

OFFICIAL STATEMENT DATED JUNE 28, 2022

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 not been designated as "qualified tax-exempt obligations" for financial institutions.

NEW ISSUE – Book Entry Only

Utility Bonds: S&P (AGM Insured) "AA"
Utility Bonds: Moody's (AGM Insured) "A1"
Utility Bonds: Moody's (Underlying) "Baa3"
Road Bonds: S&P (BAM Insured)..... "AA"
Road Bonds: Moody's (Underlying)..... "Baa3"
See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS," "MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS," and "RATINGS."

BRAZORIA COUNTY MUNICIPAL UTILITY DISTRICT NO. 40

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

\$2,645,000
Unlimited Tax Bonds
Series 2022

\$8,945,000
Unlimited Tax Road Bonds
Series 2022A

Dated: July 1, 2022

Interest accrues from: Date of Delivery

Due: September 1, as shown on inside cover

The \$2,645,000 Unlimited Tax Bonds, Series 2022 (the "Utility Bonds"), and the \$8,945,000 Unlimited Tax Road Bonds, Series 2022A (the "Road Bonds," and together with the Utility Bonds, the "Bonds"), are obligations of Brazoria County Municipal Utility District No. 40 (the "District") and are not obligations of the State of Texas ("Texas"); Brazoria County, Texas (the "County"); the City of Manvel, Texas (the "City"); or any political subdivision or entity other than the District. Neither the full faith and credit nor the taxing power of Texas; the County; the City; 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 the initial date of delivery (on or about July 28, 2022), and is payable March 1, 2023, 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 legally binding obligations of the District and will be payable from the proceeds of two (2) separate continuing direct ad valorem taxes, each without legal limit 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 Utility Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Utility Bonds by **ASSURED GUARANTY MUNICIPAL CORP.**



The scheduled payment of principal of and interest on the Road Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Road Bonds by **BUILD AMERICA MUTUAL ASSURANCE COMPANY.**



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 bidders (the "Initial Purchasers"), 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 in book-entry form through the facilities of DTC is expected on or about July 28, 2022.

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

\$2,645,000 Unlimited Tax Bonds, Series 2022

\$740,000 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)
2023	\$50,000	5.000%	2.500%	10607G EA4	2028	\$75,000	5.000%	3.300%	10607G EF3
2024	65,000	5.000%	2.750%	10607G EB2	2029 (c)	80,000	5.000%	3.500%	10607G EG1
2025	65,000	5.000%	2.900%	10607G EC0	2030 (c)	85,000	5.000%	3.600%	10607G EH9
2026	70,000	5.000%	3.100%	10607G ED8	2031 (c)	85,000	5.000%	3.700%	10607G EJ5
2027	75,000	5.000%	3.150%	10607G EE6	2032 (c)	90,000	5.000%	3.800%	10607G EK2

\$1,905,000 Term Bonds

\$295,000 Term Bonds Due September 1, 2035 (c)(d), Interest Rate: 4.000% (Price: \$100.000) (a), CUSIP No. 10607G EN6 (b)

\$215,000 Term Bonds Due September 1, 2037 (c)(d), Interest Rate: 4.000% (Price: \$98.879) (a), CUSIP No. 10607G EQ9 (b)

\$360,000 Term Bonds Due September 1, 2040 (c)(d), Interest Rate: 4.000% (Price: \$98.101) (a), CUSIP No. 10607G ET3 (b)

\$555,000 Term Bonds Due September 1, 2044 (c)(d), Interest Rate: 4.250% (Price: \$100.000) (a), CUSIP No. 10607G EX4 (b)

\$480,000 Term Bonds Due September 1, 2047 (c)(d), Interest Rate: 4.250% (Price: \$99.233) (a), CUSIP No. 10607G FA3 (b)

\$8,945,000 Unlimited Tax Road Bonds, Series 2022A

\$3,730,000 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)
2024	\$220,000	6.000%	2.500%	10607G FB1	2032 (c)	\$310,000	5.000%	3.450%	10607G FK1
2025	230,000	6.000%	2.700%	10607G FC9	2033 (c)	325,000	5.000%	3.550%	10607G FL9
2026	240,000	6.000%	2.850%	10607G FD7	2034 (c)	335,000	5.000%	3.650%	10607G FM7
2027	250,000	6.000%	3.000%	10607G FE5	****	****	****	****	****
****	****	****	****	****	2038 (c)	395,000	4.250%	4.300%	10607G FR6
2030 (c)	285,000	6.000%	3.150%	10607G FH8	2039 (c)	415,000	4.250%	4.350%	10607G FS4
2031 (c)	295,000	5.000%	3.350%	10607G FJ4	2040 (c)	430,000	4.250%	4.400%	10607G FT2

\$5,215,000 Term Bonds

\$535,000 Term Bonds Due September 1, 2029 (c)(d), Interest Rate: 6.000% (Price: \$115.584) (a), CUSIP No. 10607G FG0 (b)

\$1,095,000 Term Bonds Due September 1, 2037 (c)(d), Interest Rate: 4.250% (Price: \$100.000) (a), CUSIP No. 10607G FQ8 (b)

\$920,000 Term Bonds Due September 1, 2042 (c)(d), Interest Rate: 4.250% (Price: \$97.358) (a), CUSIP No. 10607G FV7 (b)

\$1,000,000 Term Bonds Due September 1, 2044 (c)(d), Interest Rate: 4.375% (Price: \$98.257) (a), CUSIP No. 10607G FX3 (b)

\$1,665,000 Term Bonds Due September 1, 2047 (c)(d), Interest Rate: 3.500% (Price: \$82.423) (a), CUSIP No. 10607G GA2 (b)

(a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchasers. 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.

(b) CUSIP numbers have been assigned to this issue by CUSIP Global Services, managed by FactSet Research Systems Inc. on behalf of the American Bankers Association and are included solely for the convenience of the owners of the Bonds.

(c) The Bonds maturing on September 1, 2029, 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 July 1, 2028, 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 sinking fund redemption as provided 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 Purchasers.

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 Purchasers and thereafter only as specified in "OFFICIAL STATEMENT – Updating of Official Statement."

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

Assured Guaranty Municipal Corp. ("AGM") makes no representation regarding the Utility Bonds or the advisability of investing in the Utility 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 FOR THE UTILITY BONDS" and "APPENDIX C."

Build America Mutual Assurance Company ("BAM") makes no representation regarding the Road Bonds or the advisability of investing in the Road Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS" and "APPENDIX D."

TABLE OF CONTENTS

USE OF INFORMATION IN OFFICIAL STATEMENT....	1	Securities Laws.....	4
SALE AND DISTRIBUTION OF THE BONDS	4	MUNICIPAL BOND INSURANCE FOR THE UTILITY	
Award of the Bonds	4	BONDS	4
Prices and Marketability.....	4	Bond Insurance Policy.....	4

Assured Guaranty Municipal Corp.....	5	100 Year Flood Plain.....	34
MUNICIPAL BOND INSURANCE FOR THE ROAD		Joint Facilities/Cost Sharing Agreement.....	34
BONDS.....	6	General Fund Operating Statement.....	35
Bond Insurance Policy.....	6	PHOTOGRAPHS TAKEN WITHIN THE DISTRICT.....	36
Build America Mutual Assurance Company.....	6	DISTRICT DEBT.....	38
RATINGS.....	8	Debt Service Requirement Schedule.....	38
OFFICIAL STATEMENT SUMMARY.....	9	Bonded Indebtedness.....	40
SELECTED FINANCIAL INFORMATION.....	14	Direct and Estimated Overlapping Debt	
INTRODUCTION.....	16	Statement.....	41
THE BONDS.....	16	Debt Ratios.....	41
General.....	16	TAXING PROCEDURES.....	42
Book-Entry-Only System.....	17	Authority to Levy Taxes.....	42
Use of Certain Terms in Other Sections of this		Property Tax Code and County-Wide Appraisal	
Official Statement.....	18	District.....	42
Successor Paying Agent/Registrar.....	18	Property Subject to Taxation by the District.....	42
Registration, Transfer and Exchange.....	19	Tax Abatement.....	43
Redemption of the Bonds.....	19	Valuation of Property for Taxation.....	44
Record Date for Interest Payment.....	21	Tax Payment Installments after Disaster.....	44
Mutilated, Lost, Stolen or Destroyed Bonds.....	21	District and Taxpayer Remedies.....	45
Annexation.....	22	Levy and Collection of Taxes.....	45
Consolidation.....	22	Rollback of Operation and Maintenance Tax	
Outstanding Bonds.....	22	Rate.....	45
Authority for Issuance.....	22	District's Rights in the Event of Tax	
Source of Payment.....	23	Delinquencies.....	46
Funds.....	23	TAX DATA.....	47
Issuance of Additional Debt.....	24	General.....	47
No Arbitrage.....	24	Tax Rate Limitation.....	47
Defeasance.....	25	Maintenance Tax.....	47
Legal Investment and Eligibility to Secure Public		Additional Penalties.....	47
Funds in Texas.....	25	Estimated Overlapping Taxes.....	48
Registered Owners' Remedies.....	26	Tax Rate Calculations.....	48
Short-Term Debt.....	26	Tax Rate Distribution.....	48
Use and Distribution of Utility Bond Proceeds.....	27	Historical Tax Collections.....	49
Use and Distribution of Road Bond Proceeds.....	28	Taxable Assessed Valuation Summary.....	49
THE DISTRICT.....	29	Principal Taxpayers.....	49
Authority.....	29	INVESTMENT CONSIDERATIONS.....	50
Description.....	29	General.....	50
Management of the District.....	29	Infectious Disease Outlook (COVID-19).....	50
Investment Policy.....	30	Factors Affecting Taxable Values and Tax	
Consultants.....	30	Payments.....	50
DEVELOPMENT AGREEMENT AND STRATEGIC		Potential Effects of Oil Price Volatility on the	
PARTNERSHIP AGREEMENT.....	30	Houston Area.....	51
DEVELOPMENT OF THE DISTRICT.....	31	Competitive Nature of Houston Residential	
Status of Development within the District.....	31	Housing Market.....	51
Homebuilders within the District.....	31	Tax Collection Limitations.....	52
Lot-Sales Contracts.....	32	Registered Owners' Remedies and Bankruptcy.....	52
THE DEVELOPERS.....	32	Marketability.....	52
Role of the Developers.....	32	Future Debt.....	52
The Developers.....	33	Continuing Compliance with Certain Covenants.....	53
Development Financing.....	33	Environmental Regulations.....	53
THE ROAD SYSTEM.....	33	Potential Impact of Natural Disaster.....	56
THE UTILITY SYSTEM.....	33	Specific Flood Type Risks.....	56
Regulation.....	33	Hurricane Harvey.....	56
Water Supply.....	33	Changes in Tax Legislation.....	57
Wastewater Treatment.....	34	Bond Insurance Risk Factors.....	57

LEGAL MATTERS.....	58	Certification as to Official Statement	63
Legal Opinions.....	58	Updating of Official Statement.....	63
No-Litigation Certificate	58	CONCLUDING STATEMENT.....	63
No Material Adverse Change	58	APPENDIX A	Audited Financial Statements of the District
TAX MATTERS.....	58	APPENDIX B	Aerial Photograph of the District
Tax Accounting Treatment of Original Issue		APPENDIX C	Specimen Municipal Bond Insurance Policy for the Utility Bonds
Discount Bonds	59	APPENDIX D	Specimen Municipal Bond Insurance Policy for the Road Bonds
Not Qualified Tax-Exempt Obligations.....	60		
CONTINUING DISCLOSURE OF INFORMATION.....	60		
Annual Reports	60		
Event Notices.....	61		
Availability of Information from EMMA	61		
Limitations and Amendments.....	61		
Compliance with Prior Undertakings	62		
OFFICIAL STATEMENT	62		
General	62		
Experts.....	62		

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Utility Bonds, the District has accepted the bid resulting in the lowest net effective interest rate to the District, which was tendered by FMSbonds, Inc. (the "Utility Bonds Initial Purchaser") to purchase the Utility Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.114098% of the par value thereof, which resulted in a net effective interest rate of 4.442113%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

After requesting competitive bids for the Road 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 "Road Bonds Initial Purchaser") to purchase the Road Bonds bearing the interest rates shown under "MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, AND INITIAL REOFFERING YIELDS" at a price of 97.025697% of the par value thereof, which resulted in a net effective interest rate of 4.433156%, as calculated pursuant to Chapter 1204 of the Texas Government Code.

Throughout this Official Statement, the term "Initial Purchasers" refers to the Utility Bonds Initial Purchaser in its capacity as the purchaser of the Utility Bonds and the Road Bonds Initial Purchaser in its capacity as the purchaser of the Road Bonds.

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 Purchasers. 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 Purchasers 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 PURCHASERS 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 SEC 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 FOR THE UTILITY BONDS

Bond Insurance Policy

Concurrently with the issuance of the Utility Bonds, Assured Guaranty Municipal Corp. ("AGM") will issue its Municipal Bond Insurance Policy for the Utility Bonds (the "Utility Bonds Policy"). The Utility Bonds Policy

guarantees the scheduled payment of principal of and interest on the Utility Bonds when due as set forth in the form of the Utility Bonds Policy included as “APPENDIX C” to this Official Statement.

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

Assured Guaranty Municipal Corp.

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

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

Current Financial Strength Ratings

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

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

On July 8, 2021, 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.

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

Capitalization of AGM

At March 31, 2022:

- The policyholders’ surplus of AGM was approximately \$2,909 million.
- The contingency reserve of AGM was approximately \$893 million.
- The net unearned premium reserves and net deferred ceding commission income of AGM and its subsidiaries (as described below) were approximately \$2,116 million. Such amount includes (i) 100% of the net unearned premium reserve and deferred ceding commission income of AGM, and (ii) the net unearned premium reserves and net deferred ceding commissions of AGM’s wholly owned subsidiaries Assured Guaranty UK Limited (“AGUK”) and Assured Guaranty (Europe) SA (“AGE”).

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

Incorporation of Certain Documents by Reference

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

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

All information relating to AGM included in, or as exhibits to, documents filed by AGL with the SEC pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, excluding Current Reports or portions thereof "furnished" under Item 2.02 or Item 7.01 of Form 8-K, after the filing of the last document referred to above and before the termination of the offering of the Utility 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 FOR THE UTILITY BONDS - 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 Utility Bonds or the advisability of investing in the Utility 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 FOR THE UTILITY BONDS."

MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS

Bond Insurance Policy

Concurrently with the issuance of the Road Bonds, Build America Mutual Assurance Company ("BAM") will issue its Municipal Bond Insurance Policy for the Road Bonds (the "Road Bonds Policy"). The Road Bonds Policy guarantees the scheduled payment of principal of and interest on the Road Bonds when due as set forth in the form of the Road Bonds Policy included as "APPENDIX D" to this Official Statement.

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of

states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

The address of the principal executive offices of BAM is: 200 Liberty Street, 27th Floor, New York, New York 10281, its telephone number is: 212-235-2500, and its website is located at: www.buildamerica.com.

BAM is licensed and subject to regulation as a financial guaranty insurance corporation under the laws of the State of New York and in particular Articles 41 and 69 of the New York Insurance Law.

BAM's financial strength is rated "AA/Stable" by S&P Global Ratings, a business unit of S&P. An explanation of the significance of the rating and current reports may be obtained from S&P at <https://www.spglobal.com/en/>. The rating of BAM should be evaluated independently. The rating reflects the S&P's current assessment of the creditworthiness of BAM and its ability to pay claims on its policies of insurance. The above rating is not a recommendation to buy, sell or hold the Road Bonds, and such rating is subject to revision or withdrawal at any time by S&P, including withdrawal initiated at the request of BAM in its sole discretion. Any downward revision or withdrawal of the above rating may have an adverse effect on the market price of the Road Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the Road Bonds 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 Road Bonds Policy), and BAM does not guarantee the market price or liquidity of the Road Bonds, nor does it guarantee that the rating on the Road Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of March 31, 2022 and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$466.8 million, \$172.1 million and \$294.7 million, respectively.

BAM is party to a first loss reinsurance treaty that provides first loss protection up to a maximum of 15% of the par amount outstanding for each policy issued by BAM, subject to certain limitations and restrictions.

BAM's most recent Statutory Annual Statement, which has been filed with the New York State Insurance Department and posted on BAM's website at www.buildamerica.com, is incorporated herein by reference and may be obtained, without charge, upon request to BAM at its address provided above (Attention: Finance Department). Future financial statements will similarly be made available when published.

BAM makes no representation regarding the Road Bonds or the advisability of investing in the Road Bonds. In addition, BAM 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 BAM, supplied by BAM and presented under the heading "MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS."

Additional Information Available from BAM

Credit Insights Videos. For certain BAM-insured issues, BAM produces and posts a brief Credit Insights video that provides a discussion of the obligor and some of the key factors BAM's analysts and credit committee considered when approving the credit for insurance. The Credit Insights videos are easily accessible on BAM's website at www.buildamerica.com/videos. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Credit Profiles. Prior to the pricing of bonds that BAM has been selected to insure, BAM may prepare a pre-sale Credit Profile for those bonds. These pre-sale Credit Profiles provide information about the sector designation (e.g. general obligation, sales tax); a preliminary summary of financial information and key ratios; and demographic and economic data relevant to the obligor, if available. Subsequent to closing, for any offering that includes bonds insured by BAM, any pre-sale Credit Profile will be updated and superseded by a final Credit Profile to include information about the gross par insured by CUSIP, maturity and coupon. BAM pre-sale and final Credit Profiles are easily accessible on BAM's website at www.buildamerica.com/credit-profiles. BAM will produce a Credit Profile for all bonds insured by BAM, whether or not a pre-sale Credit Profile has been

prepared for such bonds. (The preceding website address is provided for convenience of reference only. Information available at such address is not incorporated herein by reference.)

