090
Other Financing Sources				
Internal transfers		21,686		(21,686)
Net Change in Fund Balance	1,080,055	794,389	791,793	(2,596)
Fund Balance				
Beginning of the year	693,734	693,734	693,734	
End of the year	<u>\$ 1,773,789</u>	<u>\$ 1,488,123</u>	<u>\$ 1,485,527</u>	<u>\$ (2,596)</u>

Brazoria County Municipal Utility District No. 39
Notes to Required Supplementary Information
March 31, 2020

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund by the District's Board of Directors. The budget is prepared using the same method of accounting as for financial reporting. The budget was amended during the year to reflect changes in anticipated revenues and expenditures.

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Texas Supplementary Information

Brazoria County Municipal Utility District No. 39

TSI-1. Services and Rates

March 31, 2020

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

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

2. Retail Service Providers

(You may omit this information if your district does not provide retail services)

a. Retail Rates for a 5/8" meter (or equivalent):

	Minimum Charge	Minimum Usage	Flat Rate (Y / N)	Rate per 1,000 Gallons Over Minimum Usage	Usage Levels	
Water:	\$ 32.00	10,000	N	\$ 2.90	10,001	to 20,000
				\$ 3.50	20,001	to 25,000
				\$ 4.40	25,001	to unlimited
Wastewater:	\$ 47.70	10,000	N	\$ 1.50	10,001	to 20,000
				\$ 1.75	20,001	to 25,000
				\$ 2.00	25,001	to unlimited
Surcharge:	\$ 0.03	1,000	N	\$ 0.03	1,001	to unlimited

District employs winter averaging for wastewater usage? ☐ Yes ☒ No

Total charges per 10,000 gallons usage: Water \$ 32.30 Wastewater \$ 47.70

b. Water and Wastewater Retail Connections:

Meter Size	Total Connections	Active Connections	ESFC Factor	Active ESFC'S
Unmetered			x 1.0	
less than 3/4"	248	248	x 1.0	248
1"	343	342	x 2.5	855
1.5"	1	1	x 5.0	5
2"	8	8	x 8.0	64
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"	1	1	x 80.0	80
10"			x 115.0	
Total Water	601	600		1,252
Total Wastewater	585	584	x 1.0	584

See accompanying auditor's report.

Brazoria County Municipal Utility District No. 39
TSI-1. Services and Rates
March 31, 2020

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):
(You may omit this information if your district does not provide water)

*Gallons purchased into system: 7,550,000

Gallons pumped into system: 76,789,000

Gallons billed to customers: 70,485,000

**Water Accountability Ratio:
(Gallons billed / Gallons pumped)
83.57%

4. Standby Fees (authorized only under TWC Section 49.231):
(You may omit this information if your district does not levy standby fees)

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

If yes, Date of the most recent commission Order: _____

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

If yes, Date of the most recent commission Order: _____

5. Location of District (required for first audit year or when information changes,
otherwise this information may be omitted):

Is the District located entirely within one county? Yes ☒ No ☐

County(ies) in which the District is located: Brazoria County

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

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

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

Entirely ☒ Partly ☐ Not at all ☐

ETJs in which the District is located: City of Manvel

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

If Yes, by whom? _____

*Water purchased from Brazoria County MUD 25 per emergency interconnect agreement.

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-2 General Fund Expenditures
For the Year Ended March 31, 2020

Purchased services	\$ 270,569
Professional fees	
Legal	92,106
Audit	11,500
Engineering	17,034
	<u>120,640</u>
Contracted services	
Bookkeeping	31,525
Operator	28,879
Garbage collection	101,855
Tap connection and inspection	49,545
	<u>211,804</u>
Repairs and maintenance	<u>293,330</u>
Utilities	<u>26,866</u>
Lease	<u>4,430</u>
Administrative	
Directors fees	9,000
Printing and office supplies	8,509
Insurance	6,696
Other	12,172
	<u>36,377</u>
Other	<u>13,659</u>
Intergovernmental	<u>284,654</u>
Total expenditures	<u>\$ 1,262,329</u>

Reporting of Utility Services in Accordance with HB 3693:

