

PRELIMINARY OFFICIAL STATEMENT DATED SEPTEMBER 1, 2021

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See "TAX MATTERS" herein.

THE BONDS WILL BE DESIGNATED AS "QUALIFIED TAX-EXEMPT OBLIGATIONS" FOR FINANCIAL INSTITUTIONS.

NEW ISSUE — BOOK-ENTRY-ONLY

Rating:
Moody's: "Baa3" (stable outlook)
See "MUNICIPAL BOND RATING" herein.

\$5,755,000*

IOWA COLONY DEVELOPMENT AUTHORITY

(A public not-for-profit local government corporation acting on behalf of the City of Iowa Colony, Texas)

TAX INCREMENT CONTRACT REVENUE BONDS

SERIES 2021

Interest Accrual Date: Date of Delivery

Due: April 1, as shown on the inside cover

Iowa Colony Development Authority, a public not-for-profit local government corporation (the "Authority"), was established by the City of Iowa Colony, Texas (the "City") to aid, assist, and act on behalf of the City in the performance of the City's governmental functions to promote the common good and general welfare of the area included within Reinvestment Zone Number Two, City of Iowa Colony, Texas (the "Zone") and neighboring areas; and to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. The Zone, which was created by the City pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code (the "TIF Act"), is an area of approximately 1,082 acres located in Brazoria County approximately 3.5 miles southwest of the intersection of State Highway 6 and State Highway 288. Land within the Zone is being developed as a portion of the master planned community of Meridiana, a single family, mixed-used and commercial development which will span across the City and the neighboring city of Manvel, Texas.

Interest on the Iowa Colony Development Authority Tax Increment Contract Revenue Bonds, Series 2021 (the "Bonds") accrues from the date of delivery (the "Delivery Date") of the Bonds to the underwriters named below (the "Underwriters") and is payable each April 1 and October 1, commencing April 1, 2022, until the earlier of maturity or redemption. The definitive Bonds will initially be registered and delivered only to Cede & Co., the nominee of The Depository Trust Company ("DTC"), pursuant to the book-entry-only system described herein. No physical delivery of the Bonds will be made to the beneficial owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar, The Bank of New York Mellon Trust Company, N.A., to Cede & Co., which will make distribution of the amounts so paid to DTC's participants, which will make distributions of such amounts to the beneficial owners of the Bonds. See "THE BONDS--Book-Entry-Only System" herein.

The Bonds are being issued as Additional Parity Bonds under an Indenture of Trust (the "Indenture") between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the "Trustee"). The Authority has previously issued three series of Tax Increment Contract Revenue Bonds in the aggregate principal amount of \$16,450,000 (the "Prior Bonds") under the Indenture. The Prior Bonds, the Bonds, and any Additional Parity Bonds issued by the Authority under the Indenture (collectively, the "Contract Revenue Bonds") are equally and ratably secured under the Indenture. Pursuant to the Indenture, the Authority has pledged the Contract Tax Increments (as defined herein) to payment of the Contract Revenue Bonds and has covenanted to transfer to the Trustee all Contract Tax Increments. The Contract Revenue Bonds are payable solely from the Contract Tax Increments, certain other funds on deposit with the Trustee or which may be deposited with the Trustee in the future, and earnings and investments thereon (the "Pledged Revenues").

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE PLEDGED REVENUES, AND ARE NOT OBLIGATIONS OF THE CITY AND DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY. THE CITY'S OBLIGATION TO DEPOSIT SALES AND USE TAXES INTO THE TAX INCREMENT FUND PURSUANT TO THE TRI-PARTY AGREEMENT OR TO MAKE PAYMENTS FROM SALES AND USES TAXES IS NOT A GENERAL OBLIGATION OF THE CITY AND DOES NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY.

THE BONDS DO NOT CONSTITUTE, WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION, OR A LOAN OF CREDIT OF THE CITY, BRAZORIA COUNTY, TEXAS, THE STATE OF TEXAS, OR ANY OTHER MUNICIPALITY, COUNTY, OR OTHER MUNICIPAL OR POLITICAL CORPORATION OR SUBDIVISION OF THE STATE OF TEXAS. THE CITY IS NOT OBLIGATED TO MAKE PAYMENTS ON THE BONDS. THE AUTHORITY DOES NOT HAVE THE POWER TO LEVY TAXES OR ASSESS FEES FOR ANY PURPOSE, INCLUDING PAYMENT OF THE BONDS. THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT RISKS DESCRIBED HEREIN. SEE "RISK FACTORS."

See Maturity Schedule on the inside cover

The Bonds are offered by the Underwriters subject to prior sale, when, as and if issued by the Authority and accepted by the Underwriters, subject, among other things, to the approval of the Bonds by the Attorney General of Texas and the approval of certain legal matters by The Muller Law Group, PLLC, Bond Counsel, and Orrick, Herrington & Sutcliffe LLP, Special Tax Counsel. Certain other matters will be passed upon on behalf of the Authority by Norton Rose Fulbright US LLP, Disclosure Counsel. Certain matters will be passed upon on behalf of the Underwriters by Bracewell LLP, Houston, Texas, Underwriters' Counsel. Delivery of the Bonds is expected through the facilities of DTC on or about September 29, 2021 ("Delivery Date").

RBC CAPITAL MARKETS

HILLTOPSECURITIES

* Preliminary, subject to change.

\$5,755,000*

IOWA COLONY DEVELOPMENT AUTHORITY

(A public not-for-profit local government corporation acting on behalf of the City of Iowa Colony, Texas)

TAX INCREMENT CONTRACT REVENUE BONDS

SERIES 2021

MATURITY SCHEDULE*

(Interest accrues from the Delivery Date)

| <u>Maturity Date^(a)</u> <u>(April 1)</u> | <u>Principal Amount</u> | <u>CUSIP Number^(b)</u> | <u>Interest Rate</u> | <u>Initial Reoffering Yield^(c)</u> | <u>Maturity Date^(a)</u> <u>(April 1)</u> | <u>Principal Amount</u> | <u>CUSIP Number^(b)</u> | <u>Interest Rate</u> | <u>Initial Reoffering Yield^(c)</u> |
|--|-------------------------|-----------------------------------|----------------------|---|--|-------------------------|-----------------------------------|----------------------|---|
| 2023 | \$80,000 | | % | % | 2037 | \$210,000 | | % | % |
| 2024 | 145,000 | | | | 2038 | 220,000 | | | |
| 2025 | 145,000 | | | | 2039 | 225,000 | | | |
| 2026 | 155,000 | | | | 2040 | 230,000 | | | |
| 2027 | 160,000 | | | | 2041 | 235,000 | | | |
| 2028 | 165,000 | | | | 2042 | 245,000 | | | |
| 2029 | 165,000 | | | | 2043 | 255,000 | | | |
| 2030 | 170,000 | | | | 2044 | 260,000 | | | |
| 2031 | 180,000 | | | | 2045 | 270,000 | | | |
| 2032 | 180,000 | | | | 2046 | 275,000 | | | |
| 2033 | 190,000 | | | | 2047 | 240,000 | | | |
| 2034 | 195,000 | | | | 2048 | 245,000 | | | |
| 2035 | 200,000 | | | | 2049 | 250,000 | | | |
| 2036 | 205,000 | | | | 2050 | 260,000 | | | |

- (a) The Underwriters may combine maturities into one or more term bonds, which will be subject to mandatory sinking fund redemption as described herein. The Bonds maturing on or after April 1, _____ are subject to redemption in whole or from time to time in part, at the option of the Authority, on April 1, _____, or on any date thereafter, at a price equal to the par value thereof plus accrued interest from the most recent interest payment date to the date fixed for redemption. See "THE BONDS—Redemption Provisions."
- (b) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of the American Bankers Association. CUSIP numbers have been assigned to this issue by the CUSIP Service Bureau and are included solely for the convenience of purchasers of the Bonds. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services. None of the Authority, the Financial Advisor nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.
- (c) Initial reoffering yield represents the initial offering yield to the public which has been established by the Underwriters for offers to the public and which may be subsequently changed by the Underwriters and is the sole responsibility of the Underwriters.

*Preliminary, subject to change

BOARD OF DIRECTORS

**IOWA COLONY DEVELOPMENT AUTHORITY
and
REINVESTMENT ZONE NUMBER TWO, CITY OF IOWA COLONY, TEXAS^(a)**

| <u>Name</u> | <u>Position</u> | <u>Appointed By:</u> | <u>Title/Office</u> |
|----------------------|-----------------|----------------------|---------------------|
| Steven Byrum-Bratsen | 1 | City | Chairperson |
| Leon Davis | 2 | City | Director |
| Brenda Dillon | 3 | City | Secretary |
| Sheila Woods | 4 | City | Director |
| Patrick O'Day | 5 | County | Director |

(a) The Authority's by-laws, which were approved in the resolution of the City creating the Authority, provide that the members of its board of directors shall be comprised of the same persons who serve on the Zone Board.

Professional Consultants

Executive Director *Ron Cox*
Financial Advisor *Masterson Advisors LLC*
Bond Counsel *The Muller Law Group, PLLC*

For further information, contact:

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TABLE OF CONTENTS

| | <u>Page</u> | | <u>Page</u> |
|---|-------------|--|-------------|
| USE OF INFORMATION IN OFFICIAL STATEMENT | iv | Risk of Higher Priority Debt | 12 |
| SALE AND DISTRIBUTION OF THE BONDS | v | Risk of Termination of Zone | 12 |
| The Underwriters | v | Risk of Reduction in County Participation in the Zone | 12 |
| Prices and Marketability | v | Risk of Failure to Comply with Certain Covenants | 12 |
| Securities Laws | v | Risk of IRS Audit of the Bonds | 12 |
| FORWARD-LOOKING STATEMENTS | vi | Changes in Tax Legislation | 13 |
| RELIANCE ON PAST FINANCIAL PERFORMANCE | vi | Changes in Tax Increment Legislation | 13 |
| OFFICIAL STATEMENT SUMMARY | vii | Limited Marketability of the Bonds | 13 |
| The Authority and the Zone | vii | Air Quality Concerns | 14 |
| The Bonds | viii | THE BONDS | 15 |
| Security and Source of Payment | ix | Description | 15 |
| Schedule 1: Selected Financial Information Based on 2021 Certified Value (unaudited) | xii | Authority for Issuance | 15 |
| Schedule 1A: Selected Financial Information Based on August 1, 2021 Estimate of Value (unaudited) | xiv | Book-Entry-Only System | 15 |
| PRELIMINARY OFFICIAL STATEMENT | 1 | Method of Payment of Principal and Interest | 17 |
| SOURCE OF AND SECURITY FOR PAYMENT | 1 | Redemption Provisions | 17 |
| General | 1 | Notice of Redemption | 18 |
| General Statutory Requirements for Tax Increment Zones | 1 | Registration and Transfer | 18 |
| Establishment of the Zone: Participants | 2 | Replacement of Paying Agent/Registrar | 19 |
| County’s Interlocal Agreement with Respect to Property Tax Increments | 3 | Lost, Stolen or Destroyed Bonds | 19 |
| Calculation of Property Tax Increments | 3 | Legal Investment and Eligibility to Secure Public Funds in Texas | 19 |
| Collection of Tax Increments | 3 | Defeasance | 20 |
| Contract Tax Increments Defined | 4 | USE AND DISTRIBUTION OF BOND PROCEEDS | 21 |
| Pledge of Revenues | 4 | THE INDENTURE | 21 |
| Debt Service Reserve Fund | 5 | The Funds | 21 |
| Additional Parity Bonds | 6 | Events of Default | 22 |
| RISK FACTORS | 7 | Remedies | 22 |
| Limited Obligations | 7 | Limitation on Action by Owners | 22 |
| Impact of COVID-19 or Other Infectious Disease Outbreak | 7 | Proposed Amendment to the Indenture | 23 |
| Impact of Condition of Energy Industry | 8 | Amendments to the Indenture of Trust | 23 |
| Recent Extreme Weather Events; Hurricane Harvey | 8 | Removal or Resignation of Trustee | 24 |
| Specific Flood Type Risks | 8 | Appointment of Successor Trustee | 24 |
| Impact of Economic Conditions | 9 | THE DEVELOPMENT PLAN | 24 |
| Nature of Residential Housing Market | 9 | The City | 24 |
| Future Taxable Values in the Zone May Decline | 9 | The Zone | 25 |
| Tax and Collection Rates May Decline | 10 | The Authority | 25 |
| Dependence on Developer and Major Taxpayers | 10 | Brazoria County Municipal Utility District No. 55 | 26 |
| Limitations on Tax Collections and Foreclosure Remedies | 10 | Tri-Party Agreement | 26 |
| Limited Remedies After Default | 11 | Project and Financing Plan | 27 |
| Risk of Bankruptcy | 11 | Development Financing Agreement with the Developer | 28 |
| Risk of Increased Debt | 11 | Shared Financing Agreement with the District | 29 |
| Dependence on Contract Performance | 12 | STATUS OF DEVELOPMENT | 30 |
| | | Conditions at Creation of the Zone | 30 |
| | | Development from Inception to Present | 30 |
| | | The Major Property Owner and the Developer | 31 |
| | | Land Use Regulations | 32 |
| | | The Road System | 32 |
| | | The Utility System | 33 |
| | | Drainage and Flood Plain | 33 |

TABLE OF CONTENTS

| | <u>Page</u> | | <u>Page</u> |
|--|-------------|---|-------------|
| FINANCIAL INFORMATION..... | 34 | Legal Proceedings | 49 |
| Schedule 2: Pro Forma Debt Service Requirements... | 34 | No-Litigation Certificate | 49 |
| Schedule 3: Historic Debt Service Coverage..... | 35 | TAX MATTERS | 50 |
| Plans to Issue Bonds | 35 | QUALIFIED TAX-EXEMPT OBLIGATIONS | 51 |
| Investment Policy | 35 | MUNICIPAL BOND RATING | 51 |
| Schedule 4: Property Tax Increment Collections | 38 | CONTINUING DISCLOSURE OF INFORMATION..... | 51 |
| Schedule 5: Breakdown of Taxable Assessed Value by Category Based on City Taxable Assessed Valuations..... | 39 | Annual Reports | 51 |
| Schedule 6: Principal Taxpayers in the Zone | 40 | Specified Event Notices | 52 |
| Schedule 7: Estimated Overlapping Taxes | 41 | Availability of Information from MSRB..... | 53 |
| TAXING PROCEDURES OF THE PARTICIPANTS..... | 41 | Limitations and Amendments | 53 |
| Authority to Levy Taxes..... | 41 | Compliance with Prior Undertakings | 53 |
| Property Tax Code and County-Wide Appraisal District..... | 41 | PREPARATION OF OFFICIAL STATEMENT..... | 53 |
| Property Subject to Taxation by the Participants..... | 41 | Sources and Compilation of Information | 53 |
| Property Tax Code As Applied to the City and County | 42 | Financial Advisor | 54 |
| Valuation of Property for Taxation..... | 43 | Audited Financial Statements..... | 54 |
| Reappraisal of Property after Disaster | 43 | MISCELLANEOUS | 54 |
| Taxpayer Remedies | 44 | APPENDIX A – BOUNDARY MAP | A-1 |
| State Law Limitations on Setting the Annual Tax Rate..... | 44 | APPENDIX B – ANNUAL FINANCIAL REPORT OF THE AUTHORITY..... | B-1 |
| Collection of Taxes..... | 46 | APPENDIX C—ANNUAL FINANCIAL REPORT OF THE CITY | C-1 |
| Participant’s Rights in the Event of Tax Delinquencies | 46 | APPENDIX D – PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL | D-1 |
| Tax Payment Installments after Disaster | 47 | APPENDIX E – PROPOSED FORM OF LEGAL OPINION OF SPECIAL TAX COUNSEL ... | E-1 |
| Effect of FIRREA on Tax Collections..... | 47 | | |
| SALES AND USE TAX COLLECTION PROCEDURES..... | 47 | | |
| LEGAL MATTERS | 49 | | |

USE OF INFORMATION IN OFFICIAL STATEMENT

For purposes of compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (“Rule 15c2-12”), as amended and in effect on the date hereof, this document constitutes an Official Statement with respect to the Bonds that has been “deemed final” by the Authority as of the date hereof.

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

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

All of the summaries of the statutes, financing documents, resolutions, contracts, engineering and other related reports referenced or described in this Official Statement are made subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents, copies of which are available from the Authority, c/o The Muller Law Group, PLLC, 202 Century Square Boulevard, Sugar Land, Texas 77478.

Neither the Authority nor the Underwriters, as defined herein, make any representation as to the accuracy, completeness, or adequacy of the information supplied by The Depository Trust Company for use in this Official Statement.

The Underwriters, as defined herein, have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with, and as part of, their respective responsibilities to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Underwriters do not guarantee the accuracy or completeness of such information.

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 purposes.

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

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SALE AND DISTRIBUTION OF THE BONDS

The Underwriters

The Bonds are being purchased, subject to certain conditions, pursuant to a bond purchase agreement (the “*Bond Purchase Agreement*”) between the Authority and RBC Capital Markets, LLC (the “*Representative*”), as representative of the underwriters named on the cover page (collectively, the “*Underwriters*”) at a price of \$ _____ (which represents the principal amount of the Bonds, plus original issue premium of \$ _____, less original issue discount of \$ _____ and an underwriter’s discount of \$ _____). The Representative, on behalf of the Underwriters will be obligated to purchase all of the Bonds if any are purchased. The Bonds may be offered and sold to certain dealers and others at prices lower than public offering prices or yields greater than the initial reoffering yields shown on the inside cover page, and such public prices and yields may be changed from time to time by the Underwriters in their sole discretion. See “—Prices and Marketability” below.

The Underwriters and their respective affiliates are full-service financial institutions engaged in various activities that may include securities trading, commercial and investment banking, municipal advisory, brokerage, and asset management. In the ordinary course of business, the Underwriters and their respective affiliates may actively trade debt and, if applicable, equity securities (or related derivative securities) and provide financial instruments (which may include bank loans, credit support or interest rate swaps). The Underwriters and their respective affiliates may engage in transactions for their own accounts involving the securities and instruments made the subject of this securities offering or other offering of the Issuer. The Underwriters and their respective affiliates may make a market in credit default swaps with respect to municipal securities in the future. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and publish independent research views in respect of this securities offering or other offerings of the Issuer.

Prices and Marketability

The delivery of the Bonds is conditioned upon the receipt by the Authority of a certificate executed and delivered by the Representative on or before the Delivery Date stating the prices at which a substantial amount of the Bonds of each maturity have been sold to the public. For this purpose, the term “public” shall not include any person who is a bond house, broker or similar person acting in the capacity of underwriter or wholesaler. Otherwise, the Authority has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds. Information concerning reoffering yields or prices is the responsibility of the Underwriters.

The prices and other terms with respect to the offering and sale of the Bonds may be changed from time to time by the Underwriters after the Bonds are released for sale, and the Bonds may be offered and sold at prices lower than the initial offering prices or yields greater than the initial reoffering yields shown on the inside cover page, including sales to dealers who may sell the Bonds into investment accounts. In connection with the offering of the Bonds, the Underwriters 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 Authority has no control over trading of the Bonds in the secondary market. Moreover, there is no guarantee that a secondary market will be made in the Bonds. In such 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 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 offer and sale of the Bonds has been filed with the Securities and Exchange Commission under the Securities Act of 1933, as amended, in reliance upon the exemptions provided thereunder. The Bonds have not been registered or qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been registered or qualified under the securities laws of any other jurisdiction. The Authority assumes no responsibility for registration or qualification of the Bonds under the securities laws of any other 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 shall 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.

FORWARD-LOOKING STATEMENTS

This Official Statement contains, in part, forward-looking statements and projections, as well as 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. Forward-looking statements and projections may be affected by known and unknown risks, uncertainties and other factors which may cause the actual results, performance and achievements to be different from the future results, performance or achievements expressed or implied by such forward-looking statements. Investors are cautioned that actual results could differ materially from those set forth in the forward-looking statements.

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 Authority, the Zone, or other matters described herein since the date hereof.

RELIANCE ON PAST FINANCIAL PERFORMANCE

Past financial performance does not necessarily predict future performance, which may be affected by numerous anticipated and unanticipated conditions which did not exist at the time of the prior financial performance. See “RISK FACTORS—Impact of COVID-19 or Other Infectious Disease Outbreak.”

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OFFICIAL STATEMENT SUMMARY

This Official Statement Summary is subject in all respects to the more complete information and to the definitions contained or incorporated in this Official Statement. The offering of the Bonds to potential investors is made only by means of the entire Official Statement. No person is authorized to detach this summary statement from this Official Statement or to otherwise use it without the entire Official Statement.

The Authority and the Zone

The Authority

Iowa Colony Development Authority (the “*Authority*”), a public not-for-profit local government corporation, was authorized to be established by the City of Iowa Colony, Texas (the “*City*”) in 2010 to aid, assist, and act on behalf of the City in the performance of the City’s governmental functions to promote the common good and general welfare of the area included in Reinvestment Zone Number Two, City of Iowa Colony, Texas (the “*Zone*”) and neighboring areas and to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City.

The Authority is governed by a Board of Directors (the “*Board*”), of which four members are appointed by the City and one member is appointed by the Brazoria County Commissioners’ Court. The Authority is the administrator of the Zone.

Reinvestment Zone Number Two, City of Iowa Colony, Texas

The Zone was created by the City Council of the City, pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code, as amended (the “*TIF Act*”), to promote development or redevelopment of the land within the boundaries of the Zone.

Pursuant to the TIF Act, the ordinance of the City establishing the Zone also established a board of directors of the Zone (the “*Zone Board*”). Four members of the Zone Board are appointed by the City and one member of the Zone Board is appointed by Brazoria County, Texas. See “THE AUTHORITY AND THE ZONE.”

Pursuant to the ordinance of the City establishing the Zone, the Zone will terminate on December 31, 2050.

The Zone originally consisted of approximately 955.89 acres (the “*Original Zone*”). Approximately 126.53 acres were annexed into the Zone in 2020 (the “*Annexed Area*,” and collectively with the Original Zone, the “*Zone*”). Following the annexation, the Zone now contains approximately 1,082.42 acres. See “THE DEVELOPMENT PLAN—The Zone.”

Project and Financing Plan

As required under the TIF Act, the Zone Board adopted, and the City Council of the City approved, a Project Plan and Reinvestment Zone Financing Plan, which was amended in 2016 and 2020 (as amended, the “*Plan*”).

The Plan sets out the public improvements that are needed to induce development within the Zone (the “*Public Improvements*”). The cost of the Public Improvements, the cost of creation of the Zone, and related organizational costs (the “*Project Costs*”) constitute eligible project costs under the TIF Act.

The Plan states that the Project Costs will be advance funded by the Developer (as defined herein) or incurred directly by the Zone. If Project Costs are advance funded by the Developer, the Zone expects to reimburse the Developer by a combination of tax-exempt bonds and cash reimbursements.

Meridiana

Meridiana is a master planned community consisting of approximately 2,914 acres of privately owned land. Of this area, approximately 1,144 acres are within the City, approximately 25 acres lie within the City of Alvin, and approximately 1,744 acres lie within the City of Manvel. It is planned as a single family, mixed-use, and commercial development with a projected 2,716 homes within the Zone at full development.

To date, substantially all the development of Meridiana has occurred within the boundaries of the Zone.

Status of Development Approximately 396.72 acres (1,472 lots) within the Zone have been developed in Meridiana, of which 142 lots are for townhomes. As of July 31, 2021, the Zone was composed of 1,147 completed homes, 143 homes under construction, and 182 vacant developed lots. Of the 1,290 homes completed or under construction, 1,101 were sold to homeowners.

Homebuilding in the Zone is currently being conducted by the following homebuilders: Chesmar Homes, David Weekley Homes, Drees Custom Homes, Highland Homes, Perry Homes, Plantation Homes, Shea Homes, Lennar Homes and Trendmaker Homes. New homes in the Zone range in price from the \$200,000s to the \$600,000s.

Included within this area is an “Amenity Village” with a family pool, lap pool, splash pad, indoor gym, welcome center, conservatory, café, full-service kitchen and event lawn. The Developer expects to deed the Amenity Village to Brazoria County Municipal Utility District No. 55, at which time it will not be subject to taxation.

The Zone also contains an elementary school owned by Alvin Independent School District on 12.40 acres. The school is not subject to taxation. Recently, construction of a 5.4-acre commercial development consisting of a gas station, convenience store and inline retail began along Highway 288.

The remainder of the Zone consists of approximately 222.57 developable but undeveloped acres, approximately 422.19 undevelopable acres, and 28.54 acres owned by a third party for which no information on development is available.

The Developer GR-M1 LTD, a Texas limited partnership (the “*Developer*”), was formed for the sole purpose of acquiring and holding for investment and sale tracts of land within the Zone. Its development activities are conducted through Rise Communities, LLC, a limited liability company, under a contract with the Developer. The Developer and Rise Communities, LLC have common ownership.

The Bonds

Description The Iowa Colony Development Authority Tax Increment Contract Revenue Bonds, Series 2021 (the “*Bonds*”) are issued in the aggregate principal amount of \$5,755,000.* The Bonds are offered in fully registered form in integral multiples of \$5,000 principal amount. Interest on the Bonds accrues from the Delivery Date of the Bonds and is payable on each April 1 and October 1, commencing April 1, 2022, until the earlier of maturity or redemption. See “THE BONDS – Description.”

Authority for Issuance The Bonds are issued by the Authority under the terms of an ordinance adopted by the City Council of the City and pursuant to the terms and conditions of a Bond Resolution approved by the Board (the “*Bond Resolution*”) and an Indenture of Trust (the “*Indenture*”) between the Authority and The Bank of New York Mellon Trust Company, as trustee (the “*Trustee*”).

Proposed Amendment to the Indenture The Authority plans to amend the Indenture (the “*Proposed Amendment*”) to change the definition of a Reserve Fund Surety Policy upon receiving the consent of the owners of not less than a majority of the Contract Revenue Bonds then Outstanding. By purchase and acceptance of the Bonds, the owners of the Bonds will be deemed to have consented to the Proposed Amendment, and the consent of the owners of a majority of the Contract Revenue Bonds then Outstanding will have been obtained and the Proposed Amendment will be effective. See “THE INDENTURE – Proposed Amendment to the Indenture” herein.

Book-Entry Only The Depository Trust Company (“*DTC*”), New York, New York, will act as securities depository for the Bonds. The Bonds will be issued as fully-registered securities registered in the name of Cede & Co. (DTC’s partnership nominee) or such other name as may be requested by an authorized representative of DTC. One fully-registered certificate will be issued for each maturity of the Bonds and will be deposited with DTC.

*Preliminary, subject to change.

| | |
|------------------------------|---|
| <i>Redemption</i> | The Bonds maturing on or after April 1, 20__ are subject to redemption in whole, or from time to time in part, at the option of the Authority prior to their maturity dates on April 1, 20__ or on any date thereafter at a price of par value plus unpaid accrued interest from the most recent interest payment date to the date fixed for redemption. The Underwriters may also combine maturities into one or more term bonds, which will be subject to mandatory sinking fund redemption, as described herein. |
| <i>Use of Proceeds</i> | Proceeds of the Bonds will be used for the purposes of (1) financing certain Project Costs in accordance with the Plan; (2) funding the Reserve Requirement (as defined herein) for the Debt Service Reserve Fund, to the extent required; and (3) paying costs of issuance, all under and pursuant to the authority of the TIF Act and all other applicable law. See “USE AND DISTRIBUTION OF BOND PROCEEDS.” |
| <i>Payment Record</i> | The Authority previously issued three series of Tax Increment Contract Revenue Bonds under the Indenture in the aggregate principal amount of \$16,450,000 (the “Prior Bonds”). The Authority has not failed to timely make any payment due on the Prior Bonds. |
| <i>Tax Exemption</i> | In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel, based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. In the further opinion of Special Tax Counsel, interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Special Tax Counsel expresses no opinion regarding any other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds. See “TAX MATTERS” herein. |
| <i>Municipal Bond Rating</i> | The Bonds are rated “Baa3” (stable outlook) by Moody’s Investors Service, Inc. See “MUNICIPAL BOND RATING.” |

Security and Source of Payment

| | |
|-----------------------|--|
| <i>Tax Increments</i> | <p>The City has agreed to deposit to the Tax Increment Fund established for the Zone in the City’s Treasury (the “<i>Tax Increment Fund</i>”) 100% of its tax collections resulting from its taxation of the increase, if any, in the appraised value of real property located in the Original Zone since the base year of 2010, commencing with taxes collected in tax year 2016, and continuing through the term of the Zone.</p> <p>The City has agreed to deposit 100% of its tax collections resulting from its taxation of the increase, if any, in the appraised value of real property located in the Annexed Area since the base year of 2020 and continuing through the term of the Zone.</p> <p>Brazoria County, Texas (the “<i>County</i>”) has agreed pursuant to an interlocal agreement with the City and the Zone (the “<i>Interlocal Agreement</i>”) and subject to certain limitations, to transfer to the City for deposit to the Tax Increment Fund 40.49% of tax collections arising from its taxation of the increase, if any, in the appraised taxable value of certain real property located in the Original Zone since the base year of 2010, commencing with taxes collected in tax year 2015 and continuing for a period of 30 years.</p> <p>The County is not participating in the Annexed Area, and will not contribute Tax Increments from the Annexed Area.</p> <p>The property taxes deposited to the Tax Increment Fund by the City and County or either of them are referred to herein as “<i>Property Tax Increments</i>.”</p> <p>The City has also agreed to deposit to the Tax Increment Fund 90% of the 1% sales and use taxes generated and attributable to the Zone and collected by the City above the amount of City sales and use taxes attributable to the Zone for the year 2010 (the “<i>Sales Tax Increments</i>”).</p> |
|-----------------------|--|

The Property Tax Increments and Sales Tax Increments are referred to herein as “*Tax Increments*.”

*Contract Tax
Increments*

The City, the Authority and the Zone have entered into an agreement (the “*Tri-Party Agreement*”) that sets forth, among other things, the agreement of the City, on behalf of itself and the Zone, to pay to the Authority the Tax Increments deposited to the Tax Increment Fund, less any expenses incurred by the City in connection with collection of such taxes and any amount retained pursuant to the provisions of the Tri-Party Agreement.

Pursuant to the Tri-Party Agreement and the Indenture, the Authority will remit to the City an amount equal to 30% of each payment by the City of Property Tax Increments derived from City property taxes (“*City Property Tax Increments*”) to use to pay the costs of providing City services incurred as a result of the creation of the Zone or the development of the land in the Zone.

The Authority will transfer the remaining Tax Increments to the Trustee under the Indenture. The funds transferred to the Trustee by the Authority are referred to herein as “*Contract Tax Increments*.” See “SOURCE OF AND SECURITY FOR PAYMENT—Contract Tax Increments Defined.”

Pledged Revenues

The Authority has pledged the Contract Tax Increments, certain other funds on deposit with the Trustee or which may be deposited with the Trustee in the future, and earnings and investments thereon (the “*Pledged Revenues*”) to payment of the Prior Bonds, the Bonds and any Additional Parity Bonds under the Indenture (collectively, the “*Contract Revenue Bonds*”).

After the Trustee has set aside debt service on the Contract Revenue Bonds for the succeeding twelve-month period, the Debt Service Reserve Fund has been fully funded, and the Trustee’s and Paying Agent/Registrar’s fees have been paid, the Trustee will remit any surplus Contract Tax Increments to the Authority to be used for any lawful purpose under the TIF Act. Upon the Trustee’s transfer of such surplus Contract Tax Increments to the Authority, such amounts are no longer pledged to the payment of the Contract Revenue Bonds and are not included in the definition of “*Pledged Revenues*.”

The Contract Revenue Bonds are payable solely from the Pledged Revenues.

The Bonds are being issued under the Indenture and are secured on an equal and ratable basis with all Prior Bonds and all Additional Parity Bonds under the Indenture. See “THE INDENTURE.”

Additional Bonds

The Authority has reserved the right to issue additional bonds payable from the Pledged Revenues, on a parity with, or subordinate to, the outstanding Contract Revenue Bonds, but only on the terms and conditions set out in the Indenture, including a debt service coverage test for Additional Parity Bonds.

Additional Bonds require approval of the Zone Board and the City. See “SOURCE OF AND SECURITY FOR PAYMENT—Additional Parity Bonds.”

Limited Obligations

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE PLEDGED REVENUES, AND ARE NOT OBLIGATIONS OF THE CITY AND DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY.

THE BONDS DO NOT CONSTITUTE, WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION, OR A LOAN OF CREDIT OF THE CITY, BRAZORIA COUNTY, TEXAS, THE STATE OF TEXAS, OR ANY OTHER MUNICIPALITY, COUNTY, OR OTHER MUNICIPAL OR POLITICAL CORPORATION OR SUBDIVISION OF THE STATE OF TEXAS. THE CITY IS NOT OBLIGATED TO MAKE PAYMENTS ON THE BONDS.

Risk Factors

THE PURCHASE AND OWNERSHIP OF THE BONDS ARE SUBJECT TO SPECIAL INVESTMENT CONSIDERATIONS AND ALL PROSPECTIVE PURCHASERS ARE URGED TO EXAMINE CAREFULLY THIS ENTIRE OFFICIAL STATEMENT WITH RESPECT TO THE INVESTMENT SECURITY OF THE BONDS, PARTICULARLY THE SECTION CAPTIONED “RISK FACTORS.”