Disclaimers. The Credit Profiles and the Credit Insights videos and the information contained therein are not recommendations to purchase, hold or sell securities or to make any investment decisions. Credit-related and other analyses and statements in the Credit Profiles and the Credit Insights videos are statements of opinion as of the date expressed, and BAM assumes no responsibility to update the content of such material. The Credit Profiles and Credit Insight videos are prepared by BAM; they have not been reviewed or approved by the issuer or the underwriter for the Road Bonds, and the issuer and underwriter assume no responsibility for their content.

BAM receives compensation (an insurance premium) for the insurance that it is providing with respect to the Road Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Road Bonds, whether at the initial offering or otherwise.

RATINGS

The Utility Bonds have received 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 Utility 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. A security rating is not a recommendation to buy, sell or hold securities. Furthermore, 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 Utility Bonds have received an insured rating of “A1” from Moody’s solely in reliance upon the issuance of the municipal bond insurance policy by AGM at the time of delivery of the Utility Bonds. Moody’s has also assigned an underlying credit rating of “Baa3” to the Utility Bonds. An explanation of the rating may be obtained from Moody’s, 7 World Trade Center at 250 Greenwich Street, New York, New York 10007. A security rating is not a recommendation to buy, sell or hold securities. Furthermore, 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 Moody’s, if in its judgment, circumstances so warrant. Any such revisions or withdrawal of the rating may have an adverse effect on the market price of the Utility Bonds.

The Road Bonds have received an insured rating of “AA” from S&P solely in reliance upon the issuance of the municipal bond insurance policy by BAM at the time of delivery of the Road Bonds. An explanation of the ratings of S&P may only be obtained from S&P as described above. In addition, Moody’s has assigned an underlying credit rating of “Baa3” to the Road Bonds. An explanation of the rating of Moody’s may be obtained from Moody’s as described above.

The District is not aware of any rating assigned to the Bonds other than the ratings of S&P and Moody’s as described above.

OFFICIAL STATEMENT SUMMARY

The following information 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. 40 (the “District”), a political subdivision of the State of Texas (“Texas”), is located in Brazoria County, Texas (the “County”). See “THE DISTRICT.”

The Bonds..... The District is issuing \$2,645,000 Unlimited Tax Bonds, Series 2022 (the “Utility Bonds”) and \$8,945,000 Unlimited Tax Road Bonds, Series 2022A (the “Road Bonds”). The Utility Bonds and the Road Bonds are herein referred to collectively as the “Bonds.” The Bonds are dated July 1, 2022, 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 the initial date of delivery (on or about July 28, 2022), at the rates set forth on the inside cover page hereof, and is payable March 1, 2023, and each September 1 and March 1 thereafter until the earlier of stated maturity or redemption. See “THE BONDS.”

Redemption..... The Bonds maturing on and after September 1, 2029, are subject to redemption, in whole or from time to time in part, on July 1, 2028, or on any date thereafter, at the par value thereof. See “THE BONDS – Redemption of the Bonds – *Optional Redemption.*”

The Utility Bonds maturing on September 1 in each of the years 2035, 2037, 2040, 2044, and 2047 are term bonds that are also subject to mandatory sinking fund redemption provisions as set forth herein under “THE BONDS – Redemption of the Bonds – *Mandatory Redemption.*”

The Road Bonds maturing on September 1 in each of the years 2029, 2037, 2042, 2044, and 2047 are term bonds that are also subject to mandatory sinking fund redemption provisions as set forth herein under “THE BONDS – Redemption of the Bonds – *Mandatory Redemption.*”

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 two (2) separate continuing direct ad valorem taxes, each without legal limit 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 Texas; the County; the City of Manvel, Texas (the “City”); or any entity other than the District. See “THE BONDS – Source of Payment.”

Outstanding Bonds.....The District has previously issued its \$6,570,000 Unlimited Tax Bonds, Series 2020, \$4,625,000 Unlimited Tax Road Bonds, Series 2020A, \$5,695,000 Unlimited Tax Bonds, Series 2021, and \$3,155,000 Unlimited Tax Road Bonds, Series 2021A. As of March 31, 2022, \$20,045,000 principal amount of such bonds remains outstanding (the “Outstanding Bonds”). See “THE BONDS – Outstanding Bonds.”

Payment Record.....The Utility Bonds represent the third series of unlimited tax bonds and the Road Bonds represent the third series of unlimited tax road bonds issued by the District. The District has never defaulted on the timely payment of principal and interest on its Outstanding Bonds.

Short-Term Debt.....In connection with the Utility Bonds, the District has issued its \$1,620,000 Bond Anticipation Note, Series 2021, dated December 7, 2021 (the “BAN”), and distributed proceeds from the sale of the BAN as described under “THE BONDS –Use and Distribution of Utility Bond Proceeds.” The BAN accrues interest at a rate of 0.99% per year (computed on the basis of a 365-day year) and matures on December 6, 2022, unless called for redemption prior to maturity, and is payable solely from the proceeds of the Utility Bonds. A portion of proceeds of the Utility Bonds will be used to redeem the BAN.

Authority for Issuance.....The Utility Bonds are issued pursuant to Article XVI, Section 59 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; an election held within the District on November 6, 2018, as described below; a resolution authorizing the issuance of the Utility Bonds adopted by the Board of Directors (the “Board”) of the District on the date of sale of the Utility Bonds (the “Utility Bond Resolution”); and an order of the Texas Commission on Environmental Quality (“TCEQ”).

The Road Bonds are issued pursuant to Article III, Section 52 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; an election held within the District on May 4, 2019, as described below; and a resolution authorizing the issuance of the Road Bonds adopted by the Board on the date of sale of the Road Bonds (the “Road Bond Resolution”).

The Utility Bond Resolution and the Road Bond Resolution are herein referred to collectively as the “Bond Resolutions.”

At an election held within the District on November 6, 2018, voters of the District authorized the District’s issuance of an aggregate of \$275,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing water, sanitary sewer, and storm water drainage facilities to serve the District (the “Utility System”) and for the refunding of such bonds, and \$80,000,000

principal amount of unlimited tax bonds for parks and recreational facilities and for the refunding of such bonds. Additionally, at an election held on May 4, 2019, voters of the District authorized the District's issuance of an aggregate of \$100,000,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring and maintaining a road system to serve the District (the "Road System") and for the refunding of such bonds. Following the issuance of the Bonds, \$260,090,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Utility System and for the refunding of such bonds, \$80,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational facilities to serve the District and for the refunding of such bonds, and \$83,275,000 principal amount of unlimited tax bonds for the purpose of acquiring and maintaining the Road System and for the refunding of such bonds will remain authorized but unissued. See "THE BONDS – Authority for Issuance" and "– Issuance of Additional Debt."

- Use of Utility Bond Proceeds..... Proceeds from the sale of the Utility Bonds will be used to redeem the BAN, along with interest due thereon, the proceeds of which were used to reimburse the Developers (herein defined) for a portion of the construction costs set out herein under "THE BONDS –Use and Distribution of Utility Bond Proceeds." Proceeds of the Utility Bonds will also be used to: reimburse the Developers for the portion of said construction costs that were not reimbursed by the BAN, pay six (6) months of capitalized interest, developer interest, and to pay costs of issuance associated with the BAN and the Utility Bonds.

- Use of Road Bond Proceeds..... A portion of the proceeds of the Road Bonds will be used to reimburse the Developers for the improvements and related engineering and land costs set out herein under "THE BONDS – Use and Distribution of Road Bond Proceeds." Additionally, a portion of the proceeds will be used to pay developer interest and certain costs associated with the issuance of the Road Bonds.

- NOT Qualified Tax-Exempt Obligations The Bonds have not been designated as "qualified tax-exempt obligations" for financial institutions.

- Municipal Bond Insurance Assured Guaranty Municipal Corp. ("AGM") has insured the Utility Bonds and Build America Mutual Assurance Company ("BAM") has insured the Road Bonds. See "MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS" and "MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS" above.

- Ratings.....
 - Utility Bonds: S&P (AGM Insured)..... "AA"
 - Utility Bonds: Moody's (AGM Insured)..... "A1"
 - Utility Bonds: Moody's (Underlying)..... "Baa3"
 - Road Bonds: S&P (BAM Insured)..... "AA"
 - Road Bonds: 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).....In March 2020, the World Health Organization and the President of the United States separately declared the outbreak of a respiratory disease caused by a novel coronavirus (“COVID-19”) to be a public health emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State of Texas because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State of Texas and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities.

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

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

THE DISTRICT

Description.....The District is a political subdivision of Texas, located approximately 18 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. 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 8450 of the Texas Special District Local Laws Code, and other statutes of Texas applicable to municipal utility districts. The District consists of approximately 543.93 total acres. See “THE DISTRICT” and “APPENDIX B.”

Pomona.....The District is one of the two municipal utility districts that make up the approximate 1,060-acre, master-planned community known as “Pomona.” Pomona is comprised of the District and Brazoria County Municipal Utility District No. 39 (“MUD 39”). Development and construction activity within Pomona has occurred in both the District and MUD 39. See “DEVELOPMENT OF THE DISTRICT” for a description of the status of development within Pomona in the District.

Development within the District.....To date, approximately 163.53 acres within the District have been developed as the residential subdivisions of Pomona, Sections 9–16 (586 lots). As of April 7, 2022, the District included approximately 471 completed homes (approximately 444 occupied, 27 unoccupied,

and 0 model homes); approximately 39 homes under construction; and approximately 76 vacant developed lots. The remaining land within the District includes the following: approximately 3.28 acres for Water Supply Plant No. 2; approximately 0.10 acres for Lift Station No. 2 serving Pomona; approximately 209.76 undevelopable acres consisting of easements, rights-of-way, and greenbelts; and approximately 167.26 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 DFH Coventry LLC (“DFH Coventry”).

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.

DFH Coventry 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, DFH Coventry 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, Toll Brothers, and Perry Homes. Homes being constructed in the District range in price from approximately \$370,000 to \$1,400,000 and in size from approximately 1,500 to 5,000 square feet. See “DEVELOPMENT OF THE DISTRICT – Homebuilders within the District.”

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

SELECTED FINANCIAL INFORMATION
(UNAUDITED)

2021 Taxable Assessed Valuation.....	\$ 137,216,967 (a)
2022 Preliminary Assessed Valuation.....	\$ 242,301,754 (b)
Estimate of Value as of April 1, 2022.....	\$ 253,087,280 (c)
Direct Debt:	
Outstanding Bonds.....	\$ 20,045,000
The Utility Bonds	\$ 2,645,000
The Road Bonds.....	<u>\$ 8,945,000</u>
Total.....	\$ 31,635,000
Estimated Overlapping Debt	<u>\$ 13,418,362 (d)</u>
Total Direct and Estimated Overlapping Debt	\$ 45,053,362 (d)
Direct Debt Ratios:	
As a percentage of the 2021 Taxable Assessed Valuation.....	23.05 %
As a percentage of the 2022 Preliminary Assessed Valuation	13.06 %
As a percentage of the Estimate of Value as of April 1, 2022	12.50 %
Direct and Estimated Overlapping Debt Ratios:	
As a percentage of the 2021 Taxable Assessed Valuation	32.83 %
As a percentage of the 2022 Preliminary Assessed Valuation	18.59 %
As a percentage of the Estimate of Value as of April 1, 2022	17.80 %
Capital Projects Fund Balance (as of April 26, 2022).....	\$ 284,867
Road System Debt Service Fund (as of April 26, 2022)	\$ 456,473 (e)
Utility System Debt Service Fund (as of April 26, 2022)	\$ 683,138 (f)
General Operating Fund Balance (as of April 26, 2022).....	\$ 1,662,518

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- (a) Represents the taxable amount of assessed valuation of taxable properties in the District as of January 1, 2021, as provided by the Brazoria County Appraisal District (the "Appraisal District"). See "TAX DATA" and "TAXING PROCEDURES."
- (b) Provided by the Appraisal District for informational purposes only. The amount represents the preliminary determination of the assessed valuation of all taxable property within the District as of January 1, 2021. No taxes will be levied upon this value, which is subject to protest by landowners. The value will be certified by the Brazoria County Appraisal Review Board (the "Appraisal Review Board") and taxes will be levied on this certified value. See "TAX DATA" and "TAXING PROCEDURES."
- (c) Provided by the 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 April 1, 2022, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District through April 1, 2022. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
- (d) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
- (e) Neither Texas law nor the Road 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), including the Utility Bonds.
- (f) In addition to this amount, six (6) months of capitalized interest on the Utility Bonds will be deposited into the Utility System Debt Service Fund upon closing of the Utility Bonds. Neither Texas law nor the Utility 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 Road Bonds.

2021 Tax Rate per \$100 of Taxable Assessed Valuation	
Road System Debt Service	\$0.27
Utility System Debt Service	\$0.42
Maintenance and Operation.....	<u>\$0.81</u>
Total.....	\$1.50 (a)
Average Annual Debt Service Requirement (2022-2047)	\$1,751,271 (b)
Maximum Annual Debt Service Requirement (2045).....	\$1,922,519 (b)
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Average Annual Debt Service Requirement (2022-2047)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$1.35
Based on the 2022 Preliminary Assessed Valuation at 95% Tax Collection.....	\$0.77
Based on the Estimate of Value as of April 1, 2022, at 95% Tax Collections	\$0.73
Debt Service Tax Rate per \$100 of Taxable Assessed Valuation Required to Pay	
Maximum Annual Debt Service Requirement (2045)	
Based on the 2021 Taxable Assessed Valuation at 95% Tax Collections	\$1.48
Based on the 2022 Preliminary Assessed Valuation at 95% Tax Collections.....	\$0.84
Based on the Estimate of Value as of April 1, 2022, at 95% Tax Collections	\$0.80
Single-Family Homes (including 39 homes under construction) as of April 7, 2022	510 (c)
District Population.....	1,554 (d)

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- (a) The District is authorized to levy separate debt service taxes for payment of debt service on bonds issued for the Utility System and for payment of debt service on bonds issued for the Road System. Both such debt services taxes are unlimited as to rate or amount. See "THE BONDS – Authority for Issuance."
- (b) Requirement of debt service on the Bonds and the Outstanding Bonds. See "DISTRICT DEBT – Debt Service Requirement Schedule."
- (c) Approximately 444 homes are occupied.
- (d) Estimate based upon 3.5 residents per occupied single-family home.

BRAZORIA COUNTY MUNICIPAL UTILITY DISTRICT NO. 40

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

\$2,645,000
Unlimited Tax Bonds
Series 2022

\$8,945,000
Unlimited Tax Road Bonds
Series 2022A

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Brazoria County Municipal Utility District No. 40 (the "District") of its \$2,645,000 Unlimited Tax Bonds, Series 2022 (the "Utility Bonds") and \$8,945,000 Unlimited Tax Road Bonds, Series 2022A (the "Road Bonds"). The Utility Bonds and the Road Bonds are herein referred to collectively as the "Bonds."

The Utility Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of the State of Texas ("Texas"), including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; (ii) an election held within the District on November 6, 2018, and passed by a majority of the participating voters; (iii) a resolution authorizing the issuance of the Utility Bonds adopted by the Board of Directors (the "Board") of the District on the date of sale of the Utility Bonds (the "Utility Bond Resolution"); and (iv) an order of the Texas Commission on Environmental Quality ("TCEQ").

The Road Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; (ii) an election held within the District on May 4, 2019, and passed by a majority of the participating voters; and (iii) a resolution authorizing the issuance of the Road Bonds adopted by the Board on the date of sale of the Road Bonds (the "Road Bond Resolution").

The Utility Bond Resolution and the Road Bond Resolution are herein referred to collectively as the "Bond Resolutions."

Unless otherwise indicated, capitalized terms used in this Official Statement have the same meaning assigned to such terms in the Bond Resolutions. This Official Statement includes descriptions of the Bonds, the Developers (herein defined), the Bond Resolutions, 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 Resolutions.

The Bonds are dated July 1, 2022, and will accrue interest from the initial date of delivery (on or about July 28, 2022), with interest payable on March 1, 2023, 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 of the Bonds (the "Registered Owners") at maturity or redemption upon presentation at the principal payment office of the paying agent/registrars, 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.

Use of Certain Terms in Other Sections of this Official Statement

In reading this Official Statement, it should be understood that while the Bonds are in the book-entry form, references in other sections of this Official Statement to Registered Owners should be read to include the person for which the Participant acquires an interest in the Bonds, but (i) all rights of ownership must be exercised through DTC and the book-entry system, and (ii) except as described above, notices that are to be given to Registered Owners under the Bond Resolutions will be given only to DTC.