	Usage	Cost
Electrical	236,202 kWh	\$ 26,866
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-3. Investments
March 31, 2020

<u>Fund</u>	<u>Interest Rate</u>	<u>Maturity Date</u>	<u>Balance at End of Year</u>
General			
Texas CLASS	Variable	N/A	\$ 1,435,909
Debt Service			
Texas CLASS	Variable	N/A	611,528
Texas CLASS - Road	Variable	N/A	879,382
			<u>1,490,910</u>
Capital Projects			
Texas CLASS - 2017 Road	Variable	N/A	365
Texas CLASS - 2018 Road	Variable	N/A	36,394
Texas CLASS - 2019	Variable	N/A	478,706
Texas CLASS - 2019 BAN	Variable	N/A	4,938
Texas CLASS - 2019 Road	Variable	N/A	4,252
			<u>524,655</u>
Total - All Funds			<u><u>\$ 3,451,473</u></u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39***TSI-4. Taxes Levied and Receivable******March 31, 2020***

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 87,192	\$ 2,602	\$ 4,368	\$ 94,162
Adjustments to Prior Year Tax Levy	(3,804)	(1,023)	(1,772)	(6,599)
Adjusted Receivable	83,388	1,579	2,596	87,563
2019 Original Tax Levy	1,245,595	588,197	761,197	2,594,989
Adjustments	17,555	8,291	10,728	36,574
Adjusted Tax Levy	1,263,150	596,488	771,925	2,631,563
Total to be accounted for	1,346,538	598,067	774,521	2,719,126
Tax collections:				
Current year	1,246,633	588,688	761,831	2,597,152
Prior years	83,388	1,579	2,596	87,563
Total Collections	1,330,021	590,267	764,427	2,684,715
Taxes Receivable, End of Year	\$ 16,517	\$ 7,800	\$ 10,094	\$ 34,411
Taxes Receivable, By Years				
2019	\$ 16,517	\$ 7,800	\$ 10,094	\$ 34,411
	2019	2018	2017	2016
Property Valuations:				
Land	\$ 44,102,148	\$ 40,832,035	\$ 26,865,689	\$ 25,218,939
Improvements	142,072,200	74,787,374	36,277,804	8,474,751
Personal Property	1,897,640	993,740	365,660	217,300
Exemptions	(12,634,558)	(10,258,814)	(6,965,780)	(5,478,465)
Total Property Valuations	\$ 175,437,430	\$ 106,354,335	\$ 56,543,373	\$ 28,432,525
Tax Rates per \$100 Valuation:				
Maintenance and operations	\$ 0.72	\$ 0.75	\$ 1.04	\$ 1.50
Debt service	0.34	0.28	0.16	
Road debt service	0.44	0.47	0.30	
Total Tax Rates per \$100 Valuation	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Adjusted Tax Levy:	\$ 2,631,561	\$ 1,595,315	\$ 848,151	\$ 426,488
Percentage of Taxes Collected to Taxes Levied **	98.69%	100.00%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 10, 2014