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Schedule 1: Selected Financial Information Based on 2021 Certified Value (unaudited)

| | <u>City</u> | <u>General County</u> | <u>County Bridge & Road</u> |
|---|------------------|---------------------------|-------------------------------------|
| 2021 Certified Taxable Value (a) | \$ 316,475,574 | \$ 278,325,746 | \$ 276,319,782 |
| Tax Increment Base (b) | <u>9,341,120</u> | <u>2,697,545</u> | <u>2,685,545</u> |
| Captured Appraised Value | \$ 307,134,454 | \$ 275,628,201 | \$ 273,634,237 |
| Participant's Tax Rate (c) | 0.469209 | 0.342017 | 0.050000 |
| Tax Rate Contribution used to Produce Contract Tax Increment (d) | 0.328446 | 0.138483 | 0.020245 |
| Collection Rate (e) | 99.52% | 98.34% | 99.53% |
| Projected Pledged Property Tax Increment Revenue from 2021 Certified Taxable Value (f) | \$ 1,003,914 | \$ 375,348 | \$ 55,139 |
| Total Pledged Funds (g) | | | <u>\$ 1,434,401</u> |
| Direct Outstanding Debt The Bonds | | | \$ 16,285,000 <u>5,755,000</u> * |
| Total Direct Outstanding Debt after Issuance of the Bonds (h) | | | \$ 22,040,000 * |
| Fiscal Year 2022 Debt Service Payment | | | \$ 1,011,239 * |
| Fiscal Year 2023 Debt Service Payment | | | \$ 1,227,800 * |
| Average Annual Debt Service (2022-2050) | | | \$ 1,230,641 * |
| Maximum Annual Debt Service (2026) | | | \$ 1,294,213 * |
| Coverage of Pledged Tax Increment Revenues to: | | | |
| Fiscal Year 2022 Debt Service Payment | | | 1.42x * |
| Fiscal Year 2023 Debt Service Payment | | | 1.17x * |
| Average Annual Debt Service (2022-2050) | | | 1.17x * |
| Maximum Annual Debt Service (2026) | | | 1.11x * |
| Increment Expiration Date (December 31) | 2050 | 2045 | 2045 |
| 2021 Captured Appraised Value to Certified Taxable Value | 97.05% | 99.03% | 99.03% |

- (a) The 2021 certified taxable value shown is the certified value provided by the Brazoria County Appraisal District (the "Appraisal District"), and includes 90% of the certified value currently under review by the Appraisal Review Board. Certified appraised values are established annually by the Appraisal District for the current year, but are subject to change for a number of years thereafter. The City of Iowa Colony, Texas (the "City"), Brazoria County, Texas (the "County") and the Brazoria County Bridge and Road Fund (the "Bridge and Road Fund") have different exemptions from taxation, which are reflected in the taxable values for each taxing jurisdiction. See "SOURCE OF AND SECURITY FOR PAYMENT—Calculation of Property Tax Increments." See "FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections" for the certified values for 2017 through 2021.
- (b) The Tax Increment Base includes the taxable value in the Original Zone for the base tax year of 2010. In addition, the Tax Increment Base for the City includes the taxable value in the Annexed Area for the base tax year of 2020. The County does not participate in the Annexed Area.
- (c) The tax rate shown for the City of \$0.469209 is the City's adopted tax rate for tax year 2020. The combined tax rate shown for the General County and County Bridge & Road Fund of \$0.392017 is the County's adopted tax rate for tax year 2020. The City has proposed a tax rate of \$0.501183 per \$100 valuation for tax year 2021 and is expected to adopt a tax rate not to exceed such amount on or about September 20, 2021. The County has proposed a tax rate of \$0.386530 per \$100 valuation for tax year 2021 and is expected to adopt a tax rate not to exceed such amount prior to September 30, 2021. See "FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections" for the tax rates for 2017 through 2021. The actual tax rates set by the City and County for tax year

2021 may differ materially from the 2020 tax rates, and any such difference will affect the Pledged Revenues available to pay debt service.

- (d) The tax rate used to calculate City Contract Tax Increment is net of the 30% payment made to the City by the Zone to pay for the costs of providing City services incurred as a result of the creation of the Zone and the development of land in the Zone. The tax rate used to calculate the General County and County Road and Bridge Fund Contract Tax Increment is 40.49% of the adopted tax rate.
- (e) The collection rate shown for the Zone is an estimate based on historic performance and the actual collection rate may differ. See “RELIANCE ON PAST FINANCIAL PERFORMANCE.” City tax payments are deposited into the General Fund of the City. Once such funds are accounted for and allocated to the Zone, the Property Tax Increment portion of the City tax payments is deposited to the Tax Increment Fund for the Zone. Under the Tri-Party Agreement, the City is required to transfer Property Tax Increments to the Authority twice a year. Under the Interlocal Agreement, the County is required to transfer Property Tax Increments to the Tax Increment Fund by August 1 of each year.
- (f) Projections based on 2021 Certified Taxable Valuation within the Zone, the adopted 2020 tax rates of the Participants, as described in footnote (c), and historic collection percentages.
- (g) The 2021 Tax Increments are expected to be used to pay part of the debt service payment due on April 1, 2022 and all or part of the fiscal year 2023 debt service payments (i.e., October 1, 2022 and April 1, 2023). After payment of the October 1, 2021 debt service payment of \$306,737.50, the Authority expects there to be approximately \$338,726.26 on deposit in the Debt Service Fund from 2020 Contract Tax Increments (without including any 2021 Tax Increment receipts). Such amount, together with tax year 2021 Contract Tax Increments, will be available to pay the April 1, 2022 debt service payment.
- (h) Includes the Bonds and the Outstanding Contract Revenue Bonds previously issued by the Authority.

*Preliminary, subject to change. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements.”

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Schedule 1A: Selected Financial Information Based on August 1, 2021 Estimate of Value (unaudited)

| | City | General County | County Bridge & Road |
|---|----------------|-------------------|------------------------------|
| 2021 Estimated Taxable Value (a) | \$ 406,532,970 | \$ 333,269,530 | \$ 331,238,660 |
| Tax Increment Base (b) | 9,341,120 | 2,697,545 | 2,685,545 |
| Captured Appraised Value as of August 1, 2021 | \$ 397,191,850 | \$ 330,571,985 | \$ 328,553,115 |
| Participant's Tax Rate (c) | 0.469209 | 0.342017 | 0.050000 |
| Tax Rate Contribution used to Produce Contract Tax Increment (d) | 0.328446 | 0.138483 | 0.020245 |
| Collection Rate (e) | 99.52% | 98.34% | 99.53% |
| Projected Pledged Property Tax Increment Revenue from 2021 Estimated Taxable Value (f) | \$ 1,298,280 | \$ 450,170 | \$ 66,205 |
| Total Pledged Funds (g) | | | \$ 1,814,656 * |
| Direct Outstanding Debt The Bonds | | | \$ 16,285,000 5,755,000 * |
| Total Direct Outstanding Debt after Issuance of the Bonds (h) | | | \$ 22,040,000 * |
| Average Annual Debt Service (2022-2050) | | | \$ 1,230,641 * |
| Maximum Annual Debt Service (2026) | | | \$ 1,294,213 * |
| Coverage of Pledged Tax Increment Revenues to: | | | |
| Average Annual Debt Service (2022-2050) | | | 1.47x * |
| Maximum Annual Debt Service (2026) | | | 1.40x * |
| Increment Expiration Date (December 31) | 2050 | 2045 | 2045 |

- (a) At the request of the Authority, the Appraisal District provided an estimate of taxable assessed value in the Original Zone, which was reported as of August 1, 2021, with such estimates included above for each taxing unit. This estimate is for informational purposes only and has no official status. Such amounts are subject to change. In preparing the estimate for the Original Zone, the 2021 Certified Value established by the Appraisal District has been updated to add the estimated value of improvements constructed from January 1, 2021 through August 1, 2021. The portion of the City’s 2021 Estimated Taxable Value attributable to the Annexed Area is the certified taxable value as of January 1, 2021 and was provided by the Brazoria County Appraisal District (the “Appraisal District”), and includes 90% of the certified value currently under review by the Appraisal Review Board, as no estimate of such taxable assessed value in the Annexed Area as of August 1, 2021 was available as of August 31, 2021. Taxes are levied based on value as certified by the Appraisal District as of January 1 of each year. The value of improvements constructed from January 1, 2021 through August 1, 2021 will be reflected in the 2022 certified assessed value. Certified appraised values are established annually by the Appraisal District for the current tax year, but are subject to change for a number of years thereafter. The City, the County and the Bridge and Road Fund have different exemptions from taxation, which affect the taxable value for each taxing jurisdiction. See “SOURCE OF AND SECURITY FOR PAYMENT—Calculation of Property Tax Increments.”
- (b) The Tax Increment Base includes the taxable value in the Original Zone for the base tax year of 2010. In addition, the Tax Increment Base for the City includes the taxable value in the Annexed Area for the base tax year of 2020. The County does not participate in the Annexed Area.
- (c) Tax rates for the 2022 tax year will not be levied until the third quarter of 2022. Adopted 2020 tax rates are used for purposes of illustration. The tax rate shown for the City of \$0.469209 is the City’s adopted tax rate for tax year 2020. The combined tax rate shown for the General County and County Bridge & Road Fund of \$0.392017 is the County’s adopted tax rate for tax year 2020. The City has proposed a tax rate of \$0.501183 per \$100 valuation for tax year 2021 and is expected to adopt a tax rate not to exceed such amount on or about September 20, 2021. The County has proposed a tax rate of \$0.386530 per \$100 valuation for tax year 2021 and is expected to adopt a tax rate not to exceed such amount prior to September 30, 2021. See “FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections” for the tax rates for 2017 through 2020. The actual tax rates set by the City

and County for tax year 2021 may differ materially from the 2020 tax rates, and any such difference will affect the Pledged Revenues available to pay debt service.

- (d) The tax rate used to calculate the City Contract Tax Increment is net of the 30% payment made to the City by the Zone for the costs of providing City services incurred as a result of the creation of the Zone and development of land in the Zone. The tax rate used to calculate the General County and County Road and Bridge Fund Contract Tax Increment is 40.49% of the tax rate.
- (e) The collection rate shown for the Zone is an estimate based on historic performance and the actual collection rate may differ. See “FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections” for collection rates per tax year. City tax payments are deposited into the General Fund of the City. Once such funds are accounted for and allocated to the Zone, the Property Tax Increment portion of the City tax payments is deposited to the Tax Increment Fund for the Zone. Under the Tri-Party Agreement, the City is required to transfer Property Tax Increments to the Authority twice a year. Under the Interlocal Agreement, the County is required to transfer Property Tax Increments to the Tax Increment Fund by August 1 of each year.
- (f) Projections based on the Estimate of Taxable Value as of August 1, 2021, the adopted 2020 tax rates of the Participants, as described in footnote (c), and historic collection percentages. The final certified values, tax rates adopted by the Participants and tax collection percentages for tax year 2022 are subject to various factors outside the control of the Authority and may vary materially from those used in connection with the projections for tax year 2022.
- (g) The 2022 taxes are due by January 31, 2023. Contract Tax Increments arising from these taxes are expected to be transferred to the Authority in 2023 for payment of April 1, 2023 and fiscal year 2024 debt service (i.e., October 1, 2023 and April 1, 2024).
- (h) Includes the Bonds and the Outstanding Contract Revenue Bonds previously issued by the Authority.

*Preliminary, subject to change. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements.”

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PRELIMINARY OFFICIAL STATEMENT

\$5,755,000*

IOWA COLONY DEVELOPMENT AUTHORITY

(A public not-for-profit local government corporation acting on behalf of the City of Iowa Colony, Texas)

TAX INCREMENT CONTRACT REVENUE BONDS

SERIES 2021

This Preliminary Official Statement provides certain information in connection with the issuance by Iowa Colony Development Authority (the “*Authority*”) of its \$5,755,000* Tax Increment Contract Revenue Bonds, Series 2021 (the “*Bonds*”). The Bonds are issued under the terms of an ordinance adopted by the City Council of the City of Iowa Colony, Texas (the “*City*”) and pursuant to a bond resolution (the “*Bond Resolution*”) adopted by the Board of Directors of the Authority (the “*Board*”) and the Indenture of Trust (the “*Indenture*”) between the Authority and The Bank of New York Mellon Trust Company, N.A., as trustee (the “*Trustee*”).

This Official Statement speaks only as to its date and includes descriptions, among others, of the Bonds, the Bond Resolution, the Indenture, and certain other information about the Authority and Reinvestment Zone Number Two, City of Iowa Colony, Texas (the “*Zone*”). All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each document. Copies of documents referenced herein may be obtained from the Authority, c/o The Muller Law Group, PLLC, 202 Century Square Boulevard, Sugar Land, Texas 77478.

SOURCE OF AND SECURITY FOR PAYMENT

General

The Bonds are limited obligations of the Authority payable solely from the sources described herein and are not obligations of the City, Brazoria County, Texas (the “*County*”), the State of Texas, or any entity other than the Authority. The Authority is not obligated to pay principal of and interest on the Bonds from monies of the Authority other than the Pledged Revenues as defined herein under “—Pledge of Revenues.”

General Statutory Requirements for Tax Increment Zones

A tax increment reinvestment zone under Chapter 311 of the Texas Tax Code (the “*TIF Act*”) may be created by a city or a county, which also approves a project plan and a financing plan for the zone. In the case of a city, the ordinance creating the zone and the project plan and financing plan must provide that the city will deposit its Tax Increments (as defined below) into a tax increment fund established by the city for the zone (the “*Tax Increment Fund*”). Other taxing units which tax property in the zone may agree with the city that they will also deposit a portion of their Tax Increments (as defined below) into the Tax Increment Fund established for the zone.

The amount of a taxing unit’s property tax increment for a year (the “*Property Tax Increment*”) is the amount of property taxes levied and assessed by the taxing unit for that year on the captured appraised value in the zone (as defined below, the “*Captured Appraised Value*”). The Captured Appraised Value of real property taxable by a taxing unit for a year is the total taxable value of all real property taxable by the taxing unit and located in the tax increment reinvestment zone for that year less the total taxable value of all real property taxable by the unit and located in the tax increment reinvestment zone for the year in which the zone was designated as such under the TIF Act (the “*Property Tax Increment Base*”). If the boundaries of a zone are enlarged, the Property Tax Increment Base is increased by the taxable value of the real property added to the zone for the year in which the property was added. If the boundaries of a zone are reduced, the Property Tax Increment Base is reduced by the taxable value of the real property removed from the zone for the year in which the property was originally included in the zone’s boundaries.

The amount of a city’s sales tax increment for a year, if any (the “*Sales Tax Increment*”) is the amount of tax increment generated from the municipal sales and use taxes attributable to the zone, above the sales tax base, to be deposited into the tax increment fund. The “sales tax base” means the amount of municipal sales and use taxes attributable to the zone for the year in which the zone was designated as such under the TIF Act (the “*Sales Tax Increment Base*”).

* Preliminary, subject to change.

The Property Tax Increments and the Sales Tax Increments are collectively referred to herein as “*Tax Increments*.”

The TIF Act provides that each taxing unit is required to pay into the Tax Increment Fund for the zone the collected Tax Increments that it has agreed to pay under its agreement with the city and in accordance with the project plan. The TIF Act provides that the payment is to be made by the 90th day after the later of either the delinquency date for the taxing unit’s property taxes, or the date the city that created the zone submits to the taxing unit an invoice specifying the Tax Increment produced by the taxing unit and the amount the taxing unit is required to pay into the Tax Increment Fund for the zone.

When the Zone was created, the TIF Act provided that a reinvestment zone terminates on the earlier of: (1) the termination date designated in the ordinance designating the zone or an earlier or later date designated by a subsequent ordinance, or (2) the date on which all project costs, tax increment bonds (such as the Bonds) and interest on those bonds, and other obligations have been paid in full. In addition, the TIF Act provides that a reinvestment zone may be terminated if the city that created the zone defeases all of the zone’s tax increment bonds. See “THE BONDS—Defeasance.”

Establishment of the Zone: Participants

Pursuant to City Ordinance No. 2010-2, adopted on March 15, 2010 (the “*City Creation Ordinance*”), the City created the Zone and established the Tax Increment Fund for the Zone as a separate fund in the City treasury. The Zone took effect on the date of passage of the City Creation Ordinance and is scheduled to terminate on December 31, 2050, or at an earlier time designated by subsequent ordinance by the City Council, or at such time, subsequent to the issuance of tax increment bonds, if any, that all project costs, tax increment bonds, and interest on the bonds have been paid in full.

A total of 955.89 acres were designated as the Zone in 2010 (the “*Original Zone*”). The base tax year for the Original Zone is 2010.

Effective with City Ordinance No. 2016-21, approved on August 22, 2016, the City obligated itself to contribute 100% of its collected Property Tax Increments arising from the Original Zone to the Tax Increment Fund during the term of the Zone, commencing with Property Tax Increments attributable to tax year 2016 and paid in fiscal year 2017, and 90% of the Sales Tax Increment generated from within the Original Zone based on the 1% City sales and use tax. Prior to such action, the City did not contribute Property Tax Increments to the Zone. Further terms concerning the City’s contribution of Tax Increments to the Zone are found in an Agreement among the City, the Zone and the Authority, dated February 21, 2011, as amended and restated on August 22, 2016 (the “*Tri-Party Agreement*”). See “THE DEVELOPMENT PLAN—Tri-Party Agreement.”

Pursuant to an Interlocal Agreement (the “*Interlocal Agreement*”) among the City, the Zone, and the County, the County has agreed to contribute 40.49% of its collected Property Tax Increments arising from the Original Zone to the Tax Increment Fund for a period of 30 years, commencing with Property Tax Increments attributable to tax year 2015, subject to the limitations set forth in the Interlocal Agreement. See “SOURCE OF AND SECURITY FOR PAYMENT—County’s Interlocal Agreement with Respect to Property Tax Increments.” The County’s agreement to participate in the Zone terminates prior to the final maturity of the Bonds.

Effective with City Ordinance No. 2020-10, approved on May 18, 2020, the City annexed approximately 126.53 acres into the Zone (the “*Annexed Area*”). The base year for the Annexed Area is 2020. The City obligated itself to contribute 100% of its collected Property Tax Increments and 90% of its Sales Tax Increments arising from the Annexed Area to the Tax Increment Fund during the term of the Zone. The County does not contribute any Property Tax Increments arising from the Annexed Area to the Tax Increment Fund.

The taxing units participating in the Zone (collectively, the “*Participants*” and each a “*Participant*”) are the City and the County. Because the County General Fund and the County Road and Bridge Fund have slightly different tax exemptions, they are sometimes listed separately. See “TAXING PROCEDURES— Tax Code As Applied to the City and County.”

County's Interlocal Agreement with Respect to Property Tax Increments

The County, acting through its Commissioners Court, approved the Interlocal Agreement on March 23, 2010. Pursuant to the Interlocal Agreement, the County agreed to participate in the Zone by contributing 40.49% of the County tax levy on the Captured Appraised Value in the Zone collected by the County, commencing in the year in which Property Tax Increment payments were due to the Zone from taxes levied for the year 2015. The participation will continue for a period of thirty years from the date of the first payment. Any rollback taxes collected by the County on land within the Zone do not constitute Property Tax Increment and will not be considered part of the County's Property Tax Increment participation.

The County is not obligated to make Property Tax Increment payments from taxes or revenue other than the Property Tax Increments and not until the Property Tax Increments are actually collected. The County's obligation to pay the Property Tax Increment participation into the Tax Increment Fund is to accrue as taxes representing the County Property Tax Increment are collected and payment is due on August 1 of each year.

The Interlocal Agreement also provides that the County's obligation to participate in the Zone is limited to the Zone as currently constituted unless the County approves an extension of its participation to any areas annexed into the Zone by the City. The County is not participating in the Annexed Area. The City's obligations under the Interlocal Agreement include an agreement not to disannex any property within the Zone. The County is entitled to appoint one member to the Zone Board.

The Interlocal Agreement will remain in effect through the life of the Zone. Upon termination of the Zone, if all public improvements in the Plan have been constructed and financed and if all Zone debt is paid in full, the City and the Zone shall pay to the County all monies remaining in the Tax Increment Fund that are attributable to the County's Property Tax Increment participation.

Calculation of Property Tax Increments

The certified appraised value in a zone is supplied to all the taxing units participating in the zone by the applicable appraisal district based on the appraisal district's identification of all real property accounts within the zone's boundaries. The Brazoria County Appraisal District (the "*Appraisal District*") appraises the property in the Zone for the Participants. Each Participant uses the certified appraised taxable value in the Zone obtained from the Appraisal District, but then modifies it based on the various exemptions from taxation granted by the Participant (the County General Fund and the County Bridge and Road Fund have slightly different exemptions). See "TAXING PROCEDURES OF THE PARTICIPANTS—Property Tax Code as Applied to the City and the County." It then determines Captured Appraised Value by subtracting the Tax Increment Base of the Zone from the current year's taxable value in the Zone.

The Appraisal District may issue a "correction roll," which may affect previously certified values. Value changes can be positive or negative depending on the cause. Omitted property adds value while protest settlements, exemptions and error corrections can add or subtract value. Value changes typically are larger in dollar amount and number in the years just following the current tax year and tend to diminish in amount and number over time.

Each Participant's determination of Captured Appraised Value will depend on the timing of its calculation (that is, what Appraisal District roll it uses) and its exemptions. The Participants' individual determinations resulted in the Captured Appraisal Values shown under "FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections." For an explanation of the different exemptions of the Participants, see "TAXING PROCEDURES OF THE PARTICIPANTS—Property Subject to Taxation by the Participants."

Calculation of Property Tax Increments is subject to administrative interpretation by the Participants, which may change from time to time, at the option of each Participant.

Collection of Tax Increments

Each taxing unit participating in a zone is to pay Property Tax Increments into the Tax Increment Fund that are equal to the amount arrived at by multiplying the Captured Appraised Value in the zone by the taxing unit's contributed tax rate per \$100 of valuation for the tax year and then multiplying that product by the taxing unit's

collection percentage, subject to any aggregate limitation. The collection percentage is determined by comparing the taxes collected from all taxable real property in the zone to the total taxes due to the taxing unit for the tax year from all real property in the zone. Each taxing unit's collection percentage is shown in "FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections." The TIF Act provides that payment of Property Tax Increments by participating taxing units is to be made by the 90th day after the later of either the delinquency date for the taxing unit's property taxes, or the date the city or county that created the zone submits to the taxing unit an invoice specifying the Property Tax Increment produced by the taxing unit and the amount the taxing unit is required to pay into the Tax Increment Fund for the zone, unless otherwise agreed by the parties.

The City is to pay Sales Tax Increments into the Tax Increment Fund that are equal to ninety percent (90%) of the 1% sales and uses taxes generated and attributable to the Zone and collected by the City above the Sales Tax Increment Base (an additional ½% sales and use tax imposed by the City is paid to a Crime Prevention and Control District and is not subject to participation in the Zone.) The Sales Tax Increment Base means the amount of City sales and use taxes attributable to the Zone for the year 2010, which was none (\$0).

Pursuant to the Tri-Party Agreement, the City and the Zone agree to continuously collect the Tax Increments during the term of the Tri-Party Agreement, and to the extent legally permitted to do so, they agree that they will not permit a reduction in the Tax Increments paid by the City or the County, except to the extent provided in the Tri-Party Agreement or Interlocal Agreement, respectively. See "THE DEVELOPMENT PLAN—Tri-Party Agreement."

The obligations of the City and the Zone to pay Tax Increments to the Authority are subject to the Tri-Party Agreement and the rights of any of the holders of bonds, notes or other obligations that have been or are hereafter issued by the City, the County, or any other taxing unit that may hereafter participate in the Zone that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the City, the County, or other taxing unit, as applicable. See "RISK FACTORS—Risk of Higher Priority Debt."

Contract Tax Increments Defined

Pursuant to the Tri-Party Agreement, the City, on behalf of itself and the Zone, has agreed to pay to the Authority all monies then available in the Tax Increment Fund without counterclaim or offset, but minus any expenses incurred by the City in connection with the collection of the Tax Increments and minus any amount retained pursuant to the terms of the Tri-Party Agreement. The Tri-Party Agreement states that the City will pay available monies in the Tax Increment Fund to the Authority at least twice per year.

Pursuant to the Tri-Party Agreement and the Indenture, the Authority will remit to the City an amount equal to 30% of each payment by the City of Property Tax Increments derived from City property taxes ("*City Services Payment*") to use to pay the costs of providing City services incurred as a result of the creation of the Zone or the development of the land in the Zone. The amounts paid to the City as City Services Payments are not part of the Contract Tax Increments or Pledged Revenues (as defined herein). Commencing upon the effective date of the Indenture (as defined herein), the Authority will transfer the remaining 70% of the City's Property Tax Increments and all other Tax Increments it receives, which additional amounts include the County Property Tax Increment and the City Sales Tax Increment, to the Trustee under the Indenture. Amounts required to be transferred to the Trustee by the Authority are referred to herein as "*Contract Tax Increments*".

Contract Tax Increments are the Tax Increments pledged to secure the Authority's obligation to pay the outstanding Prior Bonds, the Bonds and any Additional Parity Bonds (as defined herein). The outstanding Prior Bonds, the Bonds and any Additional Parity Bonds are referred to herein as the "*Contract Revenue Bonds*".

Pledge of Revenues

Pursuant to the Bond Resolution and the Indenture, the Authority has agreed to pay to the Trustee all Contract Tax Increments. The Trustee will deposit such amounts into an Indenture fund that constitutes the Authority's "Revenue Fund" under the Tri-Party Agreement. Once debt service on the Contract Revenue Bonds for the succeeding twelve-month period has been set aside, the debt service reserve fund has been fully funded, and the Trustee's and Paying Agent/Registrar's fees have been paid, any surplus Contract Tax Increments will be transferred to the Surplus Fund for use by the Authority for any lawful purpose under the TIF Act. Upon the Trustee's transfer

of such surplus Contract Tax Increments to the Authority, such amounts are no longer pledged to the payment of the Contract Revenue Bonds and are not included in the definition of “Pledged Revenues.” See “THE INDENTURE – The Funds.”

The Authority has pledged to the payment of principal of and interest on the Contract Revenue Bonds on an equal and ratable basis the “*Pledged Revenues*,” which are defined in the Indenture and the Bond Resolution as all of the Authority’s right, title and interest in and to the following described properties and interests, direct or indirect, whether now owned or hereafter acquired:

- (a) the Contract Tax Increments and all of the Authority’s right, title and interest thereto under the Tri-Party Agreement;
- (b) all money deposited or required to be deposited in the Pledged Revenue Fund, the Debt Service Fund (as hereinafter defined), the Debt Service Reserve Fund (as hereinafter defined) and the Project Fund (as hereinafter defined) held by the Trustee pursuant to the provisions of the Indenture and all interest earnings and investment income therefrom; and
- (c) any and all property of every kind and nature (including without limitation, cash, obligations or securities) which may from time to time be conveyed, assigned, hypothecated, endorsed, pledged, mortgaged, granted, or delivered to or deposited with the Trustee as additional security under the Indenture by the Authority, or anyone on behalf of the Authority, or which pursuant to any of the provisions of the Indenture may come into the possession or control of the Trustee as security thereunder, or of a receiver lawfully appointed thereunder, all of which property the Trustee is authorized to receive, hold and apply according to the terms thereof.

Debt Service Reserve Fund

The Authority will utilize a portion of the Bond proceeds to deposit to the “*Debt Service Reserve Fund*” created by the Indenture and held by the Trustee for the equal and ratable benefit of all Owners of Contract Revenue Bonds, an amount necessary so that the Debt Service Reserve Fund contains the “*Reserve Requirement*.” The Reserve Requirement is computed after the issuance of any series of Contract Revenue Bonds and is the lesser of (A) 1.25 times the average annual debt service on the Contract Revenue Bonds, or (B) the maximum annual debt service, provided that the issuance of any series of Contract Revenue Bonds will not cause the Reserve Requirement to increase by more than 10% of the stated principal amount of such series of Contract Revenue Bonds or 10% of the issuance price of such series of Contract Revenue Bonds if the series of Contract Revenue Bonds are issued with more than a de minimis amount of original issue discount. See “THE INDENTURE—The Funds.”

The Authority expressly reserves the right at any time to satisfy all or part of the Reserve Requirement by obtaining for the benefit of the Debt Service Reserve Fund one or more Reserve Fund Surety Policies. A “Reserve Fund Surety Policy” is currently defined in the Indenture as an insurance policy or other credit agreement in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating for its long term unsecured debt or claims paying ability in the highest letter category by two major municipal securities evaluation sources.

Pursuant to the Bond Resolution, the Indenture is being amended and supplemented to change the definition of Reserve Fund Surety Policy when the amendment and supplement to that effect is consented to by the Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then Outstanding. Pursuant to the revised definition, a “Reserve Fund Surety Policy” is an insurance policy or other credit agreement in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating for its long term unsecured debt or claims paying ability of at least “A” or its equivalent by a nationally recognized statistical rating organization. See “THE INDENTURE—Proposed Amendment to the Indenture” herein. By purchase and acceptance of the Bonds, the owners of the Bonds will be deemed to have consented to the Proposed Amendment, and the consent of the owners of a majority of the Contract Revenue Bonds then Outstanding will have been obtained and the Proposed Amendment will be effective.

In the event the Authority elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any bond proceeds thereby released, to the greatest extent

permitted by law, to any purposes for which the Contract Revenue Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used. The premium for any Reserve Fund Surety Policy may be paid from bond proceeds or other funds of the Authority lawfully available for such purpose. All amounts deposited in or required to be deposited in the Debt Service Reserve Fund may be used to pay obligations incurred to providers of Reserve Fund Surety Policies, including amounts advanced thereunder, interest on such advances and related costs and expenses.

Additional Parity Bonds

The Authority has reserved the right to issue Additional Parity Bonds (the “*Additional Parity Bonds*”) on the terms set out in the Indenture and the Bond Resolution for the purposes set forth in the Plan as it may be amended from time to time. Prior to issuing Additional Parity Bonds, the following conditions must be met:

- (a) the Additional Parity Bonds shall mature on, and interest shall be payable on, the same days of the year as the Contract Revenue Bonds;
- (b) the City has approved issuance of the Additional Parity Bonds on the terms set forth in the Tri-Party Agreement, as the same may be modified from time to time;
- (c) there shall be on deposit in the Debt Service Reserve Fund, after the issuance of the Additional Parity Bonds, an amount equal to the Reserve Requirement on all Contract Revenue Bonds that will be outstanding after the issuance of the Additional Parity Bonds;
- (d) the Authority certifies that it is not in material default with the terms of any bond resolution, the Indenture or the Tri-Party Agreement; and
- (f) the Authority has received a projection meeting the requirements set forth below (the “*Projection*”), which shows available Contract Tax Increments equal to 125 percent of projected Average Annual Debt Service, taking into account the bonds outstanding and the Additional Bonds sought to be issued (except for Additional Bonds issued for refunding purposes and that reduce the Average Annual Debt Service requirements).

The Projection may be calculated in one of two ways. First, the Authority may demonstrate that actual collections of Contract Tax Increments in the preceding fiscal year were equal to or in excess of 125 percent of projected Average Annual Debt Service. In this case, the Authority must certify that it has no knowledge of a pending decrease in its Captured Appraised Value or the tax rate of the City available for payment of Contract Tax Increments. Second, the Authority may project future Contract Tax Increments using a Captured Appraised Value derived from an estimate or preliminary calculation of the current appraised value in the Zone made by the Appraisal District, adjusted for exemptions and losses due to protests, and using a collection factor based on historic data. In making this calculation, the Authority shall assume that the then-current tax rate of the City will remain the same, unless it has knowledge that a different tax rate will be in effect.

In both cases, the Projection will take into account any scheduled reductions or increases in Contract Tax Increments under agreements between the City and a taxing unit participating in the Zone.

In the Indenture, the Authority represents that the Pledged Revenues are not in any manner pledged to the payment of any debt or obligation of the Authority superior to or on parity with the Contract Revenue Bonds, and the Authority covenants that it will not in any manner pledge or further encumber the Pledged Revenues unless such pledge or encumbrance is junior and subordinate to the lien and pledge granted under the Indenture to secure the Contract Revenue Bonds.

The Authority reserves the right to issue bonds, notes or other obligations secured in whole or in part by liens on all or part of the Pledged Revenues that are junior and subordinate to the lien on Pledged Revenues securing payment of the Contract Revenue Bonds. The Indenture requires that subordinate lien obligations provide that they are payable from Pledged Revenues only if and to the extent of moneys that could otherwise be deposited to the Debt Service Reserve Fund (for Reserve Fund Surety Policy obligations) or to the Surplus Fund. See “THE INDENTURE—The Funds.”

RISK FACTORS

Limited Obligations

THE BONDS ARE LIMITED OBLIGATIONS OF THE AUTHORITY, PAYABLE SOLELY FROM THE PLEDGED REVENUES, AND ARE NOT OBLIGATIONS OF THE CITY AND DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY. THE CITY'S OBLIGATION TO DEPOSIT SALES AND USE TAXES INTO THE TAX INCREMENT FUND PURSUANT TO THE TRI-PARTY AGREEMENT OR TO MAKE PAYMENTS FROM SALES AND USES TAXES IS NOT A GENERAL OBLIGATION OF THE CITY AND DOES NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY.

THE BONDS DO NOT CONSTITUTE, WITHIN THE MEANING OF ANY STATUTORY OR CONSTITUTIONAL PROVISION, AN INDEBTEDNESS, AN OBLIGATION, OR A LOAN OF CREDIT OF THE CITY, THE COUNTY, THE STATE OF TEXAS, OR ANY OTHER MUNICIPALITY, COUNTY, OR OTHER MUNICIPAL OR POLITICAL CORPORATION OR SUBDIVISION OF THE STATE OF TEXAS. THE CITY IS NOT OBLIGATED TO MAKE PAYMENTS ON THE BONDS. THE AUTHORITY DOES NOT HAVE THE POWER TO LEVY TAXES OR ASSESS FEES FOR ANY PURPOSE, INCLUDING PAYMENT OF THE BONDS.

For a variety of reasons, including those described below, a decrease or reduction in Tax Increments causing a decrease or reduction in Pledged Revenues may occur. The Bonds are subject to special investment considerations as set forth below.

Impact of COVID-19 or Other Infectious Disease Outbreak

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the "Pandemic") by the World Health Organization and is currently affecting many parts of the world, including the United States and the State. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. Subsequently, the President's Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in the State in response to the Pandemic. Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. Under executive orders in effect as of the date of this Official Statement, there are no COVID-19 related operating limits for any business or other establishments. The Governor retains the right to impose additional restrictions on activities. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at <https://gov.texas.gov/>. Neither the information on (nor accessed through) such website of the Governor is incorporated by reference, either expressly or by implication, into this Official Statement.

The Pandemic has negatively affected travel, commerce, and financial markets globally and is widely expected to continue negatively affecting economic growth and financial markets worldwide. The impact of the Pandemic is expected to have a negative financial impact on local, state and national economies, in a manner that could adversely affect the assessed value of property in the Zone, the full extent of which is unknown at this time.

The primary security for the Bonds, the Contract Tax Increments, are derived from ad valorem taxes assessed and collected annually, principally from single-family residences. To date, there has not been any effect from the Pandemic and resulting economic disruption; however, no assurance can be given that future assessed values or the collection of taxes will not be affected. See "TAXING PROCEDURES OF THE PARTICIPANTS—Valuation of Property for Taxation."

Impact of Condition of Energy Industry

Recent fluctuations in oil prices in the United States and globally may lead to adverse conditions in the oil and gas industry. Such adverse conditions may result in reduced revenues, declines in capital and operating expenditures, business failures, and the layoff of workers within the oil and gas industry. In the past, the greater Houston area has been particularly affected by adverse conditions in the oil and gas industry, and adverse conditions in the oil and gas industry and spillover effects into other industries could adversely impact the businesses of ad valorem property taxpayers and the property values in the Zone, resulting in a reduction in property tax revenue. In the longer term, the energy industry in Houston may be adversely affected by governmental actions taken to reduce the use of fossil fuel and concerns about global warming.

Recent Extreme Weather Events; Hurricane Harvey

The greater Houston area, including the Zone, is subject to occasional severe weather events, including tropical storms, hurricanes and winter freezes. If substantial damage were to occur to taxable property within the Zone as a result of such a weather event, the investment security of the Bonds could be adversely affected.

