

OFFICIAL STATEMENT DATED MARCH 6, 2024

In the opinion of Bond Counsel (herein defined), under current law and subject to conditions described under "TAX MATTERS," interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code (herein defined)) for the alternative minimum tax imposed on such corporations. A holder may be subject to other federal tax consequences as described under "TAX MATTERS."

The Bonds are **NOT** designated as "qualified tax-exempt obligations" for financial institutions. See "TAX MATTERS – Designation for Purchase by Financial Institutions."

NEW ISSUE – Book-Entry-Only

S&P Global Ratings (BAM Insured)..... "AA"

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

(A political subdivision of the State of Texas, located within Fort Bend County, Texas)

\$9,070,000

**Unlimited Tax and Tax Increment Contract Revenue Bonds
Series 2024**

Dated: March 1, 2024

Interest Accrues From Date of Delivery

Due: November 1, as shown on the inside cover

The \$9,070,000 Arcola Municipal Management District No. 1 Unlimited Tax and Tax Increment Contract Revenue Bonds, Series 2024 (the "Bonds") are obligations of Arcola Municipal Management District No. 1 (the "District") and are not obligations of the State of Texas; the City of Arcola, Texas (the "City"); Fort Bend County, Texas; or any political subdivision or entity other than the District. Neither the faith and credit nor the taxing power of the State of Texas; the City of Arcola, Texas; Fort Bend County, Texas; nor any entity other than the District is pledged to the payment of the principal of or interest on the Bonds.

Principal of the Bonds is payable to the registered owner(s) of the Bonds (the "Bondholder(s)") at BOKF, NA, Dallas, Texas, (the "Paying Agent" or the "Paying Agent/Registrar"), upon surrender of the Bonds for payment at maturity. Unless otherwise agreed between the Paying Agent and a Bondholder, interest on the Bonds is dated as of the Interest Payment Date and payable to each Bondholder, as shown on the records of the Paying Agent/Registrar on the close of business on the 15th day of the calendar month next preceding each Interest Payment Date (the "Record Date"). The Bonds will be issued only in fully registered form in the denomination of \$5,000 of principal amount, or any integral multiple thereof.

Interest on the Bonds accrues from the initial date of delivery (on or about March 28, 2024) (the "Date of Delivery") and is payable on November 1, 2024, and on each May 1 and November 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve (12) 30-day months. The Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York ("DTC"), which will act as securities depository for the Bonds. Beneficial owners of the Bonds will not receive physical certificates representing the Bonds, but will receive a credit balance on the books of the nominees of such beneficial owners. So long as Cede & Co. is the registered owner of the Bonds, the principal of and interest on the Bonds will be paid by the Paying Agent directly to DTC, which will, in turn, remit such principal and interest to its participants for subsequent disbursement to the beneficial owners of the Bonds as described herein. See "BOOK-ENTRY-ONLY SYSTEM."



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

See "PRINCIPAL AMOUNTS, MATURITIES, INTEREST RATES, INITIAL REOFFERING YIELDS, AND CUSIPS" on the inside cover.

The Bonds constitute the first series of unlimited tax and tax increment contract revenue bonds issued by the District for the purpose of acquiring or constructing waterworks, sanitary sewer and drainage and storm sewer facilities to serve the District (the "System"). Voters in the District have authorized \$86,300,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System. Following the issuance of the Bonds, \$77,230,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System will remain authorized but unissued.

The Bonds, when issued, will constitute valid and binding obligations of the District, payable from Pledged TIRZ Revenues (as defined herein), consisting primarily of the TIRZ Contract Revenue Payments (as defined herein) and additionally from the proceeds of a continuing direct ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. The City and Fort Bend County (including Fort Bend County Drainage District) (collectively, the "Participants") have all agreed to participate in the TIRZ (defined herein) and to deposit in the Tax Increment Fund of the District 85% of the tax revenues the Participants collect within the boundaries of the TIRZ, which are attributable to the increase in taxable value of real property within the TIRZ, including the District over a base value as of January 1, 2019, with respect to property located within the original approximately 190-acre tract within the TIRZ, and January 1, 2021, with respect to property located within the approximately 83-acre tract annexed into the TIRZ in 2021 (the "Captured Appraised Value").

See "THE BONDS- Source of Payment" THE BONDS ARE SUBJECT TO SPECIAL RISK FACTORS DESCRIBED HEREIN. Bond purchasers are encouraged to read this entire Official Statement prior to making an investment decision, including particularly the section titled "RISK FACTORS."

The Bonds are offered by the Initial Purchaser subject to prior sale, when, as, and if issued by the District and accepted by the Initial Purchaser, subject, among other things, to the approval of the Attorney General of Texas and the opinion of The Muller Law Group, PLLC, Sugar Land, Texas, Bond Counsel. Delivery of the Bonds in book-entry form through the facilities of DTC is expected on or about March 28, 2024.

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

\$9,070,000

**Unlimited Tax and Tax Increment Contract Revenue Bonds
Series 2024**

Maturity (November 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)	Maturity (November 1)	Principal Amount	Interest Rate	Initial Reoffering Yield (a)	CUSIP Number (b)
2025	\$ 205,000	6.375 %	3.30 %	039655 AA3	2035	\$ 330,000 (c)	4.000 %	3.50 %	039655 AL9
2026	215,000	6.375	3.25	039655 AB1	2036	350,000 (c)	4.000	3.60	039655 AM7
2027	225,000	6.375	3.20	039655 AC9	2037	365,000 (c)	4.000	3.70	039655 AN5
2028	235,000	6.375	3.15	039655 AD7	2038	385,000 (c)	4.000	3.80	039655 AP0
2029	250,000	6.375	3.15	039655 AE5	2039	405,000 (c)	4.000	3.90	039655 AQ8
2030	260,000	6.375	3.20	039655 AF2	***	***	***	***	***
2031	275,000 (c)	6.375	3.20	039655 AG0	2042	465,000 (c)	4.000	4.05	039655 AT2
2032	285,000 (c)	4.500	3.30	039655 AH8	***	***	***	***	***
2033	300,000 (c)	4.000	3.35	039655 AJ4	2045	540,000 (c)	4.000	4.16	039655 AW5
2034	315,000 (c)	4.000	3.40	039655 AK1	2046	570,000 (c)	4.000	4.18	039655 AX3

\$870,000 Term Bond due November 1, 2041 (c), 039655 AS4 (b), 4.000% Interest Rate, 4.00% Yield (a)

\$1,005,000 Term Bond due November 1, 2044 (c), 039655 AV7 (b), 3.875% Interest Rate, 4.25% Yield (a)

\$1,220,000 Term Bond due November 1, 2048 (c), 039655 AZ8 (b), 4.000% Interest Rate, 4.20% Yield (a)

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- (a) Information with respect to the initial reoffering yields of the Bonds is the responsibility of the Initial Purchaser. Initial reoffering yields represent the initial offering price, which may be changed for subsequent purchasers. The initial yield indicated above represents the lower of the yields resulting when priced to maturity or to the first call date.
- (b) CUSIP numbers have been assigned to the Bonds 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 purchasers of the Bonds. None of the District, the Financial Advisor (herein defined), or the Initial Purchaser shall be responsible for the selection or the correctness of the CUSIP numbers shown herein.
- (c) The Bonds maturing on November 1, 2031, 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 November 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. The Term Bonds (as defined herein) are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS – Redemption Provisions."

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 herein, and, if given or made, such other information or representations must not be relied upon as having been authorized by the District or the Initial Purchaser.

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

All of the summaries of the statutes, resolutions, orders, contracts, audits, engineering, and other related reports set forth herein 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 upon payment of duplication costs, for further information.

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 herein.

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 herein, until delivery of the Bonds to the Initial Purchaser and thereafter only as specified in "OFFICIAL STATEMENT – Updating of Official Statement."

BAM makes no representation regarding the Bonds or the advisability of investing in the 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 "MUNICIPAL BOND INSURANCE" and "APPENDIX B."

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

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SALE AND DISTRIBUTION OF THE BONDS

Award of the Bonds

After requesting competitive bids for the Bonds, the District has accepted the bid of SAMCO Capital Markets, Inc. (the "Initial Purchaser") to purchase the Bonds at the interest rates shown on the inside cover page at a price of 97.002844% of par, resulting in a net effective interest rate to the District of 4.321391%, as calculated pursuant to Chapter 1204 of the Texas Government Code, as amended.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the District of a certificate executed and delivered by the Initial Purchaser on or before the date of delivery of the Bonds stating the prices at which a substantial amount of the Bonds of each maturity has been sold to the public. For this purpose, the term "public" shall not include any person who is a bond house, broker, dealer, or similar person or organization acting in the capacity of underwriter or wholesaler. Other than described in the Notice of Sale, the District has no understanding with the Initial Purchaser regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Initial Purchaser.

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

The District has no control over trading of the Bonds in the secondary market. Moreover, there is no 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.

Securities Laws

No registration statement relating to the Bonds has been filed with the SEC under the Securities Act of 1933 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 in such other jurisdiction.

MUNICIPAL BOND INSURANCE

Bond Insurance Policy

Concurrently with the issuance of the Bonds, BAM will issue its Municipal Bond Insurance Policy for the Bonds (the "Policy"). The Policy guarantees the scheduled payment of principal of and interest on the Bonds when due as set forth in the form of the Policy included as "APPENDIX B."

The 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 municipal bonds, as defined in Section 6901 of the New York Insurance Law, which are most often issued by 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 Standard & Poor's Financial Services LLC ("S&P"). An explanation of the significance of the rating and current reports may be obtained from S&P at www.standardandpoors.com. 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 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 Bonds. BAM only guarantees scheduled principal and scheduled interest payments payable by the issuer of the 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 Policy), and BAM does not guarantee the market price or liquidity of the Bonds, nor does it guarantee that the rating on the Bonds will not be revised or withdrawn.

Capitalization of BAM

BAM's total admitted assets, total liabilities, and total capital and surplus, as of December 31, 2023, and as prepared in accordance with statutory accounting practices prescribed or permitted by the New York State Department of Financial Services were \$500.0 million, \$230.7 million and \$269.3 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 Bonds or the advisability of investing in the 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 "MUNICIPAL BOND INSURANCE."

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 of or the underwriter for the 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 Bonds. Neither BAM nor any affiliate of BAM has purchased, or committed to purchase, any of the Bonds, whether at the initial offering or otherwise.

MUNICIPAL BOND RATING

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

The District is not aware of any ratings assigned to the Bonds other than the rating of S&P.

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OFFICIAL STATEMENT SUMMARY

The following material is qualified in its entirety by the more detailed information and financial statements appearing elsewhere herein. The offering of the Bonds (herein defined) to potential investors is made only by means of this entire Official Statement. No person is authorized to detach this summary from this Official Statement or to otherwise use it without the entire Official Statement.

THE BONDS

Description.....	The \$9,070,000 Arcola Municipal Management District No. 1 (the "District") Unlimited Tax and Tax Increment Contract Revenue Bonds, Series 2024 (the "Bonds") are dated March 1, 2024, and mature serially on November 1 in each of the years 2025 through 2039, both inclusive, 2042, 2045 and 2046 and as term bonds on November 1, 2041, 2044 and 2048 (the "Term Bonds") in the principal amounts set forth on the inside cover page. Interest on the Bonds accrues from the initial date of delivery (on or about March 28, 2024) (the "Date of Delivery") and is payable on November 1, 2024, and on each May 1 and November 1 thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve (12) 30-day months. The Bonds are offered in fully registered form in integral multiples of \$5,000 of principal amount for any one (1) maturity. See "THE BONDS – General."
Redemption Provisions	The Bonds maturing on and after November 1, 2031, are subject to redemption, in whole or from time to time in part, at the option of the District beginning on November 1, 2030, and on any date thereafter at a price of par plus accrued interest from the most recent interest payment date to the date of redemption. The Term Bonds are also subject to mandatory sinking fund redemption as more fully described herein. See "THE BONDS – Redemption Provisions."
Source of Payment	The Bonds are obligations of the District and are not the obligations of the State of Texas, Fort Bend County, Texas, the City (defined herein), the TIRZ, any participant in the TIRZ, or any entity other than the District. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

The Bonds are payable from Pledged TIRZ Revenues (as defined herein), consisting primarily of the TIRZ Contract Revenue Payments (as defined herein) transferred to the District Debt Service Fund (as defined herein), and additionally from the proceeds of a continuing direct ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. In 2019, the City of Arcola, Texas (the "City") created Tax Increment Reinvestment Zone No. 1, City of Arcola, Texas (the "TIRZ" or "Zone") pursuant to the City's Ordinance No. 2019-08-13F (the "Ordinance") encompassing approximately 190 acres (the "Original Tract"). In 2021, the City annexed approximately 83 acres into the TIRZ pursuant to City Ordinance 2021-12-14B (the "Annexation Tract"). The TIRZ was created for purposes of funding certain infrastructure costs for development in the TIRZ and District. The District and Zone boundaries are currently coterminous. The City adopted the Final Project Plan and Reimbursement Zone Financing Plan for the Zone in 2021, pursuant to City Ordinance No. 2021-12-14B. The City and Fort Bend County (including Fort Bend County Drainage District) (collectively, the "Participants") have all agreed, pursuant to the Interlocal Agreement (as defined herein), to participate in the TIRZ and to deposit in the Tax Increment Fund of the District 85% of the tax revenues the Participants collect within the boundaries of the TIRZ, which are attributable to the increase in taxable value of real property

within the TIRZ, including the District ("Tax Increments"), over a base value as of January 1, 2019, with respect to property located within the Original Tract, and January 1, 2021, with respect to property located within the Annexation Tract (the "Captured Appraised Value"). Tax revenue collected on personal property is not included in the Tax Increments. The TIRZ terminates on December 31, 2049.

Pledged TIRZ Revenue..... Pursuant to the Arcola Reinvestment Zone Development Plan Agreement between the City, Fort Bend County (the "County"), the TIRZ, and the District, as amended (the "Interlocal Agreement"), the Participants have agreed to transfer to the District the Tax Increments quarterly, with respect to City tax increments, and semi-annually, with respect to County tax increments (the "TIRZ Contract Revenue Payments"). The County will collect and deposit the TIRZ Contract Revenue Payments into the District Tax Increment Fund. On or before September 1 of each year, the District will determine the amount of money necessary to pay the ensuing annual debt service on the Bonds, after consideration of anticipated ad valorem debt service tax revenue and other funds on deposit in the Debt Service Fund, and will transfer that amount from the Tax Increment Fund to the District's Debt Service Fund, if available, and after accounting for other District obligations payable from the Tax Increment Fund, including, without limitation, other bonds issued by the District, such as road bonds. The monies held in the District's Debt Service Fund derived from the TIRZ Contract Revenue Payments constitute the "Pledged TIRZ Revenue," and are irrevocably pledged to payment of the Bonds and any parity bonds. The Pledged TIRZ Revenues are a significant source of payment for the Bonds. The Bonds are secured by a first lien on and pledge of the Pledged TIRZ Revenues. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

Unlimited Tax..... The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the majority of the principal and interest on the Bonds and the District will levy an annual ad valorem tax in connection with the remaining debt service on the Bonds over the life of the Bonds; however, while the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy, assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal and interest on the Bonds with full allowance being made for inadequate TIRZ Contract Revenue Payments, delinquencies and costs of collection. In the Bond Resolution (herein defined), the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose. The District reserves the right to use any remaining TIRZ Contract Revenue Payments in the Tax Increment Fund from year to year for any other purpose allowed by law and the Interlocal Agreement.

Authority for Issuance..... The Bonds are issued pursuant an order of the Texas Commission on Environmental Quality (the "TCEQ"); Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including particularly Chapter 49 of the Texas Water Code, Chapter 375 of the Texas Local Government Code, and Chapter 311 of the Texas Tax Code, as amended; an election held within the District, as referenced below; the Interlocal Agreement; and a resolution authorizing the issuance of

the Bonds (the “Bond Resolution”) adopted by the Board of Directors of the District (the “Board”). Before the Bonds can be issued, the Attorney General of Texas must pass upon the legality of the Bonds. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

At a bond election held within the District on November 3, 2020, the voters authorized the issuance of \$86,300,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing waterworks, sanitary sewer and drainage and storm sewer facilities (the “System”). Following the issuance of the Bonds, a total of \$77,230,000 in principal amount of unlimited tax bonds for acquiring or financing the System will remain authorized but unissued. See “THE BONDS - Issuance of Additional Debt.”

Use of Proceeds	Proceeds from the sale of the Bonds will be used to reimburse the Developer (herein defined) for a portion of the improvements and related costs shown under “USE AND DISTRIBUTION OF BOND PROCEEDS.” Additionally, proceeds from the sale of the Bonds will be used to pay developer interest, eighteen (18) months of capitalized interest, operating advances and other certain costs associated with the issuance of the Bonds. See “USE AND DISTRIBUTION OF BOND PROCEEDS.”
Municipal Bond Rating and Municipal Bond Insurance	S&P Global Ratings, a business unit of Standard & Poor’s Financial Services LLC, (“S&P”) has assigned a municipal bond rating of “AA” (stable outlook) to this issue of Bonds with the understanding that, upon delivery of the Bonds, a municipal bond insurance policy insuring the timely payment of the principal of and interest on the Bonds will be issued by Build America Mutual Assurance Company. (“BAM”). The District is not aware of any ratings assigned to the Bonds other than the rating of S&P. See “MUNICIPAL BOND INSURANCE,” “MUNICIPAL BOND RATING,” “RISK FACTORS—Bond Insurance Risk Factors,” and APPENDIX B.
Not Qualified Tax-Exempt Obligations	The Bonds are NOT “Qualified Tax-Exempt Obligations” for financial institutions. See “TAX MATTERS – Designation for Purchase by Financial Institutions.”
General & Bond Counsel.....	The Muller Law Group, PLLC, Sugar Land, Texas.
Disclosure Counsel	McCall, Parkhurst & Horton L.L.P., Houston, Texas.
Financial Advisor	Robert W. Baird & Co. Incorporated, Houston, Texas.
Engineer	LJA Engineering, Inc., Houston, Texas.
Paying Agent/Registrar	BOKF, NA, Dallas, Texas.

THE DISTRICT

Description.....	The District was created by order of the TCEQ, dated August 13, 2020, and by a confirmation election held within the District on November 3, 2020, and operates under Chapter 49 of the Texas Water Code, Chapter 375 of the Texas Local Government Code, and Chapter 311 of the Texas Tax Code, as amended, and other general laws of the State of Texas applicable to municipal management districts.
	The District encompasses approximately 274 acres. See “THE DISTRICT.”

Development within the District..... Approximately 68.70 acres of land within the District have been developed as the single-family residential subdivisions of Post Oak Pointe, Sections 1-3 (307 lots). As of December 1, 2023, the District consisted of 307 platted lots comprised of 247 completed homes (215 occupied homes), 42 homes in various stages of construction and 18 vacant developed lots. There are currently 43.68 remaining developable acres within the District. The remainder of land within the District consists of approximately 161 acres of detention and greenspaces. See "DEVELOPMENT WITHIN THE DISTRICT."

Developer and Homebuilder within the District..... The developers of land in the District are Post Oak Pointe, LTD, a Texas limited partnership and NT Houston Investments, LLC, a Texas limited liability company (the "Developer"). DR Horton is the sole homebuilder within the District. Homes range in price from approximately \$304,990 to approximately \$345,990.

RISK FACTORS

THE BONDS ARE SUBJECT TO CERTAIN RISK FACTORS. PROSPECTIVE PURCHASERS SHOULD REVIEW THE ENTIRE OFFICIAL STATEMENT BEFORE MAKING AN INVESTMENT DECISION, INCLUDING PARTICULARLY "RISK FACTORS."