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

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2016 Road--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 130,000	\$ 163,323	\$ 293,323
2022	135,000	160,340	295,340
2023	140,000	157,108	297,108
2024	145,000	153,615	298,615
2025	155,000	149,749	304,749
2026	160,000	145,455	305,455
2027	165,000	140,740	305,740
2028	170,000	135,630	305,630
2029	180,000	130,115	310,115
2030	185,000	124,183	309,183
2031	195,000	117,815	312,815
2032	200,000	111,000	311,000
2033	210,000	103,825	313,825
2034	215,000	96,388	311,388
2035	225,000	88,547	313,547
2036	235,000	80,209	315,209
2037	245,000	71,356	316,356
2038	255,000	61,981	316,981
2039	265,000	51,900	316,900
2040	275,000	41,100	316,100
2041	285,000	29,900	314,900
2042	295,000	18,300	313,300
2043	310,000	6,200	316,200
	<u>\$ 4,775,000</u>	<u>\$ 2,338,779</u>	<u>\$ 7,113,779</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2017--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 55,000	\$ 67,025	\$ 122,025
2022	55,000	65,925	120,925
2023	60,000	64,475	124,475
2024	60,000	62,675	122,675
2025	65,000	60,800	125,800
2026	65,000	58,850	123,850
2027	70,000	56,825	126,825
2028	70,000	54,725	124,725
2029	75,000	52,550	127,550
2030	75,000	50,300	125,300
2031	80,000	47,875	127,875
2032	85,000	45,141	130,141
2033	90,000	42,131	132,131
2034	90,000	38,981	128,981
2035	95,000	35,744	130,744
2036	100,000	32,331	132,331
2037	105,000	28,744	133,744
2038	110,000	24,913	134,913
2039	115,000	20,834	135,834
2040	120,000	16,500	136,500
2041	120,000	12,000	132,000
2042	125,000	7,406	132,406
2043	135,000	2,531	137,531
	<u>\$ 2,020,000</u>	<u>\$ 949,281</u>	<u>\$ 2,969,281</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2017 Road--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 90,000	\$ 108,846	\$ 198,846
2022	90,000	107,046	197,046
2023	95,000	105,009	200,009
2024	100,000	102,666	202,666
2025	105,000	99,999	204,999
2026	105,000	97,059	202,059
2027	110,000	93,886	203,886
2028	115,000	90,454	205,454
2029	120,000	86,751	206,751
2030	125,000	82,769	207,769
2031	130,000	78,513	208,513
2032	135,000	74,041	209,041
2033	140,000	69,313	209,313
2034	145,000	64,325	209,325
2035	150,000	59,088	209,088
2036	160,000	53,508	213,508
2037	165,000	47,616	212,616
2038	170,000	41,503	211,503
2039	175,000	34,900	209,900
2040	185,000	27,700	212,700
2041	190,000	20,200	210,200
2042	200,000	12,400	212,400
2043	210,000	4,200	214,200
	<u>\$ 3,210,000</u>	<u>\$ 1,561,792</u>	<u>\$ 4,771,792</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2018--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 105,000	\$ 167,000	\$ 272,000
2022	110,000	161,363	271,363
2023	115,000	155,450	270,450
2024	120,000	148,988	268,988
2025	125,000	142,250	267,250
2026	130,000	135,563	265,563
2027	140,000	129,513	269,513
2028	145,000	124,538	269,538
2029	150,000	120,113	270,113
2030	155,000	115,538	270,538
2031	165,000	110,531	275,531
2032	170,000	105,088	275,088
2033	180,000	99,175	279,175
2034	190,000	92,700	282,700
2035	195,000	85,963	280,963
2036	205,000	78,963	283,963
2037	215,000	71,344	286,344
2038	225,000	63,094	288,094
2039	235,000	54,469	289,469
2040	245,000	45,469	290,469
2041	255,000	36,094	291,094
2042	265,000	26,344	291,344
2043	280,000	16,125	296,125
2044	290,000	5,438	295,438
	<u>\$ 4,410,000</u>	<u>\$ 2,291,113</u>	<u>\$ 6,701,113</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2018 Road--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 70,000	\$ 96,738	\$ 166,738
2022	70,000	92,888	162,888
2023	75,000	88,900	163,900
2024	75,000	84,775	159,775
2025	80,000	80,513	160,513
2026	80,000	77,113	157,113
2027	85,000	74,638	159,638
2028	90,000	72,013	162,013
2029	95,000	69,238	164,238
2030	95,000	66,388	161,388
2031	100,000	63,338	163,338
2032	105,000	60,006	165,006
2033	110,000	56,444	166,444
2034	110,000	52,731	162,731
2035	115,000	48,863	163,863
2036	120,000	44,750	164,750
2037	125,000	40,384	165,384
2038	130,000	35,763	165,763
2039	135,000	30,959	165,959
2040	140,000	25,975	165,975
2041	145,000	20,719	165,719
2042	155,000	15,094	170,094
2043	160,000	9,188	169,188
2044	165,000	3,094	168,094
	<u>\$ 2,630,000</u>	<u>\$ 1,310,512</u>	<u>\$ 3,940,512</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2019--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 135,000	\$ 106,975	\$ 241,975
2022	130,000	104,325	234,325
2023	135,000	101,000	236,000
2024	135,000	96,950	231,950
2025	140,000	92,825	232,825
2026	145,000	89,275	234,275
2027	150,000	86,325	236,325
2028	150,000	83,325	233,325
2029	155,000	80,275	235,275
2030	160,000	77,125	237,125
2031	165,000	73,669	238,669
2032	170,000	69,900	239,900
2033	175,000	66,019	241,019
2034	180,000	61,800	241,800
2035	185,000	57,238	242,238
2036	190,000	52,550	242,550
2037	195,000	47,738	242,738
2038	200,000	42,800	242,800
2039	205,000	37,738	242,738
2040	210,000	32,550	242,550
2041	215,000	27,103	242,103
2042	220,000	21,394	241,394
2043	230,000	15,488	245,488
2044	235,000	9,384	244,384
2045	240,000	3,150	243,150
	<u>\$ 4,450,000</u>	<u>\$ 1,536,921</u>	<u>\$ 5,986,921</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
Series 2019 Road--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 70,000	\$ 61,663	\$ 131,663
2022	70,000	58,863	128,863
2023	70,000	56,413	126,413
2024	70,000	54,313	124,313
2025	75,000	52,138	127,138
2026	75,000	50,075	125,075
2027	80,000	48,138	128,138
2028	80,000	46,138	126,138
2029	85,000	44,075	129,075
2030	85,000	41,950	126,950
2031	90,000	39,763	129,763
2032	90,000	37,513	127,513
2033	90,000	35,263	125,263
2034	95,000	32,950	127,950
2035	100,000	30,513	130,513
2036	100,000	28,013	128,013
2037	105,000	25,450	130,450
2038	105,000	22,825	127,825
2039	110,000	20,138	130,138
2040	110,000	17,388	127,388
2041	115,000	14,503	129,503
2042	120,000	11,419	131,419
2043	120,000	8,269	128,269
2044	125,000	5,053	130,053
2045	130,000	1,706	131,706
	<u>\$ 2,365,000</u>	<u>\$ 844,532</u>	<u>\$ 3,209,532</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 39
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
March 31, 2020