The greater Houston area, including the Zone, has experienced multiple storms exceeding a 0.2% probability (i.e. “500-year flood” events) since 2015. One of these storms was Hurricane Harvey, which made landfall along the Texas Gulf Coast on August 26, 2017, and brought historic levels of rainfall during the successive four days. According to the Developer, none of the structures in the Zone sustained any significant damage as a result of Hurricane Harvey.

In February 2021, much of Texas, including the Zone, was impacted by Winter Storm Uri. The Zone experienced historically low temperatures, ice and snow, and extended power outages. The Authority does not anticipate any material impact on the Contract Tax Increments available to pay debt service as a result of Winter Storm Uri.

If a future weather event significantly damaged all or part of the improvements within the Zone, the assessed value of property within the Zone could be substantially reduced, which could result in a decrease in Tax Increments. Further, there can be no assurance that a casualty loss to taxable property within the Zone will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the Zone. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the Zone could be adversely affected.

There are special taxing procedures for areas declared to be a disaster area by the Governor that could affect the amount of taxes due and when they are collected. See “TAXING PROCEDURES OF THE PARTICIPANTS—Reappraisal of Property after Disaster” and “—Tax Payment Installments after Disaster.”

The frequency and intensity of weather events in the Houston region could have a material impact on the long-term development of the region’s economy.

Specific Flood Type Risks

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

Riverine (or Fluvial) Flood. Riverine, or fluvial, flooding occurs when water levels rise over the top of river, bayou or channel banks due to excessive rain from tropical systems making landfall and/or persistent thunderstorms over the same area for extended periods of time. The damage from a riverine flood can be widespread. The overflow can affect smaller rivers and streams downstream, or may sheet-flow over land. Flash flooding is a type of riverine flood that is characterized by an intense, high velocity torrent of water that occurs in an existing river channel with little to no notice. Flash flooding can also occur even if no rain has fallen, for instance,

after a levee, dam or reservoir has failed or experienced an uncontrolled release, or after a sudden release of water by a debris or ice jam. In addition, planned or unplanned controlled releases from a dam, levee or reservoir also may result in flooding in areas adjacent to rivers, bayous or drainage systems downstream.

Impact of Economic Conditions

Each year the then current market value of all real property and improvements in the Zone will determine Captured Appraised Value. The market value of the real property and improvements within the Zone is affected by the demand for such improvements. 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 U.S. economy and the specific economic conditions and demographic characteristics of the Houston metropolitan area. See “—Impact of COVID-19 or Other Infectious Disease Outbreak,” “—Impact of Condition of Energy Industry” above.

Nature of Residential Housing Market

The area within the Zone is expected to be developed primarily for single family residential use. New residential housing construction can be significantly affected by factors such as interest rates, construction costs, and consumer demand. The housing industry in the Houston area is very competitive, and buyers can choose from a number of residential developments and master planned communities in the Houston area.

Future Taxable Values in the Zone May Decline

The Appraisal District determines the taxable value in the Zone annually based on the then current market value of all taxable real property and improvements in the Zone. **Captured Appraised Value is derived from the taxable value of real property and improvements within the Zone, not from any increase in the appraised value of personal property (such as equipment and inventory).**

The Appraisal District may use cost data, cost comparisons and/or an analysis of the income being produced by an office building or an apartment project to determine its taxable value. Residential or commercial buildings that are not occupied or are only partially occupied may be appraised at a lower value than occupied facilities. Under certain circumstances, residential real property inventory held by a person in the trade or business will be valued at the price all such property would bring if sold as a unit to a purchaser who would continue the business. Reduced taxable values of the improvements in the Zone may affect the Tax Increments received by the Authority.

Property owners have the right to protest the appraised value of their property in the Zone annually and are not required to render their property for ad valorem taxation at any agreed upon level, unless required by a development agreement with the Authority. Owners 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. Property owners have the right to seek tax abatements. Property values may also be adversely affected by natural or other disasters resulting in the destruction of property in the Zone. See “—Recent Extreme Weather Events; Hurricane Harvey” above. The appraised value of the property and improvements will be determined and certified by the Appraisal District in accordance with the procedures described above and in “TAXING PROCEDURES OF THE PARTICIPANTS” and may be at a value lower than projected.

Taxable values, which are used to generate Contract Tax Increments, take into account tax exemptions granted by state law or an individual taxing unit. See “TAXING PROCEDURES OF THE PARTICIPANTS.” The Texas Constitution limits the rate of increase in the taxable value of a residential homestead regardless of its market or assessed value. It also grants additional exemptions for various categories of persons, such as disabled veterans and first responders. Taxing units have the authority to grant additional exemptions, including a homestead exemption of up to 20% of the assessed value of a residential homestead and additional exemptions to residential homesteads of persons 65 or older or disabled. The County has granted a 20% homestead exemption since inception of the Zone. **The City granted a homestead exemption of 10% of the assessed value of a residential homestead commencing with tax year 2020 and could increase such exemption in the future.** Both the County and the City also grant additional exemptions for persons 65 or older or disabled. The granting of an exemption from taxes reduces the taxable value in the Zone.

Tax and Collection Rates May Decline

The amount of Contract Tax Increments available to pay principal of and interest on the Bonds is determined by the appraised value of taxable real property and improvements in the Zone, the tax rate of the Participants, and the percentage of taxes actually collected from taxpayers in the Zone and paid into the Tax Increment Fund.

A Participant is not required under Texas law or any contract to set a tax rate sufficient to assure any certain dollar amount of Contract Tax Increments; rather, Texas law, the Tri-Party Agreement, and the Interlocal Agreement only require the Participants to contribute the Tax Increments actually collected by them and only to the extent provided in the Tri-Party Agreement, the Plan, and the Interlocal Agreement.

Each Participant will set its tax rate in accordance with the State Property Tax Code, which allows voters to limit an increase in the tax rate. In the 86th Legislative Session of the Texas Legislature which ended in May 2019, the Texas Legislature amended the State Property Tax Code to further reduce a Participant's ability to increase its tax rate without holding an election. See "TAXING PROCEDURES OF THE PARTICIPANTS—State Law Limitations on Setting the Annual Tax Rate." The amendments to the State Property Tax Code have in some instances created downward pressure on tax rates set by political subdivisions. Reductions in the tax rates levied by the City or the County could have a material adverse effect on Contract Tax Increments. In addition, the Texas Legislature could change the process for setting the rates or establish more stringent limits on the tax rates that may be set by a political subdivision than those currently in effect.

The City's tax rate for the 2020 tax year was \$0.469209 per \$100 valuation, and the County's tax rate for the 2020 tax year was \$0.392017, which includes a general County tax rate of \$0.342017 and a \$0.05 tax rate for its Road and Bridge Fund. See "FINANCIAL INFORMATION—Schedule 4: Property Tax Increment Collections" for tax rates from 2017 through 2020. If the tax rate of the City or the County declines, the amount of Pledged Revenues available to pay debt service on the Bonds may decrease.

If the percentage of taxes collected by the City or County in the Zone declines, the amount of Pledged Revenues available to pay debt service on the Bonds may decrease. Historic tax collection rates may not accurately predict future tax collection rates.

The collection of, and accounting for, Tax Increments involve extensive administration and are subject to error. Moreover, detailed procedures for calculation and collection of Tax Increments are not set forth in the TIF Act and are implemented at the discretion of each taxing unit participating in a tax increment reinvestment zone.

Dependence on Developer and Major Taxpayers

A developer normally undertakes many activities necessary for the development of an undeveloped tract of property. See "STATUS OF DEVELOPMENT – The Major Property Owner and the Developer—Role of the Developer." However, neither the Developer nor any landowner in the Zone has committed to the Authority to proceed at any particular rate or according to any specified plan with the development of land or the construction of improvements in the Zone, and there is no restriction on any landowner's right to sell its land. Failure to construct taxable improvements on developed tracts of land or developed lots would restrict and rate of growth of taxable values in the Zone. The Authority cannot and does not make any representation that over the life of the Bonds, the Zone will increase or maintain its taxable value.

Limitations on Tax Collections and Foreclosure Remedies

The Authority's ability to make debt service payments on the Bonds may be adversely affected by the Participants' inability to collect ad valorem taxes. Under Texas law, the levy of ad valorem taxes by a Participant constitutes a lien on the property against which taxes are levied and such lien may be enforced by foreclosure. Foreclosure must be effected through a judicial proceeding. A Participant's ability to collect ad valorem taxes through such foreclosure may be impaired by cumbersome, time-consuming and expensive collection procedures or economic and market conditions affecting the marketability of taxable property within the Zone and limiting the proceeds from a foreclosure sale of such property. Moreover, the proceeds of any sale of property within the Zone available to pay debt service on the Bonds may be limited by the current aggregate tax rate being levied against the property and by other factors, including the taxpayers' right to redeem property within two years of foreclosure for

residential homestead and agricultural use property and within six months of foreclosure for other property. Finally, any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer within the Zone pursuant to the United States Bankruptcy Code (the “*Bankruptcy Code*”) could stay any attempt by a Participant to collect delinquent ad valorem taxes assessed 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. The Authority has no control over the collection of property taxes by the Participants.

The Financial Institutions Reform, Recovery and Enforcement Act of 1989 (“*FIRREA*”) contains certain provisions which affect the time for protesting property valuations, the fixing of tax liens and the collection of penalties and interest on delinquent taxes on real property owned by the Federal Deposit Insurance Corporation (“*FDIC*”) when the FDIC is acting as the conservator or receiver of an insolvent financial institution. Under *FIRREA* real property held by the FDIC is still subject to ad valorem taxation, but such act states (1) that no real property of the FDIC shall be subject to foreclosure or sale without the consent of the FDIC and no involuntary liens shall attach to such property, (2) the FDIC shall not be liable for any penalties or fines, including those arising from the failure to pay any real or personal property tax when due and (3) notwithstanding failure of a person to challenge an appraisal in accordance with state law, such value shall be determined as of the period for which such tax is imposed. These provisions may affect the timeliness of collection of taxes on property which may be owned in the future by the FDIC in the Zone and may prevent the collection of penalties and interest on such taxes.

Limited Remedies After Default

Remedies in the event of a default by the Authority in one or more of its obligations under the Bonds, the Bond Resolution or the Indenture are limited. Although the Indenture provides that the Trustee may obtain a writ of mandamus requiring performance of such obligations, such remedy may prove time-consuming, costly and difficult to enforce. Neither the Bond Resolution nor the Indenture provides for acceleration of maturity of the Bonds, or provides for the foreclosure of any property or assets other than applying the Pledged Revenues to payment of the Bonds in the manner provided in the Indenture. See “—Risk of Bankruptcy” below.

Risk of Bankruptcy

Under the Bankruptcy Code and current case law interpreting the Bankruptcy Code, it is possible (depending upon the degree of control by the City) that the Authority would fall within the Bankruptcy Code’s definition of a “governmental unit.” A “governmental unit” may not be placed into bankruptcy involuntarily and may not file a petition for relief under either Chapter 7 or Chapter 11 of the Bankruptcy Code.

The Bankruptcy Code also provides that the only type of “governmental unit” that can voluntarily file for bankruptcy is a “municipality” (as defined in the Bankruptcy Code) and then only if it is authorized to do so by its state law or by an officer of the state authorized to grant such authority. Under the Bankruptcy Code and current case law interpreting it, it is doubtful that the Authority is a “municipality” and if it were, there is no specific authorization under Texas law for local government corporations such as the Authority to file for bankruptcy.

If the Authority were to be placed into bankruptcy or successfully file for bankruptcy, the security for the Bonds could be adversely affected. The opinion of Bond Counsel will note that all opinions relative to enforceability of the Bond Resolution, the Indenture and the Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to debtors under the Bankruptcy Code.

Risk of Increased Debt

The Authority has reserved the right to issue Additional Parity Bonds which are secured by the Pledged Revenues on an equal basis with the then-outstanding Contract Revenue Bonds. The issuance of Additional Parity Bonds may adversely affect the investment security of the outstanding Contract Revenue Bonds. For a description of the circumstances under which Additional Parity Bonds may be issued and the Authority’s issuance plans, see “SOURCE OF AND SECURITY FOR PAYMENT—Additional Parity Bonds” and “FINANCIAL INFORMATION—Plans to Issue Bonds.” Additionally, the Authority may incur debt subordinate to the payment

of Additional Parity Bonds or may incur certain obligations through development agreements and related agreements. See “SOURCE OF AND SECURITY FOR PAYMENT—Additional Parity Bonds.” See “THE DEVELOPMENT PLAN – Development Financing Agreement with Developer” for a description of the Authority’s obligations to reimburse the Developer for certain expenditures.

Dependence on Contract Performance

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 County must perform its obligations under the Interlocal Agreement, and the City must perform its obligations under the Tri-Party Agreement, which includes transferring the Tax Increments to the Authority on the schedule set forth in the Tri-Party Agreement. Transfer of funds to the Authority cannot occur unless such funds are appropriated to the Authority by action of the City Council of the City. The Zone and the Authority also have obligations under the Tri-Party Agreement. Any of these parties could default in their obligations, and enforcement would be dependent upon judicial redress, which is subject to discretion and delay. In addition, enforcement may be limited or prohibited if the defaulting party files for bankruptcy under the Bankruptcy Code or similar state laws. Moreover, each of the Participants in the Zone may be 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 a Participant to pay Tax Increments into the Tax Increment Fund is subject to the rights of any of the holders of bonds, notes or other obligations that have been or are hereafter issued by such Participant that are payable from and secured by a general levy of ad valorem taxes throughout the taxing jurisdiction of the Participant. If taxable values in any Participant decline so that it cannot pay its outstanding tax-supported indebtedness without use of Tax Increments, there may be insufficient remaining Tax Increments to pay the Bonds.

Risk of Termination of Zone

The Zone was created by the City Council of the City in March 2010, and currently is set to terminate on December 31, 2050. If Tax Increments collected prior to termination of the Zone have been insufficient to pay principal of and interest on the Bonds when due, no additional Tax Increments are required to be collected, and no remedies are available to the Bondholders to recover amounts remaining unpaid but with respect to which Tax Increments have been insufficient.

Risk of Reduction in County Participation in the Zone

Pursuant to the Interlocal Agreement, the County has agreed to contribute Property Tax Increments to the Zone for a 30 year period, which commences in the year in which County Property Tax Increments arising from taxes levied by the County in tax year 2015 are due to be paid to the Zone. The final scheduled maturity of the Bonds is April 1, 2050, which is fifteen years after the County’s participation in the Zone is scheduled to end. The Authority has attempted to anticipate the effect of the termination of County Property Tax Increments; however, there can be no assurance that Tax Increments will be sufficient in any year or in total to pay all principal and interest on the Bonds. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements.”

Risk of Failure to Comply with Certain Covenants

Failure of the Authority to comply with certain covenants contained in the Bond Resolution and the Indenture on a continuing basis prior to the maturity of the Bonds could result in interest on the Bonds becoming taxable retroactive to the date of original issuance. See “TAX MATTERS.”

Risk of IRS Audit of the Bonds

The Internal Revenue Service (the “Service”) has an ongoing program of auditing the tax-exempt status of the interest on municipal obligations. If an audit of the Bonds is commenced, under current procedures the Service is likely to treat the Authority as the “taxpayer,” and the owners of the Bonds may have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the Authority may have different or conflicting interests from the owners of the Bonds. Public awareness of any future

audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Changes in Tax Legislation

Current law may change so as to 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.

Changes in Tax Increment Legislation

Current law may change so as to directly or indirectly reduce Tax Increments available to the Authority. The Texas Legislature meets biennially in odd numbered years and frequently makes changes to the TIF Act. Changes to the Texas Property Tax Code can also affect the valuation of property in the Zone. The Authority has no control over such changes.

Limited Marketability of the Bonds

The Authority has no understanding with the Underwriters regarding the reoffering yields or prices of the Bonds and has no control over trading of the Bonds in the secondary market. Moreover, there is no assurance that a secondary market will be made in the Bonds. If there is a secondary market, the difference between the bid and asked price may be greater than 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.

Reliance on Debt Service Reserve Fund and Use of Reserve Fund Surety Policy

The Debt Service Reserve Fund is for the equal and ratable benefit of all owners of the Contract Revenue Bonds. Prior to the issuance of the Bonds, the Debt Service Reserve Fund consists of cash in the amount of \$980,118.75, which is equal to the current Reserve Requirement.

The Debt Service Reserve Fund is to be utilized when there are insufficient funds in the Debt Service Fund to pay principal and interest coming due on the Bonds and replenished from future Pledged Revenues. The Debt Service Reserve Fund was drawn upon in the amount of \$39,166.11 and used, along with the funds in the Debt Service Fund, to pay the debt service due on the Contract Revenue Bonds on April 1, 2020. The amount in the Debt Service Fund was not sufficient to pay the April 1, 2020 debt service payment in full due to an error on the part of the Authority, which failed to transfer to the Trustee the \$524,706.63 in tax year 2019 Contract Tax Increments on hand prior to April 1, 2020. Since then the Authority has implemented procedures to ensure that Contract Tax Increments are promptly transferred to the Trustee upon receipt from the City, and the Debt Service Reserve Fund has been replenished from the \$524,706.63 transferred to the Trustee on May 4, 2020.

The Authority expressly reserves the right at any time to satisfy all or part of the Reserve Requirement by obtaining for the benefit of the Debt Service Reserve Fund one or more Reserve Fund Surety Policies. A "Reserve Fund Surety Policy" is defined as an insurance policy or other credit agreement in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating for its long term unsecured debt or claims paying ability in the highest letter category by two major municipal securities evaluation sources. The Authority plans to amend the Indenture to reduce the rating requirement to at least "A" or its equivalent by a nationally recognized statistical rating organization upon receiving consent from the owners of not less than a majority of the aggregate principal amount of the then-outstanding Contract Revenue Bonds and satisfying the other requirements in the Indenture. By purchase and acceptance of the Bonds, the owners and beneficial owners of the Bonds will be deemed to have consented to the Proposed Amendment, the consent of the owners of a majority of the Contract Revenue Bonds then Outstanding will have been obtained, and the Proposed Amendment will be effective. See "THE INDENTURE – Proposed Amendment to the Indenture" herein.

In the event the Authority elects to substitute at any time a Reserve Fund Surety Policy for any funded amounts in the Debt Service Reserve Fund, it may apply any bond proceeds thereby released, to the greatest extent

permitted by law, to any purposes for which the Bonds were issued and any other funds thereby released to any purposes for which such funds may lawfully be used.

The financial strength and claims paying ability of a provider of a Reserve Fund Surety Policy are predicated upon a number of factors which could change over time. No assurance is given that the long-term ratings of a provider of a Reserve Fund Surety Policy 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. There is no obligation on the part of the Authority to replenish the Debt Service Reserve Fund if the ratings of a provider of a Reserve Fund Surety Policy are downgraded or the provider becomes insolvent or bankrupt.

The obligations of the provider of a Reserve Fund Surety Policy are contractual obligations and in an event of default by the provider, the remedies available may be limited by applicable bankruptcy law or state law related to insolvency of insurance companies.

The provider of the Reserve Fund Surety Policy may require that cash in the Debt Service Reserve Fund be used prior to the Reserve Fund Surety Policy. If the Reserve Fund Surety Policy is utilized, the Authority is required to repay the provider, along with costs and accrued interest.

Air Quality Concerns

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 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 eight-hour ozone standard of 75 ppb promulgated by the EPA in 2008 (“the 2008 Ozone Standard”), and the 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.

In February 2020, the EPA stated that the HGB Area no longer had a nonattainment designation under the 1997 Ozone Standards, and that it was terminating any remaining “anti-backsliding” requirements associated with the 1997 Ozone Standards. While the EPA has revoked the 1997 Ozone Standards, EPA historically has not formally redesignated nonattainment areas for a revoked standard. As a result, the HGB area remained subject to continuing severe nonattainment area “anti-backsliding” requirements, despite the fact that HGB area air quality has been attaining the 1997 Ozone Standards since 2014. In late 2016, EPA approved the TCEQ’s “redesignation substitute” for the HGB area under the revoked 1997 Ozone Standards, leaving the HGB area subject only to the nonattainment area requirements under the 2008 Ozone Standard (and later, the 2015 Ozone Standard). 81 Fed. Reg. 78691 (Nov. 8, 2016).

In February 2018, the U.S. Court of Appeals for the District of Columbia Circuit issued an opinion in South Coast Air Quality Management District v. EPA, 882 F.3d 1138 (D.C. Cir. 2018). The court vacated the EPA redesignation substitute rule that provided the basis for EPA’s decision to eliminate the anti-backsliding requirements that had applied in the HGB area under the 1997 Ozone Standard. The court has not responded to EPA’s April 2018 request for rehearing of the case. To address the uncertainty created by the South Coast court’s ruling, the TCEQ developed a formal request that the HGB area be redesignated to attainment under the 1997 Ozone Standards. In December 2018, the TCEQ submitted a revision to the state implementation plan (“SIP”) formally requesting redesignation under the 1997 Ozone Standards. EPA responded in February 2020 by adopting a final rule stating that the HGB area has no designation under the revoked 1997 Ozone Standards and terminating all “anti-backsliding” obligations that remained applicable to the HGB area based on the area’s continued attainment of the revoked 1997 Ozone Standards. 85 Fed. Reg. 8411 (Feb. 14, 2020). The HGB area is no longer subject to control requirements associated with the 1997 Ozone Standards.

The HGB area is currently designated a “serious” ozone nonattainment area under the 2008 Ozone Standard. The HGB area was previously designated as a “moderate” nonattainment area under the 2008 Ozone Standard, with an attainment deadline of July 20, 2018; however, the EPA determined that the HGB area failed to

meet the attainment deadline. Effective September 23, 2019, the HGB area is now designated as a “Serious” nonattainment area, with an attainment date of July 20, 2021. In March 2020, the TCEQ adopted a revision to the Texas SIP that was required based on that reclassification. That SIP revision, which included an updated attainment demonstration for the 2008 Ozone Standard, was submitted to EPA in May 2020.

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

Under the CAA, the State is subject to ongoing obligations to make progress toward and eventually to reach compliance with the federal ozone standards in the HGB Area, based on monitored air quality. The TCEQ’s SIP for the HGB area demonstrates progress toward attainment, including emission control requirements for ozone-causing pollutants emitted by the industrial sector. Failure to attain an ozone standard could subject industrial sources in the HGB area to more stringent controls on emissions. 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 SIP also establishes requirements that 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 as well as development within the Zone.

Other constraints on economic growth and development include lawsuits filed under the CAA by plaintiffs seeking to require emission reduction measures that are more stringent than those adopted by TCEQ and approved by EPA. From time to time, various plaintiff environmental organizations have filed lawsuits against TCEQ and EPA seeking to compel the early adoption of additional emission reduction measures, many of which could make it more difficult for businesses to construct or expand industrial facilities or which could result in travel restrictions or other limitations on the actions of businesses, governmental entities and private citizens. Any successful court challenge to the currently effective air emissions control plan could result in the imposition of more stringent air emission controls that could threaten continued growth and development in the HGB area.

THE BONDS

Description

The Bonds will be issued in the aggregate principal amount, will mature on the dates and in the amounts, and will bear interest at the rates per annum set forth on the inside cover of this Official Statement. Interest on the Bonds will be calculated on the basis of a 360-day year of twelve 30-day months and will accrue from the Delivery Date. Interest on the Bonds is payable on each April 1 and October 1, commencing April 1, 2022, until the earlier of maturity or redemption. The Bonds are issued in fully registered form, in principal denominations of \$5,000 or any integral multiple thereof.

Authority for Issuance

The Bonds are issued by the Authority pursuant to the terms of a City Ordinance adopted on August 16, 2021 and under the terms and conditions of the Bond Resolution and the Indenture.

Book-Entry-Only System

The information in this section concerning DTC, Cede & Co. and the book-entry system has been furnished by DTC for use in disclosure documents such as this Official Statement. The Authority and the Underwriters believe such information to be reliable, but neither the Authority nor the Underwriters take any responsibility for the accuracy or completeness thereof.

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 requested by an authorized representative of DTC. One fully-registered Bond will be issued for each stated maturity of the Bonds, each in the aggregate principal amount of such stated maturity, and will be deposited with DTC.

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

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

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

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

Redemption notices shall be sent to DTC. If less than all of the Bonds within an issue are being redeemed, DTC's practice is to determine by lot the amount of 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 procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the issuer of the Bonds 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 the Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Redemption proceeds, distributions, and dividend 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 issuer or paying agent of the Bonds, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not DTC nor its nominee, the paying agent or the issuer of the Bonds, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the issuer or paying agent of the Bonds, disbursement of such payments to Direct Participants will be the responsibility to DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of the Direct Participants and the Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the issuer or the paying agent of the Bonds. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates will be printed and delivered.

The Authority may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). Discontinuance of use of the system of book-entry transfers through DTC may require the approval of DTC participants under DTC's operational arrangements. In the event of such discontinuance, certificates will be printed and delivered.

Method of Payment of Principal and Interest

In the Bond Resolution, the Board has appointed The Bank of New York Mellon Trust Company, N.A. as the initial Paying Agent/Registrar for the Bonds (together with any successors, the "*Paying Agent/Registrar*"). The principal of the Bonds will be payable to the registered owners of the Bonds (the "*Registered Owners*"), initially Cede & Co., without exchange or collection charges, in any coin or currency of the United States of America which, on the date of payment, is legal tender for the payment of debts due the United States of America. So long as the book-entry-only system described above is used with respect to the Bonds, the Registered Owners will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds in accordance with the book-entry-only system. In the event the book-entry-only system is discontinued, interest on each Bond will be payable by check payable on each Interest Payment Date, mailed by the Paying Agent/Registrar on or before each Interest Payment Date to the Registered Owner of record as of the close of business on the fifteenth (15th) calendar day of the month immediately preceding each Interest Payment Date (each a "*Record Date*"), to the address of such Registered Owner as shown on the Paying Agent/Registrar's records (the "*Register*") or by such other customary banking arrangements as may be agreed upon by the Paying Agent/Registrar and the Registered Owners at the risk and expense of the Registered Owners.

If the date for payment of principal of or interest on any Bond is not a business day, then the date for such paying will be the next succeeding business day, as defined in the Bond Resolution. If interest on any Bond is not paid on any Interest Payment Date and continues unpaid for thirty days or more thereafter, the Paying Agent/Registrar is required to establish a new record date for the payment of such interest (a "*Special Record Date*") when funds to make such payment are received from or on behalf of the Authority. Such Special Record Date is required to be fifteen days prior to the date fixed for payment of such past due interest.

Redemption Provisions

Optional Redemption: The Authority reserves the right, at its option, to redeem the Bonds maturing on or after April 1, ____ prior to their scheduled maturities, in whole or from time to time in part, in integral multiples of \$5,000 on April 1, ____, or any date thereafter, at a price of par value plus accrued interest on the principal amount

of the Bonds called for redemption to the date fixed for redemption. If less than all of the Bonds are redeemed at any time, the maturities of the Bonds to be redeemed will be selected by the Authority.

Mandatory Redemption: The Term Bonds maturing on April 1 in the years ___ and ___ will be mandatorily redeemed by the Authority prior to their scheduled maturity dates on the dates and in the principal amounts set forth below, at a redemption price of par plus accrued interest to the date of redemption:

| | |
|--|--|
| \$ _____ Term Bond Maturing April 1, _____ | \$ _____ Term Bond Maturing April 1, _____ |
| Mandatory Redemption | Mandatory Redemption |
| <u>Dates (4/1)</u> | <u>Dates (4/1)</u> |
| <u>Principal Amounts</u> | <u>Principal Amounts</u> |

The principal amount of each Term Bond required to be redeemed on any redemption date pursuant to the mandatory sinking fund redemption schedule relating to such Term Bond will be reduced by the principal amount of such Term Bond which, at least 45 days prior to the mandatory sinking fund redemption date (i) has been acquired by the Authority at a price not exceeding the principal amount of such Term Bond plus accrued interest to the date of purchase and delivered to the Paying Agent/Registrar for cancellation, or (ii) has been redeemed pursuant to optional redemption and not previously credited to a mandatory sinking fund redemption.

General Redemption Provisions: During any period in which ownership of the Bonds is in book-entry-only form, if fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds of such maturity to be redeemed will be selected in accordance with the arrangements between the Authority and DTC; provided, that if any Bond is selected for redemption in part, it shall not be redeemed in an amount that would result, upon exchange, in a Bond in a denomination less than \$5,000.

Notice of Redemption

Notice of redemption will be given by the Paying Agent/Registrar not less than 30 days prior to the date of redemption by United States mail, first class, postage prepaid, to the Registered Owners of Bonds called for redemption at the address on the Register maintained by the Paying Agent/Registrar. Notice having been given in the manner and under the conditions provided in the Bond Resolution and monies for the payment of the redemption price being held by the Paying Agent/Registrar, the Bonds designated for redemption described in the notice will be due and payable at the redemption price specified in the notice and interest thereon will cease to accrue on such Bonds, and such Bonds will cease to be entitled to any lien, benefit or security under the Bond Resolution and shall not be deemed to be outstanding thereunder. The owners of such Bonds will have no right in respect thereof except to receive payment of the redemption price thereof.

Registration and Transfer

So long as any Bonds remain outstanding, the Paying Agent/Registrar will keep the Register at its designated corporate trust office, and subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with the terms of the Bond Resolution.

In the event the book-entry-only system is discontinued, each Bond will be transferable only upon the presentation and surrender of such Bond at the designated corporate trust office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the Registered Owner or authorized representative in form satisfactory to the Paying Agent/Registrar. Upon due presentation of any Bond in proper form for transfer, the Paying Agent/Registrar has been directed by the Authority to authenticate and deliver in exchange therefor, within three business days after such presentation, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, aggregate principal amount, and Dated Date, and bearing interest at the same rate as the Bond or Bonds so presented.

In the event the book-entry-only system is discontinued, all Bonds will be exchangeable upon presentation and surrender thereof at the principal payment office of the Paying Agent/Registrar for a Bond or Bonds of the same

maturity and interest rate and in any authorized denomination in an aggregate amount equal to the unpaid principal amount of the Bond or Bonds presented for exchange. The Paying Agent/Registrar is authorized to authenticate and deliver exchange Bonds in accordance with the provisions of the Bond Resolution. Each Bond delivered will be entitled to the benefits and security of the Bond Resolution to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

Neither the Authority nor the Paying Agent/Registrar shall be required to transfer or to exchange any Bond during the period beginning on a Record Date and ending on the next succeeding Interest Payment Date (including any Special Record Date) or to transfer or exchange any Bond called for redemption during the thirty (30) day period prior to the date fixed for redemption and ending on the date fixed for redemption; provided, however, that such limitation will not apply to the exchange by the Registered Owner of the unredeemed portion of a Bond called for redemption in part.

The Authority or the Paying Agent/Registrar may require the Registered Owner of any Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond. Any fee or charge of the Paying Agent/Registrar for such transfer or exchange will be paid by the Authority.

Replacement of Paying Agent/Registrar

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

Lost, Stolen or Destroyed Bonds

In the event the book-entry-only system is discontinued, upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Paying Agent/Registrar will authenticate and deliver in exchange therefor a replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. If any Bond is lost, apparently destroyed, or wrongfully taken, the Authority, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall, upon receipt of certain documentation from the Registered Owner and an indemnity bond, execute and the Paying Agent/Registrar shall authenticate and deliver a replacement Bond of like maturity, interest rate and principal amount bearing a number not contemporaneously outstanding.

Registered Owners of lost, stolen or destroyed Bonds will be required to pay the Authority's cost to replace such Bonds. In addition, the Authority or the Paying Agent/Registrar may require the Registered Owner to pay a sum sufficient to cover any tax or other governmental charge that may be imposed.

Legal Investment and Eligibility to Secure Public Funds in Texas

Pursuant to Chapter 1201, Texas Government Code, the Bonds are legal and authorized investments for insurance companies, fiduciaries and trustees and for the sinking funds of cities, town, villages, school districts and other political subdivisions or public agencies of the State of Texas. The Bonds are not an authorized investment for political subdivisions that are required to comply with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Most political subdivisions in the State of Texas are required to adopt investment guidelines consistent with the Public Funds Investment Act. However, political subdivisions otherwise subject to the Public Funds Investment Act may have statutory authority to invest in the Bonds independent from the Public Funds Investment Act. The Bonds are eligible under the Public Funds Collateral Act, Chapter 2257, Texas Government Code, to secure deposits of public funds of the State of Texas, or any political subdivision or public agency of the State of Texas and are lawful and sufficient security for those deposits to the extent of their market value.

The Authority has not reviewed the laws in other states to determine whether the Bonds are legal investments for various institutions in those states or eligible to serve as collateral for public funds in those states. The Authority has made no investigation of any other laws, rules, regulations or investment criteria that might affect the suitability of the Bonds for any of the above purposes or limit the authority of any of the above persons or entities to purchase or invest in the Bonds.

Defeasance

The Authority may defease any or all of the Bonds pursuant to the provisions of the Indenture and discharge its obligations to the Registered Owners in any manner now or hereafter 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, with the Paying Agent/Registrar or with any other escrow agent so authorized by law either (i) cash in an amount equal to the principal of and redemption premium, if any, of the Bonds plus interest thereon to the date of maturity or redemption or (ii) pursuant to an escrow or trust agreement, cash and (x) direct noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (y) 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 are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent, and (z) 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 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.

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USE AND DISTRIBUTION OF BOND PROCEEDS

The following table sets forth the expected use and distribution of Bond proceeds and is subject to change.

Sources of Funds:

| | |
|-----------------------------|----|
| Principal | |
| Net Premium | |
| Total Sources: | \$ |

Uses of Funds:

| | |
|---|----|
| Deposit to Project Fund..... | |
| Deposit to the Debt Service Reserve Fund..... | |
| Underwriters' Discount | |
| Cost of Issuance, excluding underwriters' discount ⁽¹⁾ | |
| Total Uses: | \$ |

(1) Represents estimated fees, expenses related to the issuance and sale of the Bonds.

THE INDENTURE

Pursuant to the Indenture, the Authority has assigned all of the Authority's right, title and interest in and to the Pledged Revenues, including the Contract Tax Increments, to the Trustee for the benefit, on an equal and ratable basis, of the registered owners of the Contract Revenue Bonds.

Pursuant to the Indenture, the Trustee is to maintain the Pledged Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Project Fund as trust funds to be held in trust solely for the benefit of the Registered Owners of the Contract Revenue Bonds. The Pledged Revenue Fund, the Debt Service Fund, the Debt Service Reserve Fund and the Project Fund are to be invested only in investments authorized by the laws of the State of Texas but must be invested in a manner such that the money required to be expended from any fund will be available at the proper time or times. Amounts in the Debt Service Reserve Fund shall be used to pay interest on and principal of the Contract Revenue Bonds when insufficient funds are available for such purpose in the Debt Service Fund or may be applied toward the payment of principal of or interest on the Contract Revenue Bonds in connection with the refunding or redemption of such Bonds.