Successor Paying Agent/Registrar

Provision is made in the Bond Resolutions 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 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 be of the same series, 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, 2029, 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 July 1, 2028, or on any date thereafter, at the par value thereof. 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 series and maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain series and 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 Utility Bonds maturing on September 1 in the years 2035, 2037, 2040, 2044, and 2047 are term bonds (the "Utility Term Bonds") and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Utility Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption (the "Mandatory Redemption Date"), and in the principal amount set forth in the following schedule:

<u>\$295,000 Utility Term Bonds Maturing on September 1, 2035</u>	
<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2033	\$ 95,000
September 1, 2034	\$ 100,000
September 1, 2035 (Maturity)	\$ 100,000

\$215,000 Utility Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2036	\$ 105,000
September 1, 2037 (Maturity)	\$ 110,000

\$360,000 Utility Term Bonds Maturing on September 1, 2040

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2038	\$ 115,000
September 1, 2039	\$ 120,000
September 1, 2040 (Maturity)	\$ 125,000

\$555,000 Utility Term Bonds Maturing on September 1, 2044

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2041	\$ 130,000
September 1, 2042	\$ 135,000
September 1, 2043	\$ 140,000
September 1, 2044 (Maturity)	\$ 150,000

\$480,000 Utility Term Bonds Maturing on September 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2045	\$ 155,000
September 1, 2046	\$ 160,000
September 1, 2047 (Maturity)	\$ 165,000

The Road Bonds maturing on September 1 in the years 2029, 2037, 2042, 2044, and 2047 are term bonds (the "Road Term Bonds," and together with the Utility Term Bonds, the "Term Bonds") and shall be redeemed by lot or other customary method of random selection (or by DTC in accordance with its procedures while the Road Bonds are in book-entry-only form) prior to maturity, at a price equal to the principal amount thereof, plus accrued interest to the Mandatory Redemption Date, and in the principal amount set forth in the following schedule:

\$535,000 Road Term Bonds Maturing on September 1, 2029

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2028	\$ 260,000
September 1, 2029 (Maturity)	\$ 275,000

\$1,095,000 Road Term Bonds Maturing on September 1, 2037

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2035	\$ 350,000
September 1, 2036	\$ 365,000
September 1, 2037 (Maturity)	\$ 380,000

\$920,000 Road Term Bonds Maturing on September 1, 2042

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2041	\$ 450,000
September 1, 2042 (Maturity)	\$ 470,000

\$1,000,000 Road Term Bonds Maturing on September 1, 2044

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2043	\$ 490,000
September 1, 2044 (Maturity)	\$ 510,000

\$1,665,000 Road Term Bonds Maturing on September 1, 2047

<u>Mandatory Redemption Date</u>	<u>Principal Amount</u>
September 1, 2045	\$ 530,000
September 1, 2046	\$ 555,000
September 1, 2047 (Maturity)	\$ 580,000

On or before 30 days prior to each Mandatory Redemption Date set forth above, the Paying Agent/Registrar shall (i) determine the principal amount of such Term Bonds that must be mandatorily redeemed on such Mandatory Redemption Date, after taking into account deliveries for cancellation and optional redemptions as more fully provided for below, (ii) select, by lot or other customary random method, the Term Bonds or portions of the Term Bonds of such maturity to be mandatorily redeemed on such Mandatory Redemption Date, and (iii) give notice of such redemption as provided in the Bond Resolutions. The principal amount of any Term Bonds to be mandatorily redeemed on such Mandatory Redemption Date, shall be reduced by the principal amount of such Term Bond, which, by the 45th day prior to such Mandatory Redemption Date, either has been purchased in the open market and delivered or tendered for cancellation by or on behalf of the District to the Paying Agent/Registrar or optionally redeemed and which, in either case, has not previously been made the basis for a reduction under this sentence

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 (“ETJ”) 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, 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 its \$6,570,000 Unlimited Tax Bonds, Series 2020, \$4,625,000 Unlimited Tax Road Bonds, Series 2020A, \$5,695,000 Unlimited Tax Bonds, Series 2021, and \$3,155,000 Unlimited Tax Road Bonds, Series 2021A. As of March 31, 2022, \$20,045,000 principal amount of such bonds remains outstanding (the “Outstanding Bonds”).

Authority for Issuance

The Utility Bonds are issued pursuant to (i) Article XVI, Section 59 of the Texas Constitution and the general laws of the Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; (ii) an election held within the District on November 6, 2018, and passed by a majority of the participating voters; (iii) the Utility Bond Resolution; and (iv) an order of the TCEQ.

The Road Bonds are issued pursuant to (i) Article III, Section 52 of the Texas Constitution and the general laws of Texas, including particularly Chapters 49 and 54 of the Texas Water Code, as amended, and Chapter 8450 of the Texas Special District Local Laws Code; (ii) an election held within the District on May 4, 2019, and passed by a majority of the participating voters; and (iii) the Road Bond Resolution.

At an election held within the District on November 6, 2018, voters of the District authorized the District’s issuance of an aggregate \$275,000,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, and maintaining water, sanitary sewer, and storm water draining facilities to serve the District (the “Utility System”), and for the further purpose of refunding such bonds, and \$80,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational improvements within the District and for the further purpose of refunding such bonds. Additionally, at an

election held on May 4, 2019, voters of the District authorized the District's issuance of an aggregate \$100,000,000 principal amount of unlimited tax bonds for the purpose of purchasing, constructing, acquiring, and maintaining roads serving the District (the "Road System"), and for the further purpose of refunding such bonds.

Source of Payment

The Bonds are payable from the proceeds of two (2) separate continuing direct ad valorem taxes, each without legal limit as to rate or amount, levied annually by the District against all taxable property located within the District.

In the Bond Resolutions, the District covenants to levy sufficient taxes 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 (the "Appraisal District"). Tax proceeds, after deduction for collection costs, will be placed in the Utility System Debt Service Fund (defined below) and used solely to pay principal of and interest on the bonds issued for the Utility System (such as the Utility Bonds), any additional bonds payable from taxes which may be issued for the Utility System, and fees of the Paying Agent/Registrar. Additionally, 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 bonds issued for the Road System (such as the Road Bonds), 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 Utility System and for the Road System are each supported by a separate unlimited tax levied by the District. Amounts on deposit in the Utility System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Road System, including the Road Bonds, and amounts on deposit in Road System Debt Service Fund may not be used to pay debt service on bonds issued for the Utility System, including the Utility Bonds.

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

Funds

The Utility Bond Resolution confirms the District's fund for debt service on the Utility Bonds issued for the Utility System, and any additional unlimited tax bonds issued by the District for the Utility System (the "Utility System Debt Service Fund"). Six (6) months of capitalized interest on the Utility Bonds will be deposited from the proceeds from sale of the Utility Bonds into the Utility System Debt Service Fund. The Utility System Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Utility Bonds for the Utility System, and any additional unlimited tax bonds issued by the District for the Utility 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 Utility Bonds and any of the District's other duly authorized bonds issued for the Utility System payable in whole or in part from taxes. Amounts on deposit in the Utility 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 Utility Bonds and any additional bonds for the Utility 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 Utility System Debt Service Fund may not be used to pay debt service on bonds issued by the District for the Road System, including the Road Bonds.

The Road Bond Resolution confirms the District's fund for debt service on the Road 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"). The Road System Debt Service Fund, which constitutes a trust fund for the benefit of the owners of the Road 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 Road 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 Road 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, including the Utility Bonds.

Issuance of Additional Debt

The District's voters have authorized the issuance of \$275,000,000 unlimited tax bonds for the Utility System, and for the refunding of such bonds; \$100,000,000 unlimited tax bonds for the Road System, and for the refunding of such bonds; and \$80,000,000 unlimited tax bonds for parks and recreational facilities, and for the refunding of such bonds.

The Utility Bonds are the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the Utility System, and the Road Bonds are the third series of unlimited tax bonds issued by the District for the purpose of acquiring or constructing the Road System. After the issuance of the Bonds, the following principal amounts of unlimited tax bonds will remain authorized but unissued: \$260,090,000 principal amount of unlimited tax bonds for the Utility System and for the further purpose of refunding such bonds; \$83,275,000 principal amount of unlimited tax bonds for the Road System and for the further purpose of refunding such bonds; and \$80,000,000 principal amount of unlimited tax bonds for parks and recreational improvements and for the further purpose of refunding such bonds. The Bond Resolutions impose no limitation on the amount of additional parity bonds which may be used by the District, if authorized by the District's voters.

Issuance of the remaining \$260,090,000 principal amount of unlimited tax bonds for the Utility System and the \$80,000,000 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 \$83,275,000 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 \$9,798,328 for expenditures to construct the Utility System, 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, unless effective June 14, 2021, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) and up to three (3%) of the value of the taxable property in the District.

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 Resolutions provide that the District may discharge its obligations to the Registered Owners of any or all of the Bonds to pay principal, interest, and redemption price thereon in any manner permitted by law. Under current Texas law, such discharge may be accomplished either (i) by depositing with the Comptroller of Public Accounts of 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.

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

Registered Owners' Remedies

Pursuant to Texas law, the Bond Resolutions provide 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 Resolutions into the respective debt service funds, or defaults in the observance or performance of any of the other covenants, conditions or obligations set forth in the Bond Resolutions, 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 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 Resolutions do 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.

Short-Term Debt

In connection with the Utility Bonds, the District has issued its \$1,620,000 Bond Anticipation Note, Series 2021 dated December 7, 2021 (the "BAN"), and distributed proceeds from the sale of the BAN as described under "THE BONDS -Use and Distribution of Utility Bond Proceeds" below. The BAN accrues interest at a rate of 0.99% per year (computed on the basis of a 365-day year) and matures on December 6, 2022, unless called for redemption prior to maturity, and is payable solely from the proceeds of the Utility Bonds.

Use and Distribution of Utility Bond Proceeds

Proceeds from the sale of the Utility Bonds will be used to redeem the BAN along with interest due thereon, the proceeds of which were used to reimburse the Developers (herein defined) for a portion of the construction costs set out in the table below. Proceeds of the Utility Bonds will also be used to: reimburse the Developers for the portion of said construction costs that were not reimbursed by the BAN, pay six (6) months of capitalized interest, developer interest, and to pay costs of issuance associated with the BAN and the Utility Bonds.

<u>Construction Costs</u>	<u>Amount</u>
A. Developer Contribution Items	
1. Pomona Section 13 – W, WW, D	\$ 454,536
2. Pomona Parkway Phase 3 – W, WW, D	423,330
3. Lake “F” Phase 2 to Serve Pomona	851,505
4. Engineering, Surveying, Geotechnical (Items 1-3)	310,593
5. SWPPP (Items 1 and 2)	27,758
6. Pomona Phase 4 Geotechnical	33,008
7. Pomona Master Drainage Plan Addendum and Bridge Impact Analysis	27,549
Total Developer Contribution Items	\$ 2,128,279
Less Use of Surplus Funds	(225,000)
TOTAL CONSTRUCTION COSTS	<u>\$ 1,903,279</u>

<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 79,350
B. Fiscal Agent Fees	52,900
C. Interest	
1. Capitalized Interest	57,894
2. Developer Interest	205,403
3. Bond Anticipation Note Interest	10,238
D. Bond Discount	76,332
E. Operating Expenses	93,100
F. Bond Issuance Expenses	41,368
G. Bond Anticipation Note Issuance Expenses	49,204
H. Bond Application Report Costs	45,000
I. Attorney General Fee	2,645
J. TCEQ Bond Issuance Fee	6,613
K. Contingency (a)	21,674
TOTAL NON-CONSTRUCTION COSTS	<u>\$ 741,721</u>

TOTAL BOND ISSUE REQUIREMENT **\$ 2,645,000**

The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Utility Bonds and completion of agreed-upon procedures by the District’s auditor. The surplus funds, if any, may be expended for any lawful purpose for which surplus construction funds may be used, limited, however, to the purposes for which the Utility Bonds were issued. The Engineer has advised the District that proceeds of the sale of the Utility Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required.

(a) Contingency represents the sum of the difference between estimated and actual amounts of capitalized interest on the Utility Bonds, interest on the BAN, and bond discount on the Utility Bonds.

Use and Distribution of Road Bond Proceeds

A portion of the proceeds of the Road Bonds will be used to reimburse the Developers for the improvements and related engineering and land costs set out below. Additionally, a portion of the proceeds will be used to the non-construction costs shown below. Totals may not sum due to rounding.

<u>Construction Costs</u>	Amount
A. Developer Items	
1. Pomona Section 15 Paving	\$ 1,128,002
2. Pomona Section 16 Paving	1,099,768
3. Pomona Parkway Phase 4 Paving	2,023,735
4. Pomona Parkway Phase 5 Paving	1,562,345
5. Orchard Park Lane Phase 2 Paving	562,256
6. Engineering, Surveying, Geotechnical and CPS	
a. Pomona Section 15 Paving	87,746
b. Pomona Section 16 Paving	139,422
c. Pomona Parkway Phase 4 Paving	265,055
d. Pomona Parkway Phase 5 Paving	202,162
e. Orchard Park Lane Phase 2 Paving	<u>59,948</u>
Total Developer Items	\$ 7,130,439
B. District Items	
1. Land Costs	
a. Pomona Section 16 R.O.W.	\$ 192,699
b. Pomona Section 14 R.O.W.	4,591
c. Pomona Parkway Phase 4 R.O.W.	56,673
d. Orchard Park Lane Phase 2 R.O.W.	<u>230,795</u>
Total District Items	\$ 484,758
TOTAL CONSTRUCTION COSTS	\$ 7,615,197
<u>Non-Construction Costs</u>	
A. Legal Fees	\$ 218,900
B. Fiscal Agent Fees	178,900
C. Interest Costs	
1. Developer Interest	616,636
D. Bond Discount	266,051
E. Attorney General Fee (0.10%)	8,945
F. Bond Issuance Costs	38,071
G. Contingency (a)	<u>2,300</u>
TOTAL NON-CONSTRUCTION COSTS	\$ 1,329,803
TOTAL BOND ISSUE REQUIREMENT	\$ 8,945,000

(a) Contingency represents the sum of the difference between the estimated and actual amount of bond discount on the Road Bonds.

The Engineer has advised the District that proceeds of the sale of the Road Bonds should be sufficient to pay the costs of the above-described facilities. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes. In the event approved estimated amounts exceed actual costs, the difference comprises a surplus which may be expended for authorized amounts.

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 10, 2008, and operates under Chapters 49 and 54 of the Texas Water Code, as amended, Chapter 8450 of the Texas Special District Local Laws Code, and other general laws 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 2019, 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 454.453 acres. Thereafter, the District has undergone three exclusions and three annexations of acreage, as follows: on February 18, 2014, 93.841 acres were annexed into the District and 15.696 acres were excluded from the District; on December 19, 2014, 31.995 acres were annexed into the District and 15.054 acres were excluded from the District; on May 24, 2016, 10.609 acres were excluded from the District; and on January 28, 2020, 5.000 acres were annexed into the District. The District currently comprises 543.93 acres. The District is located wholly within the County and lies approximately 18 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 lies entirely within the ETJ and limited purpose jurisdiction of the City. See "APPENDIX B" attached hereto for an aerial photograph of the District.

The District is one of the two municipal utility districts that make up the approximate 1,060-acre, master-planned community known as "Pomona." Pomona is comprised of the District and Brazoria County Municipal Utility District No. 39 ("MUD 39"). Development and construction activity within Pomona has occurred in both the District and MUD 39. See "DEVELOPMENT OF THE DISTRICT" for a description of the status of development within Pomona in 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>
Alicia Skinner	President	2024
Brandon Guillory	Vice President	2026
Charles Eastland	Secretary	2024
Alice Collins	Assistant Secretary	2024
David Kubala	Assistant Vice President	2026

Investment Policy

The District has adopted an Investment Policy (the “Investment 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 Investment Policy. The Investment 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, 2021, 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, 2021 financial statements. McGrath & Co., PLLC has been engaged to perform an audit of the District’s financial statement for the fiscal year ended March 31, 2022.

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 (“Disclosure Counsel”) to the District in connection with the 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, the District, and MUD 39. 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 39 are created within the City’s 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 39. 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.

DEVELOPMENT OF THE DISTRICT

To date, approximately 163.53 acres within the District have been developed as the residential subdivisions of Pomona, Sections 9–16 (586 lots). As of April 7, 2022, the District included approximately 471 completed homes (approximately 444 occupied, 27 unoccupied, and 0 model homes); approximately 39 homes under construction; and approximately 76 vacant developed lots. The remaining land within the District includes the following: approximately 3.28 acres for Water Supply Plant No. 2; approximately 0.10 acres for Lift Station No. 2 serving Pomona; approximately 209.76 undevelopable acres consisting of easements, rights-of-way, and greenbelts; and approximately 167.26 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 April 7, 2022:

Pomona	Section Acreage	Section Lots	Homes Completed	Homes Construction	Vacant Lots
Section 9	21.29	76	62	1	13
Section 10	16.55	76	76	0	0
Section 11	9.52	36	36	0	0
Section 12	18.69	84	83	0	1
Section 13	21.36	70	40	17	13
Section 14	13.74	42	40	1	1
Section 15	33.13	84	66	18	0
<u>Section 16</u>	<u>29.25</u>	<u>118</u>	<u>68</u>	<u>2</u>	<u>48</u>
Totals	163.53	586	471	39	76
Water Supply Plant No. 2	3.28				
Lift Station No. 2	0.10				
Undevelopable	209.76				
Remaining Developable	<u>167.26</u>				
District Total	543.93				

Homebuilders within the District

Homebuilders who are active in the District include Coventry Homes, Highland Homes, Toll Brothers, and Perry Homes. New homes being constructed in the District range in price from approximately \$370,000 to \$1,400,000 and in size from approximately 1,600 to 5,000 square feet. Coventry Homes is a homebuilding entity associated with DFH Coventry LLC, 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, Highland Homes, Toll Brothers, 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, which, currently is \$0. According to the Developers, each of the builders is in compliance with their respective lot-sales contracts. As of April 7, 2022, the total number of lots contracted and purchased by each builder is listed below:

Homebuilder	Total Lots Contracted	Total Lots Purchased
Coventry Homes (a)	240	240
Highland Homes	93	93
Toll Brothers	112	112
Perry Homes	141	141
Totals	586	586

(a) Associated with DFH Coventry LLC. 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 DFH Coventry LLC (“DFH Coventry”).

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.

DFH Coventry 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, DFH Coventry, and their affiliates are collectively referred to herein as the “Developers.” The Developers currently own approximately 167.26 acres of undeveloped but developable land, and, as of April 7, 2022, the Developers owned approximately 0 vacant developed residential lots in the District.

According to MC 288, LLC, the primary assets of MC 288, LLC consist of its land in the District. Further, according to MC 288, LLC, it is currently operating with a net income, with its income comprised almost entirely of revenues from the sale of real estate.