Due During Fiscal Years Ending	Principal Due September 1	Interest Due September 1, March 1	Total
2021	\$ 655,000	\$ 771,570	\$ 1,426,570
2022	660,000	750,750	1,410,750
2023	690,000	728,355	1,418,355
2024	705,000	703,982	1,408,982
2025	745,000	678,274	1,423,274
2026	760,000	653,390	1,413,390
2027	800,000	630,065	1,430,065
2028	820,000	606,823	1,426,823
2029	860,000	583,117	1,443,117
2030	880,000	558,253	1,438,253
2031	925,000	531,504	1,456,504
2032	955,000	502,689	1,457,689
2033	995,000	472,170	1,467,170
2034	1,025,000	439,875	1,464,875
2035	1,065,000	405,956	1,470,956
2036	1,110,000	370,324	1,480,324
2037	1,155,000	332,632	1,487,632
2038	1,195,000	292,879	1,487,879
2039	1,240,000	250,938	1,490,938
2040	1,285,000	206,682	1,491,682
2041	1,325,000	160,519	1,485,519
2042	1,380,000	112,357	1,492,357
2043	1,445,000	62,001	1,507,001
2044	815,000	22,969	837,969
2045	370,000	4,856	374,856
	<u>\$ 23,860,000</u>	<u>\$ 10,832,930</u>	<u>\$ 34,692,930</u>

See accompanying auditors' report.