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**SELECTED FINANCIAL INFORMATION
(UNAUDITED)**

2023 Certified Taxable Assessed Valuation	\$	23,187,283	(a)
Estimate of Assessed Valuation as of December 15, 2023.....	\$	73,103,897	(b)
Gross Direct Debt:			
The Bonds	\$	<u>9,070,000</u>	
Total Gross Direct Debt		9,070,000	
Estimated Overlapping Debt	\$	<u>1,231,622</u>	(c)
Total Gross Direct and Estimated Overlapping Debt	\$	10,301,622	
Gross Direct Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		39.12	%
Based on the Estimate of Assessed Valuation as of December 15, 2023.....		12.41	%
Gross Direct and Estimated Overlapping Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		44.43	%
Based on the Estimate of Assessed Valuation as of December 15, 2023.....		14.09	%
Net Direct Debt:			
The Bonds	\$	9,070,000	
Less: Portion of the Bonds Supported by Pledged TIRZ Revenue.....		<u>(7,185,000)</u>	(d)
Total Net Direct Debt.....	\$	1,885,000	
Estimated Overlapping Debt	\$	<u>1,231,622</u>	(c)
Total Net Direct and Estimated Overlapping Debt.....	\$	3,116,622	
Net Direct Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		8.13	%
Based on the Estimate of Assessed Valuation as of December 15, 2023.....		2.58	%
Net Direct and Estimated Overlapping Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		13.44	%
Based on the Estimate of Assessed Valuation as of December 15, 2023.....		4.26	%
Debt Service Fund Balance (as of Date of Delivery)	\$	603,769	(e)
Tax Increment Fund Balance (as of February 26, 2024)	\$	58,696	
General Fund Balance (as of February 26, 2024)	\$	234,590	(f)
2023 Tax Rate per \$100 of Assessed Valuation:			
Debt Service.....	\$	0.00	
Maintenance & Operations	\$	<u>0.84</u>	
Total.....	\$	0.84	(g)
Average Annual Debt Service Requirement on the Bonds (2025-2048).....	\$	607,724	(h)
Less: Pledged TIRZ Revenue:		<u>(520,826)</u>	(i)
Net Average Annual Debt Service Requirement		86,898	
Maximum Annual Debt Service Requirement on the Bonds (2048)	\$	650,000	(h)
Less: Pledged TIRZ Revenue:		<u>(520,826)</u>	(i)
Net Maximum Annual Debt Service Requirement.....		129,174	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay the Net Average Annual Debt Service Requirement on the Bonds (2025-2048) at 95% Tax Collections:			
Based on the 2023 Certified Taxable Assessed Valuation	\$	0.40	
Based on the Estimate of Assessed Valuation as of December 15, 2023.....	\$	0.13	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay the Net Maximum Annual Debt Service Requirement on the Bonds (2048) at 95% Tax Collections:			
Based on the 2023 Certified Taxable Assessed Valuation	\$	0.59	
Based on the Estimate of Assessed Valuation as of December 15, 2023.....	\$	0.19	
Single-Family Homes (including 42 under construction) as of December 1, 2023.....		289	

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- (a) Represents the certified assessed value of all taxable property within the District as of January 1, 2023, as provided by the Fort Bend Central Appraisal District ("FBCAD"). See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the FBCAD for informational purposes only, this amount is an estimate of the assessed valuation of all taxable property located within the District as of December 15, 2023, and includes an estimate of valuations resulting from the construction of taxable improvements from January 1, 2023, through December 15, 2023. No taxes will be levied against this amount. See "TAX DATA" and "TAXING PROCEDURES."
 - (c) See "DISTRICT FINANCIAL DATA – Estimated Direct and Overlapping Debt Statement."
 - (d) For illustrative purposes only. This amount reflects the principal amount of the Bonds supported by Pledged TIRZ Revenue. See "RISK FACTORS - Dependence on Collection of TIRZ Contract Revenue Payments" and "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."
 - (e) The amount above represents eighteen (18) months of capitalized interest that will be deposited into the District's debt service fund on the Date of Delivery. Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
 - (f) See "RISK FACTORS – Operating Funds."
 - (g) See "TAX DATA – Tax Rate Calculations."
 - (h) Requirements of debt service on the Bonds. See "DISTRICT DEBT."
 - (i) See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments," " – Dependence on Collection of TIRZ Contract Revenue Payments," "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1" and "INTERLOCAL AGREEMENT – Provision of Water Supply and Sanitary Sewer Services to Users within the District -2023 Tax Year."

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OFFICIAL STATEMENT

relating to

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

(A political subdivision of the State of Texas, located within Fort Bend County, Texas)

\$9,070,000

Unlimited Tax and Tax Increment Contract Revenue Bonds Series 2024

INTRODUCTION

This Official Statement provides certain information in connection with the issuance by Arcola Municipal Management District No. 1 (the "District") of its \$9,070,000 Arcola Municipal Management District No. 1 Unlimited Tax and Tax Increment Contract Revenue Bonds, Series 2024 (the "Bonds").

The Bonds are issued pursuant to an order by the Texas Commission on Environmental Quality (the "TCEQ" or the "Commission"); Article XVI, Section 59 of the Texas Constitution, the general laws of the State of Texas, including particularly Chapter 49 of the Texas Water Code, Chapter 375 of the Texas Local Government Code, and Chapter 311 of the Texas Tax Code, as amended; an election held within the District; the Interlocal Agreement (herein defined); and a resolution authorizing the issuance of the Bonds (the "Bond Resolution") adopted by the Board of Directors of the District (the "Board").

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

Included herein are descriptions of the Bonds 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 Bond Counsel (herein defined) at 202 Century Square Boulevard, Sugar Land, Texas 77478, or during the offering period from the Financial Advisor (herein defined) at 4801 Woodway Drive, Suite 118-E, Houston, Texas 77056, upon payment of reasonable copying, mailing, and handling charges.

RISK FACTORS

General

The Bonds are obligations of the District and are not obligations of the State of Texas; Fort Bend County, Texas (the "County"); the City of Arcola, Texas (the "City"); or any political subdivision other than the District. The Bonds will be secured by and payable from the Pledged TIRZ Revenues (herein defined) and a continuing direct, annual ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property located within the District. The ultimate security for payment of the principal of and interest on the Bonds depends upon the ability of the Participants (herein defined) to pay the TIRZ Contract Revenue Payments (herein defined) to the District and the District's ability 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 appropriate taxing entity, 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.

Tax and Collection Rates May Decline

The amount of Tax Increment (as defined herein) available to pay principal of and interest on the Bonds is determined by the taxable value of real property in the City of Arcola Tax Increment Reinvestment Zone No. 1 (the "Zone" or the "TIRZ"), the tax rate of the Participants, and the percentage of taxes actually collected from taxpayers in the Zone and paid into the District Tax Increment Fund (herein defined). Tax Increment does not result from any increase in the appraised value of personal property (such as equipment and inventory) in the Zone. None of the Participants are required under Texas law to set a tax rate sufficient to assure any certain dollar amount of Tax Increments; rather, Texas law only requires each Participant to contribute the Tax Increment actually collected by it and only to the extent provided in the applicable interlocal agreement. Each of the Participants will set its tax rate in accordance with the Texas Tax Code and other applicable law, which contain

various limitations on the rate at which taxes may be levied. If a Participant's tax rate decreases, the amount of Tax Increment available to pay debt service on the Bonds may decrease.

The creation of Tax Increment is also dependent on the Participant's successfully collecting the taxes that they levy in a timely manner. If the percentage of taxes collected by a Participant in the Zone declines, the amount of Tax Increments available to pay debt service on the Bonds may decrease. Historical tax collection rates may not accurately predict future tax collection rates.

The collection of, and accounting for, Tax Increment involve extensive administration and are subject to error. Errors in the collection of (or accounting for) Tax Increment could delay or reduce the Tax Increment available for the payment of debt service on the Bonds.

Taxable Value in the Zone May Decline

Each year the then-current market value of all taxable real property and improvements in the Zone compared to the base year market value of all taxable real property and improvements in the Zone will determine Captured Appraised Value (defined herein).

The District cannot make any representation that the property and improvements within the Zone will achieve or maintain any certain value. Generally, property owners have the right to protest the appraised value of their property in the Zone and are not required to render their property for ad valorem taxation at any agreed upon level. The appraised value of the property and improvements will finally be determined and certified by the Appraisal District in accordance with the procedures described in "TAXING PROCEDURES," and may be at a value lower than projected. The appraisal method or combination of methods that the Appraisal District uses within the Zone is within the discretion of its Chief Appraiser and may change from time to time. The use of a particular method or combination of methods of appraisal with respect to property in the Zone may, over time, cause a decrease in the Captured Appraised Value in the Zone and, therefore, result in a reduction in the amount of Tax Increment available to pay debt service on the Bonds.

Several factors can adversely or positively affect the taxable value of one or more specific properties within the Zone, which can either individually, or in the aggregate, affect the Captured Appraised Value in the Zone. A discussion of several such factors follows but is not intended to be an exhaustive list of all factors that could potentially affect the taxable value within the Zone.

First, the market value of the commercial and residential development within the Zone is affected by the demand for such commercial establishments and housing. Demand is affected by many factors, such as interest rates, credit availability, construction costs, energy availability, mobility and the general economic conditions and demographic characteristics of the United States and the State of Texas, and the specific economic conditions and demographic characteristics of the District and the surrounding area.

Second, the Texas Tax Code allows certain property to be appraised at less than its market value. Upon application of the owner, houses or lots held for sale by a developer or builder which remain unoccupied, are not leased or rented and produce no income are required to be appraised at the price for which they would sell as a unit to a purchaser who would continue the owner's business. A landowner in the Zone may apply for and receive a designation that his land is being used for agricultural, open-space, timber, or certain other purposes. The value of land held for these purposes may be much less than land used for industrial, commercial or residential purposes. If a landowner receives the agricultural use, open space or timberland designation and later loses it by changing the use of the property or selling it to an unqualified owner, each Participant can collect taxes based on the new use, including taxes for the previous five years, unless the property was owned by an individual farmer whose primary occupation is farming, in which case each Participant can collect taxes based on the new use for the previous three years. In this circumstance, both the base year tax value and the current year tax value of property may increase, thereby changing the previously established Captured Appraised Value for each year.

Third, under State law, each Participant has the right on a year to year basis to grant various exemptions from taxation, including a 20% general homestead exemption or an exemption for residential homesteads of persons 65 years of age or disabled. See "TAXING PROCEDURES" herein. An increase in tax exemptions available in the Zone may result in a reduction in the amount of Tax Increments available to pay debt service on the Bonds.

Fourth, owners of property in the Zone may sell their properties to entities which do not pay ad valorem taxes on their property or convert their property to a use which is exempt from ad valorem taxes. Development of property for certain types of multi-family housing may result in the property becoming exempt from ad valorem taxes. See "TAXING PROCEDURES."

Fifth, taxes on property in the Zone may be abated. The Texas Tax Code, Chapter 311, as amended (the "TIRZ Act") allows any taxing unit that is not a school district to enter into a tax abatement agreement with an owner of real property in the Zone for a term not to exceed ten years, if the Zone Board (as defined herein) approves the agreement and the governing body of the taxing unit approves the agreement. Under such a tax abatement agreement, increases in value in the real property subject to the agreement are not considered in determining the taxable value in the Zone. Finally, natural disasters or other events could damage or completely destroy property in the Zone. See "Extreme Weather Events" below.

A Decrease in Taxable Value Produces a Greater Decrease in Captured Appraised Value and Can Reduce Tax Increment Significantly

A percentage decrease in taxable values results in a larger percentage decrease in the Captured Appraised Value (which subtracts the base year value). For instance, if the Zone had a taxable value of \$100 and a Captured Appraised Value of \$50, then a reduction in taxable value to \$95 would be a 5% decrease in taxable values and a 10% decrease in Captured Appraised Value. If the Zone had a taxable value of \$100 and a Captured Appraised Value of \$25, then a reduction in taxable value to \$95 would be a 5% decrease in taxable values and a 20% decrease in Captured Appraised Value. Thus, a low ratio of Captured Appraised Value to taxable value could result in significant decreases in the Tax Increments produced in the event that there is a decrease in taxable value within the Zone.

Dependence on Contract Payments

In order for owners of the Bonds to receive principal of and interest as due, several governmental units must perform their obligations under the contracts described herein. The Participants must perform under their applicable interlocal agreement. Any of these parties could default in its obligations.

In the case of a default by any of the governmental entities involved in the Zone, enforcement of its contractual obligations would be dependent upon judicial redress, which is subject to discretion and delay. Enforcement of these agreements would be limited or prohibited if the defaulting party filed for bankruptcy under the United States Bankruptcy Code or similar state laws. A breaching Participant may also have various defenses to any litigation, including, without limitation, the defense of sovereign immunity. Moreover, each of the Participants involved in the Zone may be very reluctant to pursue judicial redress against another Participant, with which it may be engaged in many transactions.

Risk of Higher Priority Debt

The obligations of the Participants to pay Tax Increment into the Tax Increment Fund are subject to the rights of any of the holders of bonds, notes or other obligations that have been issued by the Participants that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of such Participant. If taxable values in any Participant decline so that it cannot pay its outstanding tax-supported indebtedness without use of Tax Increment, there may be insufficient remaining Tax Increment to pay the Bonds.

Changes in Tax Increment Legislation

Current law may change so as to directly or indirectly reduce or eliminate the amount of Tax Increments available to pay debt service on the Bonds. The Texas Legislature meets biennially in odd numbered years and may make changes to the TIRZ Act.

Extreme Weather Events

The Houston area, including the City, experienced historic levels of rainfall and widespread flooding following landfall of Hurricane Harvey on August 25, 2017 and during Tropical Storm Imelda on September 19, 2019. The land within the District and the Zone is located near the Texas Gulf Coast and, as it has in the past, could be impacted by high winds and flooding caused by a hurricane, tornado, tropical storm, or other adverse weather event.

The District cannot predict the effect that additional extreme weather events may have upon the District and the Houston area. Additional extreme weather events have the potential to cause damage within the District and the Houston area generally could have a negative effect on taxable assessed valuations in the District and the economy of the District and the region. See "TAXING PROCEDURES – Valuation of Property for Taxation."

Factors Affecting Taxable Values and Tax Payments

Economic Factors: A substantial percentage of the taxable value of the District results from the current market value of single-family residences. The market value of such homes and lots is related to general economic conditions in Houston affecting the demand for residences. Decreased levels of construction activity would tend to restrict the growth of property values in the District and the Zone or could adversely impact such values. The District cannot predict the pace or magnitude of any future development in the District.

Location and Access: The District and the Zone are located in an outlying area of the Greater Houston Metropolitan Area, approximately 18 miles southwest of the central business district of the City of Houston. The District is located entirely within the corporate limits of the City of Arcola. Homebuilders active within the District compete for the sale of homes with numerous residential development projects located closer to major employment centers. In addition, many of the residential developments with which the District competes are in a more developed state and have lower overlapping taxes. As a result, particularly during times of increased competition, the homebuilders may find themselves at a competitive disadvantage to the homebuilders in other residential projects located close to major urban centers or in a more developed state. See "THE DISTRICT" and "DEVELOPMENT WITHIN THE DISTRICT."

Competition: The demand for and construction of taxable improvements in the District could be affected by competition from other developments near the District. In addition to competition for new single-family home sales from other developments, there are numerous previously-owned single-family homes in more established commercial centers and neighborhoods closer to Houston that are for sale. Such existing developments could represent additional competition for new development proposed to be constructed within the District.

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

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 2023 assessed valuation of property located within the District is \$23,187,283, and the estimate of assessed valuation of property located within the District as of December 15, 2023, is \$73,103,897. After issuance of the Bonds, the maximum annual debt service requirements on the Bonds will be \$650,000 (2048) and the average annual debt service requirements will be \$607,724 (2025-2048, inclusive), and the net average annual debt service requirement, net of the Pledged TIRZ Revenues anticipated to be available to pay the annual debt service requirement on the Bonds, will be \$86,898 and the net maximum annual debt service requirement will be \$129,174. Assuming no increase to nor decrease from the 2023 Certified Taxable Assessed Valuation, tax rates of \$0.59 and \$0.40 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the net maximum annual debt service requirement and the net average annual debt service requirements, respectively. Assuming no increase to nor decrease from the Estimate of Assessed Valuation as of December 15, 2023, tax rates of \$0.19 and \$0.13 per \$100 of assessed valuation at a 95% tax collection rate would be necessary to pay the net maximum annual debt service requirement and the net average annual debt service requirements, respectively. Assuming no increase or decrease from the 2023 Certified Taxable Assessed Valuation, and no Pledged TIRZ Revenues available to pay principal of and interest on the Bonds, a tax rate of \$2.76 per \$100 of assessed valuation and \$2.96 per \$100 of assessed valuation, respectively, would be necessary to pay the average annual debt service requirement and the maximum annual debt service requirement on the Bonds, respectively. Assuming no increase or decrease from the Estimate of Assessed Valuation as of December 15, 2023, and no Pledged TIRZ Revenues available to pay principal of and interest on the Bonds, a tax rate of \$0.88 per \$100 of assessed valuation and \$0.94 per \$100 of assessed valuation, respectively, would be necessary to pay the average

annual debt service requirement and the maximum annual debt service requirement on the Bonds, respectively. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

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.

Increases in the District's tax rate to rates substantially higher than the levels discussed above may have an adverse impact upon future development of the District, the sale and construction of homes within the District, and the ability of the District to collect, and the willingness of owners of property located within the District to pay ad valorem taxes levied by the District, City, or County.

Litigation with the City of Arcola

On September 26, 2023, the District filed suit in the 400th Judicial District Court of Fort Bend County ("Trial Court") against the City for anticipatory breach of the Interlocal Agreement based upon repeated attempts by the City to disannex the Annexation Tract (defined herein) from the City's municipal boundaries. The primary relief sought by the District is a permanent injunction prohibiting the City from disannexing or attempting to disannex the Annexation Tract from the City's municipal boundaries. The Trial Court issued a temporary restraining order enjoining the City from disannexing the Annexation Tract pending a hearing on the temporary injunction. Since filing suit, the County has intervened in support of the District's claim. See "LITIGATION."

If the City prevails in the above-described lawsuit, the governing body of the City may act to remove the Annexation Tract from the municipal boundaries of the City. If the Annexation Tract is ultimately removed from the City boundaries, no Tax Increment from the City would be collected from the Annexation Tract to pay to the District as part of the Tax Increment Contract Revenue Payments, and, therefore, the Pledged TIRZ Revenues would not include City's Tax Increments from the Annexation Tract. The District can make no representation on the likelihood of the Developer to proceed with development of the Annexation Tract should it be disannexed by the City. See "LITIGATION" and "THE DEVELOPER – The Role of a Developer."

Specific Flood Type Risks

The District may be subject to the following flood 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.

Tax Collection Limitations

The District's ability to make debt service payments may be adversely affected by its inability, or the inability of the City or County, to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by the taxing entity constitutes a lien in favor of the taxing entity on a parity with the liens of all other state and local taxing authorities on the property against which taxes are levied, and such lien may be enforced by foreclosure. The District's, City's, and County's ability to collect ad valorem taxes through such foreclosure may be impaired by (a) cumbersome, time-consuming and expensive collection procedures, (b) a bankruptcy court's stay of tax collection procedures against a taxpayer, (c) market conditions limiting the proceeds from a foreclosure sale of taxable property or (d) the taxpayer's right to redeem the property within six months for commercial property and two years for residential and all other property after the purchaser's deed issued at the foreclosure sale is filed in the county records. While the taxing entity has a lien on taxable property within the taxing entity for taxes levied against such property, such lien can be foreclosed only in a judicial proceeding. Attorney's fees and other costs

of collecting any such taxpayer's delinquencies could substantially reduce the net proceeds to the taxing entity from a tax foreclosure sale. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the District pursuant to the Federal Bankruptcy Code could stay any attempt by the District, City, or County to collect delinquent ad valorem taxes against such taxpayer. In addition to the automatic stay against collection of delinquent taxes afforded a taxpayer during the pendency of a bankruptcy, a bankruptcy could affect payment of taxes in two other ways: first, a debtor's confirmation plan may allow a debtor to make installment payments on delinquent taxes for up to six years; and, second, a debtor may challenge, and a bankruptcy court may reduce, the amount of any taxes assessed against the debtor, including taxes that have already been paid.

Operating Funds

The District's sources of revenue to pay its operating expenses include water and sewer revenues, advances from the Developer, proceeds from bond issues, and maintenance and operations tax proceeds. The District levied a 2023 maintenance and operations tax at the rate of \$0.84 per \$100 of assessed valuation. The District's Operating Fund balance at February 26, 2024, was \$234,560. Maintaining a positive Operating Fund balance will depend upon (1) continued development, (2) increased amounts of water and sewer revenue and maintenance and operations tax revenue, and (3) funds from bond issues. In the event that funds are not made available by the Developer, the District may be required to levy a maintenance and operations tax at a rate sufficient to fund its operating expenses. Such an increase to the tax, when added to the District's debt service tax, may result in a total District tax in excess of similar developments and could adversely affect continued development of the District, as well as the willingness of taxpayers to pay taxes on their property. See "THE SYSTEM – General Fund Operating Statement."

Dependence on Collection of TIRZ Contract Revenue Payments

The City and Fort Bend County (including Fort Bend County Drainage District) (collectively, the "Participants") have all agreed, pursuant to the Interlocal Agreement, to participate in the TIRZ and to deposit into the Tax Increment Fund of the District 85% of the tax revenues the Participants collect within the boundaries of the Zone (the "Tax Increment") which are attributable to the increase in taxable value of real property within areas in the TIRZ, including the District, over a base value as of January 1, 2019, with respect to the Original Tract, and January 1, 2021, with respect to the Annexation Tract (the "Captured Appraised Value"). Tax revenue collected on personal property is not included in the Tax Increments. The TIRZ terminates on December 31, 2049. The amount of the TIRZ Contract Revenue Payments are closely related to the taxable assessed value in the District as certified annually by the Fort Bend Central Appraisal District. The District began receiving TIRZ Contract Revenue Payments in April of 2021.

Pursuant to the Arcola Reinvestment Zone Development Plan Agreement between the City, Fort Bend County (the "County"), the TIRZ, and the District, as amended (the "Interlocal Agreement"), the Participants have agreed to transfer to the District the Tax Increments quarterly, with respect to City tax increments, and semi-annually, with respect to County tax increments (the "TIRZ Contract Revenue Payments"). The County will collect and deposit the TIRZ Contract Revenue Payments into the District Tax Increment Fund. On or before September 1 of each year, the District will determine the amount of money necessary to pay the ensuing annual debt service on the Bonds, after consideration of anticipated ad valorem debt service tax revenue and other funds on deposit in the Debt Service Fund, and will transfer that amount from the Tax Increment Fund to the District's Debt Service Fund, if available, and after accounting for other District obligations payable from the Tax Increment Fund, including, without limitation, other bonds issued by the District, such as road bonds. The monies held in the District's Debt Service Fund derived from the TIRZ Contract Revenue Payments constitute the "Pledged TIRZ Revenue," and are irrevocably pledged to payment of the Bonds and any parity bonds. The Pledged TIRZ Revenues are a significant source of payment for the Bonds. The Bonds are secured by a first lien on and pledge of the Pledged TIRZ Revenues. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the majority of the principal and interest on the Bonds and the District will levy an annual ad valorem tax in connection with the remaining debt service on the Bonds over the life of the Bonds; however, while the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy, assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal and interest on the Bonds with full allowance being made for inadequate TIRZ Contract Revenue Payments, delinquencies and costs of collection. In the Bond Resolution (herein defined), the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds

and to no other purpose. The District reserves the right to use any remaining TIRZ Contract Revenue Payments in the Tax Increment Fund from year to year for any other purpose allowed by law and the Interlocal Agreement.