Development Financing

The Developers have financed development 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 \$964,112 was outstanding as of April 30, 2022, 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 unlimited tax bonds issued by the District for the Road System, including the Road 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 the County. To date, construction of the Road System includes, but is not limited to, the following: a portion of Pomona Parkway and the internal road system which serves Pomona, Sections 9-16. The roads constructed within the District have been accepted by the County for maintenance with the exception of a portion of Pomona Parkway, which is still within the warranty period. 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 the County. 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 shares a public water system with MUD 39. Water Supply Plant No. 1 consists of a 1,500 gallon per minute (“gpm”) well, two (2) 15,000 gallon hydropneumatic tanks, two (2) 125,000 gallon ground storage tanks, and a 4,800 gpm of booster pump capacity. According to the Engineer, the water plant is currently

capable of serving 1,250 equivalent single-family connections (“esfc”). In addition, the District and MUD 39’s shared water system has an emergency water supply interconnect with neighboring Brazoria County Municipal Utility District No. 25.

Water Supply Plant No. 2, Phase 1 is currently under construction, which includes a 15,000 gallon hydropneumatic tank, a 250,000 gallon ground storage tank, a 3,500 gpm of booster pump capacity, and a 1,500 gpm water well. According to the Engineer, the combined water system will have the capacity to serve 2,000 esfc upon completion of the Water Supply Plant No. 2, phase 1 project which is expected to occur in the third quarter of 2022.

Wastewater Treatment

The District shares a lease-to-purchase contract with MUD 39 for a 375,000 gallon per day (“gpd”) wastewater treatment facility to serve Pomona. According to the Engineer, the facility is capable of serving 1,250 esfc, of which 530 esfc are allotted to the District. Additional wastewater treatment facilities will be needed to serve future development and home construction in the District and Pomona.

Design of Phase 4 of the wastewater treatment plant facility is underway which will expand capacity of the plant to 500,000 gpd, which is expected to be completed in the second or third quarter of 2023. According to the Engineer, the facility will be capable of serving 1,667 esfc upon completion of the phase 4 expansion, of which 626 esfc are allocated to the District.

100 Year Flood Plain

According to the FEMA Flood Insurance Rate Map Panel No. 48039 C0020K dated December 30, 2020, approximately 171 acres within the District are located in the 100-year flood plain. Approximately 11.86 acres of flood plain were filled in connection with development within the District and were removed from the flood plain through two LOMR’s based on Fill (Case No. 19-06-3857A, dated November 27, 2019, and Case No. 20-06-0832A, dated February, 25, 2020). Approximately 85 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.

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

Joint Facilities/Cost Sharing Agreement

MUD 39 has entered into a certain Joint Facilities/Cost Sharing Agreement (the “Agreement”) with the District. Under the Agreement, the District and MUD 39 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.

General Fund Operating Statement

The following statement sets forth in condensed form the results of operation of the Utility System. For the fiscal years ended March 31 of 2019–2021, 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 fiscal year ended March 31, 2021. Reference is made to such statements for further and more complete information. See “APPENDIX A.” For the fiscal year ended March 31, 2022, the figures below are unaudited and have been obtained from the reports of the District’s bookkeeper.

	Fiscal Year Ended March 31			
	2022 (a)	2021	2020	2019
<u>Revenues</u>				
Water Service	\$ 233,683	\$ 157,584	\$ 49,115	\$ 1,180
Sewer Service	303,745	205,288	63,709	1,760
Property Taxes	1,145,794	806,696	192,528	129,170
Penalties and Interest	17,317	9,575	2,236	2
Groundwater Pumpage Fees	–	888	202	–
Tap Connection and Inspection	224,002	456,604	356,105	46,145
Miscellaneous	800	10,110	5,636	610
Investment Revenues	<u>1,459</u>	<u>736</u>	<u>416</u>	<u>45</u>
Total Revenues	\$ 1,926,800	\$ 1,647,481	\$ 669,949	\$ 178,912
<u>Expenditures</u>				
Professional Fees	\$ 132,774	\$ 138,933	\$ 105,741	\$ 104,001
Purchased Services	160,672	104,062	65,088	–
Contracted Services	336,804	330,275	235,832	50,667
Repairs and Maintenance	397,839	281,670	286,002	72,742
Utilities	14,134	10,263	3,920	119
Administrative	40,856	36,280	30,827	19,884
Other	<u>26,835</u>	<u>21,975</u>	<u>14,273</u>	<u>11,318</u>
Total Expenditures	\$ 1,109,914	\$ 920,458	\$ 741,683	\$ 258,731
Net Revenues (Deficit)	\$ 816,886	\$ 727,023	\$ (71,734)	\$ (79,819)
Developer Advances	\$ –	\$ –	\$ 130,000	\$ 138,100
Beginning Fund Balance	\$ 867,768	\$ 140,745	\$ 82,479	\$ 24,198
Ending Fund Balance	\$ 1,684,654	\$ 867,768	\$ 140,745	\$ 82,479

(a) Unaudited.

PHOTOGRAPHS TAKEN WITHIN THE DISTRICT

(JUNE 2022)



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(JUNE 2022)**



DISTRICT DEBT

Debt Service Requirement Schedule

Utility System Debt Service

The following schedule sets forth the debt service requirements on the Outstanding Bonds issued for the Utility System, and the principal and interest requirement on the Utility Bonds. Totals may not sum due to rounding.

Calendar Year	Outstanding Debt Service	Plus: The Utility Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2022	\$ 339,525	\$ -	\$ -	\$ -	\$ 339,525
2023	655,275	50,000	126,401	176,401	831,676
2024	655,150	65,000	113,288	178,288	833,438
2025	649,400	65,000	110,038	175,038	824,438
2026	643,250	70,000	106,788	176,788	820,038
2027	643,150	75,000	103,288	178,288	821,438
2028	644,750	75,000	99,538	174,538	819,288
2029	653,150	80,000	95,788	175,788	828,938
2030	656,300	85,000	91,788	176,788	833,088
2031	657,200	85,000	87,538	172,538	829,738
2032	662,900	90,000	83,288	173,288	836,188
2033	663,300	95,000	78,788	173,788	837,088
2034	668,500	100,000	74,988	174,988	843,488
2035	668,400	100,000	70,988	170,988	839,388
2036	673,100	105,000	66,988	171,988	845,088
2037	677,500	110,000	62,788	172,788	850,288
2038	680,919	115,000	58,388	173,388	854,306
2039	679,019	120,000	53,788	173,788	852,806
2040	686,581	125,000	48,988	173,988	860,569
2041	688,306	130,000	43,988	173,988	862,294
2042	689,350	135,000	38,463	173,463	862,813
2043	695,050	140,000	32,725	172,725	867,775
2044	689,850	150,000	26,775	176,775	866,625
2045	694,044	155,000	20,400	175,400	869,444
2046	317,750	160,000	13,813	173,813	491,563
2047	-	165,000	7,013	172,013	172,013
Total	\$16,031,719	\$ 2,645,000	\$1,716,614	\$4,361,614	\$ 20,393,333

Road System Debt Service

The following schedule sets forth the debt service requirements on the Outstanding Bonds issued for the Road System, and the principal and interest requirement on the Road Bonds. Totals may not sum due to rounding.

Calendar Year	Outstanding Debt Service	Plus: The Road Bonds			Total Debt Service
		Principal	Interest	Debt Service	
2022	\$ 222,816	\$ -	\$ -	\$ -	\$ 222,816
2023	420,006	-	446,724	446,724	866,730
2024	416,156	220,000	409,213	629,213	1,045,369
2025	411,913	230,000	396,013	626,013	1,037,925
2026	412,263	240,000	382,213	622,213	1,034,475
2027	409,000	250,000	367,813	617,813	1,026,813
2028	410,900	260,000	352,813	612,813	1,023,713
2029	413,600	275,000	337,213	612,213	1,025,813
2030	412,700	285,000	320,713	605,713	1,018,413
2031	416,688	295,000	303,613	598,613	1,015,300
2032	420,463	310,000	288,863	598,863	1,019,325
2033	424,013	325,000	273,363	598,363	1,022,375
2034	427,350	335,000	257,113	592,113	1,019,463
2035	425,475	350,000	240,363	590,363	1,015,838
2036	433,488	365,000	225,488	590,488	1,023,975
2037	436,006	380,000	209,975	589,975	1,025,981
2038	438,306	395,000	193,825	588,825	1,027,131
2039	440,206	415,000	177,038	592,038	1,032,244
2040	446,881	430,000	159,400	589,400	1,036,281
2041	448,031	450,000	141,125	591,125	1,039,156
2042	448,956	470,000	122,000	592,000	1,040,956
2043	454,650	490,000	102,025	592,025	1,046,675
2044	460,000	510,000	80,588	590,588	1,050,588
2045	464,800	530,000	58,275	588,275	1,053,075
2046	174,250	555,000	39,725	594,725	768,975
2047	-	580,000	20,300	600,300	600,300
Total	\$10,288,916	\$ 8,945,000	\$ 5,905,786	\$14,850,786	\$25,139,702

Average Annual Debt Service Requirement (2022–2047)	\$1,751,271
Maximum Annual Debt Service Requirement (2045)	\$1,922,519

Bonded Indebtedness

2021 Taxable Assessed Valuation.....	\$ 137,216,967	(a)
2022 Preliminary Assessed Valuation.....	\$ 242,301,754	(b)
Estimate of Value as of April 1, 2022.....	\$ 253,087,280	(c)
Direct Debt:		
Outstanding Bonds.....	\$ 20,045,000	
The Utility Bonds	\$ 2,645,000	
The Road Bonds.....	\$ 8,945,000	
Total.....	\$ 31,635,000	
Estimated Overlapping Debt	\$ 13,418,362	(d)
Total Direct and Estimated Overlapping Debt	\$ 45,053,362	(d)
Direct Debt Ratios:		
As a percentage of the 2021 Taxable Assessed Valuation.....	23.05	%
As a percentage of the 2022 Preliminary Assessed Valuation	13.06	%
As a percentage of the Estimate of Value as of April 1, 2022.....	12.50	%
Direct and Estimated Overlapping Debt Ratios:		
As a percentage of the 2021 Taxable Assessed Valuation.....	32.83	%
As a percentage of the 2022 Preliminary Assessed Valuation	18.59	%
As a percentage of the Estimate of Value as of April 1, 2022.....	17.80	%
Capital Projects Fund Balance (as of April 26, 2022).....	\$ 284,867	
Road System Debt Service Fund (as of April 26, 2022)	\$ 456,473	(e)
Utility System Debt Service Fund (as of April 26, 2022)	\$ 683,138	(f)
General Operating Fund Balance (as of April 26, 2022).....	\$ 1,662,518	
2021 Tax Rate per \$100 of Taxable Assessed Valuation		
Road System Debt Service	\$0.27	
Utility System Debt Service	\$0.42	
Maintenance and Operation.....	<u>\$0.81</u>	
Total.....	\$1.50	

-
- (a) Represents the taxable amount of assessed valuation of taxable properties in the District as of January 1, 2021, as provided by the Appraisal District upon original certification of the 2021 appraisal rolls. See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the Appraisal District for informational purposes only. The amount represents the preliminary determination of the assessed calculation of all taxable property within the District as of January 1, 2022. No taxes will be levied upon this value, which is subject to protest by landowners. The value will be certified by the Appraisal Review Board and taxes will be levied on this certified value. See "TAX DATA" and "TAXING PROCEDURES."
 - (c) Provided by the 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 April 1, 2022, and includes an estimate of additional taxable value resulting from additional taxable improvements constructed in the District through April 1, 2022. No taxes will be levied on this estimated value. See "TAX DATA" and "TAXING PROCEDURES."
 - (d) See "DISTRICT DEBT - Direct and Estimated Overlapping Debt Statement."
 - (e) Neither Texas law nor the Road 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, including the Utility Bonds.
 - (f) In addition to this amount, six (6) months of capitalized interest on the Utility Bonds will be deposited into the Utility System Debt Service Fund upon closing of the Utility Bonds. Neither Texas law nor the Utility 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 Road System.

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 May 31, 2022	Overlapping	
		Percent	Amount
Brazoria County	\$ 134,430,000	0.38%	\$ 507,276
Alvin Independent School District	973,510,000	1.30%	12,671,581
Alvin Community College District	24,305,000	0.99%	<u>239,505</u>
Total Estimated Overlapping Debt			\$ 13,418,362
The District (a).....			<u>\$ 31,635,000</u>
Total Direct & Estimated Overlapping Debt (a).....			\$ 45,053,362

(a) The Bonds and the Outstanding Bonds.

Debt Ratios

Direct Debt Ratios:

As a percentage of the 2021 Taxable Assessed Valuation.....	23.05 %
As a percentage of the 2022 Preliminary Assessed Valuation	13.06 %
As a percentage of the Estimate of Value as of April 1, 2022.....	12.50 %

Direct and Estimated Overlapping Debt Ratios:

As a percentage of the 2021 Taxable Assessed Valuation.....	32.83 %
As a percentage of the 2022 Preliminary Assessed Valuation	18.59 %
As a percentage of the Estimate of Value as of April 1, 2022.....	17.80 %

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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 and any additional bonds payable from taxes that the District may hereafter issue for the purpose of purchasing, constructing, acquiring and maintaining the Road System and to pay the expenses of assessing and collecting such taxes. In the Bond Resolutions, 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 any additional bonds payable from taxes that the District may hereafter issue for road purposes 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 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 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 Appraisal District. The Appraisal District has the responsibility of appraising property for all taxing units within the County, including the District. Such appraisal values will be subject to review and change by 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 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 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

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

Tax Payment Installments after Disaster

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

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

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, 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 a district's status as a Special Taxing Unit, Developed District or Developing District will be made by the Board on an annual basis. For the 2021 tax year, the Board classified the District as a Developing District. The District cannot give any assurances as to what its classification will be at any point in time or whether the District's future tax rates will result in a total tax rate that will reclassify the District into a new classification and new election calculation.

District's Rights in the Event of Tax Delinquencies

Taxes levied by the District are a personal obligation of the owner of the property 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 Resolutions 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 2021 tax year, the District levied a total tax rate of \$1.50 per \$100 of taxable assessed valuation composed of the following: a tax of \$0.42 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 \$0.27 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 \$0.81 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. See "THE BONDS – Source of Payment."

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 2021 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.

Taxing Jurisdiction	2021 Tax Rate
The District	\$1.500000
Brazoria County	0.336530
Brazoria County Road and Bridge	0.050000
Brazoria County Drainage District No. 4	0.152000
Brazoria County Emergency Services District No. 3	0.100000
Alvin Independent School District	1.397700
Alvin Community College	<u>0.183211</u>
Total Tax Rate	\$3.719441

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, 2021 (\$137,216,967), the 2022 preliminary assessed valuation (\$242,301,754), and the estimate of value as of April 1, 2022 (\$253,087,280). 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.

Average Annual Debt Service Requirement (2022–2047)	\$1,751,271
Debt Service Tax Rate of \$1.35 on the 2021 Taxable Assessed Valuation produces	\$1,759,808
Debt Service Tax Rate of \$0.77 on the 2022 Preliminary Assessed Valuation produces.....	\$1,772,437
Debt Service Tax Rate of \$0.73 on the Estimate of Value as of April 1, 2022, produces	\$1,755,160
Maximum Annual Debt Service Requirement (2045).....	\$1,922,519
Debt Service Tax Rate of \$1.48 on the 2021 Taxable Assessed Valuation produces	\$1,929,271
Debt Service Tax Rate of \$0.84 on the 2022 Preliminary Assessed Valuation produces.....	\$1,933,568
Debt Service Tax Rate of \$0.80 on the Estimate of Value as of April 1, 2022, produces	\$1,923,463

Tax Rate Distribution

	2021	2020	2019	2018	2017
Utility System Debt Service	\$0.4200	\$0.0500	\$0.0000	\$0.0000	\$0.0000
Road System Debt Service	\$0.2700	\$0.0800	\$0.0000	\$0.0000	\$0.0000
Maintenance and Operations	<u>\$0.8100</u>	<u>\$1.3700</u>	<u>\$1.5000</u>	<u>\$1.5000</u>	<u>\$1.5000</u>
Total	\$1.5000	\$1.5000	\$1.5000	\$1.5000	\$1.5000

Historical Tax Collections

Tax Year	Assessed Valuation	Tax Rate	Adjusted Levy	Collections Current Year	Current Year Ended 9/30	Collections 03/31/22
2017	\$ 492,620	\$1.50	\$ 7,389	100.00%	2018	100.00%
2018	1,337,347	1.50	20,060	100.00%	2019	100.00%
2019	13,037,076	1.50	195,556	99.53%	2020	100.00%
2020	60,066,938	1.50	901,004	100.00%	2021	100.00%
2021	137,216,967	1.50	2,058,255	97.65% (a)	2022	97.65%

(a) For the 2021 tax year, represents collections through March 31, 2022.

Taxable Assessed Valuation Summary

The following represents the type of property comprising the 2017–2021 tax rolls as certified by the Appraisal District.

Type of Property	2021 Taxable Assessed Valuation	2020 Taxable Assessed Valuation	2019 Taxable Assessed Valuation	2018 Taxable Assessed Valuation	2017 Taxable Assessed Valuation
Land	\$ 47,153,648	\$ 39,901,355	\$ 13,041,915	\$ 7,496,546	\$ 7,270,481
Improvements	93,368,913	25,418,440	3,156,410	-	7,000
Personal Property	810,490	138,570	-	-	-
Exemptions	<u>(4,116,084)</u>	<u>(5,391,427)</u>	<u>(3,161,249)</u>	<u>(6,159,199)</u>	<u>(6,784,861)</u>
Total	\$137,216,967	\$ 60,066,938	\$ 13,037,076	\$ 1,337,347	\$ 492,620

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 2021 tax year.