The Funds

The Indenture creates the following funds, each of which (except the Surplus Fund) shall be maintained by the Trustee:

- (a) the Pledged Revenue Fund, into which all Pledged Revenues shall initially be deposited;
- (b) the Debt Service Fund, into which deposits shall be made from the Pledged Revenue Fund as described below, and from which deposits shall be applied to the payment of interest and principal installments on the Contract Revenue Bonds as the same becomes due;
- (c) the Debt Service Reserve Fund, which shall be initially funded from proceeds of each series of Contract Revenue Bonds, and into which deposits from the Pledged Revenue Fund shall be made to maintain the Reserve Requirement, and from which monies shall be transferred to the Debt Service Fund if amounts in the Debt Service Fund are insufficient to pay the amounts of principal and interest due on the Contract Revenue Bonds;
- (d) the Project Fund, which shall be funded from the proceeds of Contract Revenue Bonds issued to pay Project Costs and applied as provided in the applicable Bond Resolution;
- (e) the Surplus Fund, into which shall be deposited any amounts remaining in the Pledged Revenue Fund, which shall be free and clear of any lien created by the Indenture; and

- (f) the Rebate Fund, which shall be free and clear of any lien created by the Indenture, and into which certain amounts earned by the Authority on the investment of the “gross proceeds” of the Contract Revenue Bonds (within the meaning of section 148(f)(6)(B) of the Code) shall be deposited for rebate to the United States federal government, all as provided in the Bond Resolution with respect to each series of Contract Revenue Bonds.

Pledged Revenues deposited in the Pledged Revenue Fund shall be applied by the Trustee as follows: (i) to the Debt Service Fund amounts necessary to make the amounts on deposit therein equal to the interest and principal installments due in the next twelve month period on the Contract Revenue Bonds; (ii) to the Debt Service Reserve Fund amounts required to maintain the Reserve Requirement; (iii) to the payment of fees and expenses of the Trustee and Paying Agent/Registrar; and (iv) to the Surplus Fund of the Authority established in accordance with the Indenture, for use by the Authority for any lawful purpose. Monies can be transferred from the Pledged Revenue Fund to the Surplus Fund at any time provided that immediately prior to any such transfer the deposits required by clauses (i), (ii) and (iii) above shall have been made or provided for.

Events of Default

The Indenture provides that an Event of Default shall be either of the following occurrences:

- (a) Failure to pay when due the interest and principal installment on any Contract Revenue Bond; or
- (b) Failure to deposit to the Debt Service Fund money sufficient to pay any principal of or interest on any Contract Revenue Bond no later than the date when it becomes due and payable.

Remedies

Upon the occurrence of an Event of Default, the Trustee is required to give notice thereof to the Authority and, subject to the other provisions of the Indenture, may proceed to protect and enforce its rights and the rights of the Registered Owners of the Contract Revenue Bonds by suit, action or proceeding at equity or at law or otherwise, whether for the specific performance of any covenant or agreement contained in the Indenture, the Contract Revenue Bonds, or the resolutions authorizing the Contract Revenue Bonds, or in aid of the execution of any power granted in the Indenture or for the enforcement of any of the legal, equitable or other remedy as the Trustee, being advised by counsel, shall deem most effectual to protect and enforce any of the rights of the Trustee or Registered Owners, including, without limitation, requesting a writ of mandamus issued by a court of competent jurisdiction compelling the directors and other officers of the Authority or any Participant to make payment of the Pledged Tax Increments (but only from and to the extent of the sources provided in the Indenture and the Participant contracts), to pursue the collection of Tax Increment from Participants (including the obligation of the City under the Tri-Party Agreement to pursue the collection of Tax Increments by the County under the Interlocal Agreement) or to observe and perform its other covenants, obligations and agreements in the Indenture or the Tri-Party Agreement. The Indenture provides that the Trustee may seek the appointment of receivers, may act without possession of the Contract Revenue Bonds, may act as attorney in fact for the Registered Owners of the Contract Revenue Bonds, no remedy is exclusive and that the delay or omission in the exercise of any right or remedy shall not constitute a waiver.

The Indenture does not provide for any acceleration of maturity of the Contract Revenue Bonds or provide for the foreclosure upon any property or assets of the Authority or the City, other than applying the Pledged Revenues in the manner provided in the Indenture.

Limitation on Action by Owners

The Indenture imposes certain limitations on Registered Owners of Contract Revenue Bonds to institute suits, actions or proceedings at law or in equity for the appointment of a receiver or other remedy unless and until the Trustee shall have received the written request of the Registered Owners of not less than 25% of the aggregate principal amount of all Contract Revenue Bonds Outstanding and the Trustee shall have refused or neglected to institute such suit, action or proceeding for a period of 10 days after having been furnished reasonable indemnity. Notwithstanding the foregoing, Registered Owners of more than 50% of the aggregate principal amount of the Contract Revenue Bonds Outstanding, after furnishing the Trustee indemnity satisfactory to protect the Trustee against expenses, charges, and liability, shall have the right, by written instrument delivered to the Trustee, to direct the time, method and place of conducting all proceedings to be taken in connection with the enforcement of the terms and conditions of the Indenture.

Proposed Amendment to the Indenture

Under the Proposed Amendment to the Indenture, the definition of “Reserve Fund Surety Policy” will be amended to read as follows: “Reserve Fund Surety Policy” is an insurance policy or other credit agreement in a principal amount equal to the portion of the Reserve Requirement to be satisfied and issued by a financial institution or insurance company with a rating for its long term unsecured debt or claims paying ability of at least “A” or its equivalent by a nationally recognized statistical rating organization.

The Proposed Amendment set forth above will only become effective when it is consented to by the Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then Outstanding. By purchasing the Bonds, the Owners are consenting to the Proposed Amendment on behalf of themselves and any future purchaser or owner of the Bonds, and at that time a majority of the aggregate principal amount of the Contract Revenue Bonds will have consented to the Proposed Amendment, and the Proposed Amendment will become effective.

Amendments to the Indenture of Trust

Without the consent of the Registered Owners, the Authority and the Trustee may from time to time enter into one or more indentures supplemental to the Indenture, which shall form a part of the Indenture, for any one or more of the following purposes:

- (a) to cure any inconsistency or formal defect or omission in the Indenture;
- (b) to grant to or confer upon the Trustee for the benefit of the Owners of the Contract Revenue Bonds any additional rights, remedies, powers or authority that may lawfully be granted to or conferred upon the Owners of the Contract Revenue Bonds or the Trustee or either of them;
- (c) to subject to the lien of the Indenture additional revenues, properties or collateral;
- (d) to modify, amend or supplement the Indenture or any supplemental indenture in such manner as to provide further assurances that interest on the Contract Revenue Bonds will, to the greatest extent legally possible, be excludable from gross income for federal income tax purposes;
- (e) to obtain bond insurance for any Contract Revenue Bonds;
- (f) to provide for one or more Reserve Fund Surety Policies;
- (g) to permit the assumption of the Authority’s obligations thereunder by any entity that may become the legal successor to the Authority; and
- (h) to issue additional Contract Revenue Bonds;

provided, however, that no provision in such supplemental indenture will be inconsistent with the Indenture or will impair in any manner the rights of the Owners of the Contract Revenue Bonds and provided further that the Trustee must receive an opinion of counsel with respect to amendments or supplements to the Indenture that the same is authorized or permitted by the terms of the Indenture and in compliance with all conditions precedent.

Except as provided in the preceding paragraph, any modification, change or amendment of the Indenture may be made only by a supplemental indenture adopted and executed by the Authority and the Trustee with the consent of the Owners of not less than a majority of the aggregate principal amount of the Contract Revenue Bonds then Outstanding. However, without the consent of the Owner of each Outstanding Contract Revenue Bond affected thereby, no modification, change or amendment to the Indenture shall:

- (1) extend the time of payment of the principal thereof or interest thereon, or reduce the principal amount thereof or premium, if any, thereon, or the rate of interest thereon, or make the principal thereof or premium, if any, or interest thereon payable in any coin or currency other than that of

the United States, or deprive such Owner of the lien of the Indenture on the revenues pledged thereunder; or

- (2) change or amend the Indenture to permit the creation of any lien on the revenues pledged under the Indenture equal or prior to the lien thereof; or
- (3) reduce the aggregate principal amount of Contract Revenue Bonds the Owners of which are required to approve any such modification, change or amendment thereof.

Removal or Resignation of Trustee

The Trustee may be removed at any time by an instrument or concurrent instruments in writing, signed by the Owners of a majority in principal amount of the Contract Revenue Bonds then Outstanding and delivered to the Trustee, with notice thereof given to the Authority.

The Trustee may at any time resign and be discharged from the trusts created by the Indenture by giving written notice to the Authority and by providing written notice to the Registered Owners of its intended resignation at least thirty (30) days in advance thereof. Such notice shall specify the date on which such resignation shall take effect and shall be sent by first class mail, postage prepaid to each Owner of Contract Revenue Bonds. Resignation by the Trustee shall not take effect unless and until a successor to such Trustee shall have been appointed as hereinafter provided.

Appointment of Successor Trustee

In case the Trustee shall resign, or shall be removed or dissolved, or shall be in the course of dissolution or liquidation, or shall otherwise become incapable of acting, or in case the Trustee shall be taken under control of any public officer or officers or a receiver appointed by a court, a successor may be appointed by the Owners of a majority in principal amount of the Contract Revenue Bonds then Outstanding, by an instrument or concurrent instruments in writing, signed by such Owners or their duly authorized representatives and delivered to the Trustee, with notice thereof given to the Authority; provided, however, that in any of the events above mentioned, the Authority may nevertheless appoint a temporary Trustee to fill such vacancy until a successor shall be appointed by the Owners in the manner above provided, and any such temporary Trustee so appointed by the Authority shall immediately and without further act be automatically succeeded by the successor to the Trustee appointed by the Owners. The Authority shall provide written notice to the Owners of the appointment of any successor Trustee, whether temporary or permanent, in the manner provided for providing notice of the resignation of the Trustee as described above under "--Removal or Resignation of Trustee." Any successor Trustee or temporary Trustee shall be a trust company or bank in good standing located in or incorporated under the laws of the State of Texas duly authorized to exercise trust powers and subject to examination by federal or state authority, having a reported capital and surplus of not less than \$50,000,000.

In the event that no appointment of a successor Trustee is made by the Owners or by the Authority pursuant to the foregoing provisions at the time a vacancy in the office of the Trustee shall have occurred, the Owner of any Contract Revenue Bond or the retiring Trustee may apply to any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice as it shall deem proper, if any, appoint a successor Trustee.

THE DEVELOPMENT PLAN

The City

The City of Iowa Colony, Texas is located on State Highway 288 south of Manvel in northern Brazoria County. It was founded in 1908 by the Immigration Land Company of Des Moines, Iowa, and received its name from Iowans G. I. Hoffmann and Robert Beard. It is incorporated and functions as a home rule city under Texas law. The population was 804 in 2000 and 1,170 in 2010. The estimated population of the City for 2020 was 5,989.

The City is governed by a five-member City Council and Mayor. The City has a full-time City Manager.

The Zone

The City created the Zone pursuant to City Ordinance No. 2010-2 adopted on March 15, 2010 (the “City Creation Ordinance”). As created, the Zone encompassed 955.89 acres of land comprised of two tracts within the corporate boundaries of the City near State Highway 288 and County Road 56.

The City approved the addition of an additional approximately 126.53 acres into the Zone by City Ordinance No. 2020-10 adopted on May 18, 2020. The Annexed Area consists of land planned for single family lots, townhome lots, detention ponds, open space and roadways. Following the addition of the Annexed Area, the total acreage of the Zone is approximately 1,082.42 acres.

The City Creation Ordinance provided that the Zone would take effect on the date of adoption of the City Creation Ordinance and would terminate on December 31, 2050, or at an earlier time designed by subsequent ordinance of the City, or at such time, subsequent to the issuance of tax increments bonds, if any, that all project costs, tax increment bonds, notes and other obligations of the Zone, and the interest thereon, have been paid in full. The purpose of the Zone was to promote the development and redevelopment of the area. Both the City and the County participate in the Zone; however, the County is not a participant in the Zone with respect to the Annexed Area.

The City Creation Ordinance also formed the Zone Board and established the Tax Increment Fund for the Zone. The Zone Board consists of five members; Positions One through Four are reserved for the City, and Position Five is reserved for the County. The Mayor of the City is authorized to nominate and appoint, subject to City Council approval, the directors to Positions One through Four.

The Authority

The Authority’s creation was authorized by City Resolution No. R2010-R-3 adopted on November 15, 2010, which also approved its Certificate of Formation and By Laws.

The Authority was created as a local government corporation pursuant to Subchapter D of Chapter 431, Texas Transportation Code, and Chapter 394, Texas Local Government Code. According to its Certificate of Formation, the Authority was organized and will be operated exclusively for one or more charitable purposes, within the meaning of Section 501(c)(3) of the U.S. Internal Revenue Code of 1986, as amended. The Authority was organized for the purpose of aiding, assisting, and acting on behalf of the City in the performance of its governmental functions to promote the common good and general welfare of area included in the Zone and neighboring areas; and to promote, develop, encourage, and maintain housing, educational facilities, employment, commerce and economic development in the City. The Authority is further organized to assist the City and the Zone Board in the preparation and implementation of the Project Plan and Financing Plan for the Zone and any amendments, in the development of a policy to finance development of residential, commercial and public properties in the Zone, and in the development and implementation of a development policy for the Zone, including the acquisition of land for development purposes.

The Certificate of Formation provides that the Authority will be managed by a board of directors consisting of five persons, with the original directors being appointed by the City pursuant to City Resolution No. R2010-R-3. Any director may be removed from office at any time, with or without cause, by the City Council. According to the By Laws of the Authority, directors will be appointed by position by the Mayor of the City with the consent and approval of the City Council and shall be the same persons appointed to the corresponding positions on the Zone Board. Appointment of a person to a position on the Zone Board by the City will constitute appointment of such person to the corresponding position on the Board of the Authority by the City. Appointment of a person to a position on the Zone Board by any taxing unit will constitute nomination of such person to the corresponding position on the Board of the Authority by such taxing unit and the person so nominated will be appointed to the Board by the City.

The Authority commenced operations in 2011. Its operations are governed by the Tri-Party Agreement. The Authority funds its operations with money on deposit in its Surplus Fund. See “SCHEDULE 3: Historic Debt Service Coverage;” “THE INDENTURE—The Funds.”

The Authority does not have any employees but utilizes City employees and contracts with consultants for specialized services.

Brazoria County Municipal Utility District No. 55

Brazoria County Municipal Utility District No. 55 (the “*District*”) is a political subdivision of the State of Texas with boundaries substantially similar to that of the Zone. The District became effective as of February 15, 2011 and operates as a municipal utility district. The District provides water supply, wastewater treatment, and certain drainage facilities to the land within the Zone. The District also is authorized to construct, develop and maintain park and recreational facilities and to construct roads within the Zone.

The Developer, the District, and the Authority have entered into an agreement to provide for the construction of Public Improvements necessary to serve the land within the Zone. See “—Shared Financing Agreement with the District” below.

Tri-Party Agreement

The Tri-Party Agreement states in detail the scope of services to be provided to the Zone by the Authority. The services include management and administrative services for the Zone, as requested by the Zone Board, services with respect to the Plan, including preparation of amendments, and services with respect to the tax rolls pertaining to the Zone, including analysis and coordination with taxing units. The Authority may construct infrastructure, buy equipment and supplies, and deal in real estate as necessary to implement the Plan, including designing and constructing Zone projects identified in the Plan that meet the qualifications of the TIF Act.

The Tri-Party Agreement provides that the Authority has the authority to issue its bonds, to enter into contractual obligations with developers or builders who are developing or redeveloping a Zone project, and to enter into contracts with consultants, to be paid from moneys to be paid by the City and the Zone to the Authority from Tax Increments; provided that the Authority may issue its bonds only upon the approval of the City Council. All development agreements with developers or builders must be approved by the City. All consultant contracts are subject to such terms and conditions as the Authority’s Board and the Zone Board shall determine to be necessary or desirable to implement the Plan.

The Zone and the Authority agree that the Authority will pay the City an amount equal to 30% of each payment by the City of City Property Tax Increments to the Authority Revenue Fund to pay the City for the cost of city services incurred as a result of the creation of the Zone or the development of the land in the Zone, commencing with City Property Tax Increments attributable to tax year 2016. Each such payment is to be paid to the City within thirty days receipt of each payment of City Property Tax Increments into the Authority Revenue Fund. The payments owed to the City for the cost of services may not be pledged to secure any other obligations of the Authority and the Zone.

The Tri-Party Agreement requires the Authority to deposit Tax Increments into the Authority Revenue Fund and use the moneys in the Authority Revenue Fund for payment of its obligations in the order that follows: (1) first, paying to the City an amount equal to the cost of city services; (2) second, reserving the funds necessary to pay the reasonable operation and administrative expenses of the Authority, the Zone and the City to implement the Plan for the ensuing twelve-month period; (3) third, reserving the funds necessary to make any payments on Authority bonds for the ensuing twelve-month period; (4) fourth, making the payments to the District pursuant to that certain Shared Financing Agreement (as defined herein); and (5) finally, making payments on obligations to developers or builders; provided, however, that the Authority may pledge and assign all or a part of the Authority Revenue Fund to the owners and holders of bonds of the Authority, and to developers/builders pursuant to a development agreement.

The Authority is required to maintain books of records and accounts, obtain an audit at the end of each fiscal year by an independent certified public accountant, and furnish periodic information to the City in such form and at such times as the City may require. The Authority is required to invest its funds only in investments that would be eligible for investment by the City pursuant to the provisions of the Texas Public Funds Investment Act.

In performing its obligations under the Tri-Party Agreement, the Authority is an independent contractor.

The City and the Zone agree that their obligation to make the payments of Tax Increments as set forth in the Tri-Party Agreement from the Tax Increment Fund is absolute and unconditional, and until such time as the bonds and the contractual obligations of the Authority have been fully paid or legally defeased or the date of expiration of the Zone, whichever comes first, the City and the Zone will not suspend or discontinue any payments of Tax Increments as provided in the Tri-Party Agreement and will not terminate the Tri-Party Agreement for any cause.

If a party to the Tri-Party Agreement fails to perform or observe any of the terms and conditions of the Tri-Party Agreement, the non-defaulting party may terminate its performance under the Tri-Party Agreement after thirty days' notice and a right to cure. No termination of the Tri-Party Agreement will affect the obligation of the City and the Zone to pay from Tax Increments an amount that will permit the Authority to pay its bonds, notes or obligations issued or incurred pursuant to the Tri-Party Agreement prior to termination. In the Tri-Party Agreement, the City agrees not to dissolve the Authority or the Zone unless it makes satisfactory arrangements to provide for the payment of the Authority's bonds or other obligations incurred prior to the Authority's dissolution.

Project and Financing Plan

The Final Project Plan and Reinvestment Zone Financing Plan (the "*Original Plan*") was approved by the City on June 21, 2010 by City Ordinance No. 2010-4, amended by an amendment approved by the City on August 22, 2016 by City Ordinance No. 2016-21 (the "*First Amendment*"), and by an amendment approved by the City on June 15, 2020 by City Ordinance No. 2020-16 (the "*Second Amendment*," and together with the Original Plan and the First Amendment, the "*Plan*"). The First Amendment to the Original Plan increased the City's level of participation in the Zone by providing that the City will contribute 100% of its Property Tax Increments arising from City property taxes to the Original Zone, as well as 90% of the City's Sales Tax Increment generated from within the Original Zone. The Second Amendment to the Original Plan updated the description of the Zone and associated maps to include the Annexed Area and confirmed that the City will contribute 100% of its Property Tax Increments arising from City property taxes in the Annexed Area to the Zone, as well as 90% of the City's Sales Tax Increment generated from within the Annexed Area.

The Plan details the proposed public improvements to be financed by the Zone (the "*Zone Projects*" or "*Public Improvements*"). The cost of the Public Improvements, acquisition of real estate, creation of the Zone, and related organizational costs (the "*Project Costs*") constitute eligible project costs under the TIF Act.

The basic goal of the Plan is to overcome the impediments to development of land within the Zone and to create a quality and cohesive addition to the City in a financially sound manner. By partnering with the original developer of the land in the Zone, the City sought to implement significant improvements and master plan a large portion of the City near State Highway 288 and County Road 56. According to the Plan, without the TIF financing mechanisms, these improvements would not be financially viable for either the developer or the City.

The Plan states that the Zone will provide a mechanism for the construction and financing of public improvements, enhance regional mobility, provide a backbone for a City water and sewer system, allow master planning of a significant portion of the City, set the tone for a higher standard of development in the City, encourage spin-off quality development outside the Zone, provide a level of assessed value in comparison to the cost of service not otherwise achievable, provide the City with a regional park with improvements, provide economic development, and provide job creation.

The Zone is authorized to undertake projects that could not be undertaken by the District, including the development of a recreation center and other Public Improvements.

The Public Improvements proposed for the property in the Zone include: thoroughfare and collector roadways including landscaping, lighting, sidewalks, signalization, and bridges; water production and transmission facilities; wastewater collection and treatment facilities; storm water collection and detention facilities; floodplain mitigation; amenity ponds, and recreation facilities, including a regional park, recreational centers, parks, trail facilities, and monumentation.

Proceeds of the Bonds will reimburse the Developer for construction of certain Public Improvements included in the Plan, consisting primarily of landscaping and monumentation on Meridiana Parkway.

The Plan lists estimated Project Costs for the Zone of \$44,552,903 in capital costs and \$20,062,227 in creation, administration and financing costs. The Plan also lists Non-Project Costs of \$114,910,241 and describes the anticipated capital cost allocation among the Zone, the District and the Developer in connection with Public Improvements within the Zone as 28% from the Zone, 41% from the District and 31% from the Developer (as defined herein).

The Plan calls for the Project Costs to be advanced by a developer or incurred directly by the Zone. It is expected that the Zone will finance projects directly or will reimburse the Developer by a combination of tax-exempt bonds and cash reimbursements.

Development Financing Agreement with the Developer

The Development Financing Agreement (the "*Financing Agreement*") by and among the City, the Zone, the Authority, and GR-M1, Ltd., a Texas limited partnership (the "*Developer*"), became effective as of February 15, 2011 and provides that the Developer will finance and perform services in connection with the construction of certain Public Improvements to implement the Plan, and the Authority will reimburse the Developer all or a portion of the Project Costs of such Public Improvements in accordance with the terms of the Financing Agreement.

The Financing Agreement lists the Zone Projects as Meridiana Parkway, collector streets, water, sewer and drainage facilities, detention facilities, water plant, sewer plant, regional park, trails and small parks, recreation center, landscaping and monumentation. It further provides for the Zone Projects to be divided between Zone Projects for which the Authority will serve as Project Manager ("*Authority Projects*") and Zone Projects for which the District will serve as Project Manager ("*District Projects*"), which division may be changed by the Authority Board and the District. The Authority Projects are listed as the regional park, trails and small parks, recreation center, landscaping, and monumentation.

The Financing Agreement sets forth a process for Zone Project development and requires the Developer to meet all standards of the City, the PUD (as defined herein), and the TCEQ. After completion and acceptance, each Zone Project is to be conveyed to the responsible public entity.

In the Financing Agreement, the Authority agrees to reimburse the Developer for operating advances for the creation, organization, operation and administration of the Zone and the Authority and for the Project Costs of Authority Projects from Available Authority Funds or from the proceeds of Contract Revenue Bonds; provided the Developer follows the procedures set forth in the Financing Agreement and obtains all required authorizations and approvals. "*Available Authority Funds*" is defined as the funds remaining each year in the Authority's Revenue Fund after (1) first, reserving the funds necessary to pay the reasonable operation and administrative expenses of the Authority and the Zone for the ensuing twelve-month period, (2) second, reserving the funds necessary to make any bond payments for the ensuing twelve-month period, and (3) third, making the payments to the District pursuant to the Shared Financing Agreement (as defined herein). According to the Developer, as of December 31, 2020, the Developer has expended \$92,911,374 on eligible project costs. See "FINANCIAL INFORMATION – Plans to Issue Bonds." The Plan estimates total reimbursement payments to the Developer assuming completion of the full project of approximately \$151,447,205.

The Financing Agreement provides that the decision regarding whether to sell Contract Revenue Bonds for or to fund an Authority Project from Available Authority Funds will be made based upon the most reasonable determination by the Authority of when the Developer will be most rapidly reimbursed, considering costs of financing, availability of funds, and market conditions. The obligation of the Authority to reimburse the Developer is a special obligation of the Authority payable solely from the Available Authority Funds.

The Financing Agreement provides additional Developer obligations regarding the regional park, currently 102.20 acre area within Meridiana adjacent to the elementary school (the "*Regional Park*"). The Developer has agreed to convey the park site to the City and to construct the park in accordance with plans and specifications approved by the City Council. The Developer has agreed to expend at least \$3,000,000 for construction on the park site. According to the Developer it had expended approximately \$2,000,000 as of December 31, 2020.

Pursuant to the Financing Agreement, the failure of the Developer to meet any deadlines in the Financing Agreement or the PUD gives the City the right to suspend the issuance of building permits in the Zone and the Authority the right to suspend authorization to proceed for any new Zone Project. Further, the Financing Agreement gives the City and the Authority the right to terminate the Financing Agreement in the event the Developer does not

diligently pursue completion of the Plan in the absence of an event of force majeure. The City and the Authority have the right to terminate the Financing Agreement if construction of Zone Projects with a contract price of at least \$200,000 is discontinued for seven years. The termination does not affect the obligation of the Authority to reimburse the Developer for eligible Project Costs of Zone Projects that are completed or in progress on the date of termination.

A party is considered in default under the Financing Agreement if it fails to materially perform, observe or comply with any of its covenants, agreements or obligations under the Financing Agreement or breaches or violations any representation in the Financing Agreement, after 30 days' notice and an opportunity to cure. Upon a breach, the non-defaulting party may secure judicial redress, including specific performance or damages or both.

Shared Financing Agreement with the District

The Shared Financing Agreement (the "*Shared Financing Agreement*") by and among the City, the Zone, the Authority, and the District became effective as of February 15, 2011. It provides that the District may finance and perform services in connection with the construction of certain Public Improvements to implement the Plan, and the Authority will reimburse the District all or a portion of the Project Costs of such Public Improvements in accordance with the terms of the Shared Financing Agreement.

The Shared Financing Agreement lists the Zone Projects as Meridiana Parkway, collector streets, water, sewer and drainage facilities, detention facilities, water plant, sewer plant, regional park, trails and small parks, recreation center, landscaping and monumentation. It further provides for the Zone Projects to be divided between Zone Projects and District Projects, which division may be changed by the Authority Board and the District. The Authority Projects are listed as the regional park, trails and small parks, recreation center, landscaping, and monumentation.

The Shared Financing Agreement sets forth a process for Zone Project development and requires the Developer to meet all standards of the City, the PUD (as defined herein), and the TCEQ. After completion and acceptance, each Zone Project is to be conveyed to the responsible public entity.

The Authority agrees to reimburse the District for the "*TIRZ Share*," as described below and in the Shared Financing Agreement, of the Project Costs of Zone Projects from Available Authority Funds or from the proceeds of Contract Revenue Bonds; provided the District follows the procedures set forth in the Shared Financing Agreement and obtains all required authorizations and approvals.

In the Shared Financing Agreement, "*Available Authority Funds*" is defined as the funds remaining each year in the Authority's Revenue Fund after (1) first, reserving the funds necessary to pay the reasonable operation and administrative expenses of the Authority and the Zone for the ensuing twelve-month period, and (2) second, reserving the funds necessary to make any bond payments for the ensuing twelve-month period.

The Shared Financing Agreement further provides that the District may sell bonds secured by Tax Increments paid to the District by the Authority from Available Authority Funds (the "*District Bonds*") only with the approval of the Board of Directors of the Authority and the consent of the City Council of the City. For any year the Authority receives payments from the City after the District sells District Bonds, the Authority will pay the District, not later than August 1 of each year, solely from Available Authority Funds and from no other source and to the extent of such Available Authority Funds, the "*TIRZ Share*" of the annual debt service on any District Bonds. The TIRZ Share is set forth in the Shared Financing Agreement for each Zone Project. The District is required to use the funds to pay debt service on bonds issued to finance the Zone Project. The obligation of the Authority survives a termination of the Shared Financing Agreement and is absolute and unconditional until such time as all outstanding District Bonds have been fully paid or provision for payment thereof shall have been made.

The obligation of the Authority to reimburse the District is a special obligation of the Authority payable solely from the Available Authority Funds.

Pursuant to the terms of the Shared Financing Agreement, the City and the Authority have the right to terminate the Shared Financing Agreement if construction of Zone Projects with a contract price of at least \$200,000 is discontinued for seven years. The termination does not affect the obligation of the Authority to reimburse the District for eligible Project Costs of Zone Projects that are completed or in progress on the date of termination.

A party is considered in default under the Shared Financing Agreement if it fails to materially perform, observe or comply with any of its covenants, agreements or obligations under the Shared Financing Agreement or breaches or violates any representation in the Shared Financing Agreement, after 90 days' notice and an opportunity to

cure. Upon a breach, the non-defaulting party may secure judicial redress, including specific performance or damages or both.

The term of the Shared Financing Agreement will expire on the later of January 1 in the year following completion of the Plan or the date that the Developer has been repaid in full for all eligible Project Costs.

STATUS OF DEVELOPMENT

Conditions at Creation of the Zone

The most notable feature of the Zone is the West Fork of Chocolate Bayou, which traverses the property generally from north to south. The property is generally flat. At the time of creation of the Zone, the property within the Zone was utilized for agricultural purposes, including cattle grazing, hay, and rice farming. Several manmade drainage and irrigation canals as well as pipelines cross the property.

Development from Inception to Present

As shown below, as of July 31, 2021, there were 1,472 platted lots in the Zone, 1,147 completed homes, 143 homes under construction and 182 vacant developed lots. Of the 1,290 houses completed or under construction, 1,101 were sold to homeowners. Homebuilders that are active in the Zone include Chesmar Homes, David Weekley Homes, Drees Custom Homes, Highland Homes, Perry Homes, Plantation Homes, Shea Homes, Lennar Homes, and Trendmaker Homes. Prices of new homes being constructed in the Zone range from the \$200,000s to the \$600,000s. The Zone also contains an elementary school owned by Alvin Independent School District on 12.40 acres. The school is not subject to taxation. Recently, construction of a 5.4-acre commercial development consisting of a gas station, convenience store and inline retail began along Highway 288.

Included within this area is an “Amenity Village” with a family pool, lap pool, splash pad, indoor gym, welcome center, conservatory, café, full-service kitchen and event lawn. The Developer expects to deed the Amenity Village to the District, at which time it will not be subject to taxation.

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As of July 31, 2021

| The Zone | Section Acreage | Platted Lots | Completed Homes | Homes Under Construction | Developed Vacant Lots |
|--------------|-----------------|--------------|-----------------|--------------------------|-----------------------|
| Section 1 | 21.84 | 66 | 66 | 0 | 0 |
| Section 2 | 15.31 | 32 | 32 | 0 | 0 |
| Section 3 | 19.90 | 79 | 54 | 25 | 0 |
| Section 4 | 26.90 | 97 | 97 | 0 | 0 |
| Section 5 | 18.65 | 44 | 44 | 0 | 0 |
| Section 6 | 21.06 | 89 | 89 | 0 | 0 |
| Section 7 | 23.78 | 84 | 84 | 0 | 0 |
| Section 38 | 14.60 | 45 | 41 | 4 | 0 |
| Section 59 | 26.90 | 102 | 88 | 11 | 3 |
| Section 60 | 22.4 | 93 | 10 | 37 | 46 |
| Section 64 | 13.30 | 42 | 42 | 0 | 0 |
| Section 65 | 17.62 | 33 | 31 | 2 | 0 |
| Section 66 | 20.97 | 58 | 42 | 12 | 4 |
| Section 69 | 12.68 | 48 | 48 | 0 | 0 |
| Section 70 | 22.44 | 59 | 57 | 2 | 0 |
| Section 71 | 15.44 | 52 | 44 | 8 | 0 |
| Section 73 | 8.28 | 50 | 39 | 8 | 3 |
| Section 74 | 8.23 | 53 | 46 | 3 | 4 |
| Section 75 | 7.62 | 41 | 40 | 1 | 0 |
| Section 76A | 8.75 | 56 | 0 | 6 | 50 |
| Section 80a | 23.53 | 77 | 77 | 0 | 0 |
| Section 80b | 6.66 | 30 | 28 | 2 | 0 |
| Section 81a* | 11.47 | 70 | 48 | 18 | 4 |
| Section 81b* | 8.39 | 72 | 0 | 4 | 68 |
| Totals | 396.72 | 1,472 | 1,147 | 143 | 182 |

*Townhomes.

Total Zone Acreage Uses by Category:

| | |
|------------------------------|----------|
| Single Family Developed: | 396.72 |
| School Acreage: | 12.40 |
| Undevelopable Acres: | 422.19 |
| Area not developed by GR-M1 | 28.54 |
| Remaining Developable Acres: | 222.57 |
| Area Total: | 1,082.42 |

The Major Property Owner and the Developer

Role of the Developer. In general, the activities of a developer in a tax increment reinvestment zone such as the Zone include purchasing the land within the Zone, 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. The relative success or failure of a developer to perform such activities in development of the property within a tax increment reinvestment zone may have a profound effect on taxable values within the Zone. A developer is generally under no obligation to a tax increment reinvestment zone to develop the property which it owns in the zone. Furthermore, there is no restriction on a

developer's right to sell any or all of the land which it owns within a zone. In addition, a developer is ordinarily a major taxpayer within a zone during the development phase of the property.

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

Neither the Developer, nor any affiliated entity, is obligated to pay principal of or interest on the Bonds. Furthermore, none of the Developer or its affiliate entities has a binding commitment to the Authority to carry out any plan of development, and the furnishing of information relating to the proposed development by the Developer or its affiliate entities should not be interpreted as such a commitment. Prospective purchasers are encouraged to inspect the Zone in order to acquaint themselves with the nature of development that has occurred or is occurring within the Zone's boundaries.

Principal Landowner/Developer. GR-M1 LTD, a Texas limited partnership (the "*Developer*"), was formed for the sole purpose of acquiring and holding for investment and sale tracts of land within the Zone. Its development activities are conducted through Rise Communities, LLC, a limited liability company, under a contract with the Developer. The Developer and Rise Communities, LLC have common ownership. In addition to Meridiana, Rise Communities LLC is also developing Cane Island, an 1,100-acre master-planned community located in the City of Katy, Texas.

According to the Developer, the Developer is funding its development of Meridiana through equity contributions and a \$35,000,000 revolving development loan from BankcorpSouth Bank secured by its land in Meridiana, including land within the Zone. The loan had an outstanding drawn balance of \$33,000,000 on July 31, 2021 and matures in March 2023.