Registered Owners' Remedies

If the District defaults in the payment of principal, interest, or redemption price on the Bonds when due, or if it fails to make payments into any fund or funds created in the Bond Resolution, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the Bond Resolution, the Registered Owners have the right to seek of a writ of mandamus issued by a court of competent jurisdiction requiring the District and its officials to observe and perform the covenants, obligations, or conditions prescribed in the Bond Resolution. Except for mandamus, the Bond Resolution does not specifically provide for remedies to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of defaults and, consequently, the remedy of mandamus may have to be relied upon from year to year. Further, there is no trust indenture or trustee, and all legal actions to enforce such remedies would have to be undertaken at the initiative of, and be financed by, the Registered Owners.

Statutory language authorizing local governments such as the District to sue and be sued does not waive the local government's sovereign immunity from suits for money damages, so that in the absence of other waivers of such immunity by the Texas Legislature, a default by the District in its covenants in the Bond Resolution may not be reduced to a judgment for money damages. If such a judgment against the District were obtained, it could not be enforced by direct levy and execution against the District's property. Further, the Registered Owners cannot themselves foreclose on property within the District or sell property within the District to enforce tax lien on taxable property to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the Registered Owners may be further limited by a State of Texas statute reasonably required to attain an important public purpose or by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights and creditors of political subdivisions, such as the District.

The District has a right to seek judicial foreclosure on a tax lien, but such remedy may prove to be costly and time consuming and, since the future market or resale market, if any, of the taxable real property within the District is uncertain, there can be no assurance that such property could be sold and delinquent taxes paid. See "TAXING PROCEDURES."

Bankruptcy Limitation to Registered Owners' Rights

The enforceability of the rights and remedies of registered owners of the Bonds may be limited by laws relating to bankruptcy, reorganization, or other similar laws of general application affecting the rights of creditors of political subdivisions such as the District. Subject to the requirements of Texas law discussed below, a political subdivision such as the District may voluntarily file a petition for relief from creditors under Chapter 9 of the U.S. Bankruptcy Code, 11 USC sections 901-946. The filing of such petition would automatically stay the enforcement of Registered Owners' remedies, including mandamus and the foreclosure of tax liens upon property within the District discussed above. The automatic stay would remain in effect until the federal bankruptcy judge hearing the case dismisses the petition, enters an order granting relief from the stay or otherwise allows creditors to proceed against the petitioning political subdivision. A political subdivision, such as the District, may qualify as a debtor eligible to proceed in a Chapter 9 case only if it (1) is generally authorized to file for federal bankruptcy protection by applicable state law, (2) is insolvent or unable to meet its debts as they mature, (3) desires to effect a plan to adjust such debts, and (4) has either obtained the agreement of or has negotiated in good faith with its creditors or is unable to negotiate with its creditors because negotiations are impracticable. Under Texas law, a municipal utility district, such as the District, must obtain the approval of the TCEQ as a condition to seeking relief under the U.S. Bankruptcy Code. The TCEQ is required to investigate the financial condition of a financially troubled district and authorize such district to proceed under federal bankruptcy law only if such district has fully exercised its right and powers under Texas law and remains unable to meet its debts and other obligations as they mature.

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

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

Environmental Regulations

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

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

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

Air Quality Issues: Air quality control measures required by the United States Environmental Protection Agency (the "EPA") and the Texas Commission on Environmental Quality (the "TCEQ") may impact new industrial, commercial and residential development in the Houston area. Under the Clean Air Act ("CAA") Amendments of 1990, the eight-county Houston-Galveston-Brazoria area ("HGB Area")—Harris, Galveston, Brazoria, Chambers, Fort Bend, Waller, Montgomery and Liberty Counties—has been designated a nonattainment area under 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.

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

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

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

reach attainment with the ozone standards by the EPA's attainment deadlines. These additional controls could have a negative impact on the HGB Area's economic growth and development.

Water Supply & Discharge Issues: Water supply and discharge regulations that municipal management 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 management 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) ("CGP"), with an effective date of March 5, 2023, which is a general permit authorizing the discharge of stormwater runoff associated with small and large construction sites and certain non-stormwater discharges into surface water in the state. The CGP has a 5-year permit term, and is then subject to renewal. Moreover, the Clean Water Act ("CWA") and Texas Water Code require municipal wastewater treatment plants to meet secondary treatment effluent limitations and more stringent water quality-based limitations and requirements to comply with the Texas water quality standards. Any water quality-based limitations and requirements with which a municipal utility district must comply may have an impact on the municipal utility district's ability to obtain and maintain compliance with TPDES permits.

The TCEQ issued the General Permit for Phase II (Small) Municipal Separate Storm Sewer Systems (the "MS4 Permit") on 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.

On May 25, 2023, the Supreme Court of the United States issued its decision in *Sackett v. EPA*, which clarified the definition of "waters of the United States" and significantly restricted the reach of federal jurisdiction under the CWA. Under the *Sackett* decision, "waters of the United States" includes only geographical features that are described in ordinary parlance as "streams, oceans, rivers, and lakes" and to adjacent wetlands that are indistinguishable from such bodies of water due to a continuous surface connection.

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

Potential Effects of Oil Price Fluctuations 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 could have on property values in the District.

Marketability

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

Continuing Compliance with Certain Covenants

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

Future Debt

Following the issuance of the Bonds, \$77,230,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System will remain authorized but unissued. Additionally, voters in the District have authorized \$8,630,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the System, \$28,600,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing road facilities to serve the District (the "Road System"), \$2,860,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the Road System, \$8,300,000 principal amount of unlimited tax bonds for purpose of acquiring or constructing park and recreational facilities (the "Park System"), and \$830,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the Park System.

Following the reimbursement with the proceeds of the Bonds, the District will owe the Developer approximately \$31,000,000 for reimbursable expenses for District projects. See "THE SYSTEM" and "DEVELOPMENT WITHIN THE DISTRICT." If additional bonds are issued in the future and property values have not increased proportionately, such issuance may increase gross debt-to-property valuation ratios and thereby adversely affect the investment quality or security of the Bonds.

Approval of the Bonds

The Attorney General of Texas must approve the legality of the Bonds prior to their delivery. The Attorney General of Texas does not pass upon or guarantee the security of the Bonds as an investment, nor does he pass upon the adequacy or accuracy of the information contained herein.

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 provider of the Policy (the "Bond Insurer") at such time and in such amounts as would have been due absence such prepayment by the District unless the Bond Insurer chooses to pay such amounts at an earlier date.

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

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

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

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

Neither the District or the Initial Purchaser have made independent investigation into the claims paying ability of the Bond Insurer and no assurance or representation regarding the financial strength or projected financial strength of the Bond Insurer is given. Thus, when making an investment decision, potential investors should carefully consider the ability of the District to pay principal and interest on the Bonds and the claims paying ability of the Bond Insurer, particularly over the life of the investment. See "MUNICIPAL BOND INSURANCE" and "MUNICIPAL BOND RATING" for further information provided by the Bond Insurer and the Policy, which includes further instructions for obtaining current financial information concerning the Bond Insurer.

THE BONDS

General

The Bonds mature on November 1 in each of the years and in the principal amounts, and bear interest at the rates per annum, set forth on the inside cover page. Interest on the Bonds accrues from the initial date of delivery (on or about March 28, 2024) (the "Date of Delivery") and is payable on November 1, 2024, and on each November 1 and May 1 (each an "Interest Payment Date") thereafter until the earlier of maturity or redemption, and will be calculated on the basis of a 360-day year composed of twelve (12) 30-day months. The Bonds will be issued in fully registered form only, without coupons, in principal denominations of \$5,000 of principal amount or any integral multiple thereof, and when issued, will be registered in the name of Cede & Co., as registered owner and nominee for The Depository Trust Company, New York, New York ("DTC"), acting as securities depository for the Bonds until DTC resigns or is discharged. The Bonds initially will be available to purchasers in book-entry form only. So long as Cede & Co., as the nominee of DTC, is the registered owner of the Bonds, principal of and interest on the Bonds will be payable by the paying agent to DTC, which will be solely responsible for making such payment to the beneficial owners of the Bonds. The initial paying agent and registrar for the Bonds is BOKF, NA, Dallas, Texas (the "Paying Agent/Registrar").

Record Date for Interest Payment

Interest on the Bonds will be paid to the registered owner (the "Registered Owners") appearing on the registration and transfer books 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") 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 of 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 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 (which shall be 15 days after the Special Record Date) shall be sent at least five (5) 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.

Redemption Provisions

Optional Redemption: The Bonds maturing on November 1, 2031, 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 November 1, 2030, or on any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption. Notice of the exercise of the reserved right of redemption will be given by the Paying Agent/Registrar at least 30 days prior to the redemption date by sending such notice by first class mail to the Registered Owner of each Bond to be redeemed in whole or in part at the address shown on the bond register. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed shall be selected by the District. If less than all of the Bonds of a certain maturity are to be redeemed, the particular Bonds or portions thereof to be redeemed will be selected by the Paying Agent/Registrar prior to the redemption date by such random method as the Paying Agent/Registrar deems fair and appropriate in integral multiples of \$5,000 within any one (1) maturity. The Registered Owner of any Bond, all or a portion of which has been called for redemption, shall be required to present such Bond to the Paying Agent/Registrar for payment of the redemption price on the portion of the Bonds so called for redemption and issuance of a new Bond in the principal amount equal to the portion of such Bond not redeemed.

Mandatory Redemption: The Bonds maturing on November 1 in the years 2041, 2044, and 2048 (the "Term Bonds") shall be redeemed at a price equal to the principal amount thereof, plus accrued interest to the date fixed for redemption ("Mandatory Redemption Date"), on November 1 in each of the years and in the principal amounts set forth in the following schedule (with each such scheduled principal amount reduced by the principal amount as may have been previously redeemed through the exercise of the District's reserved right of optional redemption, as provided under "*Optional Redemption*" above):

\$870,000 Term Bonds		\$1,005,000 Term Bonds		\$1,220,000 Term Bonds	
Due November 1, 2041		Due November 1, 2044		Due November 1, 2048	
Mandatory	Principal	Mandatory	Principal	Mandatory	Principal
Redemption Date	Amount	Redemption Date	Amount	Redemption Date	Amount
2040	\$ 425,000	2043	\$ 490,000	2047	\$ 595,000
2041 (maturity)	445,000	2044 (maturity)	515,000	2048 (maturity)	625,000

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

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

The Bonds of a denomination larger than \$5,000 may be redeemed in part (\$5,000 or any multiple thereof). Any Bond to be partially redeemed must be surrendered in exchange for one (1) or more new Bonds of the same maturity for the unredeemed portion of the principal of the Bonds so surrendered. In the event of redemption of less than all of the Bonds, the particular Bonds to be redeemed shall be selected by the District; if less than all of the Bonds of a particular maturity are to be redeemed; the Paying Agent/Registrar is required to select the Bonds of such maturity to be redeemed by lot.

Registration, Transfer, and Exchange

In the event the Book-Entry-Only System (herein defined) should be discontinued, the Bonds are transferred and exchanged on the registration books of the Paying Agent/Registrar only upon presentation and surrender thereof to the Paying Agent/Registrar or its corporate trust office and such transfer or exchange shall be without expenses or service charge to the Registered Owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange, and transfer. A Bond may be assigned by the execution of an assignment form on the Bonds or by other instrument of transfer and assignment acceptable to the Paying Agent/Registrar. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bonds being transferred or exchanged, at the principal payment office of the Paying Agent/Registrar, or sent by the United States mail, first class, postage prepaid, to the new Registered Owner or his designee. To the extent possible, new Bonds issued in an exchange or transfer of Bonds will be delivered to the Registered Owner or assignee of the Registered Owner in not more than three (3) business days after the receipt of the Bonds to be cancelled, and the written instrument of transfer or request for exchange duly executed by the Registered Owner or his duly authorized agent, in form satisfactory to the Paying Agent/Registrar. New Bonds registered and delivered in an exchange or transfer shall be in any integral multiple of \$5,000 for any one (1) maturity and for a like aggregate principal amount as the Bond or Bonds surrendered for exchange or transfer. See "BOOK-ENTRY-ONLY SYSTEM" for a description of the system to be utilized initially in regard to ownership and transferability of the Bonds.

Mutilated, Lost, Stolen, or Destroyed Bonds

In the event the Book-Entry-Only System should be discontinued, the District has agreed to replace mutilated, destroyed, lost, or stolen Bonds upon surrender of the mutilated Bonds, receipt of satisfactory evidence of such destruction, loss, or theft, and receipt by the District and the Paying Agent/Registrar of security or indemnity to hold them harmless. Upon the issuance of a new bond the District may require payment of taxes, governmental charges and other expenses (including the fees and expenses of the Paying Agent/Registrar), bond printing and legal fees in connection with any such replacement.

Replacement of Paying Agent/Registrar

Provisions are made in the Bond Resolution for replacement of the Paying Agent/Registrar by the District. If the Paying Agent/Registrar is replaced by the District, the new Paying Agent/Registrar shall act in the same capacity as the previous Paying Agent/Registrar. Any Paying Agent/Registrar selected by the District shall be a national or state banking institution, a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers, and subject to supervision or examination by federal or state authority, to act as paying agent for the Bonds.

Source of Payment

The Bonds are obligations of the District and are not the obligations of the State of Texas, Fort Bend County, the City, the TIRZ, any Participant in the TIRZ, or any entity other than the District. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

The Bonds are payable from the Pledged TIRZ Revenues, consisting primarily of the TIRZ Contract Revenue Payments transferred to the District Debt Service Fund, as described herein, and additionally from the proceeds of a continuing direct ad valorem tax, without legal limitation as to rate or amount, levied against all taxable property within the District. In 2019, the City created the Zone pursuant to the City's Ordinance No. 2019-08-13F (the "Ordinance") encompassing approximately 190 acres (the "Original Tract"). In 2021, the City annexed approximately 83 acres into the TIRZ pursuant to City Ordinance 2021-12-14B (the "Annexation Tract"). The TIRZ was created for purposes of funding certain infrastructure costs for development in the TIRZ and District. The District and Zone boundaries are currently coterminous. The City adopted the Final Project Plan and Reimbursement Zone Financing Plan for the Zone in 2021, pursuant to City Ordinance No. 2021-12-14B. The City and Fort Bend County (including Fort Bend County Drainage District) (collectively, the "Participants") have all agreed, pursuant to the Interlocal Agreement, to participate in the TIRZ and to deposit in the Tax Increment Fund of the District 85% of the tax revenues the Participants collect within the boundaries of the TIRZ, which are

attributable to the increase in taxable value of real property within the TIRZ, including the District, over a base value as of January 1, 2019, with respect to property located within Original Tract, and January 1, 2021, with respect to property located within the Annexation Tract (the "Captured Appraised Value"). Tax revenue collected on personal property is not included in the Tax Increments. The TIRZ terminates on December 31, 2049.

Pledged TIRZ Revenue: Pursuant to the Arcola Reinvestment Zone Development Plan Agreement between the City, Fort Bend County (the "County"), the TIRZ, and the District, as amended (the "Interlocal Agreement"), the Participants have agreed to transfer to the District the Tax Increments quarterly, with respect to City tax increments, and semi-annually, with respect to County tax increments (the "TIRZ Contract Revenue Payments"). The County will collect and deposit the TIRZ Contract Revenue Payments into the District Tax Increment Fund. On or before September 1 of each year, the District will determine the amount of money necessary to pay the ensuing annual debt service on the Bonds, after consideration of anticipated ad valorem debt service tax revenue and other funds on deposit in the Debt Service Fund, and will transfer that amount from the Tax Increment Fund to the District's Debt Service Fund, if available, and after accounting for other District obligations payable from the Tax Increment Fund, including, without limitation, other bonds issued by the District, such as road bonds. The monies held in the District's Debt Service Fund derived from the TIRZ Contract Revenue Payments constitute the "Pledged TIRZ Revenue," and are irrevocably pledged to payment of the Bonds and any parity bonds. The Pledged TIRZ Revenues are a significant source of payment for the Bonds. The Bonds are secured by a first lien on and pledge of the Pledged TIRZ Revenues. See "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."

Unlimited Tax: The TIRZ Contract Revenue Payments are expected to be sufficient in amount to pay the majority of the principal and interest on the Bonds and the District will levy an annual ad valorem tax in connection with the remaining debt service on the Bonds over the life of the Bonds; however, while the Bonds or any part of the principal thereof or interest thereon remain outstanding and unpaid, the District covenants to levy, assess and collect in due time, form and manner, and at the same time as other District taxes are appraised, levied and collected, a continuing direct annual ad valorem tax, without limit as to rate or amount, upon all taxable property in the District sufficient to pay the principal and interest on the Bonds with full allowance being made for inadequate TIRZ Contract Revenue Payments, delinquencies and costs of collection. In the Bond Resolution (herein defined), the District covenants that said taxes are irrevocably pledged to the payment of the interest on and principal of the Bonds and to no other purpose. The District reserves the right to use any remaining TIRZ Contract Revenue Payments in the District TIRZ Fund from year to year for any other purpose allowed by law and the Interlocal Agreement.

Payment Record

The Bonds are the District's first issuance of indebtedness.

Authority for Issuance

The Bonds are issued pursuant to an order of the TCEQ; Article XVI, Section 59 of the Texas Constitution; the general laws of the State of Texas, including particularly Chapter 49 of the Texas Water Code, Chapter 375 of the Texas Local Government Code, and Chapter 311 of the Texas Tax Code, as amended; the Interlocal Agreement; an election held within the District, as referenced below; and the Bond Resolution. Before the Bonds can be issued the Attorney General of Texas must pass upon the legality of the Bonds. The Attorney General of Texas does not guarantee or pass upon the safety of the Bonds as an investment or upon the adequacy of the information contained in this Official Statement.

Issuance of Additional Debt

Following the issuance of the Bonds, \$77,230,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the System will remain authorized but unissued. Additionally, voters in the District have authorized \$8,630,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the System, \$28,600,000 principal amount of unlimited tax bonds for the purpose of acquiring or constructing the Road System, \$2,860,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the Road System, \$8,300,000 principal amount of unlimited tax bonds for purpose of acquiring or constructing the Park System, and \$830,000 principal amount of unlimited tax bonds for the purpose of refunding bonds issued for the purpose of acquiring or constructing the Park System.

Following the reimbursement with the proceeds of the Bonds, the District will owe the Developer approximately \$31,000,000 for reimbursable expenses for District projects. 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.

Based on present engineering cost estimates and on development plans provided by the Developer, in the opinion of the Engineer, following the issuance of the Bonds, the District will have adequate authorized but unissued bonds to repay the Developer the remaining amounts owed for the existing financed facilities. See “DEVELOPMENT WITHIN THE DISTRICT,” “THE SYSTEM,” and “RISK FACTORS – Future Debt.”

Consolidation

Under Texas law, the District may be consolidated with other municipal management districts, with the assets and liabilities of the consolidated districts belonging to the consolidated district. No representation is made that the District will ever consolidate with one or more districts, although no consolidation is presently contemplated by the District.

Dissolution

The City Council of the City, by a vote of not less than two-thirds of its membership, may adopt an ordinance dissolving the District. Upon the adoption of the ordinance, the District would be dissolved, and the City would succeed to the property and assets of the District and assume all bonds, debts, obligations, and liabilities of the District, including, without limitation, the obligation to pay the debt service on the Bonds. The District can make no representation on the ability of the City to repay the District's debt.

Pursuant to the Interlocal Agreement, the City agreed that the District would administer the Project Plan for the TIRZ. Dissolution of the District would therefore constitute an amendment of the Interlocal Agreement, and, pursuant to the terms of the Interlocal Agreement, would have to be approved by the District and County.

Registered Owners' Remedies

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

In the event of default in the payment of principal of or interest on the Bonds, the Registered Owners may seek a writ of mandamus requiring the District to levy adequate taxes to make such payments. Except for the remedy of mandamus, the Bond Resolution does not specifically provide for remedies to a Registered Owner in the event of a District default, nor does it provide for the appointment of a trustee to protect and enforce the interests of the Registered Owners. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The Texas Legislature has not waived the District's immunity to a suit for money damages under the doctrine of governmental immunity. If 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. Sovereign immunity may prevent bondholders from bringing a suit for money damages. 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.

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 of the Texas Government Code) also provides that bonds of the District (including the Bonds) are eligible as collateral for public funds.

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

Defeasance

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

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

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

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 DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the book-entry-only system (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 Direct and Indirect Participants (herein defined), (2) Direct and Indirect 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 Registered Owners, or that they will do so on a timely basis, or (3) DTC will serve and act in the manner described herein. The current rules applicable to DTC are on file with the United States Securities and Exchange Commission (the "SEC"), and the current procedures of DTC to be followed in dealing with Direct and Indirect 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 (1) fully-registered Bond certificate will be issued for each maturity of the Bonds, each in the aggregate principal amount of such maturity, and will be deposited with DTC.

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.6 million issues of U.S. and non-U.S. equity issues, corporate and municipal debt issues, and money market instruments (from over 100 countries) that DTC's participants (the "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 (the "Indirect Participants," and together with the Direct Participants, the "Direct and Indirect Participants"). DTC has a rating of "AA+" from S&P Global Ratings. The DTC rules applicable to its Direct and Indirect Participants are on file with the SEC. 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 holder of ownership interest of each actual purchase of each Bond is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial owners of the Bonds will not receive written confirmation from DTC of their purchase. Beneficial owners of the Bonds 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 owners of the Bonds 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 of the Bonds. Beneficial owners of the Bonds 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 of the Bonds. 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 of the Bonds 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 the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Direct and Indirect Participants to beneficial owners of the Bonds 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 the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the beneficial owners of the Bonds 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 Book-Entry-Only System 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 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 herein 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 Resolution will be given only to DTC.