Taxpayer	Types of Property	Taxable Value 2021 Tax Roll	Percent of District Value
MHI Partnership LTD (a)(b)	Land & Improvements	\$4,993,190	3.64%
Toll Southwest LLC (a)	Land & Improvements	3,987,770	2.91%
Pomona Land LLC (b)(c)	Land	2,979,960	2.17%
DFH Coventry (a)(b)	Land & Improvements	2,272,280	1.66%
Pomona Phase 5 (a)(b)	Land	913,018	0.67%
Pomona Phase 4 LLC (a)(b)	Land & Improvements	484,490	0.35%
Homeowner	Land & Improvements	482,400	0.35%
Homeowner	Land & Improvements	472,950	0.34%
Homeowner	Land & Improvements	469,420	0.34%
Homeowner	Land & Improvements	<u>465,770</u>	<u>0.34%</u>
Total		\$17,521,248	12.77%

(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.”

INVESTMENT CONSIDERATIONS

General

The Bonds, which are obligations of the District and not of Texas, Brazoria County, Texas (the "County"), the City of Manvel, Texas (the "City"), or any political subdivision other than the District, will be secured by the proceeds of two (2) separate ad valorem taxes, each 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)

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

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

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

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 2021 tax year, the District's principal taxpayers owned property located within the District the aggregate assessed valuation of which comprised approximately 12.77% of the District's total taxable assessed valuation. MHI Partnership LTD, the District's top taxpayer for the 2021 tax year and an affiliate of the Developers, owned taxable property representing approximately 3.64% of the District's total taxable assessed valuation. See "THE DEVELOPERS." In the event that the Developers, any other principal 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 Resolutions to maintain any specified amount of surplus in its interest and sinking funds. 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 of the District as of January 1, 2021, is \$137,216,967, the 2022 preliminary assessed valuation is \$242,301,754, and the estimate of value as of April 1, 2022, is \$253,087,280. See "TAX DATA."

After issuance of the Bonds, the District's maximum annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,922,519 (2045), and the average annual debt service requirement on the Outstanding Bonds and the Bonds will be \$1,751,271 (2022–2047). Assuming no decrease to the District's taxable assessed valuation as of January 1, 2021, tax rates of \$1.48 and \$1.35 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 to the District's 2022 preliminary assessed valuation, tax rates of \$0.84 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 April 1, 2022, tax rates of \$0.80 and \$0.73 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 2021, the District levied a total tax rate of \$1.50 per \$100 taxable assessed valuation composed of the following: a tax of \$0.42 per \$100 of taxable assessed valuation for payment of debt service on bonds issued by the District for the Utility System; a tax of \$0.27 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 \$0.81 per \$100 of taxable assessed valuation for maintenance and operations.

Potential Effects of Oil Price Volatility on the Houston Area

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

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 Resolutions do not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default, and, consequently, the remedy of mandamus may have to be relied upon from year to year. 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 Initial Purchasers 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 Utility Bonds are the District's third issuance of bonds out of an aggregate of \$275,000,000 of unlimited tax bonds authorized for purpose of acquiring or constructing the Utility System and for the further purpose of refunding such bonds, and the Road Bonds are the third issuance of bonds out of an aggregate of \$100,000,000 of unlimited tax bonds authorized for the purpose of acquiring or constructing the Road System, and for the further purpose of refunding such bonds. Following the issuance of the Bonds, the District will have \$260,090,000 in principal amount of authorized but unissued unlimited tax bonds for Utility System purposes

and \$83,275,000 in principal amount of authorized but unissued unlimited tax bonds for Road System purposes.

Additionally, voters of the District have authorized \$80,000,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing parks and recreational improvements to serve the District and for the further purpose of refunding such bonds.

Following the issuance of the Bonds, the District has the right to issue of the remaining \$260,090,000 principal amount of unlimited tax bonds authorized but unissued for the Utility System and for the refunding of such bonds; \$83,275,000 principal amount of unlimited tax bonds authorized but unissued for the Road System and for the refunding of such bonds; \$80,000,000 principal amount of unlimited tax bonds authorized for park and recreational improvements, and any additional bonds as may hereafter be approved by both the Board of Directors of the District and the voters of the District. See "THE BONDS – Issuance of Additional Debt."

Issuance of the remaining \$260,090,000 principal amount of unlimited tax bonds issued for the Utility System and the \$80,000,000 principal amount of unlimited tax bonds for park and recreational improvements shall be subject to prior approval by the TCEQ. If the District does issue park bonds, the outstanding principal amount of such bonds an amount equal to one percent (1%) of the value of the taxable property in the District at the time of issuance, unless effective June 14, 2021, the District meets certain financial feasibility requirements under the TCEQ rules, in which case the outstanding principal amount of such bonds issued by the District may exceed an amount equal to one percent (1%) and up to three (3%) of the value of the taxable property in the District. The District's issuance of Road Bonds and the remaining \$83,275,000 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 \$9,798,328 for expenditures to construct the Utility System, 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 Resolutions contain 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 the State of Texas has been able to demonstrate steady progress and improvements in air quality in the HGB Area, the HGB Area remains subject to CAA nonattainment requirements.

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

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

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

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

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

Water Supply & Discharge Issues. Water supply and discharge regulations that municipal utility districts, including the District, may be required to comply with involve: (1) 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 non-stormwater discharges into surface water in the state. It has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act (“CWA”) and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district’s ability to obtain and maintain compliance with TPDES permits.

The 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 became effective June 22, 2020, and is currently the subject of ongoing litigation.

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

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,” “– Valuation of Property for Taxation,” 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 (herein defined), 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 Insurers 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 Insurers are 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 Insurers and their claim paying ability. The Bond Insurers’ 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 FOR THE UTILITY BONDS,” “MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS,” and “RATINGS” herein.

The obligations of the Bond Insurers are contractual obligations and in an event of default by the Bond Insurers, 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 Purchasers 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 Insurers, particularly over the life of the investment. See “MUNICIPAL BOND INSURANCE FOR THE UTILITY BONDS,” “MUNICIPAL BOND INSURANCE FOR THE ROAD BONDS,” and “RATINGS” herein for further information provided by the Bond Insurers 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 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 Utility Bond Proceeds," and "-Use and Distribution of Road 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. Certain legal matters will be passed upon for the District by McCall, Parkhurst & Horton L.L.P., Houston, Texas, Disclosure Counsel.

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 Purchasers 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 Purchasers 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 Resolutions that it will comply with these requirements.

Bond Counsel's opinion will assume continuing compliance with the covenants of the Bond Resolutions 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 Purchasers with respect to matters solely within the knowledge of the District and the Initial Purchasers, respectively, which Bond Counsel has not independently verified. If the District should fail to comply with the covenants in the Bond Resolutions 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 Purchasers 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.

Not Qualified Tax-Exempt Obligations

The District has not designated the Bonds as "qualified tax-exempt obligations" for financial institutions.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolutions, 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 annually 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” (except under the subheading “Direct and Estimated Overlapping Debt Statement”), “TAX DATA,” and in “APPENDIX A” (Audited Financial Statements of the District). The District will update and provide this information to the MSRB within six months after the end of each of its fiscal years ending in or after 2022. Any information so provided shall be prepared in accordance with generally accepted auditing standards or other such principles as the District may be required to employ from time to time 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 the audit report becomes available.

The District may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by SEC Rule 15c2-12 (the “Rule”).

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 events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten business days after the occurrence of an event. The District will provide notice of any of the following events with respect to the Bonds: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership or similar event of the District or other obligated person; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person or the sale of all or substantially all of the assets of the District or other obligated person, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a financial obligation of the District or other obligated person, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the District or other obligated person, any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the District or other obligated person, any of which reflect financial difficulties. The terms “obligated person” and “financial obligation” when used in this paragraph shall have the meanings ascribed to them under the “Rule”. The term “material” when used in this paragraph shall have the meaning ascribed to it under federal securities laws. Neither the Bonds nor the Bond Resolutions make any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide 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 Purchasers 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

Since entering into its first continuing disclosure agreement with the issue of the Outstanding Bonds in 2020, the District has complied in all material respects with its continuing disclosure obligations 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 financial statements for the year ended March 31, 2021, were audited 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 Utility Bond Proceeds," "THE BONDS –Use and Distribution of Road 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 Purchasers, of any adverse event which causes the Official Statement to be materially misleading, and unless the Initial Purchasers elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchasers an appropriate amendment or supplement to the Official Statement satisfactory to the Initial Purchasers; 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 Purchasers, unless the Initial Purchasers 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. 40 as of the date shown on the cover page hereof.

/s/ Brandon Guillory
Vice President, Board of Directors
Brazoria County Municipal Utility District No. 40

ATTEST:

/s/ Charles Eastland
Secretary, Board of Directors
Brazoria County Municipal Utility District No. 40

APPENDIX A
Audited Financial Statements of the District

**BRAZORIA COUNTY MUNICIPAL
UTILITY DISTRICT NO. 40**

BRAZORIA COUNTY, TEXAS

FINANCIAL REPORT

March 31, 2021

Table of Contents

	<u>Schedule</u>	<u>Page</u>
Independent Auditors' Report		1
Management's Discussion and Analysis		5
BASIC FINANCIAL STATEMENTS		
Statement of Net Position and Governmental Funds Balance Sheet		16
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances		18
Notes to Basic Financial Statements		21
REQUIRED SUPPLEMENTARY INFORMATION		
Budgetary Comparison Schedule – General Fund		42
Budgetary Comparison Schedule – Joint Water Plant Fund		43
Budgetary Comparison Schedule – Joint Wastewater Treatment Plant Fund		44
Notes to Required Supplementary Information		45
TEXAS SUPPLEMENTARY INFORMATION		
Services and Rates	TSI-1	48
General Fund Expenditures	TSI-2	50
Investments	TSI-3	51
Taxes Levied and Receivable	TSI-4	52
Long-Term Debt Service Requirements by Years	TSI-5	53
Change in Long-Term Bonded Debt	TSI-6	56
Comparative Schedule of Revenues and Expenditures – General Fund	TSI-7a	58
Comparative Schedule of Revenues and Expenditures – Debt Service Fund	TSI-7b	60
Board Members, Key Personnel and Consultants	TSI-8	61

McGRATH & CO., PLLC

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

Independent Auditor's Report

Board of Directors
Brazoria County Municipal Utility District No. 40
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. 40, as of and for the year ended March 31, 2021, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express opinions on these 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. 40
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. 40, as of March 31, 2021, 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.

WCG & Co, LLC

Houston, Texas
July 27, 2021

Management's Discussion and Analysis

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***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

Using this Annual Report

Within this section of the financial report of Brazoria County Municipal Utility District No. 40 (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, 2021. This analysis should be read in conjunction with the independent auditor's 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. 40
Management's Discussion and Analysis
March 31, 2021***

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, 2021, was negative \$13,330,692. The District's net position is negative because the District incurs debt to construct public road facilities which it conveys to Brazoria County. A comparative summary of the District's overall financial position, as of March 31, 2021 and 2020, is as follows:

	2021	2020
Current and other assets	\$ 1,920,615	\$ 706,018
Capital assets	18,848,033	14,968,341
Total assets	<u>20,768,648</u>	<u>15,674,359</u>
Current liabilities	2,905,441	4,325,187
Long-term liabilities	31,193,899	19,428,727
Total liabilities	<u>34,099,340</u>	<u>23,753,914</u>
Net position		
Net investment in capital assets	(2,679,205)	(605,224)
Restricted	415,701	
Unrestricted	(11,067,188)	(7,474,331)
Total net position	<u>\$ (13,330,692)</u>	<u>\$ (8,079,555)</u>

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

The total net position of the District decreased during the current fiscal year by \$5,251,137. A comparative summary of the District's *Statement of Activities* for the past two years is as follows:

	<u>2021</u>	<u>2020</u>
Revenues		
Water and sewer service	\$ 362,872	\$ 112,824
Property taxes, penalties and interest	915,821	197,794
Other	946,649	698,447
Total revenues	<u>2,225,342</u>	<u>1,009,065</u>
Expenses		
Current service operations	1,473,024	1,225,634
Debt interest and fees	212,647	33,031
Developer interest	430,757	53,389
Debt issuance costs	1,196,662	83,089
Depreciation	480,245	314,294
Total expenses	<u>3,793,335</u>	<u>1,709,437</u>
Change in net position before other item	(1,567,993)	(700,372)
Other item		
Transfers to other governments	<u>(3,683,144)</u>	<u>(5,431,170)</u>
Change in net position	(5,251,137)	(6,131,542)
Net position, beginning of year	<u>(8,079,555)</u>	<u>(1,948,013)</u>
Net position, end of year	<u>\$ (13,330,692)</u>	<u>\$ (8,079,555)</u>

Financial Analysis of the District's Funds

The District's combined fund balances, as of March 31, 2021, were \$1,614,023, which consists of \$867,768 in the General Fund, \$435,360 in the Debt Service Fund, \$304,995 in the Capital Projects Fund, and \$5,900 in the Joint Wastewater Treatment Plant Fund.

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

General Fund

A comparative summary of the General Fund's financial position as of March 31, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Total assets	<u>\$ 1,054,115</u>	<u>\$ 388,275</u>
Total liabilities	\$ 165,514	\$ 244,502
Total deferred inflows	20,833	3,028
Total fund balance	<u>867,768</u>	<u>140,745</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 1,054,115</u>	<u>\$ 388,275</u>

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

	<u>2021</u>	<u>2020</u>
Total revenues	\$ 1,647,481	\$ 669,949
Total expenditures	<u>(920,458)</u>	<u>(741,683)</u>
Revenues over/(under) expenditures	727,023	(71,734)
Other changes in fund balance		<u>130,000</u>
Net change in fund balance	<u>\$ 727,023</u>	<u>\$ 58,266</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 service 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. 40
Management's Discussion and Analysis
March 31, 2021***

Debt Service Fund

The District issued bonded debt during the current fiscal year pursuant to a Bond Resolution adopted by the Board. As required by the Bond Resolution, a Debt Service Fund was established to account for the accumulation of financial resources restricted for debt service purposes.

A summary of the Debt Service Fund's financial position as of March 31, 2021 is as follows:

Total assets	<u>\$ 440,105</u>
Total liabilities	\$ 715
Total deferred inflows	4,030
Total fund balance	<u>435,360</u>
Total liabilities, deferred inflows and fund balance	<u>\$ 440,105</u>

A summary of activities of the Debt Service Fund for the current year is as follows:

Total revenues	\$ 78,859
Total expenditures	<u>(149,665)</u>
Revenues under expenditures	(70,806)
Other changes in fund balance	506,166
Net change in fund balance	<u>\$ 435,360</u>

The District's financial resources in the Debt Service Fund in the current year are from property tax revenues and capitalized interest from the sale of bonds. 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, 2021 and 2020 is as follows:

	<u>2021</u>	<u>2020</u>
Total assets	<u>\$ 305,133</u>	<u>\$ 211,139</u>
Total liabilities	\$ 138	\$ 1,050
Total fund balance	304,995	210,089
Total liabilities and fund balance	<u>\$ 305,133</u>	<u>\$ 211,139</u>

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

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

	2021	2020
Total revenues	\$ 1,010	\$ 371
Total expenditures	<u>(9,252,007)</u>	<u>(3,674,342)</u>
Revenues under expenditures	(9,250,997)	(3,673,971)
Other changes in fund balance	9,345,903	3,884,060
Net change in fund balance	<u>\$ 94,906</u>	<u>\$ 210,089</u>

The District has had considerable capital asset activity in the last two years, which was financed with proceeds from the issuance of its Series 2020 Unlimited Tax Bonds, Series 2020A Unlimited Tax Road Bonds and Series 2020 Bond Anticipation Note in the current year and proceeds from the issuance of its Series 2019 Bond Anticipation Note in the prior year.

Joint Water Plant Fund

The Joint Water Plant Fund is used to account for the operating and maintenance costs of a joint water plant in accordance with the District's contract with Brazoria County Municipal District No. 39 (see Note 11).

A comparative summary of the Joint Water Plant Fund's financial position as of March 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 33,230</u>	<u>\$ 29,973</u>
Total liabilities	<u>\$ 33,230</u>	<u>\$ 29,973</u>

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

	2021	2020
Total revenues	\$ 111,206	\$ 89,164
Total expenditures	<u>(111,206)</u>	<u>(89,164)</u>
Revenues over/(under) expenditures	<u>\$ -</u>	<u>\$ -</u>

Revenues in the Joint Water Plant Fund primarily consist of charges to participants. The amount the District charges is based on the actual cost of providing services and each participating District's pro-rata share. Consequently, revenues will equal expenditures each year.

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

Joint Wastewater Treatment Plant Fund

The Joint Wastewater Treatment Plant Fund is used to account for the operating and maintenance costs of a joint wastewater treatment plant in accordance with the District's contract with Brazoria County Municipal District No. 39 (see Note 11).

A comparative summary of the Joint Wastewater Treatment Plant Fund's financial position as of March 31, 2021 and 2020 is as follows:

	2021	2020
Total assets	<u>\$ 88,032</u>	<u>\$ 76,631</u>
Total liabilities	\$ 82,132	\$ 76,631
Total fund balance	5,900	
Total liabilities and fund balance	<u>\$ 88,032</u>	<u>\$ 76,631</u>

A comparative summary of activities for the Joint Wastewater Treatment Plant Fund's current and prior fiscal year is as follows:

	2021	2020
Total revenues	\$ 364,952	\$ 246,553
Total expenditures	(359,052)	(246,553)
Revenues over/(under) expenditures	<u>\$ 5,900</u>	<u>\$ -</u>

Revenues in the Joint Wastewater Treatment Plant Fund primarily consist of charges to participants. The amount the District charges is based upon the actual cost of providing services and each participating District's pro-rate share. During the current year, the District billed participants for expenditures related to the lease of a temporary wastewater treatment plant recognized as prepaid item rather than an expenditure, which resulted in an increase in fund balance.

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 did not amend the budget during the fiscal year.

Since the District's budget is primarily a planning tool, actual results varied from the budgeted amounts. Actual net change in fund balance was \$445,504 greater than budgeted. The *Budgetary Comparison Schedule* on page 42 of this report provides variance information per financial statement line item.

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

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.