Land Use Regulations

The City zoned the land within the Zone as a Planned Unit Development ("*PUD*") by City Ordinance No. 2007-10 adopted on July 11, 2007. The City zoned additional property as a PUD by City Ordinance No. 2017-02 adopted on January 23, 2017 and updated the Development Plan for the Meridiana Planned Unit Development. The primary goal of the Meridiana Planned Unit Development is to create a master planned community that features a mixture of uses and a variety of housing types that will encourage sustainable neighborhoods and attract investment to the area while preserving the natural environment.

The Development Plan contains a preliminary land use plan, minimum right-of-way widths and paving sections, street design criteria, sidewalk requirements, parking requirements, open space requirements, and infrastructure requirements. A Home Owner's Association Architectural Review Committee have been established. The Development Plan contains development standards for all property located within the PUD and limits non-conforming land uses.

The Road System

The major thoroughfares and collectors serving the Zone include Meridiana Parkway, Discovery Drive and Iowa Colony Boulevard. Discovery Drive and Iowa Colony Boulevard act as collectors by conveying residents of the Zone to the major thoroughfare of Meridiana Parkway which connects to the State Highway 288 to the west. The District will finance, design and construct the road system in phases as development progresses. The road system will ultimately be owned, operated and maintained by the City as the phases are constructed and accepted by the City.

The Utility System

The District provides water and sewer service to the land within the Zone. According to the District's engineer, the water system is capable of serving 1,345 equivalent single family connections. Wastewater treatment is provided by a 320,000 gallon per day ("gpd") wastewater treatment plant owned and operated by the District. According to the District's engineer, it is adequate to serve 1,745 equivalent single family connections.

Drainage and Flood Plain

The PUD requires the drainage plan and storm sewer system to be designed in accordance with the regulations of the City and Brazoria County Drainage District No. 5. According to the PUD, the storm water runoff within Meridiana will be routed through a curb and gutter street system to storm sewer lines that will outfall into detention basins contoured and landscaped to resemble natural bayous. The internal detention basins will provide storage volume for the increased storm water runoff resulting from development of the property. The storm water from the detention basins will outfall in a controlled fashion into the West Fork of Chocolate Bayou.

The City participates in the National Flood Insurance Program administered by the Federal Emergency Management Agency ("*FEMA*"). Communities participating in the National Flood Insurance Program are required by FEMA to adopt restrictions on development in designated flood-prone areas. In exchange, the National Flood Insurance Program makes federally subsidized flood insurance available to property owners located in the participating communities. FEMA periodically updates and revises its maps designating the areas of the City that are subject to special flood hazards. Properties that are currently located outside of a designated flood-prone area may suffer a reduction in value if they are placed within the boundaries of a special flood hazard area the next time FEMA updates and revises its flood maps.

According to the FEMA Map Panel No. 48039 C0110H and FEMA Map Panel No. 48039 C0120H dated June 5, 1989, approximately 300 acres within the Zone were located in the 100-year flood plain and were not considered to be developable.

Not all flood hazards are mapped on the FEMA flood maps, nor is every bayou or creek studied. Flooding can occur from ponding or overland sheet flow when intense rainfall overwhelms the local street drainage system. The mapped floodplain is only an estimate of where flooding is predicted to occur from a bayou or creek, given a set of parameters including a hypothetical rainfall occurring over a watershed for an assumed amount of time. During an actual rain event, natural conditions can result in greater amounts of rainfall or runoff, resulting in flood levels deeper and wider than shown on the FEMA maps. See "RISK FACTORS—Recent Extreme Weather Events; Hurricane Harvey" and "—Specific Flood Type Risks."

FINANCIAL INFORMATION

Schedule 2: Pro Forma Debt Service Requirements

The Bonds will constitute the fourth issuance of Bonds by the Authority. The following sets forth an estimate of the total outstanding debt service requirements of the Authority following the issuance of the Bonds, based upon a fiscal year end of September 30.

| Fiscal Year Ending September 30 | Outstanding Debt Service | Debt Service on the Bonds* | | | Total Debt Service |
|---------------------------------------|-----------------------------|----------------------------|---------------------|---------------------|-----------------------|
| | | Principal | Interest | Total | |
| 2022 | \$ 923,475 | | \$ 87,764 | \$ 87,764 | \$ 1,011,239 |
| 2023 | 975,150 | \$ 80,000 | 172,650 | 252,650 | 1,227,800 |
| 2024 | 975,103 | 145,000 | 170,250 | 315,250 | 1,290,353 |
| 2025 | 979,225 | 145,000 | 165,900 | 310,900 | 1,290,125 |
| 2026 | 977,663 | 155,000 | 161,550 | 316,550 | 1,294,213 |
| 2027 | 975,264 | 160,000 | 156,900 | 316,900 | 1,292,164 |
| 2028 | 977,054 | 165,000 | 152,100 | 317,100 | 1,294,154 |
| 2029 | 978,039 | 165,000 | 147,150 | 312,150 | 1,290,189 |
| 2030 | 978,039 | 170,000 | 142,200 | 312,200 | 1,290,239 |
| 2031 | 977,014 | 180,000 | 137,100 | 317,100 | 1,294,114 |
| 2032 | 979,969 | 180,000 | 131,700 | 311,700 | 1,291,669 |
| 2033 | 977,081 | 190,000 | 126,300 | 316,300 | 1,293,381 |
| 2034 | 977,744 | 195,000 | 120,600 | 315,600 | 1,293,344 |
| 2035 | 977,575 | 200,000 | 114,750 | 314,750 | 1,292,325 |
| 2036 | 976,500 | 205,000 | 108,750 | 313,750 | 1,290,250 |
| 2037 | 979,212 | 210,000 | 102,600 | 312,600 | 1,291,812 |
| 2038 | 975,931 | 220,000 | 96,300 | 316,300 | 1,292,231 |
| 2039 | 976,875 | 225,000 | 89,700 | 314,700 | 1,291,575 |
| 2040 | 976,644 | 230,000 | 82,950 | 312,950 | 1,289,594 |
| 2041 | 979,663 | 235,000 | 76,050 | 311,050 | 1,290,713 |
| 2042 | 976,487 | 245,000 | 69,000 | 314,000 | 1,290,487 |
| 2043 | 977,194 | 255,000 | 61,650 | 316,650 | 1,293,844 |
| 2044 | 976,706 | 260,000 | 54,000 | 314,000 | 1,290,706 |
| 2045 | 974,944 | 270,000 | 46,200 | 316,200 | 1,291,144 |
| 2046 | 976,700 | 275,000 | 38,100 | 313,100 | 1,289,800 |
| 2047 | 666,937 | 240,000 | 29,850 | 269,850 | 936,787 |
| 2048 | 668,106 | 245,000 | 22,650 | 267,650 | 935,756 |
| 2049 | 668,213 | 250,000 | 15,300 | 265,300 | 933,513 |
| 2050 | 667,275 | 260,000 | 7,800 | 267,800 | 935,075 |
| | <u>\$ 27,045,780</u> | <u>\$ 5,755,000</u> | <u>\$ 2,887,814</u> | <u>\$ 8,642,814</u> | <u>\$ 35,688,593</u> |

Average Annual Debt Service (2022-2050)

\$ 1,230,641 *

Maximum Annual Debt Service (2026)

\$ 1,294,213 *

*Preliminary, subject to change.

Schedule 3: Historic Debt Service Coverage

The following sets forth the Tax Increments received by the City on a cash basis by fiscal year and shows coverage of the next fiscal year’s debt service requirements. This information is from the City’s records and is unaudited.

| | Fiscal Year | | Historic | Total | Debt Service |
|----------------------|---------------|---------------------|--------------------|---------------------|-----------------|
| <u>Tax Year</u> | <u>Ending</u> | <u>September 30</u> | <u>Collections</u> | <u>Debt Service</u> | <u>Coverage</u> |
| 2017 | 2018 | | \$ 210,969 (a) | \$ - | |
| 2018 | 2019 | | 449,081 | - | |
| 2019 | 2020 | | 749,051 | 483,010 | 1.551x |
| 2020 | 2021 | | 1,027,420 (d) | 768,680 | 1.337x |
| <i>Projected (b)</i> | <i>2021</i> | <i>2022</i> | <i>1,432,600</i> | <i>1,011,239</i> | <i>1.417x</i> |
| <i>Projected (c)</i> | <i>2022</i> | <i>2023</i> | <i>1,812,855</i> | <i>1,227,800</i> | <i>1.477x</i> |

- (a) The City transferred the tax year 2017 Tax Increments to the Authority on October 1, 2018. The Authority deposited these funds in the Surplus Fund for future operating expenses; they are not part of Pledged Revenues. Prior expenses of the Authority were advanced by the Developer.
- (b) See “OFFICIAL STATEMENT SUMMARY—Schedule 1: Selected Financial Information Based on 2021 Certified Value (Unaudited)” for a description of how the projection of Contract Tax Increments was derived. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements” for estimated debt service in fiscal year 2022.
- (c) See “OFFICIAL STATEMENT SUMMARY—Schedule 1A: Selected Financial Information Based on August 1, 2021 Estimate of Value (Unaudited)” for a description of how the projection of Contract Tax Increments was derived. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements” for estimated debt service in fiscal year 2023.
- (d) Unaudited, provided by the Authority.

Plans to Issue Bonds

The Authority plans to issue Additional Parity Bonds when it can meet the debt service coverage requirement for issuance of Additional Parity Bonds. See “SOURCE OF AND SECURITY FOR PAYMENT—Additional Parity Bonds.” Following the issuance of the Bonds, the Developer will have approximately \$78,575,911 in outstanding advances that are eligible for reimbursement through the proceeds of the Bonds and Additional Parity Bonds.

Investment Policy

Under Texas law, the Authority is required to invest its funds (including bond proceeds and money pledged to the payment of or as security for bonds or other indebtedness issued by the Authority or obligations under a lease, installment sale, or other agreement of the Authority) 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 Authority funds must be invested in accordance with the following objectives: understanding the suitability of the investment to the Authority’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 Authority’s investments must be made with the “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 Authority funds without express written authority from the Board of Directors.

Authorized investments are summarized as follows: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective

agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this State that the Authority selects from a list the Board of Directors or a designated investment committee of the Authority adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in the State that the Authority selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the Authority’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the Authority appoints as the Authority’s custodian of the banking deposits issued for the Authority’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of Chapter 2256, Texas Government Code (the “Public Funds Investment Act”), that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, and are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for Authority deposits, or (ii) certificates of deposits where (a) the funds are invested by the Authority through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the Authority as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the Authority, (b) the broker or the depository institution selected by the Authority arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the Authority, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the Authority appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d), Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the Authority with respect to the certificates of deposit; (10) fully collateralized repurchase agreements as defined in the Public Funds Investment Act, that have a defined termination date, are secured by a combination of cash and obligations described in clauses (1) or (13) in this paragraph, require the securities being purchased by the Authority or cash held by the Authority to be pledged to the Authority, held in the Authority’s name, and deposited at the time the investment is made with the Authority or with a third party selected and approved by the Authority, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than “A” or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) below, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Authority, held in the Authority’s name and deposited at the time the investment is made with the Authority or a third party designated by the Authority; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers’ acceptances with stated maturity of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated not less than “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (13) commercial paper with a stated maturity of 365 days or less that is rated not less than “A-1” or “P-1” or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the Authority with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and have either (a) a duration of one year or more and invest exclusively in

obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract.

A political subdivision such as the Authority may enter into securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (8) above, other than the prohibited obligations described below, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than A or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (13) through (15) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the Authority, held in the Authority's name and deposited at the time the investment is made with the Authority or a third party designated by the Authority; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

The Authority may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than AAA or AAAM or an equivalent by at least one nationally recognized rating service, if the Board of Directors authorizes such investment in the particular pool by order, ordinance, or resolution and the investment pool complies with the requirements of Section 2256.016, Texas Government Code.

The Authority may also contract with an investment management firm registered (x) under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.), or (y) with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the Authority retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Authority must do so by ordinance, order or resolution.

The Authority is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than 10 years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

The Authority maintains an investment strategy that emphasizes, in order of priority, safety, liquidity and return on investment, as embodied in its investment policy (the "Investment Policy"). The Authority does not invest in, among other things, inverse floater, interest-only or principal-only mortgage-backed securities. The Investment Policy provides, among other things, that (i) an investment officer must submit quarterly investment reports to the Board and (ii) the Investment Policy must be reviewed annually by the Board.

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Schedule 4: Property Tax Increment Collections

City of Iowa Colony

| Original | Tax Year | Base Value | Current Value | Current | | Increment Tax Rate (70%) | Increment Tax Levy | Increment Collections | Collection Rate |
|-----------|----------|--------------|---------------|---------------|-------------|--------------------------|--------------------|-----------------------|-----------------|
| | | | | Increment | TaxRate (f) | | | | |
| | 2017 | \$ 2,638,500 | \$ 46,958,282 | \$ 44,319,782 | \$0.42950 | \$0.30065 | \$ 133,247 | \$ 132,461 | 99.41% |
| | 2018 | 2,638,500 | 91,901,166 | 89,262,666 | 0.48921 | 0.34245 | 305,677 | 305,284 | 99.87% |
| | 2019 | 2,638,500 | 157,632,238 | 154,993,738 | 0.48921 | 0.34245 | 530,770 | 528,151 | 99.51% |
| | 2020 | 2,638,500 | 253,417,517 | 250,779,017 | 0.46921 | 0.32845 | 823,674 | 819,708 | 99.52% (c) |
| Projected | (a) 2021 | 2,638,500 | 307,051,864 | 304,413,364 | 0.46921 | 0.32845 | 999,834 | 995,020 | 99.52% (c) |
| Projected | (b) 2022 | 2,638,500 | 397,109,260 | 394,470,760 | 0.46921 | 0.32845 | 1,295,625 | 1,289,386 | 99.52% (c) |

| Annexed 2020 | Tax Year | Base Value | Current Value | Current | | Increment Tax Rate (70%) | Increment Tax Levy | Increment Collections | Collection Rate |
|--------------|----------|--------------|---------------|-----------|-------------|--------------------------|--------------------|-----------------------|-----------------|
| | | | | Increment | TaxRate (f) | | | | |
| | 2020 | \$ 6,702,620 | \$ 6,702,620 | - | \$0.46921 | \$0.32845 | \$ - | \$ - | |
| Projected | (a) 2021 | 6,702,620 | 9,423,710 | 2,721,090 | 0.46921 | 0.32845 | 8,937 | \$ 8,894 | 99.52% |

Brazoria County, Texas (c)

| | Tax Year | Base Value | Current Value | Current | | Increment Tax Rate (40.49%) | Increment Tax Levy | Increment Collections | Collection Rate |
|-----------|----------|--------------|---------------|---------------|-------------|-----------------------------|--------------------|-----------------------|-----------------|
| | | | | Increment | TaxRate (f) | | | | |
| | 2017 | \$ 2,638,390 | \$ 44,377,572 | \$ 41,739,182 | \$0.38023 | \$0.15396 | \$ 64,260 | \$ 63,883 | 99.41% |
| | 2018 | 2,697,545 | 79,374,448 | 76,676,903 | 0.36791 | 0.14897 | 114,224 | 123,752 | 108.34% (d) |
| | 2019 | 2,697,545 | 135,259,418 | 132,561,873 | 0.36530 | 0.14791 | 196,072 | 188,079 | 95.92% |
| | 2020 | 2,697,545 | 207,643,594 | 204,946,049 | 0.34202 | 0.13848 | 283,815 | 279,094 | 98.34% (c) |
| Projected | (a) 2021 | 2,697,545 | 278,325,746 | 275,628,201 | 0.34202 | 0.13848 | 381,697 | 375,348 | 98.34% (c) |
| Projected | (b) 2022 | 2,697,545 | 333,269,530 | 330,571,985 | 0.34202 | 0.13848 | 457,785 | 450,170 | 98.34% (c) |

Brazoria County, Texas - Bridge and Road Tax (c)

| | Tax Year | Base Value | Current Value | Current | | Increment Tax Rate (40.49%) | Increment Tax Levy | Increment Collections | Collection Rate |
|-----------|----------|--------------|---------------|---------------|-------------|-----------------------------|--------------------|-----------------------|-----------------|
| | | | | Increment | TaxRate (f) | | | | |
| | 2017 | \$ 2,626,390 | \$ 44,261,517 | \$ 41,635,127 | \$ 0.06000 | \$0.02429 | \$ 10,115 | \$ 10,055 | 99.41% |
| | 2018 | 2,685,545 | 78,853,948 | 76,168,403 | 0.06000 | 0.02429 | 18,504 | 20,045 | 108.32% (d) |
| | 2019 | 2,685,545 | 135,259,418 | 132,573,873 | 0.05000 | 0.02025 | 26,840 | 26,715 | 99.54% |
| | 2020 | 2,685,545 | 206,088,827 | 203,403,282 | 0.05000 | 0.02025 | 41,179 | 40,987 | 99.53% (c) |
| Projected | (a) 2021 | 2,685,545 | 276,319,782 | 273,634,237 | 0.05000 | 0.02025 | 55,397 | 55,139 | 99.53% (c) |
| Projected | (b) 2022 | 2,685,545 | 331,238,660 | 328,553,115 | 0.05000 | 0.02025 | 66,516 | 66,205 | 99.53% (c) |

- (a) Projections based on 2021 Certified Taxable Assessed Valuation within the Zone, including 90% of the certified value under review by the Appraisal Review Board, 2020 tax rates of the Participants and historic collection percentages. The tax rates adopted by the Participants and tax collection percentages for tax years 2021 are subject to various factors outside the control of the Authority and may vary materially from those used in connection with the projections for tax year 2021. See “RISK FACTORS—Tax and Collection Rates May Decline.”
- (b) Projections based on the Estimate of Taxable Value as of August 1, 2021, 2020 tax rates of the Participants and historic collection percentages. The Estimate of Taxable Value as of August 1, 2021 is an estimate of taxable assessed value in the Zone produced by the Appraisal District at the request of the Authority. This estimate is for informational purposes and has no official status. Such amounts are subject to change. The tax rates adopted by the Participants and tax collection percentages for tax year 2022 are subject to various factors outside the control of the Authority and may vary materially from those used in connection with the projections for tax year 2022. See “RISK FACTORS—Tax and Collection Rates May Decline.”
- (c) The collection rates shown are an estimate based on historic performance and the actual collection rate may differ materially.

- (d) The County overpaid Tax Increments in tax year 2018 and adjusted future payments to make up for the overpayment. The amount of the overpayment was approximately \$3,000.
- (e) Because the County General Fund and the County Road and Bridge Fund taxes are subject to slightly different exemptions, they are listed separately. See “TAXING PROCEDURES—Tax Code As Applied to the City and County.”
- (f) Tax Rates shown are rounded.

*Preliminary, subject to change. See “FINANCIAL INFORMATION—Schedule 2: Pro Forma Debt Service Requirements.”

Schedule 5: Breakdown of Taxable Assessed Value by Category Based on City Taxable Assessed Valuations

| | 8/1/2021 Estimate of Taxable Assessed Valuation (a)(c) | 2021 Certified Taxable Assessed Valuation (b)(c) | 2020 Certified Taxable Assessed Valuation (b) | 2019 Certified Taxable Assessed Valuation | 2018 Certified Taxable Assessed Valuation | 2017 Certified Taxable Assessed Valuation |
|---|--|--|---|---|---|---|
| Land | \$80,226,900 | \$71,804,756 | \$66,422,232 | \$42,924,423 | \$32,441,418 | \$29,837,263 |
| Improvements | 347,076,610 | 292,595,196 | 207,785,114 | 124,264,730 | 72,478,513 | 29,733,892 |
| Exemptions | (30,194,250) | (57,348,088) | (20,789,830) | (9,556,915) | (13,018,765) | (12,612,873) |
| Total Taxable Assessed Valuation | \$397,109,260 | \$307,051,864 | \$253,417,517 | \$157,632,238 | \$91,901,166 | \$46,958,282 |

- (a) At the request of the Authority, the Appraisal District provided an estimate of taxable assessed value in the Zone as of August 1, 2021. This estimate is for informational purposes only and has no official status. Such amounts are subject to change. In preparing the estimate, the 2021 Certified Value established by the Appraisal District was updated to add the estimated value of improvements constructed from January 1, 2021 through July 31, 2021.
- (b) The 2021 Certified Taxable Valuation includes certified property under review at the Appraisal Review Board at 90% of the \$29,733,527 in value estimated by the Appraisal District.
- (c) The values shown for the Estimate of Taxable Assessed Valuation and the 2021 Certified Taxable Assessed Valuation do not include the value attributable to the Annexed Area. The 2021 Total Taxable Assessed Valuation for the Annexed Area is \$9,423,710, which provides a Total 2021 Certified Taxable Assessed Valuation for the Original Area and the Annexed Area of \$316,475,474. Values for the Estimate of Taxable Assessed Valuation attributable to the Annexed Area are not available as of the date hereof.

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Schedule 6: Principal Taxpayers in the Zone

The following table represents the principal taxpayers, the taxable assessed value of such property, and such property’s assessed value as a percentage of the Zone’s taxable value, using information provided by the County Tax Assessor/Collector.

| Taxpayer | Taxable Assessed Valuation | % of 2021 Certified Taxable Assessed Value |
|-------------------------|----------------------------------|--|
| GR-M1 LTD (a) | \$ 6,824,975 | 2.16% |
| Highland Homes (b) | 3,596,940 | 1.14% |
| Perry Homes LLC (b) | 2,540,050 | 0.80% |
| Weekley Homes LLC (b) | 1,701,790 | 0.54% |
| MHI Partnership LTD (b) | 1,680,810 | 0.53% |
| Shae Homes (b) | 1,273,172 | 0.40% |
| Drees Custom Homes (b) | 1,148,370 | 0.36% |
| Chesmar Homes LLC (b) | 870,680 | 0.28% |
| Homeowner | 626,000 | 0.20% |
| MHI Models | 625,360 | 0.20% |
| Total | \$ 20,888,147 | 6.60% |

(a) The Developer

(b) Represents a homebuilder within the Zone

[The remainder of this page intentionally left blank]

Schedule 7: Estimated Overlapping Taxes

Property within the Zone is subject to taxation by several taxing authorities. Set forth below is an estimation of all taxes per \$100 of assessed valuation levied by such taxing authorities. No recognition is given to local assessments for civic associations or any other charges made by entities other than political subdivisions. Except as noted, the following chart includes the 2020 tax rates per \$100 of assessed valuation set by all such taxing jurisdictions. No prediction can be made of the tax rates that will be levied in future years by the respective taxing jurisdictions.

| Taxing Jurisdiction | 2020 Tax Rate |
|---|------------------|
| Alvin Community College District | \$ 0.183443 |
| Alvin ISD | 1.397700 |
| Brazoria County | 0.392017 |
| Brazoria Co MUD 55 | 0.885000 |
| Brazoria Co Drainage District No. 5 | 0.142736 |
| Brazoria Co Emergency Services District No. 3 | 0.100000 |
| Port Freeport | 0.040100 |
| City of Iowa Colony | 0.469209 |
| Total Estimated Overlapping Tax Rate | \$ 3.610205 |

TAXING PROCEDURES OF THE PARTICIPANTS

Authority to Levy Taxes

Under Texas law each Participant is authorized to levy an annual ad valorem tax on all taxable property within its boundaries.

Property Tax Code and County-Wide Appraisal District

The Texas Property Tax Code (the “*Property Tax Code*”) specifies the taxing procedures of all political subdivisions of the State of Texas, including each Participant. Provisions of the Property Tax Code are complex and are not fully summarized here.

The Property Tax Code requires, among other matters, county-wide appraisal and equalization of taxable property values and establishes in each county of the State of Texas an appraisal district with the responsibility for recording and appraising property for all taxing units within a county and an appraisal review board with responsibility for reviewing and equalizing the values established by the appraisal district. The Brazoria County Appraisal District (the “*Appraisal District*”) has the responsibility for appraising property for all taxing units within the County, including each Participant. Such appraisal values are subject to review and change by the Brazoria County Appraisal Review Board (the “*Appraisal Review Board*”). The Property Tax Code requires each appraisal district to comply with the Uniform Standards of Professional Appraisal Practice.

Property Subject to Taxation by the Participants

Except for certain exemptions provided by Texas law, all real property, tangible personal property held or used for the production of income, mobile homes and certain categories of intangible personal property with a tax situs in the Zone are subject to taxation by each Participant. However, the tax revenue generated by each Participant on any personal property is not included in the Property Tax Increments. Principal categories of exempt property include, but are not limited to: property owned by the State of Texas or its political subdivisions if the property is used for public purposes; property exempt from ad valorem taxation by federal law; certain household goods, family supplies, and personal effects; certain goods, wares and merchandise in transit; property used for pollution control, farm products owned by the producer; certain property of charitable organizations, community housing development organizations, youth development associations, religious organizations, and qualified schools; solar and wind-powered energy devices, designated historical sites; and most individually owned automobiles.

Veteran/First Responder Exemptions. Each Participant must grant certain exemptions to disabled veterans or certain surviving dependents of disabled veterans, if requested, of between \$5,000 and \$12,000 of assessed valuation depending upon the disability of the veteran, if such rating is less than 100%. A veteran who receives a disability rating of 100% and the surviving spouse of such a veteran is entitled to an exemption for the full amount of the veteran's or surviving spouse's residential homestead. A partially disabled veteran or the surviving spouse of a partially disabled veteran is entitled to an exemption from taxation of a percentage of the appraised value of their residential homestead in an amount equal to the partially disabled veteran's disability rating if the residential homestead was donated by a charitable organization. Also, and subject to certain conditions, the surviving spouse of a member of the armed forces or a first responder as defined under Texas law, who was killed in action is entitled to an exemption of the appraised value of the surviving spouse's residential homestead, which may be transferred to a subsequent residential homestead.

Residential Homestead Exemptions: The governing body of each political subdivision in the State of Texas may grant an exemption of up to twenty percent (20%) of the appraised value of residential homesteads from ad valorem taxation. Where ad valorem taxes have previously been pledged for the payment of debt, the governing body of a political subdivision may continue to levy and collect taxes against the exempt value of the homesteads until the debt is discharged, if the cessation of the levy would impair the obligations of the contract by which the debt was created. The adoption of a homestead exemption by each Participant may be considered each year, but must be adopted by July 1.

Additional Homestead Exemptions: Each Participant may by its own action exempt residential homesteads of persons sixty-five (65) years or older and of certain disabled persons to the extent deemed advisable by the respective governing body of such Participant. Qualifying surviving spouses of persons aged 65 years or older are entitled to receive a resident homestead exemption equal to the exemption received by the deceased spouse. A Participant may be required to offer such an exemption if a majority of voters approve it at an election. A Participant would be required to call such an election upon petition by twenty percent (20%) of the number of qualified voters who voted in the preceding election. Each Participant is authorized by statute to disregard exemptions for the disabled and elderly if granting the exemption would impair a Participant's obligation to pay tax-supported debt incurred prior to adoption of the exemption by a Participant.

Tax Freeze: The governing body of each Participant may freeze the total amount of ad valorem taxes levied on the residence homestead of a disabled person or persons 65 years of age or older to the amount of taxes imposed in the year such residence qualified for such exemption. Also, upon receipt of a petition signed by five percent of the registered voters of the Participant, an election must be held to determine by majority vote whether to establish such a limitation on taxes paid on residence homesteads of persons 65 years of age or who are disabled. Upon providing for such exemption, such freeze on ad valorem taxes is transferrable to a different residence homestead. Also, a surviving spouse of a taxpayer who qualifies for the freeze on ad valorem taxes is entitled to the same exemption so long as the property was the residence homestead of the surviving spouse when the deceased spouse died and remains the residence homestead of the surviving spouse and the spouse was at least 55 years of age at the time of the death of the individual's spouse. Once established, the tax rate limitation may not be repealed or rescinded.

Abatements: The City or the County are authorized to enter into a tax abatement agreement with an owner of real or personal property in the Zone, if the Zone Board approves the agreement and the governing body of the Participant approves the agreement. A tax abatement agreement may exempt from ad valorem taxation by the Participant for a period of up to ten years, all or any part of the increase in the assessed valuation of property covered by the agreement over its assessed valuation in the year in which the agreement is executed, on the condition that the property owner make specified improvements or repairs to the property.

Property Tax Code As Applied to the City and County

The City has a 10% local option homestead exemption with a \$5,000 minimum and an over-65 or disabled exemption of \$40,000. It has not elected to freeze taxes.

The County has a 20% local option homestead exemption with a \$5,000 minimum and an over-65 or disabled exemption of \$100,000. It has not elected to freeze taxes.

For County taxes allocated to the Road and Bridge Fund, the County has a 20% homestead exemption plus an additional \$3,000 homestead exemption mandated by Article VIII, Section 1-a of the Texas Constitution. All exemptions related to persons 65 years of age or older and disabled persons are uniform for all County taxes.

Valuation of Property for Taxation

Generally, property within the boundaries of each Participant must be appraised by its Appraisal District at market value as of January 1 of each year. Once an appraisal roll is prepared and finally approved by its Appraisal Review Board, it is used by each Participant in establishing its tax rolls and tax rate. Assessments under the Property Tax Code are generally to be based on one hundred percent (100%) of market value, as such is defined in the Property Tax Code.

In determining the market value of property, the Appraisal District is required by Texas law to consider the cost, income and market data comparison methods of appraisal and must use the method the Chief Appraiser of the Appraisal District considers most appropriate. If the cost method of appraisal is used to determine the market value of the property, the Appraisal District is required to (i) use cost data from generally accepted sources; (ii) make appropriate adjustments for physical, functional, or economic obsolescence; (iii) make available on request cost data developed and used by the Appraisal District as applied to all properties within a property category; (iv) clearly state the reason for any variation between generally accepted cost data and locally produced cost data if the data vary by more than 10 percent; and (v) make available to the property owner on request all applicable market data that demonstrate the difference between the replacement cost of the improvements to the property and the depreciated value of the improvements. If the Appraisal District uses the income method of appraisal to determine the market value of real property, the Appraisal District is required to: (i) use rental income and expense data pertaining to the property if possible and applicable; (ii) make any projections of future rental income and expenses only from clear and appropriate evidence; (iii) use data from generally accepted sources in determining an appropriate capitalization rate; and (iv) determine a capitalization rate for income-producing property that includes a reasonable return on investment, taking into account the risk associated with the investment. If the Appraisal District uses the market data comparison method of appraisal to determine the market value of real property, the Appraisal District is required to use comparable sales data if possible and adjust the comparable sales to the subject 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 such property would bring if sold as a unit to a purchaser who would continue the business. Landowners wishing to avail themselves of the agricultural use, open space or timberland designation or residential real property inventory designation must apply for the designation and the appraiser is required by the Property Tax Code to act on each claimant's right to the designation individually. A claimant may waive the special valuation as to taxation by some political subdivisions while claiming it as to 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 affected Participant can collect taxes based on the new use, including taxes for the previous five (5) years for open space land and timberland.

State law requires the appraised value of an owner's principal residence ("homestead" or "homesteads") to be based solely on the property's value as a homestead, regardless of whether residential use is considered to be the highest and best use of the property. State law further limits the appraised value of a homestead to the lesser of (1) the market value of the property, or (2) 110% of the appraised value of the property for the preceding tax year plus the market value of all new improvements to the property.

The Property Tax Code requires each Appraisal District to implement a plan for periodic reappraisal of property to update appraisal values. The plan must provide for appraisal of all real property in the Appraisal District at least once every three (3) years.

Reappraisal of Property after Disaster

The Property Tax Code provides for a temporary exemption from ad valorem taxation of a portion of the appraised value of certain property that is at least 15% physically damaged by a disaster and located within an area declared to be a disaster area by the governor of the State of Texas. For tax years beginning on or after January 1,

2022, this temporary exemption is automatic. For tax years beginning prior to January 1, 2022, this temporary exemption is automatic if the disaster is declared prior to a taxing unit adopting its tax rate for the tax year and a taxing unit may authorize the exemption at its discretion if the disaster is declared after the taxing unit has adopted its tax rate for the tax year. The amount of the exemption is based on the percentage of damage and is prorated based on the date of the disaster. Upon receipt of an application submitted within the eligible timeframe by a person who qualifies for a temporary exemption under the Property Tax Code, the Appraisal District is required to complete a damage assessment and assign a damage assessment rating to determine the amount of the exemption. The temporary exemption amounts established in the Property Tax Code range from 15% for property less than 30% damaged to 100% for property that is a total loss. Any such temporary exemption granted for disaster-damaged property expires on January 1 of the first year in which the property is reappraised.

Taxpayer Remedies

The Property Tax Code establishes an appraisal review board in each county with responsibility for resolving disputes between taxpayers and the appraisal district. It is also empowered to determine challenges initiated by taxing units, correct clerical errors in the appraisal records and the appraisal rolls, act on motions to correct appraisal rolls, and determine whether an exemption or a partial exemption is improperly granted. The appraisal review board is independent of the appraisal district. In counties with more than 120,000 in population, the local administrative district judge appoints the appraisal review board members.

A property owner is entitled to protest the value of a tract of property before the appraisal review board in the following circumstances: the value the appraisal district placed on the property is too high; the property was unequally appraised; the appraisal district denied a special appraisal, such as open-space land; the appraisal district failed to provide the property owner with required notices; or as otherwise permitted under the Property Tax Code.

Owners of certain property with a taxable value in excess of the current year “minimum eligibility amount,” as determined by the State Comptroller, and situated in a county with a population of one million or more, may protest the determinations of an appraisal district directly to a three-member special panel of the appraisal review board, appointed by the chairman of the appraisal review board, consisting of highly qualified professionals in the field of property tax appraisal. The minimum eligibility amount is set at \$50 million for the 2020 tax year, and is adjusted annually by the State Comptroller to reflect the inflation rate.

A property owner who files a protest must pay the amount of taxes due on the portion of the taxable value of the property subject to the protest that is not in dispute before the delinquency date or the property owner forfeits the right to proceed to a final determination of the protest.

Property owners who are dissatisfied with the decision of the appraisal review board may appeal the decision. Depending upon the circumstances, the property owner may be able to require the appraisal district to go to binding arbitration or to have the appeal heard by the State Office of Administrative Hearings.

If those remedies are not available or if the property owner prefers, it has the right to appeal the decision of the appraisal review board to the state district court in which the property is located. The district court review is by trial de novo, and the district court is required to try all issues of fact and law raised by the pleadings in the manner applicable to civil suits generally. Any party is entitled to trial by jury on demand. The district court will grant relief if it determines that the appraised value of the property exceeds the appraised value required by law or the property is appraised unequally.

A party may appeal the final judgment of the district court as provided by law for appeal of civil suits generally, except that an appeal bond is not required of the chief appraiser, the county, the comptroller, or the commissioners court.