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Brazoria County Municipal Utility District No. 39
TSI-6. Change in Long-Term Bonded Debt
March 31, 2020

	Bond Issue			
	Series 2016 Road	Series 2017	Series 2017 Road	Series 2018
Interest rate	2.00% to 4.00%	2.00% to 4.00%	2.00% to 4.00%	3.00% to 5.50%
Dates interest payable	9/1; 3/1	9/1; 3/1	9/1; 3/1	9/1; 3/1
Maturity dates	9/1/19 - 9/1/42	9/1/19 - 9/1/42	9/1/19 - 9/1/42	9/1/20 - 9/1/43
Beginning bonds outstanding	\$ 4,900,000	\$ 2,070,000	\$ 3,295,000	\$ 4,410,000.00
Bonds issued				
Bonds retired	(125,000)	(50,000)	(85,000)	
Ending bonds outstanding	<u>\$ 4,775,000</u>	<u>\$ 2,020,000</u>	<u>\$ 3,210,000</u>	<u>\$ 4,410,000</u>
Interest paid during fiscal year	<u>\$ 166,003</u>	<u>\$ 68,075</u>	<u>\$ 110,424</u>	<u>\$ 169,888</u>
Paying agent's name and city				
All series	<u>Amegy Bank, a division of ZB, N.A., in Houston, Texas</u>			
Bond Authority:	Water, Sewer and Drainage Bonds	Park and Recreational Bonds	Road Bonds	
Amount Authorized by Voters	\$ 312,500,000	\$ 59,000,000	\$ 161,000,000	
Amount Issued	(10,930,000)		(13,190,000)	
Remaining To Be Issued	<u>\$ 301,570,000</u>	<u>\$ 59,000,000</u>	<u>\$ 147,810,000</u>	

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

Debt Service Fund cash and investments balances as of March 31, 2020: \$ 1,515,546

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 1,387,717

See accompanying auditors' report.

Bond Issue			
Series 2018 Road	Series 2019	Series 2019 Road	Totals
3.00% to 5.50%	2.00% to 3.00%	2.50% to 4.00%	
9/1; 3/1	9/1; 3/1	9/1; 3/1	
9/1/20 -	9/1/20 -	9/1/20 -	
9/1/43	9/1/44	9/1/44	
\$ 2,630,000	\$ -	\$ -	\$ 17,305,000
	4,450,000	2,365,000	6,815,000
			(260,000)
<u>\$ 2,630,000</u>	<u>\$ 4,450,000</u>	<u>\$ 2,365,000</u>	<u>\$ 23,860,000</u>
<u>\$ 98,663</u>	<u>\$ 54,163</u>	<u>\$ 31,531</u>	<u>\$ 698,745</u>

Brazoria County Municipal Utility District No. 39
TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years

	Amounts				
	2020	2019	2018	2017	2016
Revenues					
Water service	\$ 278,804	\$ 251,867	\$ 130,524	\$ 66,338	\$ 17,275
Sewer service	354,078	287,644	131,762	67,179	13,921
Property taxes	1,330,020	803,751	591,641	416,588	86,549
Penalties and interest	10,041	11,780	5,532	3,649	679
Groundwater pumpage fees	1,926	1,378	1,121	458	87
Tap connection and inspection	61,836	385,926	470,542	211,662	148,450
Miscellaneous	3,750	10,590	7,613	8,120	5,585
Investment earnings	13,667	4,556	585	159	36
Total Revenues	2,054,122	1,757,492	1,339,320	774,153	272,582
Expenditures					
Current service operations					
Purchased services	270,569	124,546		258	7,900
Professional fees	120,640	152,180	105,168	153,776	101,997
Contracted services	211,804	311,234	309,730	156,087	107,015
Repairs and maintenance	293,330	394,394	352,418	269,659	47,456
Utilities	26,866	65,508	61,667	32,731	16,811
Groundwater pumpage fees			1,155		
Lease expense	4,430	107,988	89,990	89,990	192,988
Administrative	36,377	50,938	24,700	30,390	25,235
Other	13,659	18,597	30,361	10,947	6,041
Intergovernmental	284,654	287,564	218,706	30,980	
Total Expenditures	1,262,329	1,512,949	1,193,895	774,818	505,443
Revenues Over/(Under) Expenditures	\$ 791,793	\$ 244,543	\$ 145,425	\$ (665)	\$ (232,861)
Total Active Retail Water Connections	600	573	398	398	194
Total Active Retail Wastewater Connections	584	558	387	387	183