Capital assets held by the District at March 31, 2021 and 2020 are summarized as follows:

	2021	2020
Capital assets not being depreciated		
Land and improvements	\$ 1,670,429	\$ 1,401,347
Construction in progress	57,159	249,191
	<u>1,727,588</u>	<u>1,650,538</u>
Capital assets being depreciated		
Water, wastewater, and drainage facilities	14,584,751	13,232,272
Interest in joint facilities	576,912	194,378
Landscaping improvements	2,866,358	318,484
	<u>18,028,021</u>	<u>13,745,134</u>
Less accumulated depreciation		
Water, wastewater, and drainage facilities	(726,873)	(402,767)
Interest in joint facilities	(21,461)	(8,640)
Landscaping improvements	(159,242)	(15,924)
	<u>(907,576)</u>	<u>(427,331)</u>
Depreciable capital assets, net	<u>17,120,445</u>	<u>13,317,803</u>
Capital assets, net	<u>\$ 18,848,033</u>	<u>\$ 14,968,341</u>

Capital asset additions during the current year include the following:

- Water Supply Plant No. 1, Phase 2 (joint facility with Brazoria County Municipal Utility District No. 39)
- Lake "F", Phase 2 to serve Pomona
- Utilities to serve Pomona Parkway, Phase 4
- Clearing and grubbing to serve Pomona, Phase 5B
- Landscaping to serve Pomona Sections 13, 14, and 15

The District's construction in progress is for the construction of the Lift Station No.1 and Wastewater Treatment Plant, Phase 3.

Additionally, Fort Bend County assumes responsibility (after a one-year maintenance period) for road facilities constructed within the boundaries of the County. Accordingly, these facilities are not

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

considered assets of the District. The estimated value of these assets is recorded as transfers to other governments upon completion of construction. This estimated cost is trued-up when the developer is reimbursed. For the year ended March 31, 2021, capital assets in the amount of \$3,683,144 have been recorded as transfers to other governments in the government-wide statements. Additional information is presented in Note 10.

Long-Term Debt and Related Liabilities

As of March 31, 2021, the District owes \$19,867,583 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 \$4,937,682 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.

During the current year, the District issued \$6,570,000 in unlimited tax bonds and \$4,625,000 in unlimited tax road bonds, all of which were outstanding as of the end of the fiscal year. The District did not have any bonded debt as of March 31, 2020.

At March 31, 2021, the District had \$268,430,000 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 refunding of such bonds; \$80,000,000 for parks and recreational facilities and refunding of such bonds; and \$95,375,000 for road improvements and refunding of such bonds.

During the current year, the District issued a \$2,590,000 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.

***Brazoria County Municipal Utility District No. 40
Management's Discussion and Analysis
March 31, 2021***

A comparison of next year's budget to current year actual amounts for the General Fund is as follows:

	<u>2021 Actual</u>	<u>2022 Budget</u>
Total revenues	\$ 1,647,481	\$ 1,594,594
Total expenditures	<u>(920,458)</u>	<u>(1,048,240)</u>
Revenues over expenditures	727,023	546,354
Beginning fund balance	<u>140,745</u>	<u>867,768</u>
Ending fund balance	<u><u>\$ 867,768</u></u>	<u><u>\$ 1,414,122</u></u>

Property Taxes

The District's property tax base increased approximately \$87,091,000 for the 2021 tax year from \$60,182,595 to \$147,273,843, based on preliminary values. This increase was primarily due to new construction in the District.

Basic Financial Statements

Brazoria County Municipal Utility District No. 40
Statement of Net Position and Governmental Funds Balance Sheet
March 31, 2021

	General Fund	Debt Service Fund	Capital Projects Fund	Joint Water Plant Fund	Joint Wastewater Treatment Plant Fund
Assets					
Cash	\$ 53,445	\$ 55,576	\$ 100	\$ 24,977	\$ 24,758
Investments	851,470	421,843	305,033		
Taxes receivable	20,833	4,030			
Customer service receivables	61,688				
Due from participants	4,603			8,253	48,159
Internal balances	41,344	(41,344)			
Other receivable	22				
Prepaid items	2,890				15,115
Operating reserves	17,820				
Capital assets not being depreciated					
Capital assets, net					
Total Assets	<u>\$ 1,054,115</u>	<u>\$ 440,105</u>	<u>\$ 305,133</u>	<u>\$ 33,230</u>	<u>\$ 88,032</u>
Liabilities					
Accounts payable	\$ 92,832	\$ -	\$ 138	\$ 8,216	\$ 32,162
Other payables	457	715			
Customer deposits	45,225				
Unearned revenue	27,000				
Operating reserve				25,014	49,970
Accrued interest payable					
Bond anticipation note payable					
Due to developers					
Long-term debt					
Due after one year					
Total Liabilities	<u>165,514</u>	<u>715</u>	<u>138</u>	<u>33,230</u>	<u>82,132</u>
Deferred Inflows of Resources					
Deferred property taxes	<u>20,833</u>	<u>4,030</u>			
Fund Balance/Net Position					
Fund Balance					
Nonspendable	20,710				
Restricted		435,360	304,995		
Committed					5,900
Unassigned	847,058				
Total Fund Balance	<u>867,768</u>	<u>435,360</u>	<u>304,995</u>	<u>-</u>	<u>5,900</u>
Total Liabilities, Deferred Inflows of Resources and Fund Balance	<u>\$ 1,054,115</u>	<u>\$ 440,105</u>	<u>\$ 305,133</u>	<u>\$ 33,230</u>	<u>\$ 88,032</u>
Net Position					
Net investment in capital assets					
Restricted for debt service					
Unrestricted					
Total Net Position					

See notes to basic financial statements.

Total	Adjustments	Statement of Net Position
\$ 158,856	\$ -	\$ 158,856
1,578,346		1,578,346
24,863		24,863
61,688		61,688
61,015		61,015
22		22
18,005		18,005
17,820		17,820
	1,727,588	1,727,588
	17,120,445	17,120,445
<u>\$ 1,920,615</u>	<u>18,848,033</u>	<u>20,768,648</u>
\$ 133,348		133,348
1,172		1,172
45,225		45,225
27,000		27,000
74,984		74,984
	33,712	33,712
	2,590,000	2,590,000
	19,867,583	19,867,583
	11,326,316	11,326,316
<u>281,729</u>	<u>33,817,611</u>	<u>34,099,340</u>
<u>24,863</u>	<u>(24,863)</u>	
20,710	(20,710)	
740,355	(740,355)	
5,900	(5,900)	
847,058	(847,058)	
<u>1,614,023</u>	<u>(1,614,023)</u>	
<u>\$ 1,920,615</u>		
	(2,679,205)	(2,679,205)
	415,701	415,701
	(11,067,188)	(11,067,188)
	<u>\$ (13,330,692)</u>	<u>\$ (13,330,692)</u>

***Brazoria County Municipal Utility District No. 40
Statement of Activities and Governmental Funds Revenues, Expenditures and Changes in Fund Balances
For the Year Ended March 31, 2021***

	General Fund	Debt Service Fund	Capital Projects Fund	Joint Water Plant Fund	Joint Wastewater Treatment Plant Fund
Revenues					
Water service	\$ 157,584	\$ -	\$ -	\$ -	\$ -
Sewer service	205,288				
Property taxes	806,696	76,261			
Penalties and interest	9,575	1,455			
Groundwater pumpage fees	888				
Participant billings				111,180	364,913
Tap connection and inspection	456,604				
Miscellaneous	10,110	616		26	39
Investment earnings	736	527	1,010		
Total Revenues	1,647,481	78,859	1,010	111,206	364,952
Expenditures/Expenses					
Current service operations					
Purchased services	138,933				
Professional fees	104,062		68,500	1,500	5,250
Contracted services	330,275	10,988		24,021	88,521
Repairs and maintenance	281,670			39,167	81,745
Utilities	10,263			34,748	40,862
Lease					118,576
Administrative	33,280	2,701		7,244	24,059
Other	21,975	39	80	4,526	39
Capital outlay			7,474,725		
Debt service					
Interest and fees		135,937	81,283		
Developer interest			430,757		
Debt issuance costs			1,196,662		
Depreciation					
Total Expenditures/Expenses	920,458	149,665	9,252,007	111,206	359,052
Revenues Over/(Under) Expenditures/Expenses	727,023	(70,806)	(9,250,997)	-	5,900
Other Financing Sources/(Uses)					
Proceeds from sale of bonds		506,166	10,688,834		
Proceeds from bond anticipation note			2,590,000		
Repayment of bond anticipation note			(3,940,000)		
Bond premium			276,885		
Bond discount			(140,316)		
Repayment of developer advances			(129,500)		
Other Item					
Transfers to other governments					
Net Change in Fund Balance Change in Net Position	727,023	435,360	94,906	-	5,900
Fund Balance/Net Position					
Beginning of the year	140,745		210,089		
End of the year	\$ 867,768	\$ 435,360	\$ 304,995	\$ -	\$ 5,900

See notes to basic financial statements.

Total	Adjustments	Statement of Activities
\$ 157,584	\$ -	\$ 157,584
205,288		205,288
882,957	19,782	902,739
11,030	2,052	13,082
888		888
476,093		476,093
456,604		456,604
10,791		10,791
2,273		2,273
<u>2,203,508</u>	<u>21,834</u>	<u>2,225,342</u>
138,933		138,933
179,312		179,312
453,805		453,805
402,582		402,582
85,873		85,873
118,576		118,576
67,284		67,284
26,659		26,659
7,474,725	(7,474,725)	
217,220	(4,573)	212,647
430,757		430,757
1,196,662		1,196,662
	480,245	480,245
<u>10,792,388</u>	<u>(6,999,053)</u>	<u>3,793,335</u>
(8,588,880)	7,020,887	(1,567,993)
11,195,000	(11,195,000)	
2,590,000	(2,590,000)	
(3,940,000)	3,940,000	
276,885	(276,885)	
(140,316)	140,316	
(129,500)	129,500	
	(3,683,144)	(3,683,144)
1,263,189	(1,263,189)	
	(5,251,137)	(5,251,137)
350,834	(8,430,389)	(8,079,555)
<u>\$ 1,614,023</u>	<u>\$ (14,944,715)</u>	<u>\$ (13,330,692)</u>

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Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 1 – Summary of Significant Accounting Policies

The accounting policies of Brazoria County Municipal Utility District No. 40 (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, pursuant to Article XVI, Section 59 of the Texas Constitution and operates in accordance with the Texas Water Code, Chapters 49 and 54. The District also operates under Article III, Section 52 of the Texas Constitution. The Board of Directors held its first meeting on June 29, 2007, and the first bonds were issued on August 27, 2020.

The District’s primary activities include construction, maintenance and operation of water, sewer and drainage, park and recreational, road facilities, and landscaping improvements. 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 five 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. During the current year, financial resources included capitalized interest from the sale of bonds. 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, drainage, and road facilities.
- The Joint Water Plant Fund is used to account for the operations of the water plant jointly owned by the District and Brazoria County Municipal Utility District No. 39. See Note 11 for additional information.
- The Joint Wastewater Treatment Plant Fund is used to account for the operations of the wastewater treatment plant jointly owned by the District and Brazoria County Municipal Utility District No. 39. See Note 11 for additional information.

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.

Note 1 – Summary of Significant Accounting Policies (continued)

Measurement Focus and Basis of Accounting (continued)

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 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, 2021, an allowance 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.

Note 1 – Summary of Significant Accounting Policies (continued)

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.

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

Assets	Useful Life
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.

Note 1 – Summary of Significant Accounting Policies (continued)

Net Position – Governmental Activities (continued)

Unrestricted – resources not included in the other components.

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 Joint Water Plant Fund and the Joint Wastewater Treatment Plant Fund.

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 capitalized interest from the sale of bonds 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's committed fund balance consists of amounts in the Joint Wastewater Treatment Plant Fund.

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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 1 – Summary of Significant Accounting Policies (continued)

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 developers; the value of capital assets transferred to Brazoria County and the value of capital assets for which the developers have 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. 40
Notes to Basic Financial Statements
March 31, 2021

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 funds	\$	1,614,023
Capital assets used in governmental activities are not financial resources and, therefore, are not reported as assets in governmental funds.		
Historical cost	\$	19,755,609
Less accumulated depreciation		<u>(907,576)</u>
Change due to capital assets		18,848,033
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		(11,326,316)
Interest payable on bond anticipation note		(33,712)
Bond anticipation note payable		<u>(2,590,000)</u>
Change due to long-term debt		(13,950,028)
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> .		
		(19,867,583)
Property taxes receivable have been levied and are due, but are not available soon enough to pay current period expenditures and, therefore, are deferred in the funds.		
		24,863
Total net position - governmental activities	<u>\$</u>	<u>(13,330,692)</u>

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

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 balance - total governmental funds \$ 1,263,189

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. 21,834

Governmental funds report capital outlays for developer reimbursements as expenditures in the funds; however, in the *Statement of Activities*, the costs of capital assets are capitalized and charged to expense over the remaining life of the asset. Public roads conveyed to Brazoria County are recorded as transfers to other governments.

Capital outlays	\$ 7,474,725	
Depreciation expense	(480,245)	
Transfers to other governments	<u>(3,683,144)</u>	3,311,336

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	(11,195,000)	
Bond premium	(276,885)	
Bond discount	140,316	
Issuance of bond anticipation note	(2,590,000)	
Repayment of bond anticipation note	3,940,000	
Interest expense accrual	<u>4,573</u>	(9,976,996)

Amounts repaid to the District's developer for operating advances use financial resources at the fund level, but reduce the liability in the *Statement of Net Position*. 129,500

Change in net position of governmental activities		<u><u>\$ (5,251,137)</u></u>
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Note 3 – Deposits and Investments

Deposit Custodial Credit Risk

Custodial credit risk as it applies to deposits (i.e. cash and certificates of deposit) 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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 3 – Deposits and Investments (continued)

Investments (continued)

As of March 31, 2021, the District’s investments consist of the following:

<u>Type</u>	<u>Fund</u>	<u>Carrying Value</u>	<u>Percentage of Total</u>	<u>Rating</u>	<u>Weighted Average Maturity</u>
Certificates of deposit	General	\$ 300,000	19%	N/A	N/A
Texas CLASS	General	551,470			
	Debt Service	421,843			
	Capital Projects	305,033			
		<u>1,278,346</u>	<u>81%</u>	AAAm	53 days
Total		<u>\$ 1,578,346</u>	<u>100%</u>		

The District’s investments in certificates of deposit are reported at cost.

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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 4 – Interfund Balances and Transactions

Amounts due to/from other funds at March 31, 2021, consist of the following:

Receivable Fund	Payable Fund	Amounts	Purpose
General Fund	Debt Service Fund	\$ 41,344	Maintenance tax collections not remitted as of year end

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

Note 5 – Capital Assets

A summary of changes in capital assets, for the year ended March 31, 2021, is as follows:

	Beginning Balances	Additions/ Adjustments	Retirements	Ending Balances
Capital assets not being depreciated				
Land and improvements	\$ 1,401,347	\$ 269,082	\$ -	\$ 1,670,429
Construction in progress	249,191	57,159	(249,191)	57,159
	<u>1,650,538</u>	<u>326,241</u>	<u>(249,191)</u>	<u>1,727,588</u>
Capital assets being depreciated				
Water, wastewater, and drainage facilities	13,232,272	1,352,479		14,584,751
Interest in joint facilities	194,378	382,534		576,912
Landscaping improvements	318,484	2,547,874		2,866,358
	<u>13,745,134</u>	<u>4,282,887</u>		<u>18,028,021</u>
Less accumulated depreciation				
Water, wastewater, and drainage facilities	(402,767)	(324,106)		(726,873)
Interest in joint facilities	(8,640)	(12,821)		(21,461)
Landscaping improvements	(15,924)	(143,318)		(159,242)
	<u>(427,331)</u>	<u>(480,245)</u>		<u>(907,576)</u>
Subtotal depreciable capital assets, net	<u>13,317,803</u>	<u>3,802,642</u>		<u>17,120,445</u>
Capital assets, net	<u>\$ 14,968,341</u>	<u>\$ 4,128,883</u>	<u>\$ (249,191)</u>	<u>\$ 18,848,033</u>

Depreciation expense for the current year was \$480,245.

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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 6 – Bond Anticipation Note (continued)

At the beginning of the fiscal year, the District had a BAN outstanding in the amount of \$3,940,000. This BAN was repaid on August 27, 2020, with proceeds from the issuance of the District’s Series 2020 Unlimited Tax Bonds.

On December 8, 2020, the District issued a \$2,590,000 BAN with an interest rate of 1.25%, which is due on December 7, 2021.

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

Beginning balance	\$ 3,940,000
Amounts borrowed	2,590,000
Amounts repaid	<u>(3,940,000)</u>
Ending balance	<u>\$ 2,590,000</u>

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, 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 the estimated amounts due to developers during the year are as follows:

Due to developers, beginning of year	\$ 19,428,727
Developer funded construction and adjustments	8,043,081
Developer reimbursements	(7,474,725)
Repayment of operating advances	<u>(129,500)</u>
Due to developers, end of year	<u>\$ 19,867,583</u>

In addition, the District will owe the developers approximately \$4,937,682, 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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 7 – Due to Developers (continued)

	Contract Amount	Amounts Paid	Remaining Commitment
Wastewater Treatment Plant, Phase 3*	\$ 230,971	\$ 68,940	\$ 162,031
Pomona Parkway, utilities and paving Phase 5	1,958,094	1,137,909	820,185
Orchard Park Lane, utilities and paving Phase 2	2,333,740		2,333,740
Pomona secondary entry, Pomona Parkway and section 16 landscape	414,877	9,450	405,427
	<u>\$ 4,937,682</u>	<u>\$ 1,216,299</u>	<u>\$ 3,721,383</u>

* District's estimated share of costs

Note 8 – Long-Term Debt

Long-term debt is comprised of the following:

Bonds payable	\$ 11,195,000
Unamortized discounts	(134,920)
Unamortized premium	266,236
	<u>\$ 11,326,316</u>
Due within one year	<u>\$ -</u>

The District's bonds payable at March 31, 2021, consists of unlimited tax bonds as follows:

Series	Amounts Outstanding	Original Issue	Interest Rates	Maturity Date, Serially, Beginning/ Ending	Interest Payment Dates	Call Date
2020	\$ 6,570,000	\$ 6,570,000	2.00% to 4.50%	September 1, 2022/2045	September 1, March 1	September 1, 2025
2020A Road	4,625,000	4,625,000	2.25% to 4.75%	September 1, 2022/2045	September 1, March 1	September 1, 2025
	<u>\$ 11,195,000</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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 8 – Long-Term Debt (continued)

At March 31, 2021, the District had authorized but unissued bonds in the amount of \$268,430,000 for water, sewer and drainage facilities and refunding of such bonds; \$80,000,000 for park and recreational facilities and refunding of such bonds; and \$95,375,000 for road improvements and refunding of such bonds.