State Law Limitations on Setting the Annual Tax Rate

City: Article XI, Section 4 of the Texas Constitution is applicable to the City and limits its maximum ad valorem tax rate to \$1.50 per \$100 of taxable assessed valuation. Administratively, the Attorney General of the State of Texas will permit allocation of \$1.00 of the \$1.50 maximum tax rate for all debt service on ad valorem tax-supported debt, as calculated at the time of issuance.

County: Article VIII, Section 9 of the Texas Constitution imposes a limit of \$0.80 per \$100 assessed valuation for all purposes of a county's General Fund, Permanent Improvement Fund, Road and Bridge Fund and Jury Fund, including debt service on bonds or other debt issued against such funds. Administratively, the Attorney General of Texas will not approve limited tax obligations in an amount which produces debt service requirements exceeding that which can be paid from \$0.40 of the foregoing \$0.80 maximum tax rate, as calculated at the time of issuance.

Article III, Section 52 of the Texas Constitution authorizes the County to levy a direct, continuing ad valorem tax on all taxable property within the County, without limit as to rate or amount to pay the principal of and interest on the County's road bonds if approved by the voters in the County. The principal amount of unlimited tax road bonds issued by the County and outstanding at any point in time, aggregated with outstanding unlimited tax debt of certain road districts located within the County cannot exceed 25% of the assessed valuation of all real property located in the County.

Article VIII, Section 9 of the Texas Constitution and State statute authorize the County to levy a special Road and Bridge Fund Tax (the "Road and Bridge Maintenance Tax") in an amount not to exceed \$0.15 per \$100 assessed valuation, no part of which may be used for debt service, if approved by the voters.

Article VIII, Section 1-a of the Texas Constitution and State statute permit the County to levy a tax for Farm-to-Market Road and Flood Control purposes (the "Farm-to-Market Road and Flood Control Tax") in an amount not to exceed \$0.30 per \$100 assessed valuation after the mandatory \$3,000 homestead exemption, if approved by the voters. There is no allocation prescribed by statutes between debt service and maintenance.

Section 1301.003, Texas Government Code, as amended, limits the amount of limited tax obligations of counties issued pursuant to such authority for those certain purposes as follows:

| | |
|---------------------|--------------------------------------|
| Courthouse | 2% of Taxable Assessed Valuation |
| Jail | 1 1/2% of Taxable Assessed Valuation |
| Courthouse and Jail | 3 1/2% of Taxable Assessed Valuation |
| Bridge | 1 1/2% of Taxable Assessed Valuation |

Applicable to Both Participants: The Property Tax Code further limits a Participant's ad valorem tax rate, which consists of two components: (1) a rate for funding of maintenance and operations expenditures in the current year (the "maintenance and operations tax rate"), and (2) a rate for funding debt service in the current year (the "debt service tax rate"). Under the Property Tax Code, the assessor for the Participant must submit an appraisal roll showing the total appraised, assessed, and taxable values of all property in the jurisdiction to the governing body of the Participant by August 1 or as soon as practicable thereafter.

The Property Tax Code uses the terms "voter-approval tax rate" and "no-new-revenue tax rate." The "voter-approval tax rate" means the maintenance and operations tax rate that will produce the prior year's total maintenance and operations tax levy (adjusted) from the current year's values (adjusted) multiplied by 1.035, plus the debt service tax rate, plus the "unused increment rate." The "no-new-revenue tax rate" means the combined maintenance and operations tax rate and debt service tax rate that will produce the prior year's total tax levy (adjusted) from the current year's total taxable values (adjusted). The "unused increment rate" means the cumulative difference between a Participant's voter-approval tax rate and its actual tax rate for each of the three preceding tax years, which may be applied to a Participant's tax rate in the current tax year without impacting the "voter-approval tax rate."

The Participant must annually calculate its "voter-approval tax rate" and "no-new revenue tax rate" in accordance with forms prescribed by the State Comptroller and provide notice of such rates to each owner of taxable property within the Participant and the county tax assessor-collector for each county in which all or part of the Participant is located. The Participant must adopt a tax rate before the later of September 30 or the 60th day after receipt of the certified appraisal roll, except that a tax rate that exceeds the "voter-approval tax rate" must be adopted not later than the 71st day before the next occurring November uniform election date. If the Participant fails to timely adopt a tax rate, the tax rate is statutorily set as the lower of the "no-new-revenue tax rate" for the current tax year or the tax rate adopted by the Participant for the preceding tax year.

As described below, the Property Tax Code provides that if the Participant adopts a tax rate that exceeds its “voter-approval tax rate” or, in certain cases, its “de minimis rate,” an election must be held to determine whether or not to reduce the adopted tax rate to the “voter-approval tax rate.” The “de minimis rate” means the maintenance and operations tax rate that will produce the prior year’s total maintenance and operations tax rate levy (adjusted) from the current year’s values (adjusted), plus the rate that produces an additional \$500,000 in tax revenue when applied to the current year’s taxable value, plus the debt service tax rate.

The Participant may not adopt a tax rate that exceeds the lower of the “voter-approval tax rate” or the “no-new-revenue tax rate” until each appraisal district in which the Participant participates has delivered notice to each taxpayer of the estimated total amount of property taxes owed and the Participant has held a public hearing on the proposed tax increase. For cities with a population of 30,000 or more as of the most recent federal decennial census, if the adopted tax rate for any tax year exceeds the “voter-approval tax rate,” the Participant must conduct an election on the next occurring November uniform election date to determine whether or not to reduce the adopted tax rate to the “voter-approval tax rate.” Cities with a population of 30,000 or less are given more flexibility in setting their tax rate if their proposed rate generates less than \$500,000 more in revenues than the previous year’s tax rate. In that case, citizens may petition for an election if the proposed rate exceeds the greater of the City’s voter-approval tax rate (a 3.5 percent rate plus the unused increment rate) or the voter approval tax rate calculated as if the city were a special taxing unit (an 8 percent rate).

Any Participant located at least partly within an area declared a disaster area by the Governor of the State or the President of the United States during the current year may calculate its “voter-approval tax rate” using a 1.08 multiplier, instead of 1.035, until the earlier of (i) the second tax year in which such Participant’s total taxable appraised value exceeds the taxable appraised value on January 1 of the year the disaster occurred, or (ii) the third tax year after the tax year in which the disaster occurred.

County taxes may be adjusted for county hospital expenditures and county indigent defense compensation expenditures.

State law provides cities and counties in the State the option of assessing a maximum one-half percent sales and use tax on retail sales of taxable items for the purpose of reducing its ad valorem taxes, if approved by a majority of the voters in a local option election. If the additional sales and use tax for ad valorem tax reduction is approved and levied, the “no-new-revenue tax rate” and “voter-approval tax rate” must be reduced by the amount of the estimated sales tax revenues to be generated in the current tax year.

Collection of Taxes

Each Participant is responsible for the collection of its taxes unless it elects to transfer such functions to another governmental entity. Taxes are due October 1, or when billed, whichever comes later, and become delinquent after January 31 of the following year. The Participant’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 residential homestead, 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 equal 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 a person 65 years of age or older or disabled is entitled by law to pay current taxes on a residential homestead in installments or to defer the payment of taxes without penalty during the time of ownership.

Participant’s Rights in the Event of Tax Delinquencies

Taxes levied by each Participant are a personal obligation of the owner of the property as of January 1 of the year for which the tax is imposed. On January 1 of each year, a tax lien attaches to property to secure the payment of all state and local taxes, penalties, and interest ultimately imposed for the year on the property. The lien exists in favor of the State of Texas and each taxing unit having power to tax the property. Each Participant’s tax lien is on a parity with tax liens of other taxing units. A tax lien on real property takes priority over the claim of most creditors and other holders of liens on the property encumbered by the tax lien, whether or not the debt or lien existed before the attachment of the tax lien; however, whether a lien of the United States is on a parity with or takes priority over a tax lien of another taxing entity is determined by applicable federal law.

At any time after taxes on property become delinquent, a Participant may file suit to foreclose the lien securing payment of the tax, to enforce personal liability for the tax, or both, subject to the limitations with respect to residential homesteads described in the preceding section. In filing a suit to foreclose a tax lien on real property, the Participant 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 and by bankruptcy proceedings that may restrict collection of taxpayer debts. A taxpayer has the right to redeem a mineral estate or property that was used at the time the suit was filed for residential homestead or agricultural purposes within two years after the purchaser's deed issued at the foreclosure sale is filed in the county's real property records. A taxpayer has the right to redeem property that was used for all other purposes within six months after the purchaser's deed is filed in the county records. See "RISK FACTORS—Limitations on Tax Collections and Foreclosure Remedies."

Tax Payment Installments after Disaster

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

Effect of FIRREA on Tax Collections

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

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

These provisions may affect the timeliness of collection of taxes on property, if any, owned by the FDIC in the Zone and may prevent the collection of penalties and interest on such taxes or may affect the valuation of such property.

SALES AND USE TAX COLLECTION PROCEDURES

The City imposes a 1½% sales and use tax ("Sales Tax") on all taxable transactions within the City, ½% of which is designated for a Crime Prevention and Control District and not available to the Zone. The Comptroller of Public Accounts of the State of Texas (the "Comptroller") collects the Sales Tax on transactions within the boundaries of the City. The Sales Tax is levied and collected against the receipts from the sale at retail of taxable items within the City. The Sales Tax also is an excise tax on the use, storage or other consumption of taxable tangible personal property purchased, leased or rented from a retailer within the City. The imposition, computation, administration, governance, abolition and use of the Sales Tax is governed by Chapters 131 and 321, Texas Tax Code.

In general, as applied to the Sales Tax, a taxable item includes any tangible personal property and certain taxable services. "Taxable services" include certain amusement services, cable television services, personal services, motor vehicle parking and storage services, the repair, remodeling, maintenance and restoration of most tangible personal property, certain telecommunication services, credit reporting services, debt collection services, insurance services, information services, real property services, data processing services, real property repair and remodeling, security services, telephone answering services, and internet access service. Certain items are exempted by State law from sales and use taxes, including items purchased for resale, certain coin-operated machine sales,

food products (except food products which are sold for immediate consumption, e.g. by restaurants, lunch counters, etc.), health care supplies (including medicines, corrective lens and various therapeutic appliances and devices), agricultural items (if the item is to be used exclusively on a farm or ranch or in the production of agricultural products), gas and electricity purchased for residential and certain other uses (unless a city has taken steps to repeal the exemption), certain property used in manufacturing, certain telecommunication services, newspapers, magazines, and basic fees for internet access service. During an annual "tax holiday," clothing and other items are exempt. In addition, items which are taxed under other State laws are generally exempted from Sales Tax. These items include certain natural resources, cement, motor vehicles and insurance premiums. Alcohol and tobacco products are taxed under both State alcohol and tobacco taxes as well as through the sales taxes. In addition, purchases made by various exempt organizations are not subject to the Sales Tax. Such organizations include the federal and state governments, political subdivisions, Indian tribes, religious institutions and certain charitable organizations and non-profit corporations. Also, State law provides an exemption from sales and use taxes on items purchases under a contract in effect when the legislation authorizing such tax (or the increase in the rate thereof) is enacted, up to a maximum of three years.

In addition to the local Sales Taxes levied by the City, as described above, the State levies and collects a 6.25% sales and use tax against essentially the same taxable items and transactions as are subject to the City's Sales Tax. Under current State law, the maximum aggregate local sales and use tax which may be levied within a given area by most political subdivisions within such area is 2%, which when added to the State sales tax rate of 6.25% equals a total rate of 8.25%.

The Comptroller administers and enforces all sales tax laws and collects all sales and use taxes levied by the State, and levying counties, political Subdivisions and other special districts having sales tax powers. Certain limited items are taxed for the benefit of the State under sales tax statutes, such as certain natural resources and other items described above, and are not subject to the local sales tax of political subdivisions and counties, including the City.

With certain exceptions, sales and use taxes in the State are collected at the point of sale and are remitted to the Comptroller by the "taxpayer" who is, generally speaking, the business that collects the tax resulting from a taxable transaction. Taxpayers owing \$500 or more in sales and use tax dollars for a calendar month submit their tax collections to the Comptroller on a monthly basis; taxpayers owing less than \$500 in sales and use tax dollars for a calendar month or \$1,500 in a calendar quarter submit their tax collections quarterly. Generally, taxpayers are required to submit tax reports to the Comptroller on the same date as payment is due. The Comptroller is required by law to distribute funds to the receiving political subdivisions periodically and as promptly as feasible, but not less frequently than twice during each fiscal year of the State. Historically, and at the present time, the Comptroller distributes the funds monthly, with the largest payments being made quarterly in February, May, August and November.

The Comptroller is responsible for enforcing the collection of sales and use taxes in the State. Under State law, the Comptroller utilizes sales tax permits, sales tax bonds and audits to encourage timely payment of sales and use taxes. Each entity selling, renting, leasing or otherwise providing taxable goods or services is required to have a sales tax permit. Permits are required for each individual location of a taxpayer and are valid for only one year. As a general rule, every person who applies for a sales tax permit for the first time, or who becomes delinquent in paying the sales or use tax, is required to post a bond in an amount sufficient to protect against the failure to pay taxes. The Comptroller's audit procedures include auditing the largest 2% of the sales and use tax taxpayers (who report about 65% of all sales and use taxes in the State annually), each every three or four years. Other taxpayers are selected at random or upon some other basis for audits. The Comptroller also engages in taxpayer education programs and mails a report to each taxpayer before the last day of the month, quarter or year that it covers.

Once a taxpayer becomes delinquent in the payment of a sales or use tax, the Comptroller may collect the delinquent tax by using one or more of the following methods: (i) collection by an automated collection center or local field office, (ii) estimating the taxpayers' liability based on the highest amount due in the previous 12 months and billing them for it, (iii) filing liens and requiring a new or increased payment bond, (iv) utilizing forced collection procedures, such as seizing assets of the taxpayer (e.g., a checking account) or freezing assets of the taxpayer that are in the custody of third parties, (v) removing a taxpayer's sales and use tax permit, and (vi) certifying the account to the Attorney General's Office to file suit for collection. A political subdivision may not sue

for delinquent taxes unless it joins the Attorney General as a plaintiff or unless it first receives the permission of the Attorney General and the Comptroller.

The Comptroller retains 2% of the tax receipts for collection of the tax; additionally, under State law, a taxpayer may deduct and withhold 1/2 of 1% of the amount of taxes due on a timely return as reimbursement for the cost of collecting sales and use taxes. In addition, a taxpayer who prepays its tax liability on the basis of a reasonable estimate of the tax liability for a month or quarter in which a prepayment is made may deduct and withhold 1.75% of the amount of the prepayment in addition to the 1/2 of 1% allowed for the cost of collecting the sales and use tax.

LEGAL MATTERS

Legal Proceedings

The Authority will furnish a complete transcript of proceedings incident to the authorization and issuance of the Bonds, including the unqualified approving legal opinion of the Attorney General of Texas approving the initial Bond and to the effect that the Bonds are valid and legally binding obligations of the Authority, and based upon examination of such transcript of proceedings, the approving legal opinion of The Muller Law Group, PLLC, Sugar Land, Texas (“Bond Counsel”) to like effect and the opinion of Orrick, Herrington & Sutcliffe LLP, Houston, Texas (“Special Tax Counsel”) to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described under “TAX MATTERS” herein. Included as “APPENDIX D — PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL” is the substantial form of opinion that Bond Counsel will render in connection with the issuance of the Bonds. Included as “APPENDIX E — PROPOSED FORM OF LEGAL OPINION OF SPECIAL TAX COUNSEL” is the substantial form of opinion that Special Tax Counsel will render in connection with the issuance of the Bonds.

In its capacity as Bond Counsel, Bond Counsel has reviewed the information under captions “SOURCE AND SECURITY FOR PAYMENT,” “THE BONDS” (exclusive of subcaption “Book-Entry-Only System”), “THE INDENTURE,” “THE DEVELOPMENT PLAN,” “CONTINUING DISCLOSURE OF INFORMATION”, and “LEGAL MATTERS,” in the Official Statement and such firm is of the opinion that the information under such captions and subcaptions is a fair and accurate statement or summary of the procedures, laws and documents described therein. In its capacity as Special Tax Counsel, Special Tax Counsel has reviewed the information under the caption “TAX MATTERS” and such firm is of the opinion that the information under such caption is correct as to the matters of law. The legal opinion will accompany the Bonds deposited with DTC or will be printed on the Bonds in the event of the discontinuance of the Book-Entry-Only System. In its capacity as Disclosure Counsel, Norton Rose Fulbright US LLP has reviewed the information under captions “SALE AND DISTRIBUTION OF THE BONDS – Securities Laws” in the Official Statement and such firm is of the opinion that the information under such subcaption is a fair and accurate statement or summary of the procedures, laws and documents described therein. Certain additional legal matters will be passed upon for the Authority by Norton Rose Fulbright US LLP in its capacity as Disclosure Counsel. Certain legal matters will be passed upon for the Underwriters by Bracewell LLP, Houston, Texas, Underwriters’ Counsel. The legal fees to be paid to Bond Counsel, Special Tax Counsel, Disclosure Counsel and Underwriters’ Counsel for services rendered in connection with the issuance of the Bonds is contingent on the sale and delivery of the Bonds.

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

No-Litigation Certificate

The Authority will furnish the Underwriters a certificate dated as of the date of delivery of the Bonds, to the effect that there is not pending, and to the knowledge of the officers executing the certificate, there is not threatened, any litigation affecting the validity of the Bonds, or the levy and/or collection of taxes for the payment thereof, or the organization or boundaries of the Zone, or the title of the officers thereof to their respective offices,

and that no Additional Parity Bonds or other indebtedness have been issued since the date of the statement of indebtedness or nonencumbrance certificate submitted to the Attorney General of Texas in connection with approval of the Bonds.

TAX MATTERS

In the opinion of Orrick, Herrington & Sutcliffe, LLP, Special Tax Counsel (“Special Tax Counsel”), based upon an analysis of existing laws, regulations, rulings and court decisions, and assuming, among other matters, the accuracy of certain representations and compliance with certain covenants, interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the “Code”). Special Tax Counsel is of the further opinion that interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. A complete copy of the proposed form of opinion of Special Tax Counsel is set forth in Appendix E hereto.

To the extent the issue price of any maturity of the Bonds is less than the amount to be paid at maturity of such Bonds (excluding amounts stated to be interest and payable at least annually over the term of such Bonds), the difference constitutes “original issue discount,” the accrual of which, to the extent properly allocable to each Beneficial Owner thereof, is treated as interest on the Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the Bonds is the first price at which a substantial amount of such maturity of the Bonds is sold to the public (excluding bond houses, brokers, or similar persons or organizations acting in the capacity of underwriters, placement agents or wholesalers). The original issue discount with respect to any maturity of the Bonds accrues daily over the term to maturity of such Bonds on the basis of a constant interest rate compounded semiannually (with straight-line interpolations between compounding dates). The accruing original issue discount is added to the adjusted basis of such Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such Bonds. Beneficial Owners of the Bonds should consult their own tax advisors with respect to the tax consequences of ownership of Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such Bonds in the original offering to the public at the first price at which a substantial amount of such Bonds is sold to the public.

Bonds purchased, whether at original issuance or otherwise, for an amount higher than their principal amount payable at maturity (or, in some cases, at their earlier call date) (“Premium Bonds”) will be treated as having amortizable bond premium. No deduction is allowable for the amortizable bond premium in the case of obligations, like the Premium Bonds, the interest on which is excluded from gross income for federal income tax purposes. However, the amount of tax-exempt interest received, and a Beneficial Owner’s basis in a Premium Bond, will be reduced by the amount of amortizable bond premium properly allocable to such Beneficial Owner. Beneficial Owners of Premium Bonds should consult their own tax advisors with respect to the proper treatment of amortizable bond premium in their particular circumstances.

The Code imposes various restrictions, conditions and requirements relating to the exclusion from gross income for federal income tax purposes of interest on obligations such as the Bonds. The Authority has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the Bonds will not be included in federal gross income. Inaccuracy of these representations or failure to comply with these covenants may result in interest on the Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the Bonds. The opinion of Special Tax Counsel assumes the accuracy of these representations and compliance with these covenants. Special Tax Counsel has not undertaken to determine (or to inform any person) whether any actions taken (or not taken), or events occurring (or not occurring), or any other matters coming to Special Tax Counsel’s attention after the date of issuance of the Bonds may adversely affect the value of, or the tax status of interest on, the Bonds. Accordingly, the opinion of Special Tax Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Special Tax Counsel is of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes, the ownership or disposition of, or the accrual or receipt of amounts treated as interest on, the Bonds may otherwise affect a Beneficial Owner’s federal, state or local tax liability. The nature and extent of these other tax consequences depends upon the particular tax status of the Beneficial Owner or the Beneficial Owner’s other items of income or deduction. Special Tax Counsel expresses no opinion regarding any such other tax consequences.

Current and future legislative proposals, if enacted into law, clarification of the Code or court decisions may cause interest on the Bonds to be subject, directly or indirectly, in whole or in part, to federal income taxation or otherwise prevent Beneficial Owners from realizing the full current benefit of the tax status of such interest. The introduction or enactment of any such legislature proposals or clarification of the Code or court decisions may also affect, perhaps significantly, the market price for, or marketability of, the Bonds. Prospective purchasers of the Bonds should consult their own tax advisors regarding the potential impact of any pending or proposed federal or state tax legislation, regulations or litigation, as to which Special Tax Counsel is expected to express no opinion.

The opinion of Special Tax Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Special Tax Counsel's judgment as to the proper treatment of the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Special Tax Counsel cannot give and has not given any opinion or assurance about the future activities of the Authority or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The Authority has covenanted, however, to comply with the requirements of the Code.

Special Tax Counsel's engagement with respect to the Bonds ends with the issuance of the Bonds, and, unless separately engaged, Special Tax Counsel is not obligated to defend the Authority or the Beneficial Owners regarding the tax-exempt status of the Bonds in the event of an audit examination by the IRS. Under current procedures, parties other than the Authority and its appointed counsel, including the Beneficial Owners, would have little, if any, right to participate in the audit examination process. Moreover, because achieving judicial review in connection with an audit examination of tax-exempt bonds is difficult, obtaining an independent review of IRS positions with which the Authority legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of bonds presenting similar tax issues may affect the market price for, or the marketability of, the Bonds, and may cause the Authority or the Beneficial Owners to incur significant expense.

QUALIFIED TAX-EXEMPT OBLIGATIONS

The Authority will designate the Bonds as "qualified tax-exempt obligations" within the meaning of Section 265(b)(3)(B) of the Internal Revenue Code of 1986, as amended. Pursuant to that section of the Code, a qualifying financial institution will be allowed a deduction from its own federal corporate income tax for the portion of interest expense the financial institution is able to allocate to designated "bank-qualified" investments.

MUNICIPAL BOND RATING

The Bonds are rated "Baa3" (stable outlook) by Moody's Investors Service, Inc. ("Moody's"). The rating reflects only the views of Moody's and the Authority makes no representation as to the appropriateness of the ratings. There is no assurance that such rating will continue for any given period of time or that it will not be revised downward or withdrawn entirely by Moody's, if in the judgment of Moody's, circumstances so warrant. Any such downward revision, suspension or withdrawal of such rating may have an adverse effect on the market price of the Bonds.

CONTINUING DISCLOSURE OF INFORMATION

In the Bond Resolution, the Authority has made the following agreement for the benefit of the registered and beneficial holders of the Bonds. The Authority is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the Authority will be obligated to provide certain updated financial information and operating data annually, and timely notice of specified events, to the Municipal Securities Rulemaking Board (the "MSRB"), or any successor to its functions as a repository, through its Electronic Municipal Market Access ("EMMA") system with the identifying information required by the MSRB.

Annual Reports

The Authority will provide certain updated financial information and operating data to the MSRB. The information to be updated includes all quantitative financial information and operating data with respect to the Authority of the general type included in this Official Statement in **Schedule 1** (for most recent certified values

available), **Schedule 2** (using debt service on debt outstanding at the end of the Authority's fiscal year), **Schedules 3 through 7**, **APPENDIX B: IOWA COLONY DEVELOPMENT AUTHORITY ANNUAL FINANCIAL REPORT**, and **APPENDIX C: CITY OF IOWA COLONY, TEXAS ANNUAL FINANCIAL REPORT**. The Authority is not obligating itself to provide projections with respect to future tax years in connection with its continuing disclosure undertaking. The Authority will update and provide this information within six months after the end of each fiscal year.

The updated information will include audited financial statements, if the City or the Authority commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the Authority will provide unaudited financial statements by the required time and audited financial statements when and if the audit report becomes available. Any such financial statements will be prepared in accordance with the accounting principles described in APPENDIX B or such other accounting principles as the City or Authority may be required to employ from time to time pursuant to state law or regulation.

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

Specified Event Notices

The Authority will also provide notice to the MSRB of any of the following events with respect to the Bonds in a timely manner and not more than 10 business days after the occurrence of the event: (1) principal and interest payment delinquencies; (2) non-payment related defaults, if material; (3) unscheduled draws on debt service reserves reflecting financial difficulties; (4) unscheduled draws on credit enhancements reflecting financial difficulties; (5) substitution of credit or liquidity providers, or their failure to perform; (6) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB), or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax status of the Bonds; (7) modifications to rights of beneficial owners of the Bonds, if material; (8) Bond calls, if material, and tender offers; (9) defeasances; (10) release, substitution, or sale of property securing repayment of the Bonds, if material; (11) rating changes; (12) bankruptcy, insolvency, receivership, or similar event of the Authority, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of its assets, 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; and (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 Authority if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a financial obligation of the Authority any of which affect Beneficial Owners of the Bonds, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a financial obligation of the Authority any of which reflect financial difficulties.

For these purposes, (a) any event described in the immediately preceding clause (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority, and (b) a "financial obligation" as described in (15) and (16) above means a (i) debt obligation; (ii) derivative instrument entered into in connection with, or pledged as security or a source of payment for, an existing or planned debt obligation; or (iii) a guarantee of (i) or (ii). The term "financial obligation" does not include municipal securities as to which a final official statement has been provided to the MSRB consistent with the Rule.

In addition, the Authority will notify the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data in accordance with its agreement described above under "Annual Reports" by the time required by that section.

Availability of Information from MSRB

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

Limitations and Amendments

The Authority has agreed to update information and to provide notices of specified events only as described above. The Authority has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results, operations, conditions or prospects or to update any information that is provided, except as described above. The Authority 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 Authority 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 registered owners and beneficial owners of the Bonds may seek a writ of mandamus to compel the Authority to comply with its agreement.

The Authority may amend its continuing disclosure agreement from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the Authority, if but only if (1) the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering made hereby in compliance with Rule 15c2-12 of the United States Securities and Exchange Commission (the “Rule”), taking into account any amendments or interpretations of Rule to the date of such amendment, as well as such changed circumstances and (2) either (a) the registered owners of a majority in aggregate principal amount of the outstanding Bonds consent to the amendment or (b) a qualified professional unaffiliated with the Authority (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the registered owners and beneficial owners of the Bonds. If the Authority so amends the agreement, it has agreed to include with any financial information or operating data next provided in accordance with its agreement described above under “Annual Reports” an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information and operating data so provided. The Authority may also amend or repeal its continuing disclosure agreement if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters a judgment that such provisions of the Rule are invalid, and the Authority also may amend its continuing disclosure agreement in its discretion in any other manner or circumstance, but in either case only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds. If the Authority amends its agreement, it must include with the next financial information and operating data provided in accordance with its agreement described above under “Annual Reports” an explanation in narrative form, of the reasons for the amendment and of the impact of any change in the type of information and data provided.

Compliance with Prior Undertakings

The Authority has complied in all material respects with its prior continuing disclosure agreements entered with respect to the Prior Bonds under the Rule.

PREPARATION OF OFFICIAL STATEMENT

Sources and Compilation of Information

The financial data and other information contained in this Official Statement has been obtained primarily from the records of the City, the County Tax Assessor/Collector, the Appraisal District, the Authority, and other sources. All of these sources are believed to be reliable, but no guarantee is made by the Authority as to the accuracy or completeness of the information derived from sources other than the Authority, and the Board has made no independent investigation as to the accuracy or completeness of the information derived from sources other than the Authority. Inclusion of such information herein is not to be construed as a representation on the part of the Authority, except that the Authority has represented to the Underwriters that it has no reason to believe that such information contains any untrue statement of a material fact or omits to state any material fact necessary to make the statements herein, in the light of the circumstances under which they are made, not misleading. Furthermore, there

is no guarantee that any of the assumptions or estimates contained herein will be realized. The summaries of the agreements, reports, statutes, resolutions, engineering and other related information set forth in this Official Statement are included herein subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information.

Financial Advisor

Masterson Advisors LLC is employed as Financial Advisor to the Authority to render certain professional services, including advising the Authority on a plan of financing and the Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with, and as a part of, its responsibilities to the Authority and, as applicable, to investors under the federal securities laws as applied to the facts and circumstances of this transaction, but the Financial Advisor does not guarantee the accuracy or completeness of such information. The fees paid to the Financial Advisor for services rendered in connection with the issuance of the Bonds are based on a percentage of the Bonds actually issued and sold. Therefore, the payment of such fees is contingent upon the sale and delivery of the Bonds.

Audited Financial Statements

Whitley Penn LLP, the City's independent auditor, has consented to the inclusion of its opinion and the financial statements of the governmental activities and each major fund of the Authority and the financial statements of the governmental activities and the General Fund of the City as of and for the year ended September 30, 2020 as Appendices B and C to the Official Statement. The Authority is a component unit of the City. Whitley Penn LLP has not performed any procedures on such financial statements since the date of such reports, nor have they performed any procedures on any other financial information of the Authority, including without limitation any of the information contained in this Official Statement.

MISCELLANEOUS

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

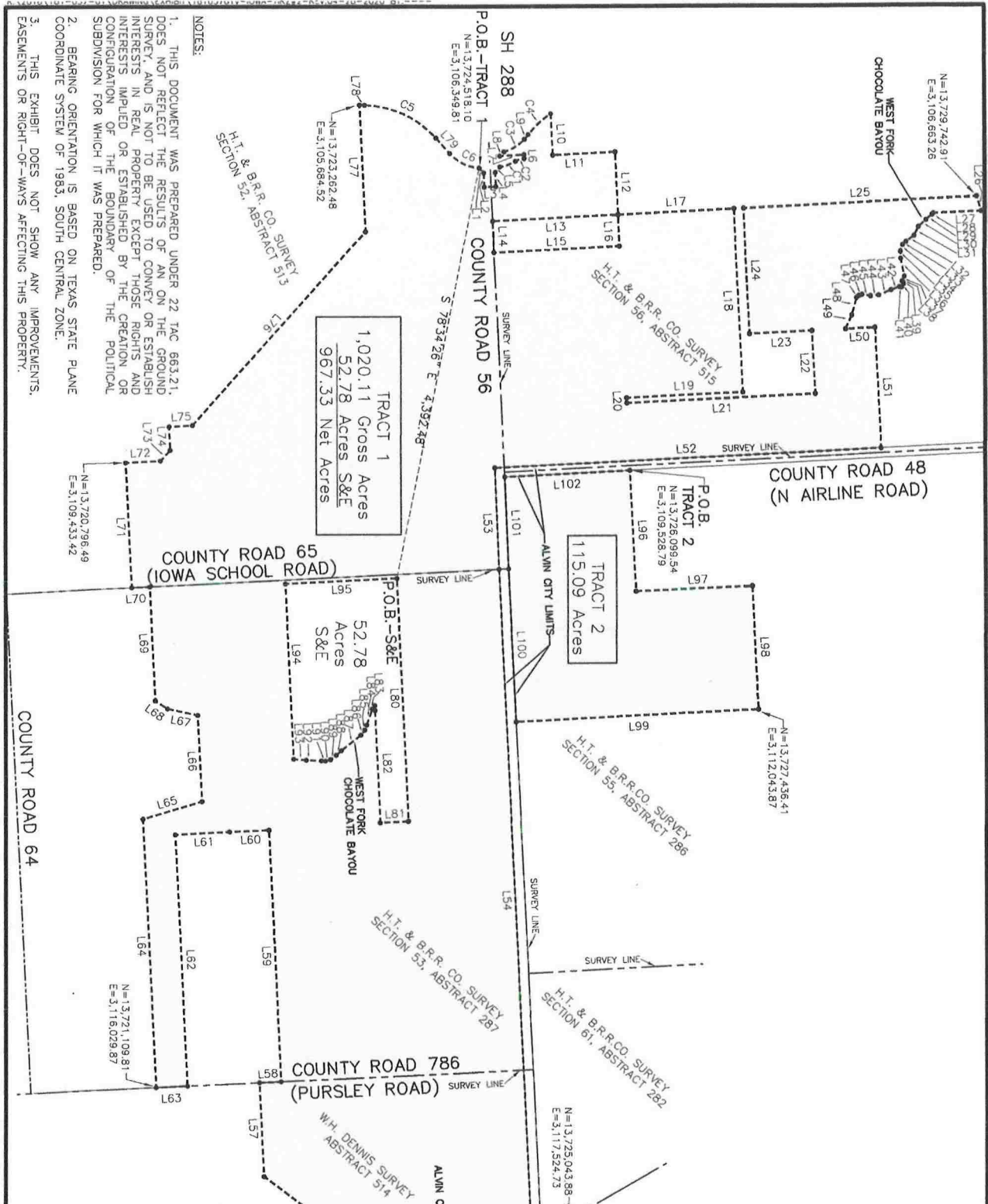
This Official Statement has been approved by the Board of Directors of Iowa Colony Development Authority.

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APPENDIX A

BOUNDARY MAP

The boundaries of the Zone are depicted in the map contained in this Appendix. See “STATUS OF DEVELOPMENT.”



NOTES:

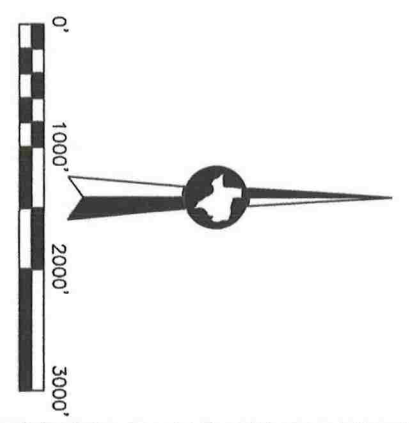
1. THIS DOCUMENT WAS PREPARED UNDER 22 TAC 663.21. DOES NOT REFLECT THE RESULTS OF AN ON THE GROUND SURVEY AND IS NOT TO BE USED TO CONVEY OR ESTABLISH INTERESTS IN REAL PROPERTY EXCEPT THOSE RIGHTS AND INTERESTS IMPLIED OR ESTABLISHED BY THE CREATION OR CONFIGURATION OF THE BOUNDARY OF THE POLITICAL SUBDIVISION FOR WHICH IT WAS PREPARED.
2. BEARING ORIENTATION IS BASED ON TEXAS STATE PLANE COORDINATE SYSTEM OF 1983, SOUTH CENTRAL ZONE.
3. THIS EXHIBIT DOES NOT SHOW ANY IMPROVEMENTS, EASEMENTS OR RIGHT-OF-WAYS AFFECTING THIS PROPERTY.