USE AND DISTRIBUTION OF BOND PROCEEDS

Proceeds from the sale of the Bonds will be used to reimburse the Developer for a portion of the improvements and related costs shown below. Additionally, proceeds from the sale of the Bonds will be used to pay developer interest, eighteen (18) months of capitalized interest, operating advances and other certain costs associated with the issuance of the Bonds, as shown below.

Non-construction costs are based upon either contract amounts or various cost estimates by the Engineer and the Financial Advisor. The actual amounts to be reimbursed by the District and the non-construction costs will be finalized after the sale of the Bonds and completion of agreed-upon procedures by the District's auditor.

I. CONSTRUCTION COSTS

▪ Post Oak Pointe, Section 1.....	\$ 1,417,490
▪ Post Oak Pointe Drive.....	1,556,545
▪ Detention Phase 1.....	1,410,339
▪ Land Cost.....	1,166,724
▪ Engineering Fees.....	571,362
▪ Materials Testing Fees.....	59,811
▪ Stormwater Pollution Prevention Plan Fees.....	66,695
Total Construction Costs.....	\$ 6,248,966

II. NON-CONSTRUCTION COSTS

▪ Legal Fees.....	\$ 211,400
▪ Fiscal Agent Fees.....	181,400
▪ Capitalized Interest (18 months) (a).....	603,769
▪ Developer Interest (Estimated).....	805,774
▪ Bond Discount (a).....	271,842
▪ Operating Advances.....	420,429
▪ Bond Issuance Expenses.....	60,899
▪ Bond Application Report Costs.....	55,000
▪ Attorney General Fee.....	9,070
▪ TCEQ Bond Issuance Fee.....	22,674
▪ Contingency (a).....	178,777
Total Non-Construction Costs.....	\$ 2,821,034

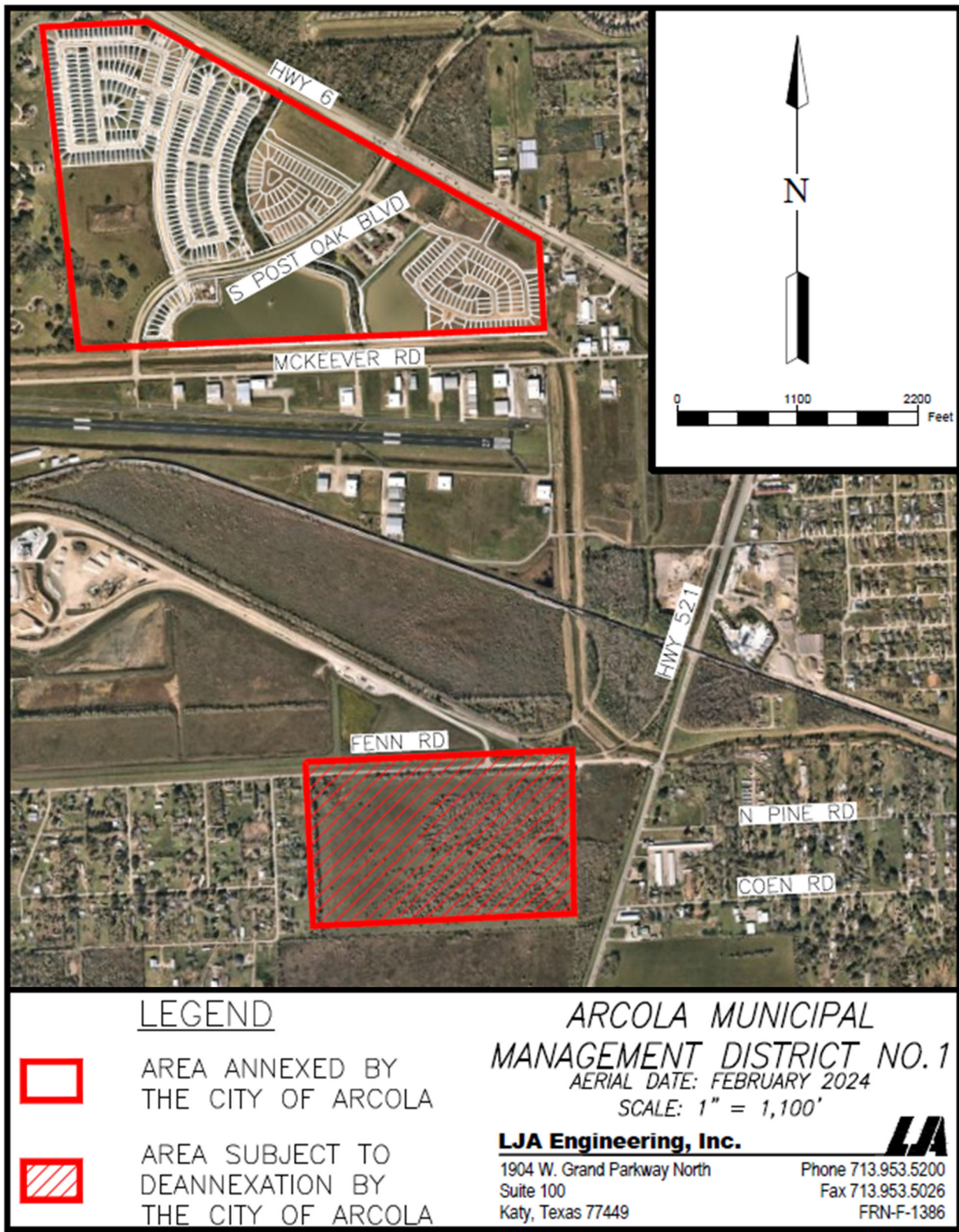
TOTAL BOND ISSUE REQUIREMENT..... \$ 9,070,000

(a) Contingency represents the difference in the estimated and actual amounts of capitalized interest and Bond discount.

In the instance that approved estimated amounts exceed the actual costs, the difference comprises a surplus which may be expended for uses authorized under the applicable rules of the TCEQ. In the instance that actual costs exceed previously approved estimated amounts and contingencies, additional TCEQ approval and the issuance of additional bonds may be required. However, the District cannot and does not guarantee the sufficiency of such funds for such purposes.

AERIAL OF THE DISTRICT AND THE ZONE

(January 2024)



**PHOTOGRAPHS TAKEN WITHIN THE DISTRICT
(January 2024)**



THE DISTRICT

General

The District was created by order of the TCEQ, dated July 21, 2020, and by a confirmation election held within the District on November 3, 2020, and operates under Chapter 49 of the Texas Water Code, and Chapter 375 of the Texas Local Government Code, as amended, and other general laws of the State of Texas applicable to municipal management districts.

The District encompasses approximately 274 acres.

Location

The District is a political subdivision of the State of Texas, located within the corporate city limits of the City of Arcola, and within Fort Bend County, Texas, approximately 18 miles southwest of the central business district of Houston. Its borders consist of Texas State Highway 6 to the north and Farm-to-Market 521 to the east and McKeever Road to the south. Access to the District is provided by Texas State Highway 6 and McKeever Road.

Management of the District

- Board of Directors -

The District is governed by a board, consisting of five directors, which has control over and management and supervision of all affairs of the District. Directors serve staggered four year terms. Directors are appointed by the City from a slate of candidates recommended by the Board and qualified to serve under Chapter 375, Texas Local Government Code.

<u>Name</u>	<u>Position</u>	<u>Term</u>
Jon Jones	President	August 2022*
Mary Ewing	Vice President	August 2024
Carrie Bond	Secretary	August 2024
Donyelle Robinson	Assistant Vice President	August 2022*
Brian Cokes	Assistant Secretary	August 2024

(*) The City is required by law to appoint directors to the Board from a slate of persons recommended by the Board or by the owners of a majority of the assessed value of the property in the District subject to assessment by the District. The District has recommended to the City the reappointment of Jon Jones and Donyelle Robinson to the Board for new 4-year terms. The City has not yet acted to reappoint such directors. Pursuant to Article XVI, Section 17 of the Texas Constitution, Directors Jones and Robinson continue to serve on the Board until their successors are appointed and duly qualified.

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 ("FDIC") and secured by collateral authorized by the Act, and in TexPool and Texas Class, 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 Tax Tech, Inc.

Bookkeeper: Myrtle Cruz, Inc. acts as bookkeeper for the District.

Engineer: The District's Engineer is LJA Engineering, Inc. (the "Engineer").

Auditor: As required by the Texas Water Code, as amended, the District retains an independent auditor to audit the District's financial statements annually, which annual audit is filed with the TCEQ. The District engaged McCall Gibson Swedlund Barfoot PLLC as its auditor for the fiscal year ended September 30, 2023, which audit is included as APPENDIX A.

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

Attorney: The District has engaged The Muller Law Group, PLLC, Sugar Land, 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 earned upon the sale and delivery of the Bonds. See "LEGAL MATTERS."

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'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.

THE DEVELOPER

The Role of a Developer

In general, the activities of a developer in a municipal management 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.

The Developer

The developers of land in the District are Post Oak Pointe, LTD, a Texas limited partnership ("Post Oak") and NT Houston Investments, LLC, a Texas limited liability company ("NT Houston," collectively with Post Oak, referred to herein as the "Developer"). Post Oak and NT Houston are related entities and under common ownership and control.

Post Oak is the developer of the original approximately 190-acre tract and NT Houston is the developer of the approximately 83-acre annexed tract.

Post Oak has a \$10,320,000 loan from Cadence Bank. Such loan bears interest rate of 9.25% and matures on December 31, 2024. The loan is secured by land owned by Post Oak within the District. The outstanding balance on the loan is \$8,960,413.37 as of January 9, 2024. According to Post Oak, it is in compliance with all material conditions of the loan.

Homebuilder within the District

DR Horton is the sole homebuilder within the District. Homes range in price from approximately \$304,990 to approximately \$345,990.

LITIGATION

Background

On September 26, 2023, the District filed suit in the 400th Judicial District Court of Fort Bend County (“Trial Court”) against the City for anticipatory breach of the Interlocal Agreement based upon repeated attempts by the City to disannex the Annexation Tract from the City’s municipal boundaries. The primary relief sought by the District is a permanent injunction prohibiting the City from disannexing or attempting to disannex the Annexation Tract from the City’s municipal boundaries. The Trial Court issued a temporary restraining order enjoining the City from disannexing the Annexation Tract pending a hearing on the temporary injunction. Since filing suit, the County has intervened in support of the District’s claim.

On October 16, 2023, the Trial Court granted the City’s plea to the jurisdiction, effectively dismissing the lawsuit and lifting the temporary restraining order. Both the District and County then appealed the Trial Court’s decision to the First Court of Appeals in Houston, Texas (the “Appellate Court”), and such appeal remains pending. The District subsequently sought emergency relief to prevent the City from disannexing the Annexation Tract pending the results of the appeal (“Stay”), which relief was granted by the Supreme Court of Texas on November 14, 2023. The Stay currently remains in place.

Security for the Bonds

If the City prevails in the above-described lawsuit, the governing body of the City may act to remove the Annexation Tract from the municipal boundaries of the City. If the Annexation Tract is ultimately removed from the City boundaries, no City Tax Increments would be collected from the Annexation Tract to pay to the District as part of the Tax Increment Contract Revenue Payments, and, therefore, the Pledged TIRZ Revenues would not include City Tax Increments from the Annexation Tract. Disannexation of the Annexation Tract from the City’s municipal boundaries would not affect the collection of County Tax Increment from such area and inclusion of same in the Tax Increment Contract Revenue Payments, nor would such disannexation affect the District’s ability to levee and collect a direct unlimited ad valorem debt service tax on all taxable property within the Annexation Tract.

The estimates of Pledged TIRZ Revenue described herein are not based on any estimated Tax Increment Contract Revenue Payments from the Annexation Tract. The Annexation Tract currently remains undeveloped, and therefore, Tax Increments from the Annexation Tract have not been projected to be collected and remitted to the District at this time.

The District can make no representation on the likelihood of the Developer to proceed with development of the Annexation Tract should it be disannexed by the City. See “THE DEVELOPER – The Role of a Developer.”

DEVELOPMENT WITHIN THE DISTRICT

Status of Development

Approximately 68.70 acres of land within the District have been developed as the single-family residential subdivisions of Post Oak Pointe, Sections 1-3 (307 lots). As of December 1, 2023, the District consisted of 307 platted lots comprised of 247 completed homes (215 occupied homes), 42 homes in various stages of construction and 18 vacant developed lots. There are currently approximately 43.68 remaining developable acres within the District. The remainder of land within the District consists of approximately 161 acres of detention and greenspaces. See table below.

Section	Acres	Lots	Completed Occupied	Completed Unoccupied	Homes Under Construction	Vacant
			Homes	Homes		Lots
Post Oak Pointe, Section 1	30.71	134	125	8	0	1
Post Oak Pointe, Section 2	5.85	9	6	0	0	3
Post Oak Pointe, Section 3	<u>32.15</u>	<u>164</u>	<u>84</u>	<u>24</u>	<u>42</u>	<u>14</u>
Total Developed	68.70	307	215	32	42	18
Developable Acreage	43.68					
Undevelopable Acreage	<u>161.14</u>					
Total	274					

THE SYSTEM

Regulation

According to the District's Engineer, the System has 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 and Fort Bend County, Texas. According to the District's Engineer, the design of all such facilities has been approved by all required governmental agencies, and the construction has been inspected by the Commission.

Operation of the waterworks and sewage treatment facilities serving the District is subject to regulation by, among others, the Environmental Protection Agency and the Commission. In many cases, regulations promulgated by these agencies have become effective only recently and are subject to further development and revisions.

Source of Water Supply and Wastewater Treatment

Water supply and wastewater treatment capacity is provided by the City. Pursuant to the Interlocal Agreement, the District constructs all internal and offsite water conveyance and wastewater conveyance facilities necessary to serve the District and conveys such facilities to the City for ownership, operation, and maintenance upon their completion (no action by the City is necessary to effectuate this transfer). Utility customers within the District pay the City for services in accordance with the City's water and sewer rate order. See "INTERLOCAL AGREEMENT – On Construction, Ownership, Operation, and Maintenance of TIRZ Improvements" and "Provision of Water Supply and Sanitary Sewer Services to Users within the District."

The District obtains all its water supply from the City through an existing 12-inch water line located along Texas State Highway 6. The City's water plant is complete and operational, and has a current capacity of 1,300 ESFC's, which is sufficient to serve current development in the District. The District, through its administration of the Project Plan, intends to construct an additional booster pump and ground storage tank to increase capacity of the City's water plant to 2,000 ESFC's, which is sufficient to serve projected development in the District. The District does not own or operate any water supply facilities.

The District's wastewater is processed by the City's permanent wastewater treatment plant located along FM 251 between north of Fenn Road and south of Old Alvin Road. The City's wastewater treatment plant currently has a total capacity of 675,000 gpd, which is sufficient to serve current development in the District. A contract to expand the capacity of the City's wastewater treatment plant has been awarded by the District. Upon completion of the expansion, the total capacity in the City's wastewater treatment plant will include an additional 410,000 gpd, which is projected to be sufficient to serve future development in the District.

All capacity in water and sewer infrastructure, including without limitation, the water and wastewater plants, constructed and financed through Tax Increments is reserved to serve the area within the TIRZ, which is coterminous with the boundaries of the District.

Storm Drainage

The natural pattern for overland flow within the District is for sheet flow to flow generally west and ultimately to the Tributary of West Fork Chocolate Bayou. To provide drainage within the District, a detention pond has been constructed to provide outfall drainage for the District. Internal storm sewers within subdivision sections are directed to the linear detention ponds which ultimately outfalls to West Fork Chocolate Bayou and then into the Gulf Coast Water Authority ("GCWA") canal. The GCWA canal then outfalls to the Gulf of Mexico.

Flood Plain

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

General Fund Operating Statement

The following statement sets forth in condensed form the historical results of operation of the District's System. Such summary has been prepared by the Financial Advisor for inclusion herein, based upon information obtained from the District's audited financial statements in the case of fiscal year ending September 30, 2023. Reference is made to such statements for further and more complete information. See "APPENDIX A."

	<u>Fiscal Year Ended</u>
	<u>9/30/2023</u>
<u>Revenues</u>	
Property Taxes	\$ 54,329
TIRZ Revenues	56,069
Miscellaneous Revenues	122,200
Total	<u>\$ 232,598</u>
<u>Expenditures</u>	
Professional Fees	\$ 244,163
Contracted Services	35,404
Repairs and Maintenance	71,466
Other	23,734
Total	<u>\$ 374,767</u>
NET REVENUES (Deficit)	<u>\$ (142,169)</u>
<u>Other Financing Sources (Uses):</u>	
Developer Advances	\$ 300,000
Beginning fund balance	\$ 24,567
Ending fund balance	<u><u>\$ 182,398</u></u>

DISTRICT DEBT

Debt Service Requirement Schedule

The following schedule sets forth the debt service requirements for the Bonds. Totals may not sum due to rounding.

Year Ending 12/31	The Bonds		Total
	Principal	Interest	Debt Service
2024	\$ -	\$ 238,153	\$ 238,153
2025	205,000	402,513	607,513
2026	215,000	389,444	604,444
2027	225,000	375,738	600,738
2028	235,000	361,394	596,394
2029	250,000	346,413	596,413
2030	260,000	330,475	590,475
2031	275,000	313,900	588,900
2032	285,000	296,369	581,369
2033	300,000	283,544	583,544
2034	315,000	271,544	586,544
2035	330,000	258,944	588,944
2036	350,000	245,744	595,744
2037	365,000	231,744	596,744
2038	385,000	217,144	602,144
2039	405,000	201,744	606,744
2040	425,000	185,544	610,544
2041	445,000	168,544	613,544
2042	465,000	150,744	615,744
2043	490,000	132,144	622,144
2044	515,000	113,156	628,156
2045	540,000	93,200	633,200
2046	570,000	71,600	641,600
2047	595,000	48,800	643,800
2048	625,000	25,000	650,000
	<u>\$ 9,070,000</u>	<u>\$ 5,753,534</u>	<u>\$ 14,823,534</u>

Average Annual Requirement the Bonds (2025-2048)\$607,724
Less: Pledged TIRZ Revenue:(520,826) (a)
Net Average Annual Debt Service Requirement.....86,898

Maximum Annual Requirement the Bonds (2048)\$650,000
Less: Pledged TIRZ Revenue:(520,826) (a)
Net Maximum Annual Debt Service Requirement.....129,174

(a) See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments" and " – Dependence on Collection of TIRZ Contract Revenue Payments," "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1" and "INTERLOCAL AGREEMENT – Provision of Water Supply and Sanitary Sewer Services to Users within the District - 2023 Tax Year."

CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1

On August 13, 2019, the City, on petition of the landowner and pursuant to City Ordinance No. 2019-08-13F, created Reinvestment Zone Number 1, City of Arcola, Texas for the purpose of incentivizing development and funding certain infrastructure costs for development of the original approximately 190.418 acres of land ("Original Tract") within the TIRZ, including for purposes of funding the System.

The City, TIRZ, the County, and the District entered into the Interlocal Agreement providing terms related to the development of the Original Tract and the financing of public infrastructure related thereto, including the System.

Pursuant to a petition from the landowner, the City annexed approximately 83 acres of additional land into its municipal boundaries on December 14, 2021, pursuant to City Ordinance No. 2021-12-14A. The City further added the Annexation Tract to the TIRZ boundaries on the same date, pursuant to City Ordinance No. 2021-12-14B, as requested by the landowner and recommended by the board of directors of the TIRZ. City Ordinance No. 2021-12-14B also adopted the Final Project & Financing Plan for the TIRZ (the "Project Plan"), as recommended by the board of directors of the TIRZ, which includes TIRZ Improvements (as defined herein) for development of both the Original and Annexation Tracts.

The City, TIRZ, County, and the District entered into Amendment No. 1 to the Interlocal Agreement, effective December 14, 2021, to include the Annexation Tract within the TIRZ boundaries and add additional projects and updated project costs for the development of the land within the TIRZ. References herein to the Interlocal Agreement incorporate this Amendment No. 1.

General Statutory Requirements for Tax Increment Reinvestment Zones in Texas

A tax increment reinvestment zone under the TIRZ Act is created by a city, which also approves a project plan and financing plan for a zone. The ordinance creating a zone and the plans may provide that the city will deposit all or a portion of its Tax Increment, as defined below, into a tax increment fund established by the city for a zone. Other taxing units which tax property in a zone may agree with the city that they will also deposit all or a portion of their Tax Increment into the tax increment fund established for a zone. Pursuant to the Interlocal Agreement, the District holds and maintains the Tax Increment Fund.

The amount of a taxing unit's tax increment for a year is the amount of property taxes levied and collected by a taxing unit for that year on the captured appraised value of real property (the "Captured Appraised Value") taxable by a taxing unit and located in a zone (the "Tax Increment"). The Captured Appraised Value of real property taxable by a taxing unit for a year is the total appraised value of all real property taxable by the taxing unit and located in a zone for that year less the total appraised value of all real property taxable by a taxing unit and located in a zone in the year in which a zone was designated as such under the TIRZ Act (the "Tax Increment Base"). In the event a zone is enlarged by ordinance or resolution of a city, the Tax Increment Base for added property is the value of all real property taxable by a taxing unit and located in the added area in the year of enlargement and in the event the boundaries of a zone are reduced, the Tax Increment Base is reduced by the taxable value of the real property removed from a zone for the year in which the property was originally included in a zone's boundaries.

The TIRZ Act provides that each taxing unit that participates in a zone is required to pay into the tax increment fund for a zone the collected Tax Increment that it has agreed to pay under its agreement with a city and in accordance with the project plan. The TIRZ Act provides that the payment by a participating taxing unit is to be made into the tax increment fund not later than the 90th day after the later of: (i) the delinquency date for such taxing unit's property taxes or (ii) the date a city submits to a taxing unit an invoice specifying the Tax Increment produced by such taxing unit and the amount the taxing unit is required to pay into the tax increment fund for a zone.