On August 27, 2020, the District issued its \$6,570,000 Series 2020 Unlimited Tax Bonds at a net effective interest rate of 2.451313%. 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 \$3,940,000 BAN issued in the previous fiscal year; and (3) to pay capitalized interest into the Debt Service Fund.

On September 24, 2020, the District issued its \$4,625,000 Series 2020A Unlimited Tax Road Bonds at a net effective interest rate of 2.594018%. Proceeds of the bonds were used (1) to reimburse developers for the following: the construction of capital assets within the District; engineering; the acquisition of land for certain District facilities, and other costs associated with the construction of capital assets, (2) to pay developer interest at the net effective interest rate of the bonds, and (3) 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	\$ -
Bonds issued	11,195,000
Bonds payable, end of year	<u>\$ 11,195,000</u>

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 8 – Long-Term Debt (continued)

As of March 31, 2021, annual debt service requirements on bonds outstanding are as follows:

Year	Principal	Interest	Totals
2022	\$ -	\$ 284,269	\$ 284,269
2023	320,000	277,067	597,067
2024	330,000	262,442	592,442
2025	345,000	247,171	592,171
2026	355,000	231,162	586,162
2027	365,000	217,719	582,719
2028	375,000	207,188	582,188
2029	385,000	196,538	581,538
2030	400,000	186,938	586,938
2031	410,000	178,431	588,431
2032	420,000	169,713	589,713
2033	440,000	160,675	600,675
2034	450,000	151,319	601,319
2035	465,000	141,700	606,700
2036	475,000	131,819	606,819
2037	495,000	121,619	616,619
2038	505,000	110,916	615,916
2039	525,000	99,704	624,704
2040	535,000	88,162	623,162
2041	555,000	76,094	631,094
2042	575,000	63,381	638,381
2043	590,000	50,276	640,276
2044	610,000	36,556	646,556
2045	625,000	22,222	647,222
2046	645,000	7,484	652,484
	<u>\$ 11,195,000</u>	<u>\$ 3,720,565</u>	<u>\$ 14,915,565</u>

Note 9 – Property Taxes

On May 10, 2008, 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. On November 6, 2018, the voters of the District authorized the District’s Board of Directors to levy taxes annually for use in financing the operation and maintenance of road facilities limited to \$0.25 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.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 9 – Property Taxes (continued)

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.

Property taxes are collected based on rates adopted in the year of the levy. The District’s 2021 fiscal year was financed through the 2020 tax levy, pursuant to which the District levied property taxes of \$1.50 per \$100 of assessed value, of which \$1.37 was allocated to maintenance and operations, \$0.05 was allocated to water, sewer and drainage debt service, and \$0.08 was allocated to road debt service. The resulting tax levy was \$902,739 on the adjusted taxable value of \$60,182,595.

Total property taxes receivable, at March 31, 2021, consisted of the following:

Current year taxes receivable	\$	22,809
Penalty and interest receivable		2,054
Property taxes receivable	\$	<u>24,863</u>

Note 10 – Transfers to Other Governments

Brazoria County assumes responsibility for the maintenance of public roads constructed within the county limits. Accordingly, road facilities are considered to be capital assets of Brazoria County, not the District. The estimated cost of each road project is recorded as a transfer to other government upon completion of construction. This cost is trued-up when the developer is subsequently reimbursed. For the year ended March 31, 2021, the District reported transfers to other governments in the amount of \$3,683,144 for road facilities constructed by a developer within the District.

Note 11 – Joint Facilities and Cost Sharing Agreement

On February 27, 2018, the District and Brazoria County Municipal Utility District No. 39 (“MUD 39”) entered into an agreement for the construction and ownership of shared water, wastewater, detention, and recreational facilities. The term of the agreement is 40 years. Development within the MUD 39 commenced prior to the development within the District. To provide water supply within MUD 39, MUD 39 entered into various leases and contracts for the construction and installation of water and wastewater treatment facilities. As both Districts develop, they intend to operate the two water and wastewater systems as an open system with shared costs.

Note 11 – Joint Facilities and Cost Sharing Agreement (continued)

Water Supply and Sewer Plant Facilities

MUD 39 is to transfer legal title of any completed water supply and sewer plant facilities currently in use by MUD 39 to the District for the benefit of both districts. Capacity in the facilities may be leased to the other district or capacity may be sold. The pro rata shares of the facilities shall be redetermined based on any such new allocation. As both districts grow, an expansion of the facilities is expected to meet their needs. Any such expansion shall be carried out by the District on behalf of the districts with all capital costs shared based on their pro rata shares. The District will operate and maintain the water plant and wastewater treatment plant and bill MUD 39 for its pro-rata share of the monthly maintenance costs for both plants.

The District has established a Joint Water Plant Fund to account for the operating and maintenance costs of the joint water plant. 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. During the current year, MUD 39 was billed \$70,678 and the District was billed \$40,502 for their respective share of operation and maintenance costs. Additionally, the District established an operating reserve of two months of budgeted operating expenses to provide liquidity. MUD 39 paid \$17,896 toward the operating reserve and the District paid \$7,118.

Wastewater Treatment Plant

The District has established a Joint Wastewater Treatment Plant Fund to account for the operating and maintenance costs of the joint wastewater treatment plant. 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. During the current year, MUD 39 was billed \$266,482 and the District was billed \$98,431 for their respective share of operation and maintenance costs. Additionally, the District established an operating reserve of two months of budgeted operating expenses to provide liquidity. MUD 39 paid \$39,269 toward the operating reserve and the District paid \$10,701.

Lease Agreements

Pursuant to the Joint Facilities and Cost Sharing Agreement between MUD 39 and the District, MUD 39 has entered into the following lease agreements to provide wastewater treatment facilities to both districts.

On June 24, 2014, MUD 39 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. Monthly payments for the lease are \$8,999. MUD 39 has the option to extend the lease on a month to month basis following expiration of the term. Pursuant to the Joint Facilities and Cost Sharing Agreement, the District has assumed the responsibility for making lease payments to Gaylord. During the current year, the District paid \$91,996 for this lease.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 11 – Joint Facilities and Cost Sharing Agreement (continued)

Lease Agreements (continued)

On August 8, 2018, MUD 39 entered into an operating lease agreement for a 0.125 MGD expansion of the existing wastewater treatment plant with AUC Group, LP. This lease is for a 60 month term, unless otherwise terminated. Monthly payments for the lease are \$2,215. MUD 39 has the option to extend the lease on a month to month basis or purchase the equipment following the expiration of the term. Pursuant to the Joint Facilities and Cost Sharing Agreement, the District has assumed the responsibility for making lease payments to Gaylord. During the current year, the District paid \$26,580 for this lease.

On August 14, 2020, MUD 40 entered into an operating lease agreement for a 0.375 MGD expansion of the existing wastewater treatment plant with AUC Group, LP. This lease is for a 60 month term, unless otherwise terminated. Monthly payments for the lease are \$2,950. MUD 40 has the option to extend the lease on a month to month basis or purchase the equipment following the expiration of the term. During the current year, the District prepaid \$5,900 for this lease.

Future minimum leases payments as of March 31, 2021 for term leases are as follows:

Year	Amount
2022	\$ 61,980
2023	61,980
2024	61,980
2025	35,400
2026	35,400
	\$ 256,740

Standard lease terms require the District to prepay the last month’s lease payment upon inception of the lease. All such amounts are recorded as a prepaid expense on the *Statement of Net Position*.

Regional Detention and Recreational Facilities

Each District is authorized, individually or in conjunction with the other District, to construct and repair regional detention and recreational facilities. The Districts agree that each District shall own legal title to the facilities within their boundaries for the benefit of both Districts, although the District shall be the operator of the regional detention and recreational facilities on behalf of both Districts. As of March 31, 2021, the District has constructed such facilities within its boundaries and MUD 39 has also constructed such facilities within its boundaries. Each District will continue to construct regional detention and recreational facilities as they develop.

Brazoria County Municipal Utility District No. 40
Notes to Basic Financial Statements
March 31, 2021

Note 11 – Joint Facilities and Cost Sharing Agreement (continued)

Cost Sharing Agreement for Law Enforcement Services

On September 22, 2020, the District entered into a Cost Sharing Agreement for Law Enforcement Services with MUD 39 and Pomona Residential Community Association (“the Association”) for the purpose of providing security services by Brazoria County to both districts. The agreement was amended and restated on February 23, 2021 and shall continue in force unless terminated by any party with 60 days written notice. Each district agrees to pay the Association for one-third of the service cost on a monthly basis, plus a one-time vehicle cost of \$60,000 in the first contract year. For the current year, the District has paid \$7,395 for security services related to the agreement.

Note 12 – Emergency Water Supply Agreement

On May 4, 2006, the District and Brazoria County Municipal Utility District No. 25 (“MUD 25”) entered into an Emergency Water Supply Agreement for the purchase of water supply in the event of a loss of production or distribution capacity. The term of this agreement was initially 10 years, but renews for 5 years at a time after that, unless notice of non-renewal is provided to the other party at least nine months prior to the commencement of the renewal term. Pursuant to the agreement, each District agrees to temporarily supply water to the other district in the event of an emergency at the rate equal to the base rate per 1,000 gallons charged by the supplying district for single family residential users within its jurisdiction at 10,000 gallons usage per month.

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 – Concentration of Risk

Approximately 45% of the taxable property within the District is owned by the top 10 taxpayers. Since property taxes are the source of revenue for both the General Fund and the Debt Service Fund, the continued ability of these taxpayers to continue to pay their property taxes is an important factor in the District’s ability to meet its future obligations.

Note 15 – Subsequent Event

On June 22, 2021, the District approved a preliminary official statement and notice of sale for its Series 2021 Unlimited Tax Bonds in the amount of \$5,695,000 and Series 2021 Unlimited Tax Road Bonds in the amount of \$3,155,000. The acceptance of bids and award of sale is scheduled for August 24, 2021. Proceeds of the bonds will primarily be used to reimburse developers for amounts currently reported in “Due to developer” and to redeem the outstanding bond anticipation note.

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Required Supplementary Information

Brazoria County Municipal Utility District No. 40
Required Supplementary Information - Budgetary Comparison Schedule - General Fund
For the Year Ended March 31, 2021

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Water service	\$ 91,300	\$ 157,584	\$ 66,284
Sewer service	114,500	205,288	90,788
Property taxes	521,777	806,696	284,919
Penalties and interest	3,800	9,575	5,775
Groundwater pumpage fees	400	888	488
Tap connection and inspection	213,000	456,604	243,604
Miscellaneous	7,800	10,110	2,310
Investment earnings	1,480	736	(744)
Total Revenues	<u>954,057</u>	<u>1,647,481</u>	<u>693,424</u>
Expenditures			
Current service operations			
Purchased services	106,317	138,933	(32,616)
Professional fees	99,000	104,062	(5,062)
Contracted services	174,100	330,275	(156,175)
Repairs and maintenance	232,213	281,670	(49,457)
Utilities	4,900	10,263	(5,363)
Administrative	34,180	33,280	900
Groundwater pumpage fees	600		600
Other	21,228	21,975	(747)
Total Expenditures	<u>672,538</u>	<u>920,458</u>	<u>(247,920)</u>
Revenues Over Expenditures	281,519	727,023	445,504
Fund Balance			
Beginning of the year	140,745	140,745	
End of the year	<u>\$ 422,264</u>	<u>\$ 867,768</u>	<u>\$ 445,504</u>

Brazoria County Municipal Utility District No. 40
Required Supplementary Information - Budgetary Comparison Schedule -
Joint Water Plant Fund
For the Year Ended March 31, 2021

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Participant billings	\$ 150,086	\$ 111,180	\$ (38,906)
Miscellaneous	120	26	(94)
Total Revenues	<u>150,206</u>	<u>111,206</u>	<u>(39,000)</u>
Expenditures			
Current service operations			
Professional fees	5,000	1,500	3,500
Contracted services	39,700	24,021	15,679
Repairs and maintenance	60,000	39,167	20,833
Utilities	36,432	34,748	1,684
Administrative	6,554	7,244	(690)
Other	2,520	4,526	(2,006)
Total Expenditures	<u>150,206</u>	<u>111,206</u>	<u>39,000</u>
Revenues Over/(Under) Expenditures	-	-	-
Fund Balance			
Beginning of the year	-	-	-
End of the Year	<u>\$ -</u>	<u>\$ -</u>	<u>\$ -</u>

*Brazoria County Municipal Utility District No. 40
 Required Supplementary Information - Budgetary Comparison Schedule -
 Joint Wastewater Treatment Plant Fund
 For the Year Ended March 31, 2021*

	Original and Final Budget	Actual	Variance Positive (Negative)
Revenues			
Participant billings	\$ 299,822	\$ 364,913	\$ 65,091
Miscellaneous	120	39	(81)
Total Revenues	<u>299,942</u>	<u>364,952</u>	<u>65,010</u>
Expenditures			
Current service operations			
Professional fees	8,000	5,250	2,750
Contracted services	72,210	88,521	(16,311)
Repairs and maintenance	40,000	81,745	(41,745)
Utilities	36,900	40,862	(3,962)
Lease expense	134,568	118,576	15,992
Administrative	8,204	24,059	(15,855)
Other	60	39	21
Total Expenditures	<u>299,942</u>	<u>359,052</u>	<u>(59,110)</u>
Revenues Over/(Under) Expenditures	-	5,900	5,900
Fund Balance			
Beginning of the year	-	-	-
End of the period	<u>\$ -</u>	<u>\$ 5,900</u>	<u>\$ 5,900</u>

Brazoria County Municipal Utility District No. 40
Notes to Required Supplementary Information
March 31, 2021

Budgets and Budgetary Accounting

An annual unappropriated budget is adopted for the General Fund, Joint Water Plant Fund, and Joint Wastewater Treatment Plant Fund by the District's Board of Directors. The budgets are prepared using the same method of accounting as for financial reporting. There were no amendments to the budgets during the year.

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Texas Supplementary Information

Brazoria County Municipal Utility District No. 40

TSI-1. Services and Rates

March 31, 2021

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

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

2. Retail Service Providers

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"	189	189	x 1.0	189
1"	260	258	x 2.5	645
1.5"	1	1	x 5.0	5
2"	5	5	x 8.0	40
3"			x 15.0	
4"			x 25.0	
6"			x 50.0	
8"			x 80.0	
10"			x 115.0	
Total Water	455	453		879
Total Wastewater	446	444	x 1.0	444

See accompanying auditor's report.

Brazoria County Municipal Utility District No. 40
TSI-1. Services and Rates
March 31, 2021

3. Total Water Consumption during the fiscal year (rounded to the nearest thousand):

*Gallons purchased into system:	<u>27,759,000</u>	**Water Accountability Ratio:
Gallons billed to customers:	<u>27,759,000</u>	(Gallons billed / Gallons pumped)
		<u>100.00%</u>

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

Does the District have Debt Service standby fees? Yes No

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

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

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

5. Location of District

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: City of Manvel

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? _____

*Purchased from Brazoria County MUD 39.

See accompanying auditors' report.