*Percentage is negligible

**Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues				
2020	2019	2018	2017	2016
14%	14%	10%	9%	6%
17%	16%	10%	9%	5%
65%	46%	44%	54%	33%
*	1%	*	*	*
*	*	*	*	*
3%	22%	35%	27%	54%
*	1%	1%	1%	2%
1%	*	*	*	*
100%	100%	100%	100%	100%
13%	7%		*	3%
6%	9%	8%	20%	37%
10%	18%	23%	20%	39%
14%	22%	26%	35%	17%
1%	4%	5%	4%	6%
		*		
*	6%	7%	12%	71%
2%	3%	2%	4%	9%
1%	1%	2%	1%	2%
14%	16%	16%	4%	
61%	86%	89%	100%	184%
39%	14%	11%	0%	(84%)

Brazoria County Municipal Utility District No. 39

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

For the Last Four Fiscal Years

	Amounts			
	2020	2019	2018	2017
Revenues				
Property taxes	\$ 1,354,695	\$ 797,504	\$ 255,509	\$ -
Penalties and interest	1,572	3,554	7,489	
Accrued interest on bonds sold				7,433
Miscellaneous	6,182	885	2,353	
Investment earnings	19,540	12,977	1,837	227
Total Revenues	<u>1,381,989</u>	<u>814,920</u>	<u>267,188</u>	<u>7,660</u>
Expenditures				
Contracted services	11,754	9,125	8,278	90
Administrative	14,711	7,845	2,877	
Other	5,072	7,613	470	
Debt service				
Principal	260,000		-	
Interest and fees	688,874	505,069	241,879	55,751
Total Expenditures	<u>980,411</u>	<u>529,652</u>	<u>253,504</u>	<u>55,841</u>
Revenues Over/(Under) Expenditures	<u>\$ 401,578</u>	<u>\$ 285,268</u>	<u>\$ 13,684</u>	<u>\$ (48,181)</u>

See accompanying auditors' report.

Percent of Fund Total Revenues			
2020	2019	2018	2017
99%	98%	95%	
*	*	3%	
			97%
*	*	1%	
1%	2%	1%	3%
100%	100%	100%	100%
1%	1%	3%	1%
1%	1%	1%	
*	1%	*	
19%			
50%	62%	91%	728%
71%	65%	95%	729%
29%	35%	5%	(629%)