Section 311.0123 of the TIRZ Act permits a city to also designate a portion or amount of tax increment generated from municipal sales and use taxes attributable to a zone above the sales tax base similar to that done for taxable real property. No sales tax will be utilized as a source of payment for the Bonds.

Calculation of Tax Increment for the Zone

The Participants, defined below, are required to pay into the District Tax Increment Fund. Tax Increments equal to eighty-five percent (85%) the amount arrived at by multiplying the Captured Appraised Value by their respective tax rate per \$100 of valuation for the tax year and then multiplying that product by the Participants' collection percentage. The collection percentage is determined by comparing the taxes collected from all taxable real property in the Zone to the total taxes due to each Participant for the tax year from all real property in the Zone.

The obligations of each of the Participants to pay the Tax Increment into the Tax Increment Fund is subject to the rights of any holders of bonds, notes or other obligations that have been or are hereafter issued by the Participants that are payable from or secured by a general levy of ad valorem taxes through the tax jurisdiction of the Participant, as applicable.

General Description of the Zone

In 2019, the City Council of the City adopted Ordinance No. 2013-08-13F designating a geographic area in the jurisdiction of the City as a reinvestment zone to promote development and redevelopment in the Zone.

The City is required by law to appoint directors to the Board from a slate of persons recommended by the Board or by the owners of a majority of the assessed value of the property in the District subject to assessment by the District. The District has recommended to the City the reappointment of Jon Jones and Donyelle Robinson to the Board for new 4-year terms. The City has not yet acted to reappoint such directors. Pursuant to Article XVI, Section 17 of the Texas Constitution, Directors Jones and Robinson continue to serve on the Board until their successors are appointed and duly qualified.

In accordance with the TIRZ Act, the Zone Board as well as the City Council have adopted a financing and project plan, which plan includes the projects being financed with the Bonds. The Zone encompasses approximately 274 acres and is located within the corporate city limits of the City, and within Fort Bend County, Texas, approximately 18 miles southwest of the central business district of Houston. Its borders consist of Texas State Highway 6 to the north and Farm-to-Market 521 to the east and McKeever Road to the south. Access to the Zone is provided by Texas State Highway 6 and McKeever Road. See "AERIAL OF THE DISTRICT AND ZONE." The TIRZ terminates on December 31, 2049.

Participating Taxing Units

The County, including Fort Bend County Drainage District and the City have all entered into agreements with the District to participate in the Zone. The County has agreed to paying 85% of the Captured Appraised Value in the Zone into the Tax Increment Account through December 31, 2049. The City has agreed to pay 85% of the Captured Appraised Value in the Zone through December 31, 2049.

The Tax Increment of each Participant will be paid into the District Tax Increment Fund and used to pay project costs within the Zone, including, without limitation, debt service on the Bonds and any other obligations issued to finance project costs in the Zone. None of the Participants are required under State law to set a tax rate sufficient to assure any certain dollar amount of Tax Increments; rather, State law only requires each Participant to contribute Tax Increments actually collected by it and only to the extent provided in the applicable interlocal agreement.

INTERLOCAL AGREEMENT

On Construction, Ownership, Operation, and Maintenance of TIRZ Improvements

The Interlocal Agreement, as amended, provides, among other things, that the District will construct public water, sanitary sewer, drainage, roads and recreational facilities to serve the land within the TIRZ, as such projects are defined in the Project Plan ("TIRZ Improvements"). The agreement provides that the District will acquire, design, finance and construct all of the TIRZ Improvements in its name unless otherwise agreed to by the District and City, provided that the City's engineer shall approve plans and specifications for such projects. Except for the City water plant, all TIRZ Improvements have been or are intended to be constructed in the District's name. Upon the District's completion of TIRZ Improvements, such improvements and any property rights related thereto are generally conveyed to the City for ownership, operation, and maintenance, except for stormwater detention facilities and parks, which the District will retain ownership of, operate, and maintain. In consideration of the District's construction of the TIRZ Improvements and conveyance of same to the City, the City and County agree

to contribute 85% of the tax increments generated within the TIRZ on the Captured Appraised Value to the District to finance a portion of the TIRZ Improvements, by providing a stream of contract revenue to be pledged as security for District bonds sold to pay for TIRZ Improvements or to otherwise pay for the construction of such improvements directly or as reimbursements to a developer in the district, subject to a reimbursement agreement between the District and such developer.

Developer Reimbursement Agreements

The Interlocal Agreement further provides that the District may enter into one or more development agreements with developers of property within the District for the purpose of such developers advancing funds to the District for the TIRZ Improvements, subject to reimbursement from tax increments generated within the TIRZ, as well as from other District funds. The District has entered into two such development agreements with developers operating within its boundaries and the boundaries of the Zone.

Provisions Related to Sale of Bonds/TIRZ Bond Cap

In the Interlocal Agreement, the City consents to the sale of the District's bonds, including the Bonds, as required by Chapter 375, Texas Local Government Code. The agreement provides that unless otherwise approved by the City, the aggregate amount of bonds issued by the District and payable from TIRZ Contract Revenue Payments to finance TIRZ Improvements (excluding refunding Bonds) shall not exceed an amount that will yield, after deducting costs of issuance, capitalized interest and any other reserve amounts funded at closing, net Bond proceeds of \$38,441,179 to be deposited into one or more construction funds administered by the District (the "TIRZ Bond Cap"). After issuance of the Bonds, the District may issue additional bonds payable from TIRZ Contract Revenue Payments provided that net Bond proceeds from such issues, as described in the preceding sentence, do not exceed, in the aggregate, \$38,441,179.

The Interlocal Agreement provides that the terms of the District's bonds payable from TIRZ Contract Revenue Payments will be issued on commercially reasonable terms approved by the Board. The District is required to submit to the City, not less than 30 days prior to the sale date of the District's bonds, copies of the bond documents for the City's review. City review shall be limited to (1) confirmation that the bonds are limited to finance net TIRZ Improvement Costs, (2) the aggregate amount of the bonds does not exceed the TIRZ Bond Cap, and (3) the terms and conditions of the bonds, maturity schedule, and redemption provision are commercially reasonable and consistent with generally accepted financial practices in the Houston-The Woodlands-Sugar Land metropolitan statistical area.

Tax Increment Fund

The Interlocal Agreement provides that the District will establish and maintain a separate Tax Increment Fund into which the TIRZ Contract Revenue Payments will be deposited. The City has agreed to contract with the County during the term of the Interlocal Agreement to collect property taxes on behalf of the City, and the County has agreed to deposit into the Tax Increment Fund, on its behalf and on behalf of the City, the TIRZ Contract Revenue Payments. Payments of City Tax Increments is to be paid quarterly (e.g., January 1, April 1, July 1, and October 1), and payments of County Tax Increments is to be paid not later than February 15 and July 31 of each year during the term of the Interlocal Agreement.

In consideration of the services and projects to be provided by the District, the City and the County covenant and agree in the Interlocal Agreement that they will continuously collect the Tax Increments in the manner and to the maximum extent permitted by applicable law. To the extent the City and the County may legally do so, the City and the County also covenant and agree that they will not permit a reduction in the Tax Increments paid by the City or County. In addition, the City covenants and agrees that it will not dissolve the District and that any repeal of the right and power to collect the Tax Increments will not be effective until the later of (i) all bonds supported by Tax Increments are paid in full or have been legally defeased, or (ii) District obligations pursuant to all District reimbursement agreements providing for developer reimbursements from Tax Increments have been satisfied.

City and County Obligations are Absolute and Unconditional

The obligation of the City and the County to make the TIRZ Contract Revenue Payments set forth in the Interlocal Agreement are absolute and unconditional, and until such time as the bonds supported by Tax Increments, and the contractual obligations of the District incurred pursuant to the Interlocal Agreement have been fully paid or provision for payment thereof shall have been made in accordance with their terms (or, with respect to the Tax Increments, the date of expiration of the Zone, if earlier), the City and the County will not suspend or discontinue any payments provided for in the Interlocal Agreement and will not terminate said agreement for any cause, including, without limiting the generality of the foregoing, the failure of the District to perform and observe any

agreement, whether express or implied, or any duty, liability, or obligation arising out of or connected with said agreement except as provided below under “Remedies in the Event of Default.”

Remedies in the Event of Default

If a party to the Interlocal Agreement is in default, any non-defaulting party may, at its option and without prejudice to any other right or remedy under the agreement, seek any relief available at law or in equity, including, but not limited to, an action under the Uniform Declaratory Judgment Act, specific performance, mandamus, and injunctive relief. To the extent permitted by law, the City, the County and the District have waived immunity from suit. Notwithstanding the remedies available to a non-defaulting party, no default shall:

- (i) Entitle a non-defaulting party to terminate the Interlocal Agreement as to payment obligations on outstanding bonds supported by Tax Increments;
- (ii) Entitle a non-defaulting party to seek or recover damages;
- (iii) Adversely affect the right of the District to issue bonds to pay for District improvement unless (1) the improvements being financed or paid for with the bond proceeds are not authorized under the Interlocal Agreement, (2) the security for the bonds is not authorized by the Interlocal Agreement, or (3) the bonds do not comply with the Interlocal Agreement;
- (iv) Adversely affect the right of any person or entity to be reimbursed for District improvement costs from bonds issued for such purpose and in accordance with the indentures for the bonds; subject, however, to all defenses against reimbursement and rights of off-set that the District may have against such persons or entities; or
- (v) Adversely affect the right of any person or entity to otherwise be reimbursed for District improvement costs from available Tax Increments or other District revenue authorized by Chapter 375, Texas Local Government Code; subject, however, to all defenses against reimbursement and rights of off-set that the District may have against such persons or entities.

Final Project & Financing Plan

On December 14, 2021, the City adopted the Project Plan pursuant to City Ordinance No. 2021-12-14B. The Project Plan includes the list of TIRZ Improvements eligible for TIRZ funding (i.e., payable from TIRZ Contract Revenue Payments), which consists generally of water, sewer, drainage improvements, road facilities, park facilities, and renovations to City Hall. The components of the System included for funding from proceeds of the Bonds are eligible TIRZ Improvements under the Project Plan.

The Interlocal Agreement further provides that the City may not modify the Project Plan without the consent of the District or the County.

Provision of Water Supply and Sanitary Sewer Services to Users within the District

Upon the District's completion of construction of water and wastewater infrastructure to serve the District, such infrastructure is conveyed to the City for ownership, operation, and maintenance. All end users/customers of such services within the boundaries of the District are customers of the City. The City will bill such customers according to the City's rate order and revenue derived from such operations shall belong solely to the City.

2023 Tax Year: Tax Tech, Inc. (the "Tax Assessor Collector") has provided the following information related to the January 1, 2022 base value and the Estimate of Assessed Valuation as of December 15, 2023 for the TIRZ which is within the District.

	City	County	County Drainage District	City, County & County Drainage District
<u>TIRZ Taxable Value</u>				
January 1, 2022 (Base Year)	\$ 5,552,730	\$ 5,552,730	\$ 5,552,730	
Estimate of Assessed Valuation as of December 15, 2023	73,103,897	73,103,897	73,103,897	
Participation Rate	85%	85%	85%	
Estimated Exemptions	15%	16%	16%	
Estimated 2024 Captured Value for TIRZ	56,585,582	55,854,543	55,854,543	
2023 Tax Rate	\$ 0.649619	\$ 0.426500	\$ 0.012400	
Estimated Collection Rates	100%	100%	100%	
Total Estimated 2024 Captured Tax Increment Revenue	\$ 312,452	\$ 202,487	\$ 5,887	\$ 520,826

Previous Tax Years: Prior to 2022, there was no significant captured appraised value in the District.

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DISTRICT FINANCIAL DATA

2023 Certified Taxable Assessed Valuation	\$	23,187,283	(a)
Estimate of Assessed Valuation as of December 15, 2023	\$	73,103,897	(b)
Gross Direct Debt:			
The Bonds	\$	<u>9,070,000</u>	
Total Gross Direct Debt		9,070,000	
Estimated Overlapping Debt	\$	<u>1,231,622</u>	(c)
Total Gross Direct and Estimated Overlapping Debt	\$	10,301,622	
Gross Direct Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		39.12	%
Based on the Estimate of Assessed Valuation as of December 15, 2023		12.41	%
Gross Direct and Estimated Overlapping Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		44.43	%
Based on the Estimate of Assessed Valuation as of December 15, 2023		14.09	%
Net Direct Debt:			
The Bonds	\$	9,070,000	
Less: Portion of the Bonds Supported by Pledged TIRZ Revenue		<u>(7,185,000)</u>	(d)
Total Net Direct Debt	\$	1,885,000	
Estimated Overlapping Debt	\$	<u>1,231,622</u>	(c)
Total Net Direct and Estimated Overlapping Debt	\$	3,116,622	
Net Direct Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		8.13	%
Based on the Estimate of Assessed Valuation as of December 15, 2023		2.58	%
Net Direct and Estimated Overlapping Debt Ratios:			
Based on the 2023 Certified Taxable Assessed Valuation		13.44	%
Based on the Estimate of Assessed Valuation as of December 15, 2023		4.26	%
Debt Service Fund Balance (as of Date of Delivery)	\$	603,769	(e)
Tax Increment Fund Balance (as of February 26, 2024)	\$	58,696	
General Fund Balance (as of February 26, 2024)	\$	234,590	(f)
2023 Tax Rate per \$100 of Assessed Valuation:			
Debt Service	\$	0.00	
Maintenance & Operations	\$	<u>0.84</u>	
Total	\$	0.84	(g)
Average Annual Debt Service Requirement on the Bonds (2025-2048)	\$	607,724	(h)
Less: Pledged TIRZ Revenue:		<u>(520,826)</u>	(i)
Net Average Annual Debt Service Requirement		86,898	
Maximum Annual Debt Service Requirement on the Bonds (2048)	\$	650,000	(h)
Less: Pledged TIRZ Revenue:		<u>(520,826)</u>	(i)
Net Maximum Annual Debt Service Requirement		129,174	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay the			
Net Average Annual Debt Service Requirement on the Bonds (2025-2048)			
at 95% Tax Collections:			
Based on the 2023 Certified Taxable Assessed Valuation	\$	0.40	
Based on the Estimate of Assessed Valuation as of December 15, 2023	\$	0.13	
Debt Service Tax Rate per \$100 of Assessed Valuation Required to Pay the			
Net Maximum Annual Debt Service Requirement on the Bonds (2048)			
at 95% Tax Collections:			
Based on the 2023 Certified Taxable Assessed Valuation	\$	0.59	
Based on the Estimate of Assessed Valuation as of December 15, 2023	\$	0.19	
Single-Family Homes (including 42 under construction) as of December 1, 2023		289	

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- (a) Represents the certified assessed value of all taxable property within the District as of January 1, 2023, as provided by the Fort Bend Central Appraisal District ("FBCAD"). See "TAX DATA" and "TAXING PROCEDURES."
 - (b) Provided by the FBCAD for informational purposes only, this amount is an estimate of the assessed valuation of all taxable property located within the District as of December 15, 2023, and includes an estimate of valuations resulting from the construction of taxable improvements from January 1, 2023, through December 15, 2023. No taxes will be levied against this amount. See "TAX DATA" and "TAXING PROCEDURES."
 - (c) See "Estimated Direct and Overlapping Debt Statement" herein.
 - (d) For illustrative purposes only. This amount reflects the amount of Bonds supported by Pledged TIRZ Revenue. See "RISK FACTORS - Dependence on Collection of TIRZ Contract Revenue Payments" and "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1."
 - (e) The amount above represents eighteen (18) months of capitalized interest that will be deposited into the District's debt service fund on the Date of Delivery. Neither Texas law nor the Bond Resolution requires that the District maintain any particular sum in the Debt Service Fund.
 - (f) See "RISK FACTORS – Operating Funds."
 - (g) See "TAX DATA – Tax Rate Calculations."
 - (h) Requirements of debt service on the Bonds. See "DISTRICT DEBT."
 - (i) See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments," " – Dependence on Collection of TIRZ Contract Revenue Payments," "CITY OF ARCOLA TAX INCREMENT REINVESTMENT ZONE NO. 1" and "INTERLOCAL AGREEMENT – Provision of Water Supply and Sanitary Sewer Services to Users within the District -2023 Tax Year."

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Unlimited Tax Bonds Authorized but Unissued

Election Date	Purpose	Amount Authorized	Issued to Date	The Bonds	Remaining Unissued
11/3/2020	Water, Sewer and Drainage	\$ 86,300,000	\$ -	\$ 9,070,000	\$ 77,230,000
11/3/2020	Water, Sewer and Drainage Refunding	8,630,000	-	-	8,630,000
11/3/2020	Roads	28,600,000	-	-	28,600,000
11/3/2020	Road Refunding	2,860,000	-	-	2,860,000
11/3/2020	Parks	8,300,000	-	-	8,300,000
11/3/2020	Park Refunding	830,000	-	-	830,000
		<u>\$ 135,520,000</u>	<u>\$ -</u>	<u>\$ 9,070,000</u>	<u>\$ 126,450,000</u>

Estimated Direct and 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 several sources, including information contained in the "Texas Municipal Report," published by the Municipal Advisory Council of Texas. 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 of debt service, and the tax burden for operation, maintenance, and/or general purposes is not included in these figures. Totals may not sum due to rounding.

Taxing Jurisdiction	Tax Year	AV	Debt as of 11/30/2023	Overlapping	
				Percent	Amount
Fort Bend County	2023	\$112,149,191,018	\$ 953,817,725	0.02%	\$ 197,206
Fort Bend County Drainage Distr	2023	111,091,686,193	23,615,000	0.02%	4,929
Fort Bend ISD	2023	49,877,542,508	1,548,150,000	0.05%	719,711
City of Arcola, Texas	2023	202,098,985	2,700,000	11.47%	309,777
Total Estimated Overlapping Debt					\$ 1,231,622
The District Direct Debt (a)					\$ 1,885,000
Total Direct Debt and Estimated Overlapping Debt					\$ 3,116,622

(a) Excludes the portion of the Bonds supported by Pledged TIRZ Revenues in the amount of \$7,185,000.

Debt Ratios

	Gross Direct Debt	Gross Direct and Estimated Overlapping Debt
2023 Certified Taxable Assessed Valuation	39.12%	44.43%
Estimate of Assessed Value as of December 15, 2023	12.41%	14.09%
	Net Direct Debt (a)	Net Direct and Estimated Overlapping Debt (a)
2023 Certified Taxable Assessed Valuation	8.13%	13.44%
Estimate of Assessed Value as of December 15, 2023	2.58%	4.26%

(a) Excludes the portion of the Bonds supported by Pledged TIRZ Revenues in the amount of \$7,185,000.

TAX DATA

General

All taxable property located 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, levied upon all taxable property within the District, sufficient to pay principal of and interest on the Bonds, the Outstanding Bonds, and any future tax-supported bonds which may be issued from time to time as authorized. Taxes are levied by the District each year against the District's assessed valuation as of January 1 of that year. Taxes become due October 1 of such year, or when billed, and become delinquent after January 31 of the following year. The Board covenants in the Bond Resolution to assess and levy, for each year that all or any part of the Bonds remain outstanding and unpaid, a tax ample and sufficient to produce funds to pay the principal of and interest on the Bonds when due. The actual rate of such tax will be determined from year to year as a function of the District's tax base, its debt service requirements and available funds. For the 2023 tax year, the District levied a maintenance and operations tax of \$0.84 per \$100 of assessed valuation. The District intends to levy its initial debt service tax rate in tax year 2024.

Tax Rate Limitation

Debt Service: Unlimited (no legal limit as to rate or amount).
Maintenance and Operations: \$1.50 per \$100 Assessed Valuation.
Maintenance and Operations (Roads): \$0.25 per \$100 Assessed Valuation.

Maintenance and Operations Tax

The Board of Directors of the District has the statutory authority to levy and collect an annual ad valorem tax for planning, maintaining, repairing and operating of the District's improvements, if such maintenance tax is authorized by a vote of the District's electors. Such tax is in addition to taxes which the District is authorized to levy for paying principal of and interest on the Bonds and any tax bonds which may be issued in the future. An election was held within the District on November 3, 2020, which authorized the levy of a maintenance tax not to exceed \$1.50 per \$100 assessed valuation. At an election held within the District on November 3, 2020, voters authorized the levy of a maintenance tax for roads not to exceed \$0.25 per \$100 assessed valuation. The District may levy its road maintenance tax in addition to its maintenance tax for water, sewer, drainage, and park purposes.

Additional Penalties

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

Historical Collections

The following table illustrates the collection history of the District for the 2021–2023 tax years:

Year	Assessed Valuation	Tax Rate per \$100 (a)	Tax Levy	% of Current Collections	Tax Year Ended 9/30	Collections as 2/6/2024
2021	\$1,952,730	0.81	\$15,817	100.00%	2022	100.00%
2022	6,707,285	0.81	54,329	100.00%	2023	100.00%
2023	23,187,283	0.84	194,773	94.39%	2024	94.39%

(a) Total tax rate per \$100 of assessed valuation.

(b) In process of collection. 2023 taxes were due January 31, 2024.