*Brazoria County Municipal Utility District No. 40
 TSI-2 General Fund Expenditures
 For the Year Ended March 31, 2021*

Purchased services	<u>\$ 138,933</u>
Professional fees	
Legal	70,472
Audit	9,500
Engineering	<u>24,090</u>
	<u>104,062</u>
Contracted services	
Bookkeeping	25,861
Operator	11,866
Garbage collection	29,807
Tap connection and inspection	<u>262,741</u>
	<u>330,275</u>
Repairs and maintenance	<u>281,670</u>
Utilities	<u>10,263</u>
Administrative	
Directors fees	9,150
Printing and office supplies	15,790
Insurance	5,476
Other	<u>2,864</u>
	<u>33,280</u>
Other	<u>21,975</u>
Total expenditures	<u><u>\$ 920,458</u></u>

Reporting of Utility Services in Accordance with HB 3693:

	<u>Usage</u>	<u>Cost</u>
Electrical	10,593 kWh	\$ 10,263
Water	N/A	N/A
Natural Gas	N/A	N/A

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40

TSI-3. Investments

March 31, 2021

Fund	Interest Rate	Maturity Date	Balance at End of Year	Interest Receivable
General				
Texas CLASS	Variable	N/A	\$ 551,470	
Certificates of deposit	0.28%	11/19/21	50,000	\$ 4
Certificates of deposit	0.40%	09/20/21	50,000	4
Certificates of deposit	0.40%	02/16/22	50,000	4
Certificates of deposit	0.30%	01/17/22	50,000	4
Certificates of deposit	0.30%	11/18/21	50,000	3
Certificates of deposit	0.30%	12/18/21	50,000	3
			<u>851,470</u>	<u>22</u>
Debt Service				
Texas CLASS	Variable	N/A	<u>421,843</u>	
Capital Projects				
Texas CLASS	Variable	N/A	<u>305,033</u>	
Total - All Funds			<u>\$ 1,578,346</u>	<u>\$ 22</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40
TSI-4. Taxes Levied and Receivable
March 31, 2021

	Maintenance Taxes	Debt Service Taxes	Road Debt Service Taxes	Totals
Taxes Receivable, Beginning of Year	\$ 3,028	\$ -	\$ -	\$ 3,028
2020 Original Tax Levy	779,504	28,449	45,518	853,471
Adjustments	44,998	1,642	2,628	49,268
Adjusted Tax Levy	824,502	30,091	48,146	902,739
Total to be accounted for	827,530	30,091	48,146	905,767
Tax collections:				
Current year	803,669	29,331	46,930	879,930
Prior years	3,028			3,028
Total Collections	806,697	29,331	46,930	882,958
Taxes Receivable, End of Year	\$ 20,833	\$ 760	\$ 1,216	\$ 22,809
Taxes Receivable, By Years				
2020	\$ 20,833	\$ 760	\$ 1,216	\$ 22,809
	2020	2019	2018	2017
Property Valuations:				
Land	\$ 39,901,355	\$ 16,061,952	\$ 7,333,607	\$ 7,323,082
Improvements	25,418,440			7,000
Personal Property	138,570			
Exemptions	(5,275,770)	(3,024,876)	(5,996,260)	(6,837,462)
Total Property Valuations	\$ 60,182,595	\$ 13,037,076	\$ 1,337,347	\$ 492,620
Tax Rates per \$100 Valuation:				
Maintenance and operations	\$ 1.37	\$ 1.50	\$ 1.50	\$ 1.50
Debt service	0.05			
Road debt service	0.08			
Total Tax Rates per \$100 Valuation	\$ 1.50	\$ 1.50	\$ 1.50	\$ 1.50
Adjusted Tax Levy:	\$ 902,739	\$ 195,556	\$ 20,060	\$ 7,389
Percentage of Taxes Collected to Taxes Levied ***	97.47%	100.00%	100.00%	100.00%

* Maximum Maintenance Tax Rate Approved by Voters: \$1.50 on May 10, 2008

** Maximum Road Maintenance Tax Rate Approved by Voters: \$0.25 on November 6, 2018

*** 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. 40
TSI-5. Long-Term Debt Service Requirements
Series 2020--by Years
March 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ -	\$ 159,525	\$ 159,525
2023	195,000	155,137	350,137
2024	200,000	146,249	346,249
2025	210,000	137,025	347,025
2026	215,000	127,463	342,463
2027	220,000	120,425	340,425
2028	225,000	115,975	340,975
2029	230,000	111,425	341,425
2030	240,000	106,725	346,725
2031	245,000	101,875	346,875
2032	250,000	96,925	346,925
2033	260,000	91,825	351,825
2034	265,000	86,575	351,575
2035	275,000	81,175	356,175
2036	280,000	75,625	355,625
2037	290,000	69,925	359,925
2038	295,000	63,891	358,891
2039	305,000	57,516	362,516
2040	310,000	50,981	360,981
2041	320,000	44,088	364,088
2042	330,000	36,775	366,775
2043	340,000	29,238	369,238
2044	350,000	21,256	371,256
2045	355,000	12,884	367,884
2046	365,000	4,334	369,334
	<u>\$ 6,570,000</u>	<u>\$ 2,104,837</u>	<u>\$ 8,674,837</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40
TSI-5. Long-Term Debt Service Requirements
Series 2020A Road--by Years
March 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ -	\$ 124,744	\$ 124,744
2023	125,000	121,930	246,930
2024	130,000	116,193	246,193
2025	135,000	110,146	245,146
2026	140,000	103,699	243,699
2027	145,000	97,294	242,294
2028	150,000	91,213	241,213
2029	155,000	85,113	240,113
2030	160,000	80,213	240,213
2031	165,000	76,556	241,556
2032	170,000	72,788	242,788
2033	180,000	68,850	248,850
2034	185,000	64,744	249,744
2035	190,000	60,525	250,525
2036	195,000	56,194	251,194
2037	205,000	51,694	256,694
2038	210,000	47,025	257,025
2039	220,000	42,188	262,188
2040	225,000	37,181	262,181
2041	235,000	32,006	267,006
2042	245,000	26,606	271,606
2043	250,000	21,038	271,038
2044	260,000	15,300	275,300
2045	270,000	9,338	279,338
2046	280,000	3,150	283,150
	<u>\$ 4,625,000</u>	<u>\$ 1,615,728</u>	<u>\$ 6,240,728</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40
TSI-5. Long-Term Debt Service Requirements
All Bonded Debt Series--by Years
March 31, 2021

<u>Due During Fiscal Years Ending</u>	<u>Principal Due September 1</u>	<u>Interest Due September 1, March 1</u>	<u>Total</u>
2022	\$ -	\$ 284,269	\$ 284,269
2023	320,000	277,067	597,067
2024	330,000	262,442	592,442
2025	345,000	247,171	592,171
2026	355,000	231,162	586,162
2027	365,000	217,719	582,719
2028	375,000	207,188	582,188
2029	385,000	196,538	581,538
2030	400,000	186,938	586,938
2031	410,000	178,431	588,431
2032	420,000	169,713	589,713
2033	440,000	160,675	600,675
2034	450,000	151,319	601,319
2035	465,000	141,700	606,700
2036	475,000	131,819	606,819
2037	495,000	121,619	616,619
2038	505,000	110,916	615,916
2039	525,000	99,704	624,704
2040	535,000	88,162	623,162
2041	555,000	76,094	631,094
2042	575,000	63,381	638,381
2043	590,000	50,276	640,276
2044	610,000	36,556	646,556
2045	625,000	22,222	647,222
2046	645,000	7,484	652,484
	<u>\$ 11,195,000</u>	<u>\$ 3,720,565</u>	<u>\$ 14,915,565</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40
TSI-6. Change in Long-Term Bonded Debt
March 31, 2021

	Bond Issue		Totals
	Series 2020	Series 2020A Road	
Interest rate	2.00% to 4.50%	2.25% to 4.75%	
Dates interest payable	9/1; 3/1	9/1; 3/1	
Maturity dates	9/1/22 - 9/1/45	9/1/22 - 9/1/45	
Beginning bonds outstanding	\$ -	\$ -	\$ -
Bonds issued	6,570,000	4,625,000	11,195,000
Ending bonds outstanding	<u>\$ 6,570,000</u>	<u>\$ 4,625,000</u>	<u>\$ 11,195,000</u>
Interest paid during fiscal year	<u>\$ 93,056</u>	<u>\$ 62,372</u>	<u>\$ 155,428</u>

Paying agent's name and city
All series

Amegy Bank, a division of ZB, N.A., in Houston, Texas

Bond Authority:	Water, Sewer and Drainage Bonds and Refunding	Park and Recreational Bonds and Refunding	Road Bonds and Refunding
	Amount Authorized by Voters	\$ 275,000,000	\$ 80,000,000
Amount Issued	(6,570,000)		(4,625,000)
Remaining To Be Issued	<u>\$ 268,430,000</u>	<u>\$ 80,000,000</u>	<u>\$ 95,375,000</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 investment balances as of March 31, 2021: \$ 477,419

Average annual debt service payment (principal and interest) for remaining term of all debt: \$ 596,623

See accompanying auditors' report.

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Brazoria County Municipal Utility District No. 40

**TSI-7a. Comparative Schedule of Revenues and Expenditures - General Fund
For the Last Five Fiscal Years**

	Amounts				
	2021	2020	2019	2018**	2017**
Revenues					
Water service	\$ 157,584	\$ 49,115	\$ 1,180	\$ -	\$ -
Sewer service	205,288	63,709	1,760		
Property taxes	806,696	192,528	129,170	7,389	
Penalties and interest	9,575	2,238	2		
Groundwater pumpage fees	888	202			
Tap connection and inspection	456,604	356,105	46,145		
Miscellaneous	10,110	5,636	610		
Investment earnings	736	416	45	56	5
Total Revenues	<u>1,647,481</u>	<u>669,949</u>	<u>178,912</u>	<u>7,445</u>	<u>5</u>
Expenditures					
Current service operations					
Purchased services	138,933	65,088			
Professional fees	104,062	105,741	104,001	40,088	23,630
Contracted services	330,275	235,832	50,667	5,350	1,750
Repairs and maintenance	281,670	286,002	72,742		
Utilities	10,263	3,920	119		
Administrative	33,280	30,827	19,884	12,136	5,096
Other	21,975	14,273	11,318	149	324
Total Expenditures	<u>920,458</u>	<u>741,683</u>	<u>258,731</u>	<u>57,723</u>	<u>30,800</u>
Revenues Over/(Under) Expenditures	<u>\$ 727,023</u>	<u>\$ (71,734)</u>	<u>\$ (79,819)</u>	<u>\$ (50,278)</u>	<u>\$ (30,795)</u>
Total Active Retail Water Connections	<u>453</u>	<u>198</u>	<u>67</u>	<u>N/A</u>	<u>N/A</u>
Total Active Retail Wastewater Connections	<u>444</u>	<u>194</u>	<u>64</u>	<u>N/A</u>	<u>N/A</u>

*Percentage is negligible

**Unaudited

See accompanying auditors' report.

Percent of Fund Total Revenues

2021	2020	2019	2018**	2017**
10%	7%	1%		
12%	10%	1%		
48%	29%	72%	99%	
1%	*	*		
*	*			
28%	53%	26%		
1%	1%	*		
*	*	*	1%	100%
100%	100%	100%	100%	100%
8%	10%			
6%	16%	58%	538%	N/A
20%	35%	28%	72%	N/A
17%	43%	41%		
1%	1%	*		
2%	5%	11%	163%	N/A
1%	2%	6%	2%	N/A
55%	112%	144%	775%	N/A
45%	(12%)	(44%)	(675%)	N/A

Brazoria County Municipal Utility District No. 40
TSI-7b. Comparative Schedule of Revenues and Expenditures - Debt Service Fund
For the Current Fiscal Year

	Amounts	Percent of Fund Total Revenues
	2021	2021
Revenues		
Property taxes	\$ 76,261	97%
Penalties and interest	1,455	2%
Miscellaneous	616	1%
Investment earnings	527	1%
Total Revenues	<u>78,859</u>	<u>101%</u>
Expenditures		
Tax collection services	10,988	14%
Other	2,740	3%
Debt service		
Interest and fees	<u>135,937</u>	<u>172%</u>
Total Expenditures	<u>149,665</u>	<u>189%</u>
Revenues Under Expenditures	<u>\$ (70,806)</u>	<u>(88%)</u>

See accompanying auditors' report.

Brazoria County Municipal Utility District No. 40
TSI-8. Board Members, Key Personnel and Consultants
For the Year Ended March 31, 2021

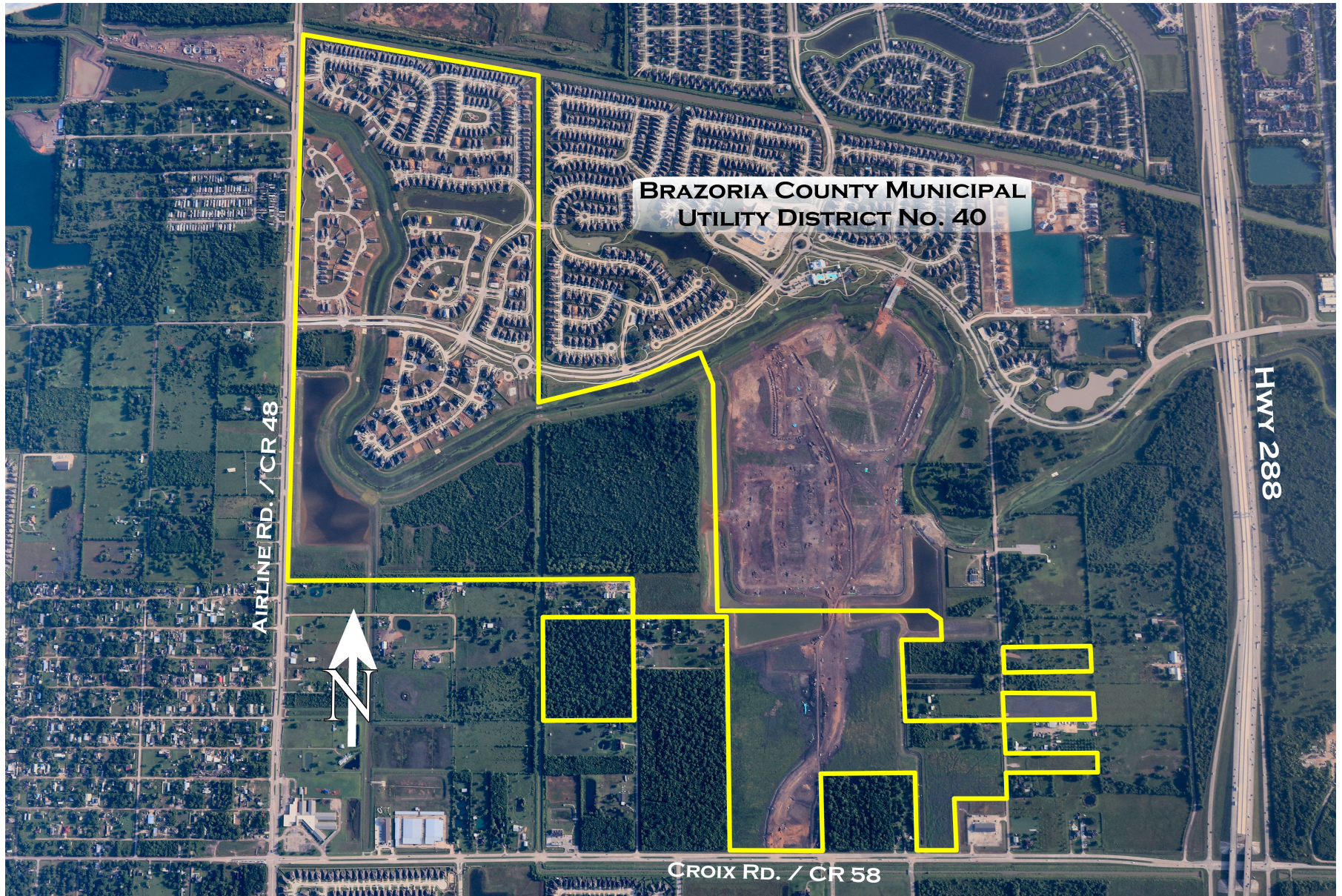
Complete District Mailing Address: 3200 Southwest Freeway, Suite 2600, Houston, TX 77027
 District Business Telephone Number: (713) 860-6400
 Submission Date of the most recent District Registration Form
 (TWC Sections 36.054 and 49.054): May 26, 2020
 Limit on Fees of Office that a Director may receive 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				
Alicia Skinner	05/20 - 05/24	\$ 2,100	\$ -	President
Brandon Guillory	05/18 - 05/22	1,500		Vice President
Charles M. Eastland	05/20 - 05/24	2,100	20	Secretary
David Kubala	05/18 - 05/22	1,950		Assistant Vice President
Alice Collins	05/20 - 05/24	1,500		Assistant Secretary
Consultants				
		<u>Amounts Paid</u>		
Allen Boone Humphries Robinson LLP	2007			Attorney
<i>General legal fees</i>		\$ 72,125		
<i>Bond counsel</i>		339,920		
Si Environmental, LLC	2018	500,871		Operator
Municipal Accounts & Consulting, LP	2019	43,068		Bookkeeper
Assessments of the Southwest, Inc.	2007	4,893		Tax Collector
Brazoria County Appraisal District	Legislative	4,096		Property Valuation
Perdue, Brandon, Fielder, Collins & Mott, LLP	2018	449		Delinquent Tax Attorney
LJA Engineering, Inc.	2007	111,002		Engineer
McGrath & Co., PLLC	Annual	23,850		Auditor
R.W. Baird & Co., Inc.	2015	254,543		Financial Advisor
Storm Water Solutions	2018	177,143		Landscape maintenance
TBG Partners, Inc.	2018			Landscape Architect

* *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 for the Utility Bonds



MUNICIPAL BOND INSURANCE POLICY

ISSUER:

Policy No: -N

BONDS: \$ in aggregate principal amount of

Effective Date:

Premium: \$

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

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

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

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

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

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

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

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

ASSURED GUARANTY MUNICIPAL CORP.

By _____
Authorized Officer

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

APPENDIX D

Specimen Municipal Bond Insurance Policy for the Road Bonds



BAM

**MUNICIPAL BOND
INSURANCE POLICY**

ISSUER: [NAME OF ISSUER]

Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: \$ _____ in aggregate principal
amount of [NAME OF TRANSACTION]
[and maturing on]

Effective Date: _____

Risk Premium: \$ _____
Member Surplus Contribution: \$ _____
Total Insurance Payment: \$ _____

BUILD AMERICA MUTUAL ASSURANCE COMPANY (“BAM”), for consideration received, hereby UNCONDITIONALLY AND IRREVOCABLY agrees to pay to the trustee (the “Trustee”) or paying agent (the “Paying Agent”) for the Bonds named above (as set forth in the documentation providing for the issuance and securing of the Bonds), for the benefit of the Owners or, at the election of BAM, 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 first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner’s right to receive payment of such 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 BAM. 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 BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner’s right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

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 (as defined herein) 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 BAM 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 made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. “Notice” means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or 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, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

To the fullest extent permitted by applicable law, BAM 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 BAM to avoid payment of its obligations under this Policy in accordance with the express provisions of this Policy. This Policy may not be canceled or revoked.

This Policy sets forth in full the undertaking of BAM 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, 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. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

In witness whereof, BUILD AMERICA MUTUAL ASSURANCE COMPANY has caused this Policy to be executed on its behalf by its Authorized Officer.

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: _____
Authorized Officer

SPECIAL MEMBER