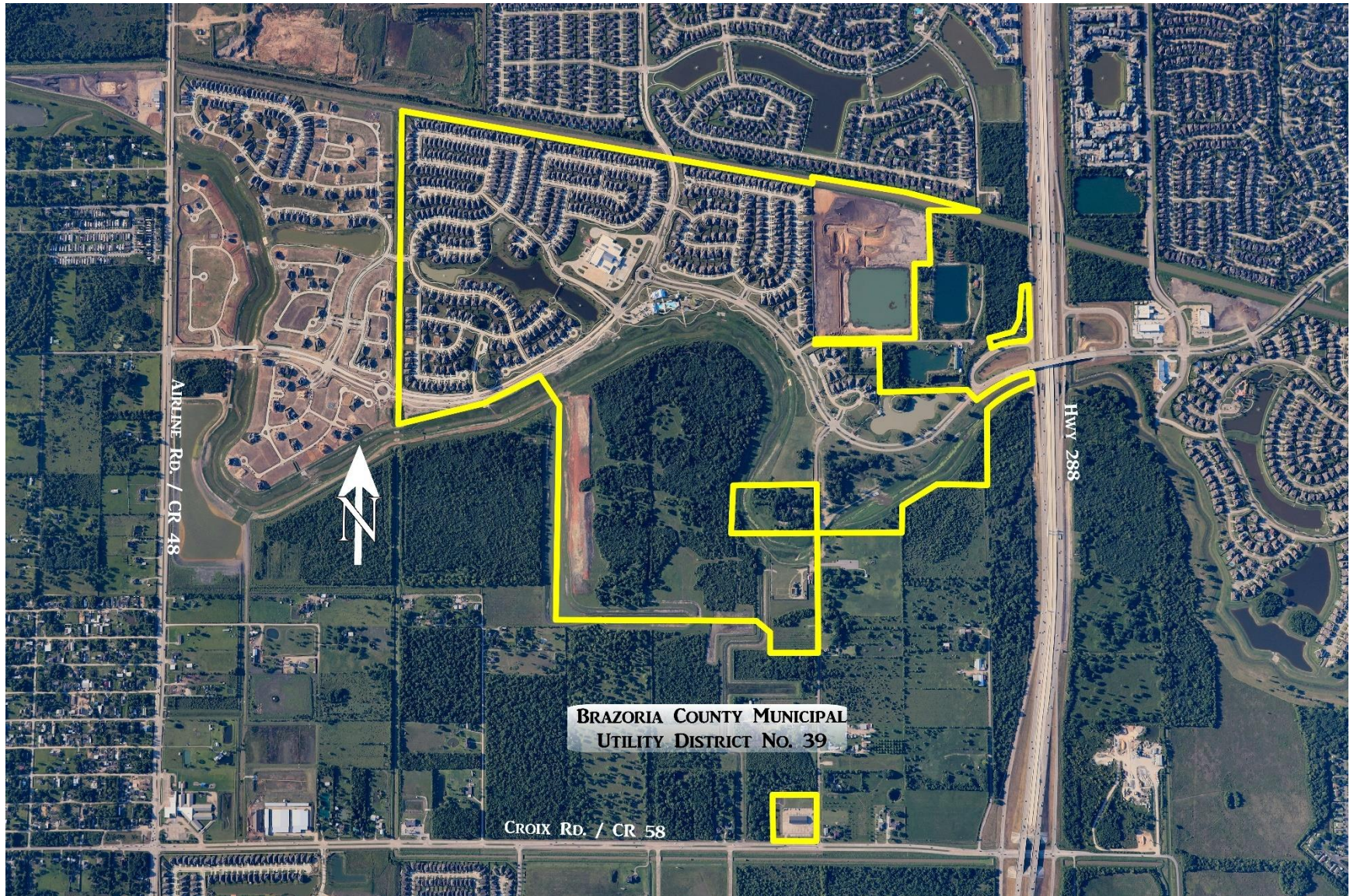
Brazoria County Municipal Utility District No. 39
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended March 31, 2020

Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
District Business Telephone Number: (713) 860-6400
Submission Date of the most recent District Registration Form
(TWC Sections 36.054 and 49.054): February 17, 2020
Limit on Fees of Office that a Director may receive during a fiscal year: \$ 7,200
(Set by Board Resolution -- TWC Section 49.0600)

Names:	Term of Office (Elected or Appointed) or Date Hired	Fees of Office Paid *	Expense Reimburse- ments	Title at Year End
Board Members				
Nancy Davis	05/16 - 05/20	\$ 1,500	\$ 57	President
Jordan Nightingale	05/18 - 05/22	2,250	225	Vice President
Michael Yu	05/16 - 05/20	2,550	384	Secretary
Donna Davis	02/20 - 05/22	300		Assistant Vice President
Terry Reeves	05/18 - 05/22	750	183	Assistant Secretary
Danny Traylor	05/18 - 02/20	1,650	223	Former Director
Consultants				
Allen Boone Humphries Robinson LLP	2007	<u>Amounts Paid</u>		Attorney
<i>General legal fees</i>		\$ 111,510		
<i>Bond counsel</i>		212,540		
Si Environmental, LLC	2013	234,469		Operator
Municipal Accounts	2019	43,435		Bookkeeper
Assessments of the Southwest	2007	8,802		Tax Collector
Brazoria County Appraisal District	Legislative	13,905		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2007	201		Delinquent Tax Attorney
LJA Engineering, Inc.	2007	86,087		Engineer
McGrath & Co., PLLC	2016	27,000		Auditor
R.W. Baird & Co.	2015	153,238		Financial Advisor
Storm Water Solutions	Annual	161,904		Landscape maintenanc

* *Fees of Office* are the amounts actually paid to a director during the District's fiscal year.
See accompanying auditors' report.

APPENDIX B
Aerial Photograph of the District



APPENDIX C

Specimen Municipal Bond Insurance Policy



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

BONDS: \$ in aggregate principal amount of

Policy No: -N

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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