Tax Rate Distribution

The following table illustrates the components of the tax rate for the District's 2021–2023 tax years:

	<u>2023</u>	<u>2022</u>	<u>2021</u>
Debt Service	\$ -	\$ -	\$ -
Maintenance and Operations	0.84	0.81	0.81
Total	\$ 0.84	\$ 0.81	\$ 0.81

Analysis of Tax Base

The following table illustrates the District's and the Zone's total taxable assessed value for the 2021 – 2023 tax years by type of property:

	2023	2022	2021
	Taxable	Certified Taxable	Certified Taxable
	Assessed	Assessed	Assessed
<u>Type of Property</u>	<u>Valuation</u>	<u>Valuation</u>	<u>Valuation</u>
Land	\$ 8,106,911	\$ 7,198,580	\$ 2,447,680
Improvements	15,876,824	4,000	-
Personal Property	20,310	-	-
Exemptions	(816,762)	(495,295)	(494,950)
Total	<u>\$23,187,283</u>	<u>\$6,707,285</u>	<u>\$1,952,730</u>

Principal Taxpayers

The following tables illustrates the principal taxpayers within the District and the Zone, type of property, and their assessed values as of January 1, 2023:

<u>Taxpayer</u>	<u>Property Type</u>	<u>2023</u> <u>Tax Year</u>	<u>% of</u> <u>Tax Roll</u>
DR Horton Texas Ltd. (a)	Land & Improvements	\$ 802,218	3.46%
Post Oak Pointe Ltd. (b)	Land	671,695	2.90%
Individual	Land & Improvements	292,571	1.26%
Individual	Land & Improvements	278,592	1.20%
Individual	Land & Improvements	278,212	1.20%
Individual	Land & Improvements	278,212	1.20%
Individual	Land & Improvements	278,154	1.20%
Individual	Land & Improvements	275,154	1.19%
Individual	Land & Improvements	270,005	1.16%
Individual	Land & Improvements	267,005	1.15%
Total		\$ 3,691,818	15.92%

(a) See "THE DEVELOPER – Homebuilder within the District."

(b) See "THE DEVELOPER – The Developer."

Tax Rate Calculations

The tax rate calculations set forth below are presented to indicate the tax rates per \$100 of taxable assessed valuation that would be required to meet certain net debt service requirements if no growth in the District occurs beyond the 2023 assessed valuation of \$23,187,283, or the estimate of assessed valuation as of December 15, 2023, of \$73,103,897. The foregoing further assumes collection of 95% of taxes levied and the sale of no additional bonds by the District. See "RISK FACTORS – Factors Affecting Taxable Values and Tax Payments."

Estimated Average Annual Debt Service Requirement on the Bonds (2025-2048)	\$ 607,724
Less: Pledged TIRZ Revenue	(520,826)
Estimated Net Average Annual Debt Service Requirement on the Bonds (2025-2048)	\$ 86,898
Tax Rate of \$0.40 on the 2023 Certified Taxable Assessed Valuation.....	\$ 88,112
Tax Rate of \$0.13 on the Estimate of Assessed Valuation as of December 15, 2023	\$ 90,283
Estimated Net Maximum Annual Debt Service Requirement on the Bonds (2048)	\$ 650,000
Less: Pledged TIRZ Revenue	(520,826)
Estimated Net Maximum Annual Debt Service Requirement on the Bonds (2048)	\$ 129,174
Tax Rate of \$0.59 on the 2023 Certified Taxable Assessed Valuation.....	\$ 129,965
Tax Rate of \$0.19 on the Estimate of Assessed Valuation as of December 15, 2023	\$ 131,953

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

Set forth below are all 2023 taxes levied by such jurisdictions per \$100 of assessed valuation. Such levies do not include local assessments for community associations, fire department contributions, charges for solid waste disposal, or any other charges made by entities other than political subdivisions. See "DISTRICT FINANCIAL DATA – Estimated Direct and Overlapping Debt Statement."

<u>Taxing Jurisdiction</u>	<u>2023 Tax Rate</u>
The District	\$ 0.840000
Fort Bend County (a)	0.438900
Fort Bend Independent School District	0.989200
City of Arcola, Texas	0.649619
Fort Bend ESD No. 7	0.100000
Total	\$ 3.017719

(a) Includes the Fort Bend County Drainage District 2023 total tax rate of \$0.0124 per \$100 of assessed valuation.

TAXING PROCEDURES

Authority to Levy Taxes

The Board is authorized to levy an annual ad valorem tax on all taxable property within the District in an amount sufficient to pay the principal of and interest on the Bonds, and any additional bonds payable from taxes which the District may hereafter issue (see "RISK FACTORS – Future Debt"), and to pay the expenses of assessing and collecting such taxes. The District agrees in the Bond Resolution to levy such a tax from year to year as described more fully above under "THE BONDS – Source of Payment." Under Texas law, the Board is also authorized to levy and collect an annual ad valorem tax for the operation and maintenance of the District and for the payment of certain contractual obligations if authorized by its voters. See "TAX DATA – Tax Rate Limitation."

Property Tax Code and County-wide Appraisal District

Title I of the Texas Property 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 the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Appraisal District has the responsibility of appraising property for all taxing units within the County, including the District. Such appraisal values are subject to review and change by the Fort Bend Central Appraisal Review Board (the "Appraisal Review Board"). The appraisal roll, as approved by the Appraisal Review Board, must be used by the District in establishing its tax rolls and tax rate.

Property Subject to Taxation by the District

General: Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, manufactured 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. 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 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. Such exemption would be transferred to a subsequent residence homestead of the surviving spouse of a deceased veteran who had received a disability rating of 100%, 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.

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, under certain conditions, 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 in 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 20% of the appraised value of residential homesteads from ad valorem taxation. The District is authorized by statute to disregard previously granted residential homestead exemptions if granting the exemption would impair the District's obligation to pay tax-supported debt incurred prior to adoption of the exemption by the District. The adoption of a homestead exemption may be considered each year but must be adopted by July 1. The District does not grant a residential homestead exemption at this time. For the 2023 tax year, the District has not adopted a residential homestead exemption.

Freeport Goods and Goods-in Transit Exemptions: 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 not later than 175 days after the person acquired or imported the property into the State.

A "Goods-in-Transit" Exemption is applicable to goods, wares, merchandise, other tangible personal property, and ores, other than oil, natural gas, petroleum products, aircraft, dealer's motor vehicle inventory, dealer's vessel and outboard motor inventory, dealer's heavy equipment inventory, or retail manufactured housing inventory, if such property is acquired in or imported into Texas only if such property is to be forwarded to another location in or outside of Texas and 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, and is transported to another location in the state or outside of the state not later than 175 days after the date the person acquired the property in or imported the property into Texas.

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.

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 formally 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 100% of market value, as such is defined in the Property Tax Code. Nevertheless, certain land may be appraised at less than market value under the Property Tax Code. The Texas Constitution limits increases in the appraised value of residence homesteads to 10% 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 and a 5% annual interest 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 reappraisal will be utilized by the Appraisal District or whether reappraisals will be conducted on a zone or county-wide basis. The District, however, at its expense, has the right to obtain from the Appraisal District a current estimate of appraised values within the District or an estimate of any new property or improvements within the District. While such current estimate of appraised

values may serve to indicate the rate and extent of growth of taxable values within the District, it cannot be used for establishing a tax rate within the District until such time as the Appraisal District chooses to formally include such values on its appraisal roll.

Effective January 1, 2020, Section 11.35 of the Property Tax Code, authorizes a temporary tax exemption for certain damaged property in governor-declared disaster areas. In order to qualify for the exemption, the property must be at least 15% damaged, as determined by the chief appraiser of the appraisal district. Upon a property owner's application for an exemption, the chief appraiser must assign a damage rating of Level I – at least 15%, but less than 30% (minimal damage), Level II – at least 30%, but less than 60% (nonstructural damage), Level III – at least 60%, but less than 100% (significant structural damage), or Level IV – 100% (total loss). The amount of the exemption for qualifying property is determined by multiplying the appraisal value by the level rating percentage (Level I – 15%, Level II – 30%, Level III – 60%, and Level IV – 100%), which is then prorated by the number of days from the disaster declaration to December 31 of the tax year in which the disaster is declared as a percentage of total days in the year.

Property owners are entitled to the exemption if the Governor of Texas (the "Governor") declares the disaster area prior to a taxing unit adopting a tax rate for the year in which the disaster occurs. However, if the disaster declaration occurs on or after the date a taxing unit adopts a tax rate, property owners are only entitled to receive the exemption if the governing body of the taxing unit adopts the exemption within 60 days of the disaster declaration. The exemption expires on January 1 of the first tax year in which the property is reappraised.

District and Taxpayer Remedies

Under certain circumstances, taxpayers and taxing units (such as the District) may appeal the orders of the Appraisal Review Board by filing a timely petition for review in State 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 which 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, except set forth herein with respect to residential homesteads. A delinquent tax incurs a penalty of 6% of the amount of the tax for the first calendar month it is delinquent, plus 1% for each additional month or portion of a month the tax remains unpaid prior to July 1 of the year in which it becomes delinquent. If the tax is not paid by July 1 of the year in which it becomes delinquent, the tax incurs a total penalty of 12% of the amount of the delinquent tax 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. For those taxes billed at a later date and that become delinquent on or after June 1, they will also incur an additional penalty for collection costs of an amount established by the District and a delinquent tax attorney. A delinquent tax on personal property incurs an additional penalty, in an amount established by the District and a delinquent tax attorney, 60 days after the date the taxes become delinquent. The delinquent tax accrues interest at a rate of 1% for each month or portion of a month it remains unpaid.

The Property Tax Code makes provisions for the split payment of taxes and discounts for early payment under certain circumstances which, at the option of the District, may be rejected by taxing units. The Property Tax Code also provides for the postponement of the delinquency date of taxes in certain circumstances. The District's tax collector is required to enter into an installment payment agreement with any person who is delinquent on the payment of tax on a residence homestead for payment of tax, penalties and interest, if the person requests an installment agreement and has not entered into an installment agreement with the collector in the preceding 24 months. The installment agreement must provide for payments to be made in monthly installments and must extend for a period of at least 12 months and no more than 36 months. Additionally, the owner of a residential homestead property who is (i) 65 years of age or older, (ii) disabled, or (iii) a disabled veteran, is entitled by law

to pay current taxes on a residential homestead in installments without penalty or to defer the payment of taxes during the time of ownership. In the instance of tax deferral, a tax lien remains on the property and interest continues to accrue during the period of deferral.

Certain qualified taxpayers, including 1) owners of residential homesteads or certain properties used for residential purposes, located in a disaster or emergency area and which has been damaged by the disaster or emergency, and 2) certain qualified business entities that own or lease real and/or tangible property, located in a disaster or emergency area and which has been damaged by the disaster or emergency, are entitled to enter into a tax payment installment agreement with a taxing jurisdiction such as the District on taxes imposed on the property prior to the first anniversary of the disaster or emergency if the business entity 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 before the first day of the sixth month after the delinquency date.

Additionally, certain qualified business entities that own or lease real and/or tangible property located in a disaster or emergency area and which has not been damaged by the disaster or emergency, may be permitted by a taxing jurisdiction such as the District, at the taxing jurisdiction's discretion, to enter into a tax payment installment agreement on taxes imposed on the property prior to the first anniversary of the disaster or emergency under the same terms as set forth in the paragraph directly above.

Effective September 1, 2019, a property owner serving on active duty for any branch of the United States armed forces who is transferred out of the state may defer payment on property taxes without incurring any penalty or interest. Deferred tax payments are due no later than 60 days after the earliest of the following to occur: (1) the person is discharged from active military service, (2) the person returns to the state for more than 10 days, or (3) the person returns to non-active-duty status in the reserves. After the deferral period expires, any unpaid delinquent taxes will accrue interest but will not incur any penalty.

Rollback of Operation and Maintenance Tax Rate

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

Low Tax Rate Districts: Low Tax Rate Districts that adopt a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, subject to certain homestead exemptions, are required to hold an election within the district to determine whether to approve the adopted total tax rate. If the adopted total tax rate is not approved at the election, the total tax rate for a Low Tax Rate District is the current year's debt service and contract tax rate plus 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 from the previous three tax years, 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 from the previous three tax years. In addition, if any part of a Developed District lies within an area declared for disaster by the Governor or President of the United States (the "President"), alternative procedures and rate limitations may apply for a temporary period. If a district qualifies as both a Low Tax Rate District and a Developed District, the district will be subject to the operation and maintenance tax threshold applicable to Low Tax Rate Districts.

Developing Districts: Districts that do not meet the classification of a Low Tax Rate District or a Developed District can be classified as Developing Districts. The qualified voters of these districts, upon the Developing District's adoption of a total tax rate that would impose more than 1.08 times the amount of the total tax imposed by such district in the preceding tax year on a residence homestead appraised at the average appraised value of a residence homestead, 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: For the 2024 tax year, the District has not yet made a determination of its status for tax rate purposes, but would likely be classified 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 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. See "TAX DATA – Estimated Overlapping Taxes." 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. In the absence of federal law, the District's tax lien takes priority over a tax lien of the United States. 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, subject to the restrictions on residential homesteads described above under "Levy and Collection of Taxes." 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 that was used as the residence homestead of the owner, certain land designated for agricultural use, or a mineral interest sold at a tax sale to a purchaser other than a taxing unit within two years of the date on which the purchaser's deed at the foreclosure sale is filed in the county records. For all other real property, a taxpayer may redeem the property not later than the 180th day following the date on which the purchaser's or taxing unit's deed is filed for record. See "RISK FACTORS – General" and "– Tax Collection Limitations."

The District's ability to attach or foreclose a tax lien or collect penalties or interest on delinquent taxes may be limited on property owned by a financial institution which is under receivership by the Federal Deposit Insurance Corporation pursuant to the Federal Deposit Insurance Act, 12 U.S.C. 1825, as amended.

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 levied, without limit as to rate or amount, upon all taxable property within the District in addition to the Pledged TIRZ Revenues, and based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds; the approving legal opinion of Bond Counsel, to a like effect and to the effect that (i) interest on the Bonds is excludable from gross income for federal tax purposes under existing law, and (ii) interest on the Bonds will not be subject to the alternative minimum tax on individuals.

Bond Counsel has reviewed the information appearing under "THE BONDS," "THE DISTRICT – General," "LITIGATION," "INTERLOCAL AGREEMENT," "TAXING PROCEDURES," "LEGAL MATTERS – Legal Opinions," "TAX MATTERS," and "CONTINUING DISCLOSURE" (except for the information under the subheading "Compliance with Prior Undertakings"), solely to determine 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 herein nor has it conducted an investigation of the affairs of the District or the Developer 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.

The fees to be paid to Bond Counsel for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds.

No Material Adverse Change

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

No-Litigation Certificate

The District will furnish the Initial Purchaser a certificate, dated as of the date of delivery of the Bonds, executed by both the President or the Vice President of the Board and the Secretary or the Assistant Secretary of the Board, to the effect that no litigation of any nature has been filed or is to their knowledge then pending or threatened, either in state or federal courts, contesting or attaching the Bonds; restraining or enjoining the issuance, execution, or delivery of the Bonds; affecting the provisions made for the payment of or security for the Bonds; in any manner questioning the authority or proceedings for the issuance, execution, or delivery of the Bonds; or affecting the validity of the Bonds.

TAX MATTERS

Opinion of Bond Counsel

In the opinion of Bond Counsel, under current law, interest on the Bonds (a) is not included in gross income for federal income tax purposes, (b) is not an item of tax preference for purposes of the federal alternative minimum income tax, and (c) is taken into account by applicable corporations (as defined in Section 59(k) of the Code for the alternative minimum tax imposed on such corporations. No other opinion is expressed by Bond Counsel regarding the tax consequences of the ownership of or the receipt or accrual of interest on the Bonds.

Bond Counsel's opinion is given in reliance upon certifications by representatives of the District as to certain facts relevant to both the opinion and requirements of the Internal Revenue Code of 1986, as amended (the "Code"), and is subject to the condition that there is compliance subsequent to the issuance of the Bonds with all requirements of the Code that must be satisfied in order for interest thereon to remain excludable from gross income for federal income tax purposes. The District has covenanted to comply with the current provisions of the Code regarding, among other matters, certain tax-exempt obligations, the use, expenditure and investment of the proceeds of the Bonds and the timely payment to the United States of any arbitrage rebate amounts with respect to the Bonds. Failure by the District to comply with such covenants, among other things, could cause interest on the Bonds to be included in gross income for federal income tax purposes retroactively to their date of issue.

Customary practice in the giving of legal opinions includes not detailing in the opinion all the assumptions, limitations and exclusions that are a part of the conclusions therein. See "*Statement on the Role of Customary Practice in the Preparation and Understanding of Third-Party Legal Opinions*", 63 Bus. Law. 1277 (2008)" and "*Legal Opinion Principles*", 53 Bus. Law. 831 (May 1998), updated by "*Statement of Opinion Practices*", 74 Bus. Law. 801, 807 (2019). Purchasers of the Bonds should seek advice or counsel concerning such matters as they deem prudent in connection with their purchase of Bonds.

Bond Counsel's opinion represents its legal judgment based in part upon the representations and covenants referenced therein and its review of current law, but is not a guarantee of result or binding on the Internal Revenue Service (the "Service") or the courts. Bond Counsel assumes no duty to update or supplement its opinion to reflect any facts or circumstances that may come to Bond Counsel's attention after the date of its opinion or to reflect any changes in law or the interpretation thereof that may occur or become effective after such date.

Alternative Minimum Tax

Individuals: Bond Counsel's opinion states that under current law interest on the Bonds is not an item of reference and is not subject to the alternative minimum tax on individuals.

Applicable Corporations: Bond Counsel's opinion also states that under current law interest on the Bonds is taken into account by applicable corporations (as defined in Section 59(k) of the Code) for the alternative minimum tax imposed on such corporations. Under current law, an "applicable corporation" generally is a corporation with average annual adjusted financial statement income for a 3-taxable-year period ending after December 31, 2021, that exceeds \$1 billion.

Other Tax Matters

In addition to the matters addressed above, prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences to certain taxpayers, including without limitation financial institutions, property and casualty insurance companies, S corporations, foreign corporations subject to the branch profits tax, recipients of Social Security or Railroad Retirement benefits and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations. Prospective purchasers of the Bonds should consult their tax advisors as to the applicability and impact of such consequences.

Prospective purchasers of the Bonds should consult their own tax advisors as to the status of interest on the Bonds under the tax laws of any state, local, or foreign jurisdiction.

The Service has a program to audit state and local government obligations to determine whether the interest thereon is includible in gross income for federal income tax purposes. If the Service does audit the Bonds, under current Service procedures, the Service will treat the District as the taxpayer and the owners of the Bonds will have only limited rights, if any, to participate.

There are many events that could affect the value and liquidity or marketability of the Bonds after their issuance, including but not limited to public knowledge of an audit of the Bonds by the Service, a general change in interest rates for comparable securities, a change in federal or state income tax rates, federal or state legislative or regulatory proposals affecting state and local government securities and changes in judicial interpretation of existing law. In addition, certain tax considerations relevant to owners of Bonds who purchase Bonds after their issuance may be different from those relevant to purchasers upon issuance. Neither the opinion of Bond Counsel nor this Official Statement purports to address the likelihood or effect of any such potential events or such other tax considerations and purchasers of the Bonds should seek advice concerning such matters as they deem prudent in connection with their purchase of Bonds.

Original Issue Discount

Some of the Bonds have been sold at initial sale prices that are less than their respective stated redemption prices payable at maturity (collectively, the “Discount Bonds”). The excess of (i) the stated redemption price at maturity of each maturity of the Discount Bonds, over (ii) the initial offering price to the public (excluding bond houses and brokers) at which a substantial amount of each maturity of the Discount Bonds is sold will constitute original issue discount. Original issue discount will accrue for federal income tax purposes on a constant-yield-to-maturity method based on regular compounding; and a holder’s basis in such a Bond will be increased by the amount of original issue discount treated for federal income tax purposes as having accrued on the Bond while the holder holds the Bond.

Under the Code, for purposes of determining a holder’s adjusted basis in a Discount Bond, original issue discount treated as having accrued while the holder holds the Bond will be added to the holder’s basis. Original issue discount will accrue on a constant-yield-to-maturity method based on semiannual compounding. The adjusted basis will be used to determine taxable gain or loss upon the sale or other disposition (including redemption or payment at maturity) of a Discount Bond.

Prospective purchasers of Discount Bonds should consult their own tax advisors as to the calculation of accrued original issue discount and the state and local tax consequences of owning or disposing of such Bonds.

Bond Premium

Bonds purchased, whether upon issuance or otherwise, for an amount (excluding any amount attributable to accrued interest) in excess of their principal amount will be treated for federal income tax purposes as having amortizable bond premium. A holder’s basis in such a Bond must be reduced by the amount of premium which accrues while such Bond is held by the holder. No deduction for such amount will be allowed, but it generally will offset interest on the Bonds while so held. Purchasers of such Bonds should consult their own tax advisors as to the calculation, accrual and treatment of amortizable bond premium and the state and local tax consequences of holding such Bonds.

Designation for Purchase by Financial Institutions

The Bonds are **NOT** designated “qualified tax-exempt obligations” for financial institutions within the meaning of Section 265(b) of the Code.

CONTINUING DISCLOSURE

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

Annual Reports

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

The information to be updated with respect to the District includes all quantitative financial information and operating data of the general type included in this Official Statement included under the headings “DISTRICT FINANCIAL DATA,” (except as to “Estimated Direct and Overlapping Debt Statement”), “TAX DATA” and in “APPENDIX A.” The District will update and provide this information within six months after the end of each of its fiscal years ending in or after 2024. The District will provide the updated information to EMMA.

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 ("Rule"). The updated information will include audited financial statements if it commissions an audit and the audit is completed by the required time. If the audit of such financial statements is not complete within such period, then the District shall provide unaudited financial statements for the applicable fiscal year to EMMA within such six month period, and audited financial statements when the audit report on such statements becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in the Bond Resolution, or such other accounting principles as the District may be required to employ from time to time pursuant to state law or regulation.

The District's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 in each year, unless it changes its fiscal year. If the District changes its fiscal year, it will notify EMMA of the change.