TRACT 1
1,020.11 Gross Acres
52.78 Acres S&E
967.33 Net Acres

TRACT 2
115.09 Acres

AREA TABLE

| | | |
|---------------------|-----------------|--------------|
| TRACT 1 - | 967.33 | Acres |
| TRACT 2 - | 115.09 | Acres |
| TOTAL AREA - | 1,082.42 | Acres |



SCALE: 1" = 1000'



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713.784.4500
WWW.EHRAINCO.COM
TBP# No. F-726
TBP# No. 10092300

EXHIBIT MAP
CITY OF IOWA COLONY T.I.R.Z. #2
(TAX INCREMENT REINVESTMENT ZONE)
BRAZORIA COUNTY, TEXAS

DATE: July 18, 2019 SCALE: 1" = 1000' JOB NO.: 181--057--01
DWG. NAME: 18105701V-IOWA-TIRZ2.dwg DRAWING NO.: SHEET 1 of 2

APPENDIX B

**IOWA COLONY DEVELOPMENT AUTHORITY
ANNUAL FINANCIAL REPORT**

The information contained in this Appendix consists of the Iowa Colony Development Authority Annual Financial Report for the Year Ended September 30, 2020, and is not intended to be a complete statement of the Authority's financial condition.

**IOWA COLONY
DEVELOPMENT AUTHORITY**

**A COMPONENT UNIT OF
THE CITY OF IOWA COLONY, TEXAS**

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020

IOWA COLONY DEVELOPMENT AUTHORITY

Table of Contents

| | <u>Page</u> |
|---|-------------|
| Independent Auditors' Report | 1 |
| Management's Discussion and Analysis | 3 |
| Basic Financial Statements: | |
| Government-Wide Financial Statements: | |
| Statement of Net Position | 7 |
| Statement of Activities | 8 |
| Fund Financial Statements: | |
| Balance Sheet - Governmental Funds | 9 |
| Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position | 10 |
| Statement of Revenues, Expenditures, and Changes in Fund Balances - Governmental Funds | 11 |
| Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities | 12 |
| Notes to the Financial Statements | 13 |

REPORT OF INDEPENDENT AUDITORS

To the Board of Directors
Iowa Colony Development Authority
City of Iowa Colony, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities and each major fund of Iowa Colony Development Authority (the "Authority"), a component unit of the City of Iowa Colony, Texas as of and for the year ended September 30, 2020, which collectively comprise the basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Board of Directors
Iowa Colony Development Authority

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities and each major fund of the Authority as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

Accounting principles generally accepted in the United States of America require that the management's discussion and analysis on pages 3 and 4 be presented to supplement the basic financial statements. Such information, although not a part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. We have applied certain limited procedures to the required supplementary information in accordance with auditing standards generally accepted in the United States of America, which consisted of inquiries of management about the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We do not express an opinion or provide any assurance on the information because the limited procedures do not provide us with sufficient evidence to express an opinion or provide any assurance.

The image shows a handwritten signature in black ink that reads "Whitley Penn LLP". The signature is written in a cursive, flowing style.

Houston, Texas
April 9, 2021

IOWA COLONY DEVELOPMENT AUTHORITY MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the Iowa Colony Development Authority, we offer readers of the Authority's financial statements this overview and analysis of the Authority's financial activities for the fiscal year ended September 30, 2020.

Financial Highlights

The government-wide financial statements include total revenues of \$990,529 and total expenses of \$8,247,464, resulting in a decrease to net position of \$7,256,935 and a total ending net deficit of \$14,798,221.

During the fiscal year 2020 the Authority's governmental funds had revenues of \$990,529, expenditures of \$8,249,432, and other financing sources/uses of \$7,905,295, which resulted in an ending fund balance of \$1,844,405. The General Fund (Surplus Fund) ended with a fund balance of \$365,589 due to an increase in fund balance of \$161,501. The Project Fund ended with a fund balance of \$7,948 due to an increase in fund balance of \$7,500. The Debt Service Fund ended with a fund balance of \$1,470,868 due to an increase in fund balance of \$477,391.

Overview of the Financial Statements

This discussion and analysis are intended to serve as an introduction to the Authority's basic financial statements. The Authority's basic financial statements are comprised of three components: (1) government-wide financial statements, (2) fund financial statements and (3) notes to the financial statements.

Government-wide Financial Statements - The government-wide financial statements are designed to provide readers with a broad overview of the Authority's finances, in a manner similar to a private-sector business. The Statement of Net Position presents information on all of the increases or decreases in net position and may serve as a useful indicator of whether the financial position of the Authority's net position changed during the fiscal year. All changes in net position are reported when the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods.

Fund Financial Statements – Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on current sources and uses of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a district's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

Notes to the Financial Statements – The notes provide additional information that is essential to a full understanding of the data in the government-wide and fund financial statements. The notes to the financial statements can be found beginning on page 13 of this report.

IOWA COLONY DEVELOPMENT AUTHORITY
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Comparison in Government-wide Financial Statements

The following is a comparison of the Authority's net position as of September 30, 2020 and 2019:

| | <u>2020</u> | <u>2019</u> |
|-------------------------------------|------------------------|-----------------------|
| Current Assets | \$ 1,856,191 | \$ 1,198,013 |
| Current Liabilities | 301,838 | 294,006 |
| Long-term liabilities | <u>16,352,574</u> | <u>8,445,293</u> |
| Total Liabilities | <u>\$ 16,654,412</u> | <u>\$ 8,739,299</u> |
| Unrestricted Net Position (Deficit) | <u>\$ (14,798,221)</u> | <u>\$ (7,541,286)</u> |

The following is a comparison of the Authority's changes in net position for the prior two fiscal years:

| | <u>2020</u> | <u>2019</u> |
|---|------------------------|-----------------------|
| Revenues | \$ 990,529 | \$ 578,673 |
| Expenses | <u>8,247,464</u> | <u>8,363,244</u> |
| Change in Net Position | (7,256,935) | (7,784,571) |
| Beginning Net Position (Deficit) | <u>(7,541,286)</u> | <u>243,285</u> |
| Ending Net Position (Deficit) | <u>\$ (14,798,221)</u> | <u>\$ (7,541,286)</u> |

Economic Factors and Next Year's Budgets and Rates

The Authority does not currently adopt a budget. However, the City has adopted a General Fund operating budget for the 2021 fiscal year as follows:

| | <u>Fiscal Year</u> |
|--|--------------------|
| | <u>2021</u> |
| Revenues | \$ 4,762,666 |
| Expenditures | <u>4,727,185</u> |
| Budgeted increase (decrease) in fund balance | <u>\$ 35,481</u> |

The 2021 Budget includes for a combined property tax of \$0.4689209 per \$100 of value on real and personal property within the City limits, of which \$0.449322 will be used for general operations of the City and \$0.019887 will be used for debt service. The combined rate is a decrease of \$0.0202791 from the 2019 tax of \$.4892000 per \$100 of value on real and personal property within the City limits.

Request for Information

The fiscal report is designed to provide our citizens, customers, investors and creditors with a general overview of the Authority's accountability for money it receives. If you have questions about this report or need additional financial information, please contact the City Secretary's Office, 12003 Iowa Colony Boulevard, Iowa Colony, Texas 77583.

BASIC FINANCIAL STATEMENTS



IOWA COLONY DEVELOPMENT AUTHORITY

STATEMENT OF NET POSITION

September 30, 2020

| | Governmental Activities |
|--------------------------------|------------------------------------|
| Assets: | |
| Cash and temporary investments | \$ 1,846,043 |
| Due from primary government | 10,148 |
| Total Assets | <u>1,856,191</u> |
| Liabilities: | |
| Accounts payable | 11,786 |
| Accrued interest payable | 290,052 |
| Long-term liabilities: | |
| Due within one year | 165,000 |
| Due in more than one year | 16,187,574 |
| Total Liabilities | <u>16,654,412</u> |
| Net Position (Deficit): | |
| Restricted | <u>(14,798,221)</u> |
| Total Net Position (Deficit) | <u>\$ (14,798,221)</u> |

IOWA COLONY DEVELOPMENT AUTHORITY
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

| | Governmental Activities |
|---|------------------------------------|
| | <u> </u> |
| General Revenues: | |
| Property tax increments | \$ 988,424 |
| Miscellaneous | 2,105 |
| Total General Revenues | <u>990,529</u> |
| | |
| Expenses: | |
| Operations | 298,962 |
| Paid to developer | 6,940,584 |
| Interest and fiscal agent fees | 1,007,918 |
| Total Expenses | <u>8,247,464</u> |
| | |
| Change in net position | (7,256,935) |
| | |
| Net Position (Deficit) - Beginning | <u>(7,541,286)</u> |
| Net Position (Deficit) - Ending | <u><u>\$ (14,798,221)</u></u> |

IOWA COLONY DEVELOPMENT AUTHORITY
GOVERNMENTAL FUNDS - BALANCE SHEET
For the Year Ended September 30, 2020

| | General (Surplus) Fund | Project Fund | Debt Service Fund | Total Governmental Funds |
|------------------------------|---------------------------------------|-------------------------|----------------------------------|---|
| Assets | | | | |
| Cash and cash equivalents | \$ 367,227 | \$ 7,948 | \$ 1,470,868 | \$ 1,846,043 |
| Due from primary government | 10,148 | - | - | 10,148 |
| Total Assets | 377,375 | 7,948 | 1,470,868 | 1,856,191 |
| Liabilities | | | | |
| Accounts payable | \$ 11,786 | \$ - | \$ - | \$ 11,786 |
| Total Liabilities | 11,786 | - | - | 11,786 |
| Fund Balances | | | | |
| Restricted: | | | | |
| Zone operations and projects | \$ 365,589 | \$ 7,948 | \$ - | \$ 373,537 |
| Debt service | - | - | 1,470,868 | 1,470,868 |
| Total Fund Balance | 365,589 | 7,948 | 1,470,868 | 1,844,405 |
| Total Fund Balances | \$ 377,375 | \$ 7,948 | \$ 1,470,868 | \$ 1,856,191 |

IOWA COLONY DEVELOPMENT AUTHORITY
RECONCILIATION OF THE BALANCE SHEET OF GOVERNMENTAL FUNDS
TO THE STATEMENT OF NET POSITION
For the Year Ended September 30, 2020

Amounts reported for governmental activities in the statement of net position are different because:

| | |
|--|-------------------------------|
| Total fund balances of governmental funds | \$ 1,844,405 |
| Long-term liabilities are not due and payable in the current period and, therefore, are not reported in the funds: | |
| Bonds payable | (16,450,000) |
| Discount on bonds | 97,426 |
| Accrued interest | <u>(290,052)</u> |
| Net position of governmental activities | <u><u>\$ (14,798,221)</u></u> |

IOWA COLONY DEVELOPMENT AUTHORITY
STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES – GOVERNMENTAL FUNDS
For the Year Ended September 30, 2020

| | General (Surplus) Fund | Project Fund | Debt Service Fund | Total Governmental Funds |
|--|---------------------------------------|-------------------------|----------------------------------|---|
| Revenues | | | | |
| Property taxes | \$ 764,080 | \$ - | \$ 224,344 | \$ 988,424 |
| Miscellaneous | 2,105 | - | - | 2,105 |
| Total Revenues | 766,185 | - | 224,344 | 990,529 |
| Expenditures | | | | |
| Current: | | | | |
| City administration fee | 229,225 | - | - | 229,225 |
| Professional services | 68,354 | - | - | 68,354 |
| Supplies and other costs | 1,383 | - | - | 1,383 |
| Developer agreements: | | | | |
| Principal | - | 5,960,067 | - | 5,960,067 |
| Interest | - | 980,517 | - | 980,517 |
| Debt service: | | | | |
| Interest | - | - | 483,010 | 483,010 |
| Other debt service costs | - | 521,550 | 5,326 | 526,876 |
| Total Expenditures | 298,962 | 7,462,134 | 488,336 | 8,249,432 |
| Excess (deficiency) of revenues over expenditures | 467,223 | (7,462,134) | (263,992) | (7,258,903) |
| Other financing sources (uses) | | | | |
| Transfers in | - | - | 305,722 | 305,722 |
| Transfers out | (305,722) | - | - | (305,722) |
| Proceeds from bonds issued | - | 7,534,339 | 435,661 | 7,970,000 |
| Discount on bonds issued | - | (64,705) | - | (64,705) |
| Total other financing sources (uses) | (305,722) | 7,469,634 | 741,383 | 7,905,295 |
| Net change in fund balances | 161,501 | 7,500 | 477,391 | 646,392 |
| Fund balances - beginning | 204,088 | 448 | 993,477 | 1,198,013 |
| Fund balance - ending | \$ 365,589 | \$ 7,948 | \$ 1,470,868 | \$ 1,844,405 |

IOWA COLONY DEVELOPMENT AUTHORITY
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN
FUND BALANCES OF GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Amounts reported for governmental activities in the statement of activities are different because:

| | |
|--|------------|
| Net change in fund balances - total governmental funds | \$ 646,392 |
|--|------------|

Bond and other debt proceeds provide current financial resources to governmental funds, but issuing debt increases long-term liabilities in the Statement of Net Position. Repayment of bond and other debt principal is an expenditure in the governmental funds, but repayment reduces long-term liabilities in the Statement of Net Position. Also, governmental funds report the effect of premiums, discounts, and similar items when debt is first issued, whereas these amounts are deferred and amortized in the statement of activities.

| | |
|-------------------------------|--------------------|
| Issuance of bonds | (7,970,000) |
| Discount on issuance of bonds | 64,705 |
| | <u>(7,905,295)</u> |

Some expenses reported in the statement of activities do not require the use of current financial resources and therefore are not reported as expenditures in governmental funds. These items are as follows:

| | |
|------------------------------------|--------------|
| Accrued interest on long-term debt | 3,954 |
| Amortization of bond discounts | (1,986) |
| | <u>1,968</u> |

| | |
|---|-----------------------|
| Change in net position of governmental activities | <u>\$ (7,256,935)</u> |
|---|-----------------------|

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS

Note 1 – Creation of The Authority

Iowa Colony Development Authority, a public not-for-profit local government corporation (the “Authority”), was established by the City of Iowa Colony, Texas (the “City”) authorized by City Resolution No. R2010-R-3 adopted on November 15, 2010, pursuant to Subchapter D of Chapter 431, Texas Transportation Code, and Chapter 394, Texas Local Government Code. The Authority was created to aid, assist, and act on behalf of the City in the performance of the City’s governmental functions to promote the common good and general welfare of the area included within Reinvestment Zone Number Two, City of Iowa Colony, Texas (the “Zone”) and neighboring areas; and to promote, develop, encourage and maintain housing, educational facilities, employment, commerce and economic development in the City. The Zone, which was created by the City pursuant to the provisions of the Tax Increment Financing Act, Chapter 311, Texas Tax Code (the “TIF Act”), is an approximate 956-acre area located in Brazoria County approximately 3.5 miles southwest of the intersection of State Highway 6 and State Highway 288. Land within the Zone is being developed as a portion of the master planned community of Meridiana, a single family, mixed-used and commercial development which will span across the City and the neighboring city of Manvel, Texas. Property tax receipts over undeveloped assessments (base value) provide funding for the projects. The City appoints the Board members who operate and account for the tax zone activity consistent with the State statute for economic benefit of the City. The City accounts for the tax zone (consolidated into the Iowa Colony Development Authority) as a component unit.

Note 2 – Significant Accounting Policies

The accompanying basic 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.

The Governmental Accounting Standards Board has established the criteria for determining whether or not a given entity is a component unit. The criteria are: (1) is the potential component unit a legally separate entity, (2) does the primary government appoint a voting majority of the potential component unit’s board, (3) is the primary government able to impose its will on the potential component unit, (4) is there a financial benefit or burden relationship. The Authority was created as an instrumentality of the City of Iowa Colony (the “City”). The Authority does meet criteria for inclusion as a component of the City.

Financial Statement Presentation

These financial statements have been prepared in accordance with Governmental Accounting Standards Board (GASB) Statement No. 34-Basic Financial Statements and Management’s Discussion and Analysis for State of Local Governments.

GASB 63/65 established standards for external financial reporting for all state and local government entities, which includes a requirement for a Statement of Net Positions and a Statement of Activities. It requires the classification of net position into three components: Net Investments 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.

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 – Significant Accounting Policies (continued)

Financial Statement Presentation (continued)

- Restricted Net Position – This component of net position consists of constraints placed on net assets use through external constraints 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 net position that do not meet the definition of “restricted” or “net investment in capital assets.”

When both restricted and unrestricted resources are available for use, generally it is the Authority’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 Authority as a whole. The Authority’s Statement of Net Position and Statement of Activities are combined with the governmental fund financial statements. The Authority 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 funds 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 by adjustment to obtain net total revenue and expense in the government-wide Statement of Activities.

Fund Financial Statements

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

Governmental Funds

The Authority currently has three governmental funds, all of which are considered major funds. The General Fund, often referred to as the Surplus Fund, serves as a general fund and administrative umbrella for the Zone. The Project Fund is used to record proceeds of contract revenue bonds issued to pay project costs. The Debt Service Fund is funded with pledged revenues and is used to pay principal and interest payments on contract revenue bonds.

Basis of Accounting

The Authority 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 authority considers revenues reported in the governmental funds to be available if they are collectable within sixty (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.

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 2 – Significant Accounting Policies (continued)

Capital Assets

Normally, capital assets are reported as assets in the government-wide Statement of Net Position. Capital assets are recorded at historical cost and depreciated over their estimated useful lives unless they are inexhaustible, such as land. Depreciation is not recorded on items classified as construction in progress. Depreciation expense is reported in the government-wide Statement of Activities. As of September 30, 2020, the Authority has no capital assets, as capital assets are transferred to the City.

Budgeting

The Authority has not previously adopted a budget or spending plan.

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 government-wide Statement of Net Position and Statement of Activities, the Governmental activities are reported using the economic resources measurement focus. The accounting objectives of this measurement focus are the determination of operating income, changes in net assets, financial position, and cash flows. All assets and liabilities associated with the activities are reported, regardless of the timing of related cash flows. Fund equity is classified as net assets.

Fund Balances

The Authority reports the fund balance of various funds in a hierarchy of classifications based on the constraints imposed on the uses of those resources. The fund balances for governmental funds consist of the following:

Restricted fund balance includes amounts that are restricted for specific purposes stipulated by external resource providers and creditors, constitutionally or through enabling legislation. All of the fund balance in the Zone Funds is restricted for debt service and for zone operations and projects.

Unassigned fund balance is the residual classification of the Authority. As of September 30, 2020, the Authority does not have unassigned fund balance.

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 disclosures 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.

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 3 – Deposits and Investments

Deposits

Custodial Credit Risk is the risk that, in the event of 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 Authority's deposit policy for custodial credit risk requires compliance with the provisions of Texas statutes.

Texas requires 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 Authority of securities eligible under the laws of Texas to secure the funds of the Authority, 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 September 30, 2020, none of the Authority's bank balances were exposed to custodial credit risk.

Note 4 – Paid to Developers

As discussed in Note 6, construction of the Authority's capital assets is financed through prefunding agreements with the Authority's developers. The Authority will reimburse its developers through the issuance of bonds or other resources. The Authority recognizes the liability associated with developer construction at such time as developer costs have been submitted for reimbursement and verified.

Note 5 – Tri-Party Agreements

The Tri-Party Agreement states in detail the scope of services to be provided to the Zone by the Authority. The services include management and administrative service for the Zone, as requested by the Zone board, services with respect to the Project Plan and Financing Plan (the Plan), including enlarging the zone and amendments to the project plan and financing plan, and services with respect to the infrastructure construction and construction of Zone projects.

The Tri-Party Agreements also provides for the Authority to issue bonds or enter into other Authority obligations with developers or builders, and enter in contracts with consultants, to be repaid from Contract Tax Increments. All bonds must be approved by City Council of the City of Iowa Colony. These Agreements shall end upon termination of the Zone.

The City, on behalf of itself and the Zone, will pay the authority, not less than twice a year, all monies then available in the Tax Increment fund.

Note 6 – Tax Increments

The amount of a Participant's tax increment for a year is the amount of property taxes levied and collected by the Participant for the year on the Captured Appraised Value of real property taxable by the Participant and located in the Zone. The Captured Appraised Value of real property taxable by a Participant for a year is the total appraised value of all real property taxable by the participant and located in the Zone for that year less the Tax Increment base, which is the total appraised value of all real property taxable by the Participant and located in the Zone on January 1 of the year in which the Zone was designated as such under the Tax Increment Financing Act (the "TIF Act").

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 7 – Interfund Transfers

The composition of interfund transfers for the year-ended September 30, 2020 is as follows:

| | Transfer in: | | |
|-----------------------------|--|------------------------------|---------------------|
| | General Fund (Surplus Fund) | Debt Service Fund | Total |
| Transfer out: | | | |
| General Fund (Surplus Fund) | \$ - | \$ 524,707 | \$ 524,707 |
| Debt Service Fund | 524,707 | - | 524,707 |
| Total | <u>\$ 524,707</u> | <u>\$ 524,707</u> | <u>\$ 1,049,414</u> |

During the year, transfers were made between the General Fund (Surplus Fund) and the Debt Service Fund in order to properly fund the debt service reserve requirement.

Note 8 – Long-Term Liabilities

In December 2019, the Authority issued Tax Increment Revenue Bonds, Series 2019, in the amount of \$4,105,000 with a discount of \$26,036. Also, in September 2020, the Authority issued Tax Increment Revenue Bonds, Series 2020, in the amount of \$3,865,000 with a discount of \$38,669. The proceeds of the bonds were used for (1) financing certain project costs in accordance with the Authority’s Project and Financing Plan; (2) funding reserve requirements in the Debt Service Fund; (3) reimbursing the project’s developer for the costs of the creation of the Zone and operating advances; and (4) paying costs of issuance. The bulk of the project costs funded related to landscaping and trails constructed around the detention ponds constructed in the Zone, including installation of sidewalks, shrubbery, trees, landscape lighting and irrigation.

Changes in the Authority’s long-term liabilities for governmental activities during the year-ended September 30, 2020 are as follows:

| | Beginning Balance | Additions | Reductions | Ending Balance | Due Within One Year |
|--------------------------------------|------------------------------|---------------------|-------------------|---------------------------|--------------------------------|
| Tax increment contract revenue bonds | \$ 8,480,000 | \$ 7,970,000 | \$ - | \$ 16,450,000 | \$ 165,000 |
| Discount on bonds | (34,707) | (64,705) | 1,986 | (97,426) | - |
| Total Long-term Liabilities | <u>\$ 8,445,293</u> | <u>\$ 7,905,295</u> | <u>\$ 1,986</u> | <u>\$ 16,352,574</u> | <u>\$ 165,000</u> |

Additional information for the year ended September 30, 2020 is as follows:

| | Original Borrowing | Interest Rate | Final Maturity | Outstanding at Year-end |
|---|-------------------------------|--------------------------|---------------------------|------------------------------------|
| Governmental activities: | | | | |
| Tax Increment Contract Revenue Bonds, Series 2018 | \$ 8,480,000 | 3.100% - 4.750% | 2049 | \$ 8,480,000 |
| Tax Increment Contract Revenue Bonds, Series 2019 | 4,105,000 | 2.000% - 3.500% | 2050 | 4,105,000 |
| Tax Increment Contract Revenue Bonds, Series 2020 | 3,865,000 | 2.000% - 3.125% | 2050 | 3,865,000 |
| Total Governmental Activities | <u>\$ 16,450,000</u> | | | <u>\$ 16,450,000</u> |

IOWA COLONY DEVELOPMENT AUTHORITY
NOTES TO THE FINANCIAL STATEMENTS (continued)

Note 8 – Long-Term Liabilities (continued)

The debt service requirements for the bonds are as follows:

| <u>Year Ending September 30,</u> | <u>Principal</u> | <u>Interest</u> |
|--------------------------------------|----------------------|----------------------|
| 2021 | \$ 165,000 | \$ 603,680 |
| 2022 | 310,000 | 613,474 |
| 2023 | 370,000 | 237,782 |
| 2024 | 380,000 | 595,104 |
| 2025 | 395,000 | 584,226 |
| 2026 - 2030 | 2,155,000 | 2,731,058 |
| 2031 - 2035 | 2,560,000 | 2,329,382 |
| 2036 - 2040 | 3,085,000 | 1,800,162 |
| 2041 - 2045 | 3,755,000 | 1,129,998 |
| 2046 - 2050 | 3,275,000 | 372,236 |
| | <u>\$ 16,450,000</u> | <u>\$ 10,997,102</u> |

The Authority is required to comply with certain reserve requirements related to the bonds. The reserve requirement is computed after the issuance of any series contract revenue bonds and is the lesser of (a) 1.25 times the average annual debt service on the contract revenue bonds, or (b) the maximum annual debt service. As of September 30, 2020, the Authority complied with all reserve requirements.

Note 9 – Interfund Transfers

During the year, the Authority transferred \$524,707 from the General Fund to the Debt Service Fund to make scheduled principal and interest payments on long-term debt.

Note 10 – COVID-19 Pandemic

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On March 13, 2020, the Governor of Texas (the “Governor”) declared a state of disaster for all counties in Texas in response to the COVID-19, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Brazoria County, also declared a local state of disaster.

The full extent of the ongoing impact of COVID-19 on the Authority’s fiscal year 2021 and longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies related to COVID-19, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted.

APPENDIX C

CITY OF IOWA COLONY, TEXAS ANNUAL FINANCIAL REPORT

The information contained in this Appendix consists of the City of Iowa Colony, Texas Annual Financial Report for the Year Ended September 30, 2020, and is not intended to be a complete statement of the City's financial condition.

CITY OF IOWA COLONY, TEXAS

ANNUAL FINANCIAL REPORT

SEPTEMBER 30, 2020



CITY OF IOWA COLONY, TEXAS
TABLE OF CONTENTS

| | <u>Page</u> |
|--|-------------|
| Report of Independent Auditors | 1 |
| Management’s Discussion and Analysis | 3 |
| Basic Financial Statements | |
| Government-wide Financial Statements | |
| Statement of Net Position | 10 |
| Statement of Activities | 11 |
| Fund Financial Statements | |
| Balance Sheet – General Fund | 12 |
| Reconciliation of the General Fund Balance Sheet to the Statement of Net Position | 13 |
| Statement of Revenues, Expenditures and Changes in Fund Balances - General Fund | 14 |
| Reconciliation of the Statement of Revenues, Expenditures, and Changes in Fund Balances of General Fund to the Statement of Activities | 15 |
| Notes to Basic Financial Statements | 17 |
| Required Supplementary Information | |
| General Fund Schedule of Revenues, Expenditures and Changes in Fund Balances - Budget and Actual | 34 |
| Notes to Required Supplementary Budgetary Information | 35 |
| Required Supplementary Pension Information | |
| Schedule of Changes in Net Pension Liability and Related Ratios | 36 |
| Schedule of Contributions | 37 |

REPORT OF INDEPENDENT AUDITORS

To the Honorable Mayor and
Members of City Council of
City of Iowa Colony, Texas

Report on the Financial Statements

We have audited the accompanying financial statements of the governmental activities, each major fund, and the discretely presented component unit of City of Iowa Colony, Texas (the "City"), as of and for the year ended September 30, 2020, which collectively comprise the City's basic financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

To the Honorable Mayor and
Members of City Council of
City of Iowa Colony, Texas

Opinions

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, each major fund, and the discretely presented component unit of the City as of September 30, 2020, and the respective changes in financial position thereof for the year then ended in conformity with accounting principles generally accepted in the United States of America.

Other Matters

Required Supplementary Information

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



Houston, Texas
April 9, 2021

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS

As management of the City of Iowa Colony, we offer the readers of the City's financial statements this narrative overview and analysis of the financial activities of the City of Iowa Colony for the fiscal year ended September 30, 2020.

Overview of the Financial Statements

This annual report consists of three parts - management's discussion and analysis (this section), the basic financial statements, and the required supplementary information. The basic financial statements include two kinds of statements that present different views of the City:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the City's overall financial status.
- The remaining statements are fund financial statements that focus on individual parts of the government, reporting the City's operations in more detail than the government-wide statements.
- The governmental funds statements tell how general government services were financed in the short term as well as what remains for future spending.
- The financial statements also include notes that explain some of the information in the financial statements and provide more detailed data.

Government-wide Financial Statements. The government-wide financial statements are designed to provide readers with a broad overview of the City's finances, in a manner similar to a private-sector business.

The statement of net position presents information on all of the City's assets, deferred outflows of resources, liabilities and deferred inflows of resources, with the difference between the four 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 City is improving or deteriorating.

The statement of activities presents information showing how the government's net position changed during the most recent fiscal year. All changes in net position are reported as soon as the underlying event giving rise to the change occurs, regardless of the timing of related cash flows. Thus, revenues and expenses are reported in this statement for some items that will only result in cash flows in future fiscal periods (e.g., uncollected taxes and adjudicated fines).

Both of the government-wide financial statements distinguish functions of the City that are principally supported by taxes and intergovernmental revenues. The governmental activities of the City include general government, public safety, public works, municipal court, and community development.

Additionally, the City reports the activities of its sole discretely presented component unit, the Iowa Colony Development Authority in the government-wide financial statements.

The government-wide financial statements can be found on pages 10 and 11 of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

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.

Governmental funds are used to account for essentially the same functions reported as governmental activities in the government-wide financial statements. However, unlike the government-wide financial statements, governmental fund financial statements focus on near-term inflows and outflows of spendable resources, as well as on balances of spendable resources available at the end of the fiscal year. Such information may be useful in evaluating a government's near-term financing requirements.

Because the focus of governmental funds is narrower than that of the government-wide financial statements, it is useful to compare the information presented for governmental funds with similar information presented for governmental activities in the government-wide financial statements. By doing so, readers may better understand the long-term impact of the government's near-term financing decisions. Both the governmental fund balance sheet and the governmental fund statement of revenues, expenditures and changes in fund balances provide a reconciliation to facilitate this comparison between governmental funds and governmental activities.

The City maintains two individual governmental funds, both of which are considered major funds. The General Fund is the main operating fund of the City and the Crime Control District Fund accounts for the accumulation of sales tax proceeds dedicated for crime prevention and reduction programs. Information is presented separately in the governmental fund balance sheet and in the governmental fund statement of revenues, expenditures and changes in fund balances for each of the major funds.

The basic governmental fund financial statements can be found on pages 12 through 15 of this report.

Notes to the Basic Financial Statements. The notes provide additional information that is essential to a full understanding of the data provided in the government-wide and fund financial statements. The notes to the financial statements can be found on pages 17 through 31 of this report.

Other Information. In addition to the basic financial statements and accompanying notes, this report also presents certain required supplementary information concerning the City of Iowa Colony's general fund budgetary comparisons and required supplementary pension plan information. Required supplementary information can be found starting on page 34 of this report.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Government-wide Financial Analysis

Below is a condensed schedule of Net Position as of September 30, 2020 and 2019:

Condensed Schedule of Net Position (in thousands)
September 30, 2020 and 2019

| | Governmental Activities | |
|---|--------------------------------|------------------|
| | 2020 | 2019 |
| Assets | | |
| Current assets | \$ 3,708 | \$ 2,625 |
| Restricted assets | 2,315 | 3,526 |
| Capital assets | 11,064 | 8,651 |
| Total Assets | <u>17,087</u> | <u>14,802</u> |
| Deferred outflows of resources - pension | <u>77</u> | <u>88</u> |
| Liabilities | | |
| Current liabilities | 2,557 | 3,663 |
| Long term liabilities - net pension liability | 1,313 | 181 |
| Total Liabilities | <u>3,870</u> | <u>3,844</u> |
| Deferred inflows of resources - pension | <u>66</u> | <u>32</u> |
| Net Position: | | |
| Net investment in capital assets | 9,809 | 8,651 |
| Restricted | 161 | 79 |
| Unrestricted | 3,258 | 2,284 |
| Total Net Position | <u>\$ 13,228</u> | <u>\$ 11,014</u> |

Net position may serve over time as a useful indicator of a government's financial position. The assets and deferred outflows of resources of the City exceeded its liabilities at the close of the most recent fiscal year by \$13.2 million. Of this amount, \$9.8 million was invested in capital assets, \$3.3 million was unrestricted and the balance of \$161 thousand was restricted for economic development activities.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Below is a condensed schedule of Changes in Net Position for fiscal year 2020 and 2019:

Condensed Schedule of Changes in Net Position (in thousands)
For the Fiscal Years Ended September 30, 2020 and 2019

| Revenues | Governmental Activities | |
|----------------------------|--------------------------------|------------------|
| | 2020 | 2019 |
| Program Revenues: | | |
| Charges for services: | | |
| General government | \$ 232 | \$ 131 |
| Public Safety | 224 | 177 |
| Community services | 2,487 | 2,357 |
| Operating grants | 133 | 21 |
| Capital grants | 1,862 | 2,208 |
| General revenues: | | |
| Property taxes | 947 | 837 |
| Franchise taxes | 83 | 69 |
| Sales taxes | 449 | 279 |
| Other | 419 | 16 |
| Total Revenues | 6,836 | 6,095 |
| Expenses: | | |
| General government | 496 | 635 |
| Public safety | 859 | 441 |
| Public works | 615 | 177 |
| Municipal court | 204 | 136 |
| Community services | 2,448 | 1,887 |
| Total Expenses | 4,622 | 3,276 |
| Change in net position | 2,214 | 2,819 |
| Beginning Net Position | 11,014 | 8,195 |
| Ending Net Position | \$ 13,228 | \$ 11,014 |

The government's net position increased by approximately \$2.2 million during the current fiscal year. This increase was mostly due to contributed capital from developers in the amount of \$1.9 million for roads in the Meridiana development.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

Expenses, Program Revenues, and Net Cost of Services – Governmental Activities (in thousands)
For the Fiscal Years Ended September 30, 2020 and 2019

| | <u>Expenses</u> | | <u>Program Revenues</u> | | <u>Net (Cost) of Services</u> | |
|--------------------|-----------------|-----------------|-------------------------|-----------------|-------------------------------|-----------------|
| | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> | <u>2020</u> | <u>2019</u> |
| Program: | | | | | | |
| General government | \$ 496 | \$ 635 | \$ 262 | \$ 139 | \$ (234) | \$ (496) |
| Public safety | 859 | 441 | 224 | 177 | (635) | (264) |
| Public works | 615 | 177 | - | - | (615) | (177) |
| Municipal court | 204 | 136 | - | - | (204) | (136) |
| Community services | 2,448 | 1,887 | 4,452 | 4,579 | 2,004 | 2,692 |
| | <u>\$ 4,622</u> | <u>\$ 3,276</u> | <u>\$ 4,938</u> | <u>\$ 4,895</u> | <u>\$ 316</u> | <u>\$ 1,619</u> |

As indicated above, governmental program expenses were supported by program revenues including permits and developer contributions. The balance of the program expenses was supported by general revenues.