Event Notices

The District will provide timely notices of certain events to the MSRB, but in no event will such notices be provided to the MSRB in excess of ten (10) 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 IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the District or other obligated person within the meaning of the Rule; (13) consummation of a merger, consolidation, or acquisition involving the District or other obligated person within the meaning of the Rule or the sale of all or substantially all of the assets of the District or other obligated person within the meaning of the Rule, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of 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 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 obligated person, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of the financial obligation of the District or obligated person, any of which reflect financial difficulties. The term "material" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. The term "financial obligation" when used in this paragraph shall have the meaning ascribed to it under federal securities laws. The term "financial obligation" does not include municipal securities for which a final official statement has been provided to the MSRB consistent with the Rule. Neither the Bonds nor the Bond Resolution makes any provision for debt service reserves or liquidity enhancement. In addition, the District will provide timely notice of any failure by the District to provide information, data, or financial statements in accordance with its agreement described under "CONTINUING DISCLOSURE – 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 material events only as described above. The District has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The District makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell Bonds at any future date. The District disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or beneficial owners of Bonds may seek a writ of mandamus to compel the District to comply with its agreement.

The District may amend its continuing disclosure agreement from time to time to adapt the changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, if but only if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or any person unaffiliated with the District (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders and beneficial owners of the Bonds. The District may amend or repeal the agreement in the Bond Resolution if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction determines that such provisions are invalid or unenforceable, but only to the extent that its right to do so would not prevent the Initial Purchaser from lawfully purchasing the Bonds in the initial offering. 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 under “CONTINUING DISCLOSURE – Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided.

Compliance With Prior Undertakings

The Bonds are the District’s first issuance of bonds; therefore, the District has not previously made any continuing disclosure agreements in accordance with the Rule.

OFFICIAL STATEMENT

General

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

The District’s audited financial statements for the year ended September 30, 2023, were audited by McCall Gibson Swedlund Barfoot PLLC, and have been included herein as “APPENDIX A.” McCall Gibson Swedlund Barfoot PLLC, Certified Public Accountant, has consented to the publication of such financial statements in this Preliminary Official Statement.

Experts

The information contained in the Official Statement relating to engineering and to the description of the System, and, in particular, that engineering information included in the sections entitled “THE DISTRICT - General” and “THE SYSTEM” has been provided by LJA Engineering, Inc. 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 the Official Statement relating to assessed valuations of property generally and, in particular, that information concerning collection rates and valuations contained in the sections captioned “DISTRICT FINANCIAL DATA” was provided by the Fort Bend County Tax Office and the Appraisal District. Such information has been included herein in reliance upon the Fort Bend County Tax Office’s authority as an expert in the field of tax collection and the Appraisal District’s authority as an expert in the field of tax assessing.

Updating of Official Statement

If, subsequent to the date of this Official Statement, the District learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Initial Purchaser, of any adverse event which causes this Official Statement to be materially misleading, and unless the Initial Purchaser elects to terminate its obligation to purchase the Bonds, the District will promptly prepare and supply to the Initial Purchaser an appropriate amendment or supplement to this Official Statement satisfactory to the Initial Purchaser; provided, however, that the obligation of the District to so amend or supplement this Official Statement will terminate when the District delivers the Bonds to the Initial Purchaser, unless the Initial Purchaser notifies the District in writing on or before such date that less than all of the Bonds have been sold to ultimate customers, in which case the District’s obligations hereunder will extend for an additional period of time

(but not more than 90 days after the date the District delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

Certification as to Official Statement

The District, acting by and through its Board in its official capacity, 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, description, 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.

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 herein are made subject to all 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 Arcola Municipal Management District No. 1 as of the date shown on the cover.

/s/ Jon Jones
President, Board of Directors
Arcola Municipal Management District No. 1

ATTEST:

/s/ Carrie Bond
Secretary / Treasurer, Board of Directors
Arcola Municipal Management District No. 1

APPENDIX A
FINANCIAL STATEMENTS OF THE DISTRICT

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2023

McCALL GIBSON SWEDLUND BARFOOT PLLC
Certified Public Accountants

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

FORT BEND COUNTY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2023

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McCALL GIBSON SWEDLUND BARFOOT PLLC

Certified Public Accountants

13100 Wortham Center Drive
Suite 235
Houston, Texas 77065-5610
(713) 462-0341
Fax (713) 462-2708

PO Box 29584
Austin, TX 78755-5126
(512) 610-2209
www.mgsbpllc.com
E-Mail: mgsb@mgsbpllc.com

INDEPENDENT AUDITOR'S REPORT

Board of Directors
Arcola Municipal Management District No. 1
Fort Bend County, Texas

Opinions

We have audited the accompanying financial statements of the governmental activities and major fund of Arcola Municipal Management District No. 1 (the "District") as of and for the year ended September 30, 2023, and the related notes to the financial statements, which collectively comprise the District's basic financial statements as listed in the table of contents.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and major fund of the District as of September 30, 2023, and the respective changes in financial position for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Basis for Opinions

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

Responsibilities of Management for the Financial Statements

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

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

Auditor's Responsibilities for the Audit of the Financial Statements

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

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

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

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

Required Supplementary Information

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

Board of Directors
Arcola Municipal Management District No. 1

Supplementary Information

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the District's basic financial statements. The supplementary information required by the Texas Commission on Environmental Quality as published in the *Water District Financial Management Guide* is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the basic financial statements. The supplementary information has been subjected to the auditing procedures applied in the audit of the basic financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the basic financial statements or to the basic financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion, the information is fairly stated, in all material respects, in relation to the basic financial statements as a whole.



McCall Gibson Swedlund Barfoot PLLC
Certified Public Accountants
Houston, Texas

January 10, 2024

**ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Management's discussion and analysis of Arcola Municipal Management District No. 1's (the "District") financial performance provides an overview of the District's financial activities for the fiscal year ended September 30, 2023. Please read it in conjunction with the District's financial statements.

USING THIS ANNUAL REPORT

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

GOVERNMENT-WIDE FINANCIAL STATEMENTS

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

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

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

FUND FINANCIAL STATEMENTS

The combined statements also include fund financial statements. A fund is a grouping of related accounts that is used to maintain control over resources that have been segregated for specific activities or objectives. The District has one governmental fund type. The General Fund accounts for property tax revenues, TIRZ revenues, developer advances, operating costs and general expenditures.

**ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

FUND FINANCIAL STATEMENTS (Continued)

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

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

NOTES TO THE FINANCIAL STATEMENTS

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

OTHER INFORMATION

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

GOVERNMENT-WIDE FINANCIAL ANALYSIS

Net position may serve over time as a useful indicator of the District's financial position. In the case of the District, liabilities exceeded assets by \$1,159,881 as of September 30, 2023. This is the District's first audit. In future years a comparative analysis of government-wide changes in net position will be presented. The following table provides a Summary of the Statement of Net Position for the year ended September 30, 2023:

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023

GOVERNMENT-WIDE FINANCIAL ANALYSIS (Continued)

	Summary of the Statement of Net Position 2023
Current and Other Assets	\$ 229,598
Intangible Assets (Net of Accumulated Amortization)	11,336,325
Capital Assets (Net of Accumulated Depreciation)	2,575,781
Total Assets	\$ 14,141,704
Due to Developers	\$ 15,254,385
Other Liabilities	47,200
Total Liabilities	\$ 15,301,585
Net Position:	
Net Investment in Capital Assets	\$ (857,279)
Unrestricted	(302,602)
Total Net Position	\$ (1,159,881)

The following table provides a summary of the District's operations for the year ended September 30, 2023:

	Summary of the Statement of Activities 2023
Revenues:	
Property Taxes	\$ 54,329
Other Revenues	178,269
Total Revenues	\$ 232,598
Expenses for Services	1,232,046
Change in Net Position	\$ (999,448)
Net Position, Beginning	(160,433)
Net Position, Ending	\$ (1,159,881)

**ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

FINANCIAL ANALYSIS OF THE DISTRICT'S GOVERNMENTAL FUND

The District's General Fund fund balance as of September 30, 2023, was \$182,398, an increase of \$157,831 from the previous fiscal year, primarily due to developer advances offsetting operating expenditures exceeding property taxes and other revenues.

CAPITAL AND INTANGIBLE ASSETS

Capital assets as of September 30, 2023, total \$2,575,781 and consist of recreation/landscape and detention infrastructure which the District will be responsible for maintaining. Additional information on the District's capital assets can be found in Note 5 of this report.

Capital Assets At Year-End, Net of Accumulated Depreciation

	<u>2023</u>
Capital Assets, Net of Accumulated Depreciation:	
Detention System	\$ 2,407,251
Recreation/Landscape	<u>168,530</u>
Total Net Capital Assets	<u>\$ 2,575,781</u>

Additionally, the District entered into an agreement (see Note 7) with the City of Arcola (the "City") whereby water, wastewater, drainage and road facilities constructed within the District have been conveyed to the City for operation and maintenance for the benefit of District residents. As of September 30, 2023, intangible assets constructed and conveyed to the City totaled 11,336,325 (net of accumulated amortization).

LONG-TERM DEBT

As of September 30, 2023, the District recorded an amount due to Developers of \$15,254,385 which consists of advances made by the Developers during the current and prior fiscal years and costs associated with the construction of recreation/landscape, detention, water, wastewater, drainage and road facilities.

GENERAL FUND BUDGETARY HIGHLIGHTS

The Board of Directors adopted an unappropriated budget for the current year. Actual revenues were \$217,598 more than budgeted revenues, actual expenditures were \$131,267 more than budgeted expenditures and developer advances were \$71,500 more than budgeted advances. This resulted in a positive budget variance of \$157,831. See the budget to actual comparison for more information.

**ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
MANAGEMENT'S DISCUSSION AND ANALYSIS
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

CONTACTING THE DISTRICT'S MANAGEMENT

This financial report is designed to provide a general overview of the District's finances. Questions concerning any of the information provided in this report or requests for additional information should be addressed to Arcola Municipal Management District No. 1, c/o The Muller Law Group, 202 Century Square Boulevard, Sugar Land, Texas 77478.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF NET POSITION AND
GOVERNMENTAL FUND BALANCE SHEET
SEPTEMBER 30, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Net Position</u>
ASSETS			
Cash	\$ 229,598	\$	\$ 229,598
Intangible Assets - Right to Receive Service (Net of Accumulated Amortization)		11,336,325	11,336,325
Capital Assets (Net of Accumulated Depreciation)		<u>2,575,781</u>	<u>2,575,781</u>
TOTAL ASSETS	<u>\$ 229,598</u>	<u>\$ 13,912,106</u>	<u>\$ 14,141,704</u>
 LIABILITIES			
Accounts Payable	\$ 47,200	\$	\$ 47,200
Due to Developers		<u>15,254,385</u>	<u>15,254,385</u>
TOTAL LIABILITIES	<u>\$ 47,200</u>	<u>\$ 15,254,385</u>	<u>\$ 15,301,585</u>
 FUND BALANCE			
Restricted for TIRZ Revenues	\$ 59,487	\$ (59,487)	\$
Unassigned	<u>122,911</u>	<u>(122,911)</u>	<u></u>
TOTAL FUND BALANCE	<u>\$ 182,398</u>	<u>\$ (182,398)</u>	<u>\$ -0-</u>
 TOTAL LIABILITIES AND FUND BALANCE	<u>\$ 229,598</u>		
 NET POSITION			
Net Investment in Capital Assets		\$ (857,279)	\$ (857,279)
Unrestricted		<u>(302,602)</u>	<u>(302,602)</u>
TOTAL NET POSITION		<u>\$ (1,159,881)</u>	<u>\$ (1,159,881)</u>

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
SEPTEMBER 30, 2023

Total Fund Balance - Governmental Fund	\$	182,398
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Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets and intangible assets used in governmental activities are not current financial resources and, therefore, are not reported as assets in the governmental funds.		13,912,106
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Certain liabilities are not due and payable in the current period and, therefore, are not reported as liabilities in the governmental funds. These liabilities at year-end consist of:

Due to Developers		<u>(15,254,385)</u>
Total Net Position - Governmental Activities	\$	<u><u>(1,159,881)</u></u>

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
STATEMENT OF ACTIVITIES AND GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>General Fund</u>	<u>Adjustments</u>	<u>Statement of Activities</u>
REVENUES			
Property Taxes	\$ 54,329	\$	\$ 54,329
TIRZ Revenue	56,069		56,069
Miscellaneous Revenues	<u>122,200</u>	<u></u>	<u>122,200</u>
TOTAL REVENUES	<u>\$ 232,598</u>	<u>\$ -0-</u>	<u>\$ 232,598</u>
 EXPENDITURES/EXPENSES			
Service Operations:			
Professional Fees	\$ 244,163	\$	\$ 244,163
Contracted Services	35,404		35,404
Repairs and Maintenance	71,466		71,466
Amortization		717,573	717,573
Depreciation		139,706	139,706
Other	<u>23,734</u>	<u></u>	<u>23,734</u>
TOTAL EXPENDITURES/EXPENSES	<u>\$ 374,767</u>	<u>\$ 857,279</u>	<u>\$ 1,232,046</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (142,169)</u>	<u>\$ (857,279)</u>	<u>\$ (999,448)</u>
 OTHER FINANCING SOURCES (USES)			
Developer Advances	<u>\$ 300,000</u>	<u>\$ (300,000)</u>	<u>\$ - 0 -</u>
NET CHANGE IN FUND BALANCE	\$ 157,831	\$ (157,831)	\$
CHANGE IN NET POSITION		(999,448)	(999,448)
FUND BALANCE/NET POSITION - OCTOBER 1, 2022	<u>24,567</u>	<u>(185,000)</u>	<u>(160,433)</u>
FUND BALANCE/NET POSITION - SEPTEMBER 30, 2023	<u>\$ 182,398</u>	<u>\$ (1,342,279)</u>	<u>\$ (1,159,881)</u>

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

**ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
RECONCILIATION OF THE GOVERNMENTAL FUND STATEMENT OF
REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE
TO THE STATEMENT OF ACTIVITIES
FOR THE YEAR ENDED SEPTEMBER 30, 2023**

Net Change in Fund Balance - Governmental Fund	\$	157,831
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Amounts reported for governmental activities in the Statement of Activities are different because:

Governmental funds do not account for depreciation and amortization. However, in the Statement of Net Position, capital and intangible assets are depreciated and amortized, and the depreciation and amortization expense is recorded in the Statement of Activities.		(857,279)
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Governmental funds report developer advances as other financing sources. However, in the Statement of Net Position, developer advances, net any amount paid to the developer, are recorded as a liability.		(300,000)
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Change in Net Position - Governmental Activities	\$	(999,448)
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The accompanying notes to the financial
statements are an integral part of this report.

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ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 1. CREATION OF DISTRICT

Arcola Municipal Management District No. 1, (the “District”) was created by an order of the Texas Commission on Environmental Quality (the “Commission”) effective July 20, 2020, and by a confirmation election held within the District on November 3, 2020, and operates in accordance with Chapter 375 of the Texas Local Government Code and Chapters 49 and 54 of the Texas Water Code, as amended. The District is empowered, among other things, to purchase, construct, operate and maintain all works, improvements, facilities and plants necessary for the supply and distribution of water; the collection, transportation, and treatment of wastewater; and the control and diversion of storm water. The District may issue bonds and other forms of indebtedness to purchase or construct such facilities. The District may also provide solid waste collection and disposal service and is empowered to establish, operate and maintain a fire department, independently or with one or more other conservation and reclamation districts, if approved by the voters of the District and the Commission. The District has no plans to provide a fire department. The District is also empowered to finance certain road improvements. This authority allows the District to construct or acquire certain road and traffic facilities inside and outside its boundaries and to maintain such facilities. The legislation authorizes the District to impose an ad valorem tax and issue bonds to finance the construction or acquisition of road facilities. The District is also empowered to establish parks and recreational facilities for the residents of the District. The Board of Directors held its organizational meeting on August 6, 2020.

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES

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

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

Financial Statement Presentation

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Statement Presentation (Continued)

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

- Net Investment in Capital Assets – This component of net position consists of capital assets, including restricted capital assets, net of accumulated depreciation and reduced by the outstanding balances of any bonds, mortgages, notes, or other borrowings that are attributable to the acquisition, construction, or improvements of those assets.
- Restricted Net Position – This component of net position consists of external constraints placed on the use of assets imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulation of other governments or constraints imposed by law through constitutional provisions or enabling legislation.
- Unrestricted Net Position – This component of net position consists of assets that do not meet the definition of Restricted or Net Investment in Capital Assets.

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

Government-Wide Financial Statements

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

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

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Fund Financial Statements

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

Governmental Fund

The District has one governmental fund and considers it to be a major fund.

General Fund - To account for property tax revenues, TIRZ revenues, developer advances, operating costs and general expenditures.

Basis of Accounting

The District uses the modified accrual basis of accounting for governmental fund types. The modified accrual basis of accounting recognizes revenues when both "measurable and available." Measurable means the amount can be determined. Available means collectable within the current period or soon enough thereafter to pay current liabilities. The District considers revenue reported in governmental funds to be available if they are collectable within 60 days after year end. Also, under the modified accrual basis of accounting, expenditures are recorded when the related fund liability is incurred, except for principal and interest on long-term debt, which are recognized as expenditures when payment is due.

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

Capital Assets and Intangible Assets

Capital assets include recreational/landscape and detention infrastructure which is reported in the government-wide Statement of Net Position at historical cost or estimated historical cost if actual historical cost is not available. Repairs and maintenance are recorded as expenditures in the governmental fund incurred and as an expense in the government-wide Statement of Activities. Capital asset additions, improvements and preservation costs that extend the life of an asset are capitalized and depreciated over the estimated useful life of the asset. Engineering fees and certain other costs are capitalized as part of the asset. Assets are capitalized if they have an original cost greater than \$5,000 and a useful life over 2 years. Depreciation is calculated on each class of depreciable property using the straight-line method of depreciation over 10 or 45 years, whichever is applicable.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Capital Assets and Intangible Assets (Continued)

Intangible assets include the costs of water, wastewater, drainage and road facilities constructed within the District which are conveyed to the City of Arcola, Texas for operation and maintenance for the benefit of District residents. Intangible assets are amortized using the straight-line method over the 30 year term of the Arcola Reinvestment Zone Development Plan Agreement with the City (see Note 7).

Budgeting

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

Pensions

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

Measurement Focus

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

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

Nonspendable: amounts that cannot be spent either because they are in nonspendable form or because they are legally or contractually required to be maintained intact. The District does not have any nonspendable fund balances.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 2. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Measurement Focus (Continued)

Restricted: amounts that can be spent only for specific purposes because of constitutional provisions, or enabling legislation, or because of constraints that are imposed externally. The District has restricted \$59,487 of the General Fund fund balance for TIRZ revenues and earned interest received from the City of Arcola.

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

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

Unassigned: all other spendable amounts in the General Fund.

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

Accounting Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

NOTE 3. DEPOSITS AND INVESTMENTS

Deposits

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

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 3. DEPOSITS AND INVESTMENTS (Continued)

Deposits (Continued)

Texas statutes require that any cash balance in any fund shall, to the extent not insured by the Federal Deposit Insurance Corporation or its successor, be continuously secured by a valid pledge to the District of securities eligible under the laws of Texas to secure the funds of the District, having an aggregate market value, including accrued interest, at all times equal to the uninsured cash balance in the fund to which such securities are pledged. At fiscal year end, the carrying amount of the District's deposits was \$229,598 and the bank balance was \$259,597. The District was not exposed to custodial credit risk.

Investments

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

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

As of September 30, 2023, the District does not have any investments.

NOTE 4. BONDS VOTED

As of September 30, 2023, the District had authorized but unissued bonds in the amount of \$86,300,000 for the purchase or construction of water, sewer, and drainage facilities and \$8,630,000 for the refunding of bonds issued for same, \$8,300,000 for the purchase or construction of parks and recreational facilities and \$830,000 for the refunding of bonds issued for same, and \$28,600,000 for the purchase or construction of road facilities and \$2,860,000 for the refunding of bonds for same.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 5. CAPITAL ASSETS AND INTANGIBLE ASSETS

Capital assets owned and maintained by the District include recreation/landscape and detention infrastructure. Capital asset activity for the year ended September 30, 2023, is as follows:

	October 1, 2022	Increases	Decreases	September 30, 2023
Capital Assets Subject to Depreciation				
Detention System	\$	\$ 2,513,936	\$	\$ 2,513,936
Recreation/Landscape		201,551		201,551
Total Capital Assets Subject to Depreciation	\$ - 0 -	\$ 2,715,487	\$ - 0 -	\$ 2,715,487
Accumulated Depreciation				
Detention System	\$	\$ 106,685	\$	\$ 106,685
Recreation/Landscape		33,021		33,021
Total Accumulated Depreciation	\$ - 0 -	\$ 139,706	\$ - 0 -	\$ 139,706
Total Capital Assets, Net of Accumulated Depreciation	\$ - 0 -	\$ 2,575,781	\$ - 0 -	\$ 2,575,781

Developers have financed the construction of water, wastewater, drainage and road facilities which serve District residents. These facilities have been conveyed to the City of Arcola in accordance with the Arcola Reinvestment Zone Development Plan Agreement (see Note 7). In exchange for conveyance of these assets, the City agrees to provide service to residents of the District. Intangible asset activity for the year ended September 30, 2023, is as follows:

	October 1, 2022	Increases	Decreases	September 30, 2023
Intangible Assets Subject to Amortization				
Water, Wastewater and Drainage Systems	\$	\$ 8,212,832	\$	\$ 8,212,832
Roads		3,841,066		3,841,066
Total Intangible Assets Subject to Amortization	\$ - 0 -	\$ 12,053,898	\$ - 0 -	\$ 12,053,898
Accumulated Amortization				
Water, Wastewater and Drainage Systems	\$	\$ 504,471	\$	\$ 504,471
Roads		213,102		213,102
Total Accumulated Amortization	\$ - 0 -	\$ 717,573	\$ - 0 -	\$ 717,573
Total Intangible Assets, Net of Accumulated Amortization	\$ - 0 -	\$ 11,336,325	\$ - 0 -	\$ 11,336,325

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 6. MAINTENANCE TAX

On November 3, 2020, the voters of the District approved the levy and collection of a maintenance tax not to exceed \$1.50 per \$100 of assessed valuation of taxable property within the District. This maintenance tax is to be used by the General Fund to pay expenditures of operating the District's facilities as well as any other lawfully authorized purpose. During the year ended September 30, 2023, the District levied an ad valorem maintenance tax rate of \$0.81 per \$100 of assessed valuation, which resulted in a tax levy of \$54,329 on the adjusted taxable valuation of \$6,707,285 for the 2022 tax year.

On November 3, 2020, the voters of the District approved the levy and collection of a road maintenance tax not to exceed \$0.25 per \$100 of assessed valuation to be used for constructing and maintaining the District's roads. As of September 30, 2023, the District has not levied a road maintenance tax.

NOTE 7. ARCOLA REINVESTMENT ZONE DEVELOPMENT PLAN AGREEMENT

On August 13, 2019, the City of Arcola, Texas, ("City"), on petition of the landowner and pursuant to City Ordinance No. 2019-08-13F, created Reinvestment Zone Number 1, City of Arcola, Texas ("TIRZ") for the purpose of incentivizing development and funding certain infrastructure costs for development of the original approximately 190.418 acres of land ("Original Tract") within the TIRZ, including for purposes of funding the System.

The City, TIRZ, Fort Bend County, Texas ("County"), and the District entered into the Arcola Reinvestment Zone Development Plan Agreement, effective October 22, 2019, (the, "Interlocal Agreement") providing terms related to the development of the Original Tract and the financing of public infrastructure related thereto, including the System.

Pursuant to a petition from the landowner, the City annexed approximately 83 acres of additional land (the "Annexation Tract") into its municipal boundaries on December 14, 2021, pursuant to City Ordinance No. 2021-12-14A. The City further added the Annexation Tract to the TIRZ boundaries on the same date, pursuant to City Ordinance No. 2021-12-14B, as requested by the landowner and recommended by the board of directors of the TIRZ. City Ordinance No. 2021-12-14B also adopted the Final Project and Financing Plan for the TIRZ (the "Project Plan"), as recommended by the board of directors of the TIRZ, which includes TIRZ Improvements (as defined herein) for development of both the Original and Annexation Tracts.

The City, TIRZ, County, and the District entered into Amendment No. 1 to the Interlocal Agreement, effective December 14, 2021, to include the Annexation Tract within the TIRZ boundaries and add additional projects and updated project costs for the development of the land within the TIRZ. References herein to the Interlocal Agreement incorporate this Amendment No. 1. The TIRZ terminates on December 31, 2049.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 7. ARCOLA REINVESTMENT ZONE DEVELOPMENT PLAN
AGREEMENT (Continued)

Participating Taxing Units

The County, including Fort Bend County Drainage District and the City have all entered into agreements with the District to participate in the Zone. The County has agreed to paying 85% of the Captured Appraised Value in the Zone into the Tax Increment Account through December 31, 2049. The City has agreed to pay 85% of the Captured Appraised Value in the Zone through December 31, 2049.

The Tax Increment of each Participant will be paid into the TIRZ Account Fund and used to pay project costs within the Zone, including debt service on the Bonds and any other obligations issued to finance project cost in the Zone. None of the Participants are required under State law to set a tax rate sufficient to assure any certain dollar amount of Tax Increments; rather, State law only requires each Participant to contribute Tax Increments actually collected by it and only to the extent provided in the applicable interlocal agreement.

Construction, Ownership, Operation, and Maintenance of TIRZ Improvements

The Interlocal Agreement, as amended, provide, among other things, that the District will construct public water, sanitary sewer, drainage, roads and recreational facilities to serve the land within the TIRZ, as such projects are defined in the Project Plan (“TIRZ Improvements”). The agreement provides that the District will acquire, design, finance and construct all of the TIRZ Improvements in its name unless otherwise agreed to by the District and City, provided that the City’s engineer shall approve plans and specification for such projects. Except for the City water plant, all TIRZ Improvements have been or are intended to be constructed in the District’s name. Upon the District’s completion of TIRZ Improvements, such improvements and any property rights related thereto are generally conveyed to the City for ownership, operation, and maintenance, except for stormwater detention facilities and parks, which the District will retain ownership of, operate, and maintain. In consideration of the district’s construction of the TIRZ Improvements and conveyance of same to the City, the City and County agree to contribute 85% of the tax increments generated within the TIRZ on the Captured Appraised Value to the District to finance a portion of the TIRZ Improvements, by providing a stream of contract revenue to be pledged as security for District bonds sold to pay for TIRZ Improvements or to otherwise pay for the construction of such improvements directly or as reimbursements to a developer in the district, subject to a reimbursement agreement between the District and such developer.

Developer Reimbursement Agreements

The Interlocal Agreement further provides that the District may enter into one or more development agreements with developers of property within the District for the purpose of such developers advancing funds to the District for the TIRZ Improvements, subject to reimbursement from tax increments generated within the TIRZ, as well as from other District funds. The District has entered into two such development agreements with developers operating within its boundaries and the boundaries of the Zone.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 7. ARCOLA REINVESTMENT ZONE DEVELOPMENT PLAN
AGREEMENT (Continued)

Provisions Related to Sale of Bonds/TIRZ Bond Cap

In the Interlocal Agreement, the City consents to the sale of the District's bonds, including the Bonds, as required by Chapter 375, Texas Local Government Code. The agreement provides that unless otherwise approved by the City, the Aggregate amount of bonds issued by the District and payable from TIRZ Contract Revenue Payments to finance TIRZ Improvements (excluding refunding Bonds) shall not exceed an amount that will yield, after deducting costs of issuance, capitalized interest and any other reserve amounts funded at closing, net Bond proceeds of \$38,441,179 to be deposited into one or more construction funds administered by the District (the "TIRZ Bond Cap"). After issuance of the Bonds, the District may issue additional bonds payable from TIRZ Contract Revenue Payments provided that net Bond proceeds from such issues, as described in the preceding sentence, do not exceed, in the aggregate, \$38,441,179.

The Interlocal Agreement provides that the terms of the District's bonds payable from TIRZ Contract Revenue Payments will be issued on commercially reasonable terms approved by the Board. The District is required to submit to the City, not less than 30 days prior to the sale date of the District's bonds, copies of the bond documents for the city's review. City review shall be limited to (1) confirmation that the bonds are limited to finance net TIRZ Improvement Costs, (2) the aggregate amount of the bonds does not exceed the TIRZ Bond Cap, and (3) the terms and conditions of the bonds, maturity schedule, and redemption provision are commercially reasonable and consistent with generally accepted financial practices in the Houston-The Woodlands-Sugar Land metropolitan statistical area.

Tax Increment Fund

The Interlocal Agreement provides that the District will establish and maintain a separate Tax Increment Fund into which the TIRZ Contract Revenue Payments will be deposited. The City has agreed to contract with the County during the term of the Interlocal Agreement to collect property taxes on behalf of the city, and the County has agreed to deposit into the Tax Increment Fund, on its behalf and on behalf of the City, the TIRZ Contract Revenue Payments, Payments of the city tax increments is to be paid quarterly (e.g., January 1, April 1, July 1, and October 1), and payments of County tax increments is to be paid not later than February 15 and July 31 of each year during the term of the Interlocal Agreement.

In consideration of the services and projects to be provided by the District, the City and the County covenant and agree in the Interlocal Agreement that they will continuously collect the Tax Increments in the manner and to the maximum extend permitted by applicable law. To the extent the City and the Zone may legally do so, the City and the Zone also covenant and agree that they will not permit a reduction in the Tax Increments paid by the City or County. In addition, the City covenants and agrees that it will not dissolve the District an that any repeal of the right and power to collect the Tx Increments will not be effective until the later of (i) all bonds supported by Tax Increments are paid in full or have been legally defeased, or (ii) District obligations pursuant to all District reimbursement agreements providing for developer reimbursements from Tax Increments have been satisfied.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 7. ARCOLA REINVESTMENT ZONE DEVELOPMENT PLAN
AGREEMENT (Continued)

City and County Obligations are Absolute and Unconditional

The obligation of the City and County to make the TIRZ Contract Revenue Payments set forth in the Interlocal Agreement are absolute and unconditional, and until such time as the Interlocal Agreement, bonds supported by Tax Increments, and the contractual obligations of the District incurred pursuant to the Interlocal Agreement have been fully paid or provision for payment thereof shall have been made in accordance with their terms (or, with respect to the Tax Increments, the date of expiration of the Zone, if earlier), the City and County will not suspend or discontinue any payments provided for in the Interlocal Agreement and will not terminate said agreement for any cause, including, without limiting the generality of the foregoing, the failure of the District to perform and observe any agreement, whether express or implied, or any duty, liability, or obligation arising out of our connected with said agreement except as provided below under “Remedies in the Event of Default.”

Remedies in the Event of Default

If a party to the Interlocal Agreement is in default, any non-defaulting party may, at its option and without prejudice to any other right or remedy under the agreement, seek any relief available at law or in equity, including, but not limited to, an action under the Uniform Declaratory Judgement Act, specific performance, mandamus, and injunctive relief. To the extent permitted by law, the City, the County and the District have waived immunity from suit. Notwithstanding the remedies available to a non-defaulting party, no default shall:

- Entitle a non-defaulting party to terminate the Interlocal Agreement as to payment obligations on outstanding bonds supported by Tax Increments.
- Entitle a non-defaulting party to seek or recover damages:
- Adversely affect the right of the District to issue bonds to pay for District improvement unless (1) the improvements being financed or paid for with the bond proceeds are not authorized under the Interlocal Agreement, (2) the security for the bonds is not authorized by the Interlocal Agreement, or (3) the bonds do not comply with the Interlocal Agreement.
- Adversely affect the right of any person or entity to be reimbursed for District improvement costs from bonds issued for such purpose and in accordance with the indentures for the bonds; subject, however, to all defenses against reimbursement and rights of off-set that the District may have against such persons or entities; or
- Adversely affect the right of any person or entity to otherwise be reimbursed for District improvement costs from available Tax Increments or other District revenue authorized by Chapter 375, Texas Local Government Code; subject, however, to all defenses against reimbursement and rights of off-set that the District may have against such persons or entities.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 7. ARCOLA REINVESTMENT ZONE DEVELOPMENT PLAN AGREEMENT (Continued)

Final Project & Financing Plan

On December 14, 2021, the City adopted the Project pursuant to City Ordinance No. 2021-12-14B. The Project Plan includes the list of TIRZ Improvements eligible for TIRZ funding (i.e. payable from TIRZ Contract Revenue Payments), which consists generally of water, sewer, drainage improvements, road facilities, park facilities, and renovations to the City Hall. The components of the System included for funding from proceeds of the Bonds are eligible for TIRZ Improvements under the Project Plan.

The Interlocal Agreement further provides that the City may not modify the Project Plan without the consent of the District or the County.

NOTE 8. RISK MANAGEMENT

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

NOTE 9. UNREIMBURSED COSTS

The District has entered into certain financing and reimbursement agreements with Developers within the District which provides for the Developers to make payments on behalf of the District for various projects and operating advances. The District has an obligation to reimburse the Developers for these costs from future bond issues to the extent approved by the Commission. The District has recorded a liability to the Developers of \$15,254,385 for operating advances and completed projects as of September 30, 2023. The actual amounts owed, including developer interest, will be calculated at the time debt is issued to reimburse the Developers. The following table summarizes the current fiscal year activity related to unreimbursed Developer costs for operating advances:

Due to Developers, beginning of year	\$ 185,000
Additions	<u>15,069,385</u>
Due to Developers, end of year	<u>\$ 15,254,385</u>

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
NOTES TO THE FINANCIAL STATEMENTS
SEPTEMBER 30, 2023

NOTE 10. PENDING LITIGATION

On September 26, 2023, the District filed suit in the 400th Judicial District Court of Fort Bend County (“Trial Court”) against the City for anticipatory breach of the Interlocal Agreement based upon repeated attempts by the City to disannex the Annexation Tract from the City’s municipal boundaries. The primary relief sought by the District is a permanent injunction prohibiting the City from disannexing or attempting to disannex the Annexation Tract from the City’s municipal boundaries. The Trial Court issued a temporary restraining order enjoining the City from disannexing the Annexation Tract pending a hearing on the temporary injunction. Since filing suit, the County has intervened in support of the District’s claim.

On October 16, 2023, the Trial Court granted the City’s plea to the jurisdiction, effectively dismissing the lawsuit and lifting the temporary restraining order. Both the District and County then appealed the Trial Court’s decision to the First Court of Appeals in Houston, Texas (the “Appellate Court”), and such appeal remains pending. The District subsequently sought emergency relief to prevent the City from disannexing the Annexation Tract pending the results of the appeal (“Stay”), which relief was granted by the Supreme Court of Texas on November 14, 2023. The Stay currently remains in place.

If the City prevails in the above-described lawsuit, the governing body of the City may act to remove the Annexation Tract from the municipal boundaries of the City. If the Annexation Tract is ultimately removed from the City boundaries, no City Tax Increments would be collected from the Annexation Tract to pay to the District as part of the Tax Increment Contract Revenue Payments, and, therefore, the Pledged TIRZ Revenues would not include City Tax Increments from the Annexation Tract. Disannexation of the Annexation Tract from the City’s municipal boundaries would not affect the collection of County Tax Increment from such area and inclusion of same in the Tax Increment Contract Revenue Payments, nor would such disannexation affect the District’s ability to levee and collect a direct unlimited ad valorem debt service tax on all taxable property within the Annexation Tract.

The estimates of Pledged TIRZ Revenue described herein are not based on any estimated Tax Increment Contract Revenue Payments from the Annexation Area. The Annexation Area currently remains undeveloped, and therefore, Tax Increments from the Annexation Area have not been projected to be collected and remitted to the District at this time.

The District can make no representation on the likelihood of the Developer to proceed with development of the Annexation Tract should it be disannexed by the City.

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ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

REQUIRED SUPPLEMENTARY INFORMATION

SEPTEMBER 30, 2023

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
SCHEDULE OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCE - BUDGET AND ACTUAL – GENERAL FUND
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>Original and Final Budget</u>	<u>Actual</u>	<u>Variance Positive (Negative)</u>
REVENUES			
Property Taxes	\$ 15,000	\$ 54,329	\$ 39,329
TIRZ Revenue		56,069	56,069
Miscellaneous Revenues		<u>122,200</u>	<u>\$ 122,200</u>
TOTAL REVENUES	<u>\$ 15,000</u>	<u>\$ 232,598</u>	<u>\$ 217,598</u>
EXPENDITURES			
Service Operations:			
Professional Fees	\$ 150,000	\$ 244,163	\$ (94,163)
Contracted Services	27,000	35,404	(8,404)
Repairs and Maintenance		71,466	(71,466)
Other	<u>66,500</u>	<u>23,734</u>	<u>42,766</u>
TOTAL EXPENDITURES	<u>\$ 243,500</u>	<u>\$ 374,767</u>	<u>\$ (131,267)</u>
EXCESS (DEFICIENCY) OF REVENUES OVER EXPENDITURES	<u>\$ (228,500)</u>	<u>\$ (142,169)</u>	<u>\$ 86,331</u>
OTHER FINANCING SOURCES(USES)			
Developer Advances	<u>\$ 228,500</u>	<u>\$ 300,000</u>	<u>\$ 71,500</u>
NET CHANGE IN FUND BALANCE	\$ -0-	\$ 157,831	\$ 157,831
FUND BALANCE - OCTOBER 1, 2022	<u>24,567</u>	<u>24,567</u>	
FUND BALANCE - SEPTEMBER 30, 2023	<u>\$ 24,567</u>	<u>\$ 182,398</u>	<u>\$ 157,831</u>

See accompanying independent auditor's report.

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ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1

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

SEPTEMBER 30, 2023

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

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

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

2. RETAIL SERVICE PROVIDERS: (Not Applicable)

3. TOTAL WATER CONSUMPTION DURING THE FISCAL YEAR ROUNDED TO THE NEAREST THOUSAND: (Not Applicable)

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

Does the District have Debt Service standby fees? Yes No X

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

See accompanying independent auditor's report.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
SERVICES AND RATES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

5. LOCATION OF DISTRICT:

Is the District located entirely within one county?

Yes X No

County in which District is located:

Fort Bend County, Texas

Is the District located within a city?

Entirely X Partly Not at all

City in which District is located:

City of Arcola, Texas

Are Board Members appointed by an office outside the District?

Yes X No

See accompanying independent auditor's report.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
GENERAL FUND EXPENDITURES
FOR THE YEAR ENDED SEPTEMBER 30, 2023

PROFESSIONAL FEES:

Engineering	\$ 58,358
Legal	<u>185,805</u>

TOTAL PROFESSIONAL FEES	<u>\$ 244,163</u>
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CONTRACTED SERVICES:

Bookkeeping	\$ 8,500
Solid Waste Disposal	15,848
Tax Collector	<u>11,056</u>

TOTAL CONTRACTED SERVICES	<u>\$ 35,404</u>
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REPAIRS AND MAINTENANCE	<u>\$ 71,466</u>
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ADMINISTRATIVE EXPENDITURES:

Demand Studies	\$ 9,880
Insurance	3,112
Office Supplies and Postage	2,082
Travel and Meetings	773
Website	3,115
Other	<u>4,772</u>

TOTAL ADMINISTRATIVE EXPENDITURES	<u>\$ 23,734</u>
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TOTAL EXPENDITURES	<u><u>\$ 374,767</u></u>
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See accompanying independent auditor's report.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>Maintenance Taxes</u>	
TAXES RECEIVABLE -		
OCTOBER 1, 2022	\$ -0-	
Adjustments to Beginning		
Balance	<u> </u>	\$ -0-
Original 2022 Tax Levy	\$ 3,145	
Adjustment to 2022 Tax Levy	<u>51,184</u>	<u>54,329</u>
TOTAL TO BE		
ACCOUNTED FOR		\$ 54,329
TAX COLLECTIONS:		
Prior Years	\$ -0-	
Current Year	<u>54,329</u>	<u>54,329</u>
TAXES RECEIVABLE -		
SEPTEMBER 30, 2023		<u><u>\$ -0-</u></u>

See accompanying independent auditor's report.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
TAXES LEVIED AND RECEIVABLE
FOR THE YEAR ENDED SEPTEMBER 30, 2023

	<u>2022</u>	<u>2021</u>
PROPERTY VALUATIONS:		
Land	\$ 10,044,740	\$ 3,696,840
Improvements	4,000	
Exemptions	<u>(3,341,455)</u>	<u>(1,744,110)</u>
TOTAL PROPERTY VALUATIONS	<u>\$ 6,707,285</u>	<u>\$ 1,952,730</u>
TAX RATES PER \$100 VALUATION:		
Maintenance	<u>\$ 0.81</u>	<u>\$ 0.81</u>
ADJUSTED TAX LEVY*	<u>\$ 54,329</u>	<u>\$ 15,817</u>
PERCENTAGE OF TAXES COLLECTED TO TAXES LEVIED	<u>100.00 %</u>	<u>100.00 %</u>

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

Maintenance Tax – A tax not to exceed \$1.50 per \$100 of assessed valuation approved by voter on November 3, 2020.

Road Maintenance Tax – A tax not to exceed \$0.25 per \$100 of assessed valuation approved by voters on November 3, 2020.

See accompanying independent auditor's report.

District Mailing Address - Arcola Municipal Management District No. 1
c/o The Muller Law Group
202 Century Square Boulevard
Sugar Land, Texas 77478

District Telephone Number - (281) 500-6050

Note: The City is required by law to appoint directors to the Board from a slate of persons recommended by the Board or by the owners of a majority of the assessed value of the property in the District subject to assessment by the District. The District has recommended to the City the reappointment of Jon Jones and Donyelle Robinson to the Board for the new 4-year terms. By operation of State Law, Directors Jones and Robinson continue to serve on the Board until their successors are appointed and duly qualified.

See accompanying independent auditor's report.

ARCOLA MUNICIPAL MANAGEMENT DISTRICT NO. 1
BOARD MEMBERS, KEY PERSONNEL AND CONSULTANTS
SEPTEMBER 30, 2023

Consultants:	<u>Date Hired</u>	<u>Fees for the year ended September 30, 2023</u>	<u>Title</u>
The Muller Law Group	08/06/20	\$ 180,805	General Counsel
McCall Gibson Swedlund Barfoot PLLC	06/14/23	\$ -0-	Auditor
Myrtle Cruz, Inc.	08/06/20	\$ 9,229	Bookkeeper
Perdue, Brandon, Fielder, Collins & Mott, LLP	06/01/21	\$ -0-	Delinquent Tax Attorney
Robert W. Baird & Co. Incorporated	10/01/20	\$ -0-	Financial Advisor
LJA Engineering, Inc.	08/06/20	\$ 58,358	Engineer
Tax Tech, Incorporated	10/01/20	\$ 11,178	Tax Assessor/ Collector
Mary Jarmon	09/30/20	\$ -0-	Investment Officer

See accompanying independent auditor's report.

APPENDIX B
SPECIMEN MUNICIPAL BOND INSURANCE POLICY



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

Notices (Unless Otherwise Specified by BAM)

Email:

claims@buildamerica.com

Address:

1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281

Telecopy:

212-962-1524 (attention: Claims)

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