Financial Analysis of the Government's Funds

As noted earlier, the City used fund accounting to ensure and demonstrate compliance with finance-related legal requirements. The focus of the City's governmental funds is to provide information on near-term inflows, outflows and balances of spendable resources. Such information is useful in assessing the City's financing requirements. In particular, unassigned fund balance may serve as a useful measure of a government's net resources available for spending at the end of the fiscal year.

As of the end of the current fiscal year, the City's General Fund reported an ending fund balance of \$3,203,900, all of which is unassigned fund balance. This change represents an increase of \$831,215 from the prior year.

The Crime Control District reported an ending fund balance of \$161,025, all of which is restricted for crime prevention. This change represents an increase of \$81,853 from the prior year.

Capital Assets and Debt Administration

Capital Assets. The City's investment in capital assets for its governmental activities as of September 30, 2020 amounted to \$11,063,683 (net of accumulated depreciation). This investment in capital assets includes land, buildings, park facilities and machinery and equipment. Additions in the current year consisted of lands, roads, and police equipment.

Additional information on the City's capital assets can be found in Note 8 to the basic financial statements of this report.

Debt Administration. At the end of the current fiscal year, the City had total certificates of obligation debt outstanding of \$1,255,000.

During the current fiscal year, the City issued private placement certificates of obligation in the amount of \$1,255,000 to purchase land near the City Hall.

CITY OF IOWA COLONY, TEXAS
MANAGEMENT'S DISCUSSION AND ANALYSIS (continued)

General Fund Budgetary Highlights

During the 2020 fiscal year, the City's final amended budget planned for \$4,129,054 in revenues and \$5,010,079 in expenditures. Actual revenues exceeded estimated revenues by \$639,088 and total expenditures exceeded appropriations by \$504,204 resulting in an ending fund balance of \$3,203,900 which was \$1,387,240 higher than expected. The increases in revenues came primarily from a higher than expected building construction permit revenues and administrative fees for early plat recording. Expenditure overages were primarily related to community services projects, which occurred as a direct result of the increase in permit revenues, as well as higher than expected capital outlay costs.

Economic Factors and Next Year's Budgets and Rates

The city has adopted a General Fund operating budget for the 2020 fiscal year as follows:

| | <u>Fiscal Year</u> |
|---------------|--------------------|
| | <u>2021</u> |
| General Fund: | |
| Revenues | \$ 4,762,666 |
| Expenditures | \$ 4,727,185 |

The 2021 Budget includes property tax rates of \$0.449322 for maintenance and operations (M&O) and \$0.019887 for the interest and sinking fund (I&S) per \$100 of value on real and personal property within the City limits, for a total tax rate of \$0.469209. This was a 4% decrease from the 2020 fiscal year tax rate of \$.489209 per \$100 of value on real and personal property within the City limits.

BASIC FINANCIAL STATEMENTS

CITY OF IOWA COLONY, TEXAS
STATEMENT OF NET POSITION
September 30, 2020

| | Primary Government Governmental Activities | Discretely Presented Component Unit |
|---|---|--|
| Assets | | |
| Cash and temporary investments | \$ 3,522,699 | \$ 1,846,043 |
| Receivables, net of allowance for uncollectibles | 185,376 | - |
| Due from primary government | - | 10,148 |
| Restricted Assets: | | |
| Cash and temporary investments | 2,315,296 | - |
| Capital assets: | | |
| Land | 3,626,990 | - |
| Buildings and equipment, net of depreciation | 7,436,693 | - |
| Total Assets | <u>17,087,054</u> | <u>1,856,191</u> |
| Deferred Outflows of Resources | | |
| Deferred outflows - pension | 77,351 | - |
| Total Deferred Outflows of Resources | <u>77,351</u> | <u>-</u> |
| Liabilities | | |
| Accounts payable and accrued expenses | 232,227 | 11,786 |
| Due to component unit | 10,148 | - |
| Unearned revenue - retainer fees | 48,894 | - |
| Unearned revenue - road damage deposits | 475,000 | - |
| Developer deposits | 1,791,402 | - |
| Accrued interest payable | - | 290,052 |
| Noncurrent liabilities: | | |
| Due within one year | 80,000 | 165,000 |
| Net pension liability | 58,045 | - |
| Bonds payable | 1,175,000 | 16,187,574 |
| Total Liabilities | <u>3,870,716</u> | <u>16,654,412</u> |
| Deferred Inflows of Resources | | |
| Deferred inflows - pension | 65,953 | - |
| Total Deferred Inflows of Resources | <u>65,953</u> | <u>-</u> |
| Net Position | | |
| Investment in capital assets | 9,808,683 | - |
| Restricted for: | | |
| Crime prevention | 161,025 | - |
| Economic/community development | - | - |
| Unrestricted | 3,258,028 | (14,798,221) |
| Total Net Position | <u>\$ 13,227,736</u> | <u>\$ (14,798,221)</u> |

CITY OF IOWA COLONY, TEXAS
STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

| <u>Functions/Programs</u> | <u>Expenses</u> | <u>Program Revenues</u> | | | <u>Net (Expense) Revenue and Changes in Net Position</u> | |
|-----------------------------------|---------------------|-----------------------------|---|---|--|--|
| | | <u>Charges for Services</u> | <u>Operating Grants and Contributions</u> | <u>Capital Grants and Contributions</u> | <u>Primary Government</u> | <u>Discretely Presented Component Unit</u> |
| Primary Government: | | | | | | |
| Governmental Activities: | | | | | | |
| General government | \$ 496,397 | \$ 231,937 | \$ 29,723 | \$ - | \$ (234,737) | \$ - |
| Public safety | 858,642 | 223,968 | - | - | (634,674) | - |
| Public works | 615,068 | - | - | - | (615,068) | - |
| Municipal court | 203,796 | - | - | - | (203,796) | - |
| Community development | 2,448,532 | 2,487,111 | 103,557 | 1,862,302 | 2,004,438 | - |
| Total Governmental Activities | 4,622,435 | 2,943,016 | 133,280 | 1,862,302 | 316,163 | - |
| Total Primary Government | \$ 4,622,435 | \$ 2,943,016 | \$ 133,280 | \$ 1,862,302 | 316,163 | - |
| Component Unit | | | | | | |
| Iowa Colony Development Authority | | | | | | |
| | \$ 8,247,464 | \$ - | \$ - | \$ - | | (8,247,464) |
| General revenues: | | | | | | |
| Taxes: | | | | | | |
| Property taxes | | | | | 946,890 | 988,424 |
| Franchise taxes | | | | | 82,938 | - |
| Sales taxes | | | | | 449,280 | - |
| Unrestricted investment earnings | | | | | 2,943 | - |
| Miscellaneous | | | | | 415,787 | 2,105 |
| Total general revenues | | | | | 1,897,838 | 990,529 |
| Change in net position | | | | | 2,214,001 | (7,256,935) |
| Net Position - beginning | | | | | 11,013,735 | (7,541,286) |
| Net Position - ending | | | | | \$ 13,227,736 | \$ (14,798,221) |

CITY OF IOWA COLONY, TEXAS

BALANCE SHEET - GENERAL FUND

September 30, 2020

| | <u>General Fund</u> | <u>Crime Control District</u> | <u>Total Governmental Funds</u> |
|--|---------------------|-----------------------------------|---|
| Assets | | | |
| Current assets: | | | |
| Cash | \$ 3,004,020 | \$ - | \$ 3,004,020 |
| Temporary investments | 518,679 | - | 518,679 |
| Property taxes receivable | 40,696 | - | 40,696 |
| Sales tax receivable | 57,743 | 26,858 | 84,601 |
| Fines and forfeitures receivable, net of allowance for uncollectible | 60,079 | - | 60,079 |
| Due from other funds | - | 161,222 | 161,222 |
| Restricted assets: | | | |
| Cash and temporary investments | 2,315,296 | - | 2,315,296 |
| Total Assets | <u>5,996,513</u> | <u>188,080</u> | <u>6,184,593</u> |
| Liabilities | | | |
| Accounts payable | 182,514 | 27,055 | 209,569 |
| Due to other funds | 161,222 | - | 161,222 |
| Due to component unit | 10,148 | - | 10,148 |
| Other liabilities | 22,658 | - | 22,658 |
| Unearned revenue - retainer fees and other deposits | 48,894 | - | 48,894 |
| Unearned revenue - road damage deposits | 475,000 | - | 475,000 |
| Developer deposits | 1,791,402 | - | 1,791,402 |
| Total Liabilities | <u>2,691,838</u> | <u>27,055</u> | <u>2,718,893</u> |
| Deferred Inflows of Resources | | | |
| Unavailable property taxes receivable | 40,696 | - | 40,696 |
| Unavailable fine revenues | 60,079 | - | 60,079 |
| Total Deferred Inflows of Resources | <u>100,775</u> | <u>-</u> | <u>100,775</u> |
| Fund Balances | | | |
| Restricted - crime prevention | - | 161,025 | 161,025 |
| Unassigned | 3,203,900 | - | 3,203,900 |
| Total Fund Balances | <u>3,203,900</u> | <u>161,025</u> | <u>3,364,925</u> |
| Total Liabilities, Deferred Inflows of Resources, and Fund Balances | <u>\$ 5,996,513</u> | <u>\$ 188,080</u> | <u>\$ 6,184,593</u> |

CITY OF IOWA COLONY, TEXAS
RECONCILIATION OF THE GENERAL FUND BALANCE SHEET
TO THE STATEMENT OF NET POSITION
September 30, 2020

Total fund balance, governmental funds \$ 3,364,925

Amounts reported for governmental activities in the Statement of Net Position are different because:

Capital assets used in governmental activities are not current financial resources and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 11,063,683

Uncollected adjudicated fines and outstanding property taxes that are not available to pay current period expenditures and therefore are not reported in this fund financial statement, but are reported in the governmental activities of the Statement of Net Position. 100,775

Long-term liabilities that are not due and payable in the current period, and therefore, are not reported in the funds.

| | |
|----------------------------|-------------|
| Certificates of obligation | (1,255,000) |
| Net pension liability | (58,045) |

net differences between projected and actual earnings and contributions subsequent to the measurement date for the postretirement benefits (pension and OPEB) are recognized as deferred outflows of resources and deferred inflows of resources on the statement of net position.

| | |
|-------------------------------------|----------|
| Deferred outflows - pension related | 77,351 |
| Deferred inflows - pension related | (65,953) |

| | |
|--|----------------------|
| Net Position of Governmental Activities | \$ 13,227,736 |
|--|----------------------|

CITY OF IOWA COLONY, TEXAS
STATEMENT OF REVENUES, EXPENDITURES, AND CHANGES IN FUND BALANCES
GENERAL FUND
For the Year Ended September 30, 2020

| | General Fund | Crime Control District | Total Governmental Funds |
|---|---------------------|-----------------------------------|---|
| Revenues | | | |
| Property taxes | \$ 929,518 | \$ - | \$ 929,518 |
| Sales and use taxes | 309,073 | 141,278 | 450,351 |
| Franchise taxes | 81,867 | - | 81,867 |
| Licenses and permits | 2,590,668 | - | 2,590,668 |
| Charges for services - administrative fees | 231,937 | - | 231,937 |
| Fines and forfeitures | 176,426 | - | 176,426 |
| Earnings on investments | 2,943 | - | 2,943 |
| Intergovernmental | 29,723 | - | 29,723 |
| Other | 415,987 | - | 415,987 |
| Total Revenues | <u>4,768,142</u> | <u>141,278</u> | <u>4,909,420</u> |
| Expenditures | | | |
| Current: | | | |
| General government | 531,064 | - | 531,064 |
| Public safety | 902,228 | 59,425 | 961,653 |
| Public works | 557,379 | - | 557,379 |
| Municipal courts | 207,723 | - | 207,723 |
| Community development | 1,825,874 | - | 1,825,874 |
| Debt service: | | | |
| Bond issuance costs | 52,275 | - | 52,275 |
| Capital outlay | 1,437,740 | - | 1,437,740 |
| Total Expenditures | <u>5,514,283</u> | <u>59,425</u> | <u>5,573,708</u> |
| Revenues Over (Under) Expenditures | (746,141) | 81,853 | (664,288) |
| Other Financing Sources (Uses) | | | |
| Proceeds from sale of capital assets | 322,356 | - | 322,356 |
| Proceeds from issuance of long-term debt | 1,255,000 | - | 1,255,000 |
| Total Other Financing Sources (Uses) | <u>1,577,356</u> | <u>-</u> | <u>1,577,356</u> |
| Changes in Fund Balance | 831,215 | 81,853 | 913,068 |
| Fund Balances - Beginning of Year | <u>2,372,685</u> | <u>79,172</u> | <u>2,451,857</u> |
| Fund Balances - End of Year | <u>\$ 3,203,900</u> | <u>\$ 161,025</u> | <u>\$ 3,364,925</u> |

CITY OF IOWA COLONY, TEXAS
RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES
IN FUND BALANCES - GENERAL FUND TO THE STATEMENT OF ACTIVITIES
For the Year Ended September 30, 2020

Net change in fund balances - total governmental funds: \$ 913,068

The net effect of various miscellaneous transactions involving capital assets (i.e., sales, trade-ins, and donations) is to increase/(decrease) net position.

| | |
|------------------------------------|-----------|
| Donation of capital assets | 1,862,302 |
| Sale or disposal of capital assets | (409,030) |

Governmental funds report outlays for capital assets as expenditures. However, in the statement of activities, the cost of those assets is allocated over the assets' estimated useful lives and reported as depreciation expense.

| | |
|----------------|-----------|
| Capital outlay | 1,433,559 |
| Depreciation | (473,997) |

| | |
|---|--------|
| Property tax revenues in the statement of activities that do not provide current financial resources are deferred as revenues in the fund statements. | 17,372 |
|---|--------|

| | |
|--|--------|
| Fines and forfeiture revenues in the statement of activities that do not provide current financial resources are not reported as revenue in the funds. | 47,342 |
|--|--------|

| | |
|---|-------------|
| Governmental funds report proceeds from the issuance of long-term debt as current financial resources. In contrast, the Statement of Activities treats the issuance of debt as a liability. | (1,255,000) |
|---|-------------|

| | |
|---|--------|
| Pension expense does not represent a use of current resources and is not recognized in the fund financial statements. The net difference between pension contributions made and pension expense is an increase in the net position of the City. | 78,385 |
|---|--------|

| | |
|---|---------------------|
| Change in net financial net position of governmental activities | <u>\$ 2,214,001</u> |
|---|---------------------|



CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS

Note 1 - Organization

The City of Iowa Colony, Texas (the “City”) is a political subdivision incorporated in 1972 through the State of Texas operating as a type B, general law city. In 2005, a resolution was passed to change to a type A, general law city. The City is governed by an elected Mayor and five-member Council.

The City provides the following services: general government, public safety, public works and community development.

Note 2 - Summary of Significant Accounting Policies

The financial statements of the City have been prepared in conformity with U.S. generally accepted accounting principles (GAAP) as applied to government units. The GASB is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the government's accounting policies are described below.

A. Reporting Entity

The Board of Aldermen (the “Board”) is elected by the public and it has the authority to make decisions, appoint administrators and managers, and significantly influence operations. It also has the primary accountability for fiscal matters. Therefore, the City is a primary government as defined by GAAP.

In March 2010, City Council formed the City of Iowa Colony Development Authority (ICDA) and the City of Iowa Colony Tax Increment Reinvestment Zone No. 2 (TIRZ 2) to facilitate development in connection with a residential neighborhood. The objective of the Zone is to facilitate quality mixed-use development with a self-sustaining tax base for the City of Iowa Colony, Brazoria County, and any other participating taxing entity. As of September 30, all financial activity of ICDA and TIRZ 2 has been funded privately by the developer and is reflected as a discretely presented component unit under the ICDA caption. Separate financial statements are available for the ICDA through the City Secretary’s office.

B. Government-Wide and Fund Financial Statements

The government-wide financial statements (i.e., the Statement of Net Position and the Statement of Changes in Net Position) report information about the City as a whole. These statements include all activities of the primary government. All activities of the City are classified as governmental activities, as they are supported primarily by taxes and non-exchange revenues.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular segment. Taxes and other items not properly included among program revenues are reported instead as general revenues.

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement Focus, Basis of Accounting and Financial Statement Presentation

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenues are recognized when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Franchise tax and sales tax revenues are recognized, for external reporting purposes, when the underlying sales or transaction occurs. Sales tax revenues are collected by individual commercial enterprises and filed with the State of Texas. The State of Texas remits the City's and Crime Control District's portion of the sales tax on a monthly basis, two months after the sales are reported. Interest is recorded when earned. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be available if they are collectible within the current period or soon enough to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures are generally recorded when a liability is incurred, as under accrual accounting. As a practical matter, there is no material difference in the recognition of revenues between the government-wide and governmental fund financial statements. Expenditures for governmental funds are recorded when the related liability is incurred.

The City reports the following major governmental funds:

The *General Fund* is used to account for all financial transactions that are not accounted for in another fund. The principal sources of revenue of the General Fund include local property taxes, sales and use taxes, franchise taxes, licenses and permits, fines and forfeitures, and charges for services. Expenditures include general administration, public safety, public works, and economic development.

The *Crime Control District* is used to account for the accumulation and use of the half-cent sales tax proceeds dedicated for crime prevention and reduction programs.

Amounts reported as program revenues include: (1) charges to customers or applicants for goods, services or privileges provided (primarily inspection and platting fees), (2) operating grants and contributions (primarily retainer or development fees from developers), and (3) capital grants and contributions. Internally dedicated resources are reported as general revenues rather than program revenues. Likewise, general revenues include all taxes.

Net Position of the City and its component units are reported under the following captions:

- Investment in capital assets - This component of Net Position consists of capital assets, including restricted capital assets, net of accumulated depreciation.
- Restricted - This component of Net Position consists of constraints placed on net position use through external constraints imposed by creditors, grantors, contributors, or laws or regulations of other governments or constraints imposed by law through contractual provisions or enabling legislation.
- Unrestricted Net Position - This component of Net Position consists of Net Position that do not meet the definition of "restricted" or "investment in capital assets".

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

C. Measurement focus, Basis of Accounting and financial Statement Presentation (continued)

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. When an expenditure is incurred for which committed, assigned, or unassigned fund balances are available, the City considers amounts to have been spent first out of committed funds, then assigned funds, and finally unassigned funds, as needed, unless City Council has provided otherwise in its commitment or assignment actions.

D. Investments

The City's local government investment pools are recorded at amortized costs as permitted by GASB Statement No. 79, *Certain Investment Pools and Pool Participants*. The City categorizes fair value measurements of its investments based on the hierarchy established by generally accepted accounting principles. The fair value hierarchy, which has three levels, is based on the valuation inputs used to measure an asset's fair value: Level 1 inputs are quoted prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

E. Property Taxes

Property taxes are levied by October 1 in conformity with Subtitle E, Texas Property Tax Code. Taxes are due upon receipt and all taxes not paid prior to February 1 are deemed delinquent and are subject to such penalty and interest set forth by the Property Tax Code. On January 1 of each year, a tax lien attaches to property to secure the payment of all taxes, penalties and interest ultimately imposed. Appraised values are established by the Brazoria County Central Appraisal District (the "CAD"). Taxes are levied by the City Council based on the appraised values received from the CAD. Beginning in tax year 2016, the City began making payments into the City Tax Increment Fund in the Reinvestment Zone Number Two. The City agreed to transfer all Tax Increment received to the Iowa Colony Development Authority. The Zone and the Authority agreed to pay the City an amount equal to thirty percent of each Tax Increment payment.

F. Receivables

All receivables are reported at their gross value, with the exception of fines and forfeitures receivables. A provision has been made for an allowance for uncollectible for fines and forfeitures.

G. Capital Assets

Capital assets are reported in the applicable governmental activities' column in the government-wide financial statements. The government defines capital assets as assets with an initial, individual cost of \$5,000. All purchased fixed assets are valued at cost where historical records exist. Donated fixed assets are valued at their estimated fair value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend asset lives are not capitalized. Improvements, including public domain, and equipment are capitalized and depreciated over the remaining useful lives of the related fixed assets using the straight-line method, as applicable. Buildings, improvements and roads have an estimated useful life of 10 – 40 years. Machinery and equipment have an estimated useful life of 5 – 7 years.

Note 2 - Summary of Significant Accounting Policies (continued)

H. Compensated Absences

It is the City's policy to permit employees to accumulate earned personal and sick leave. Employees can earn up to a maximum number of hours of personal leave equal to two times the employee's current accrual rate at termination and sick leave hours can accrue up to 480 hours. No amounts have been reported for accrued but unpaid compensated absences as they are not material to the financial statements.

I. Fund Equity

As of September 30, 2020, fund balances of the governmental funds are classified as follows:

Restricted - amounts that can be spent only for specific purposes because of constitutional provisions or enabling legislation or because of constraints that are externally imposed by creditors, grantors, contributors, or the laws or regulations of other governments.

Unassigned - all other spendable amounts.

When an expenditure is incurred for purposes for which both restricted and unrestricted fund balance is available, the City considers restricted funds to have been spent first. The City has not adopted a minimum fund balance policy for the General Fund.

J. Deferred Outflows / Inflows of Resources

In addition to assets, the statement of financial position includes a separate section for deferred outflows of resources. Deferred outflows of resources represent a consumption of net assets that applies to a future period(s) and therefore will not be recognized as an outflow of resources (expense/expenditure) until then. The City has one item that qualifies for reporting in this category, which is the deferred amounts related to pension. This amount represents the differences between estimated and actual investment earnings, changes in actuarial assumptions, and other pension changes.

In addition to liabilities, the statement of financial position includes a separate section for deferred inflows of resources. Deferred inflows of resources represent an acquisition of net assets that applies to a future period(s) and therefore will not be recognized as an inflow of resources (revenue) until that time. The City has three items that qualify for reporting in this category. Unavailable revenue is reported only in the governmental funds balance sheet from two sources: property taxes and fines. These amounts are deferred and recognized as an inflow of resources in the period that the amounts become available. In the government-wide financial statements the District reports deferred amounts related to pension.

K. Pensions

For purposes of measuring the net pension liability, deferred outflows of resources and deferred inflows of resources related to pensions, and pension expense, information about the Fiduciary Net Position of the Texas Municipal Retirement System (TMRS) and additions to/deductions from TMRS's Fiduciary Net Position have been determined on the same basis as they are reported by TMRS. For this purpose, plan contributions are recognized in the period that compensation is reported for the employee, which is when contributions are legally due. Benefit payments and refunds are recognized when due and payable in accordance with the benefit terms. Investments are reported at fair value.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 2 - Summary of Significant Accounting Policies (continued)

L. Other Post-Employment Benefits (OPEB)

The City participates in a defined benefit group-term life insurance plan, both for current and retired employees, administered by the Texas Municipal Retirement System (TMRS). Information regarding the City's total OPEB liability is obtained from TMRS through a report prepared for the City by TMRS' consulting actuary, Gabriel Roeder Smith & Company, in compliance with GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*. The City does not consider it necessary to record the related net OPEB liability as it is not material to the government-wide financial statements.

M. Use of Estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the amounts reported in the financial statements. Actual amounts could vary from those estimates.

Note 3 - Cash and Temporary Investments (Cash Equivalents)

Authorization for Deposits and Investments

The Texas Public Funds Investment Act (PFIA), as prescribed in Chapter 2256 of the Texas Government Code, regulates deposits and investment transactions of the City. The Council has adopted a written investment policy regarding the investment of City funds as required by the PFIA. Acceptable investments under this policy are limited to (1) fully insured or collateralized certificates of deposit from a bank in the State of Texas and under the terms of a written depository agreement with that bank; (2) obligations of the United States Government, its agencies and instrumentalities and government sponsoring enterprises; and (3) Texas Local Government Investment Pools as by the PFIA and have been authorized by the City Council. The investments of the City are in compliance with the City's investment policy as to form.

Local Government Investment Pool

As of September 30, 2020, the City's investments included balances in the TexSTAR Public Funds Investment Pool. The investment pool investments are not evidenced by securities that exist in physical or book entry form and, accordingly, do not have custodial risk. Texas Short Term Asset Reserve Program ("TexSTAR") has been organized in conformity with the Interlocal Cooperation Act, Chapter 791 of the Texas Government Code, and the Public Funds Investment Act, Chapter 2256 of the Texas Government Code. These two acts provide for the creation of public funds investment pools (including TexSTAR) and authorize eligible governmental entities ("Participants") to invest their public funds and funds under their control through the investment pools. J.P. Morgan Investment Management, Inc. ("JPMIM" or the "investment manager") and First Southwest Asset Management, Inc. ("FSAM") serve as co-administrators for TexSTAR under an agreement with the TexSTAR board of directors (the "Board"). The value of City portions in TexSTAR are the same as the value of the shares. Unlike money market mutual funds which are registered with the Securities and Exchange Commission, TexSTAR does not operate in a manner consistent with Rule 2a-7 of the Investment Company Act of 1940. The external pooled fund uses amortized cost rather than market value to report Net Position to compute share price, because such funds have daily liquidity.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 3 - Cash and Temporary Investments (Cash Equivalents) (continued)

Deposit and Investment Amounts

The following schedule shows the City’s recorded cash and investments at year-end:

| | <u>Primary Government</u> | <u>Weighted Average Maturity (days)</u> |
|-------------------------------|-------------------------------|---|
| Cash and demand deposits | \$ 5,319,316 | N/A |
| Certificate of deposit | 410,415 | 140 |
| Public funds investment pools | | |
| TexSTAR | <u>108,264</u> | 44 |
| Totals | <u>\$ 5,837,995</u> | 120 |

At September 30, 2020, all of the cash and temporary investments of Iowa Colony Development Authority consisted of balances in demand deposit accounts.

All bank balances for demand and certificates of deposits for the primary government and the discretely presented component unit at year end was covered by FDIC insurance of \$250,000 and the remaining balance was covered by pledged collateral.

The values of certificates of deposit are determined using level 2 inputs as described in Note 2 D of the financial statements.

Certain amounts of cash and temporary investments were restricted for amounts related to retainer fees, road damage deposits, and developer deposits. The amounts are as follows:

| | <u>Amount</u> |
|---|---------------------|
| Unrestricted | \$ 3,522,699 |
| Restricted | <u>2,315,296</u> |
| Total Cash and Temporary Investments | <u>\$ 5,837,995</u> |

Interest Rate Risk and Concentration of Credit Risk

In accordance with the City’s investment policy, the maturity of investments (to include certificates of deposit) shall not exceed one year, or with the approval of City Council, two years. For pooled fund groups, the maximum dollar-weighted average maturity allowed based on the stated maturity date for the portfolio shall not exceed two years. The City’s investment policy does not restrict or specify levels of concentration or diversification within the City’s portfolio. It does provide that *“The City shall diversify its investments in order to minimize the risk of loss resulting from a concentration of assets in a specific maturity, a specific issuer, or a specific type of investment.”*

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 4 - Receivables

Amounts recorded as receivables as of September 30, 2020, are as follows:

| | <u>General Fund</u> | <u>Crime Control District</u> | <u>Total</u> |
|------------------------------------|---------------------|-----------------------------------|-------------------|
| Receivables: | | | |
| Property taxes | \$ 31,243 | \$ - | \$ 31,243 |
| Sales taxes | 57,743 | 26,858 | 84,601 |
| Adjudicated Fines | 1,201,583 | - | 1,201,583 |
| Other | - | - | - |
| Gross receivables | 1,290,569 | 26,858 | 1,317,427 |
| Less: allowance for uncollectibles | (1,132,051) | - | (1,132,051) |
| Net total receivables | <u>\$ 158,518</u> | <u>\$ 26,858</u> | <u>\$ 185,376</u> |

Note 5 - Developer Deposits

The City has entered into various agreements with Land Tejas Sterling Lakes (the “Developer”). The Developer is developing certain facilities within the city limits or extraterritorial jurisdiction of the City. The Developer deposits refundable funds with the City at the beginning of the agreement term with a non-refundable administrative fee. The refundable deposits will be returned to the Developer upon completion of each project. The agreements do not represent an escrow agreement and the City shall not owe any fiduciary duty to the Developer. The following is a summary of activity for developer deposits for the year ended September 30, 2020.

| <u>Project</u> | <u>Balance 9/30/2019</u> | <u>Additions</u> | <u>Deductions</u> | <u>Balance 9/30/2020</u> |
|--|------------------------------|--------------------|-----------------------|------------------------------|
| County Road 64 | \$ 1,731,000 | \$ - | \$ - | \$ 1,731,000 |
| Sterling Lakes Section 13 | 324,143 | - | (324,143) | - |
| Sierra Vista Karsten Boulevard Phase I | 29,033 | - | (29,033) | - |
| Sierra Vista Section 5 and Karsten Boulevard Phase II | 611,605 | - | (611,605) | - |
| Meridiana Section 59 | 149,011 | - | (149,011) | - |
| Sierra Vista Section 6 | - | 2,181,175 | (2,120,773) | 60,402 |
| | <u>\$2,844,792</u> | <u>\$2,181,175</u> | <u>\$ (3,234,565)</u> | <u>\$ 1,791,402</u> |

Note 6 - Unearned Revenue

As of September 30, 2020, the City had \$48,894 in unearned revenue for retainer fees and \$475,000 in other unearned revenue. These other unearned revenue amounts are related to a \$445,000 road damage deposit for potential repairs that may be required to be completed at a later. The retainer fees are amounts advanced to the City by developers for community development project costs that will occur at a later date.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 7 - Interfund Receivables and Payables

As of September 30, 2020, interfund balances consisted of the following:

| | Interfund Receivable | Interfund Payable | Net Totals |
|------------------------|---------------------------------|------------------------------|-------------------|
| General Fund | \$ - | \$ 161,222 | \$ (161,222) |
| Crime Control District | 161,222 | - | 161,222 |
| Totals | \$ 161,222 | \$ 161,222 | \$ - |

The entire amount of the interfund balance represents the amount of sales tax proceeds collected in the General Fund that will be used for future crime control prevention.

Note 8 - Capital Assets

A summary of activity for capital assets for the year ended September 30, 2020, follows:

| | Balance 9/30/2019 | Additions | Transfers / Deletions | Balance 9/30/2020 |
|--|------------------------------|---------------------|----------------------------------|------------------------------|
| Governmental activities: | | | | |
| Capital assets not being depreciated: | | | | |
| Land and right of way | \$ 1,683,273 | \$ 2,352,747 | \$ (409,030) | \$ 3,626,990 |
| Total capital assets not being depreciated | 1,683,273 | 2,352,747 | (409,030) | 3,626,990 |
| Capital assets being depreciated: | | | | |
| Buildings, improvements and roads | 7,560,898 | 832,093 | - | 8,392,991 |
| Machinery and equipment | 413,975 | 111,021 | - | 524,996 |
| Total capital assets being depreciated | 7,974,873 | 943,114 | - | 8,917,987 |
| Less accumulated depreciation for: | | | | |
| Buildings, improvements and roads | (837,104) | (405,437) | - | (1,242,541) |
| Machinery and equipment | (170,193) | (68,560) | - | (238,753) |
| Total accumulated depreciation | (1,007,297) | (473,997) | - | (1,481,294) |
| Total capital assets being depreciated, net | 6,967,576 | 469,117 | - | 7,436,693 |
| Governmental activities capital assets, net | \$ 8,650,849 | \$ 2,821,864 | \$ (409,030) | \$ 11,063,683 |

Depreciation was charged to functions of the primary government as follows:

| Governmental activities: | Depreciation Expense |
|---------------------------------|---------------------------------|
| General | \$ 21,403 |
| Public safety | 62,398 |
| Public works | 6,983 |
| Community development | 383,213 |
| | \$ 473,997 |

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 9 - Long-term Debt

Private Placement Certificates of Obligation

During the current fiscal year, the City issued private placement certificates of obligation in the amount of \$1,255,000. The principal is payable annually on April 1 and the interest is payable semiannually on October 1 and April 1 at an interest rate of 2.040%. The proceeds were used for the purchase of land next to the City Hall. Additional information for the year ended September 30, 2020 is as follows:

| | <u>Original Borrowing</u> | <u>Interest Rate</u> | <u>Final Maturity</u> | <u>Outstanding at Year-end</u> |
|---|-------------------------------|--------------------------|---------------------------|------------------------------------|
| Governmental activities: | | | | |
| Certificates of Obligation, Series 2020 | \$ 1,255,000 | 2.040% | 2035 | \$ 1,255,000 |

Debt service requirements to maturity are as follows:

| <u>Fiscal Year</u> | <u>Principal</u> | <u>Interest</u> | <u>Total</u> |
|------------------------|---------------------|-------------------|---------------------|
| 2021 | \$ 80,000 | \$ 18,277 | \$ 98,277 |
| 2022 | 75,000 | 23,970 | 98,970 |
| 2023 | 75,000 | 22,440 | 97,440 |
| 2024 | 75,000 | 20,910 | 95,910 |
| 2025 | 80,000 | 19,380 | 99,380 |
| 2026-2030 | 410,000 | 72,318 | 482,318 |
| 2031-2035 | 460,000 | 28,458 | 488,458 |
| | <u>\$ 1,255,000</u> | <u>\$ 205,753</u> | <u>\$ 1,460,753</u> |

Changes in Long-term Debt

The following is a summary of changes in the City’s total governmental long-term liabilities for the year ended September 30, 2020:

| | <u>Balance 9/30/2019</u> | <u>Additions</u> | <u>Deletions</u> | <u>Balance 9/30/2020</u> | <u>Due Within One Year</u> |
|---------------------------------|------------------------------|---------------------|------------------|------------------------------|--------------------------------|
| Governmental activities: | | | | | |
| Certificates of Obligation | \$ - | \$ 1,255,000 | \$ - | \$ 1,255,000 | \$ 80,000 |
| Total | <u>\$ -</u> | <u>\$ 1,255,000</u> | <u>\$ -</u> | <u>\$ 1,255,000</u> | <u>\$ 80,000</u> |

Note 10 - Risk Management

General Liability

The City is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees; and natural disasters. The City's risk management program encompasses various means of protecting the City against loss by obtaining property, casualty, and liability coverage through commercial insurance carriers and from participation in a risk pool. The participation of the City in the risk pool is limited to the payment of premiums. There has not been any significant reduction in insurance coverage from the previous year.

Worker's Compensation

The City is a member of the Texas Municipal League (TML) Workers' Compensation Intergovernmental Risk Pool, an unincorporated association of political subdivision of the State of Texas. The company is not intended to operate as an insurance company but rather a contracting mechanism by which the City provides self-insurance benefits to its employees. The fund contracts with a third-party administrator for administration, investigation, and adjustment services in the handling of claims. Premiums are based on the estimated City payroll by risk factor and rates. The premiums are adjusted by the City's experience modifier. All loss contingencies, including claims incurred but not reported, if any, are recorded and accounted for by the TML Pool.

Note 11 - Employee Retirement System

Texas Municipal Retirement System

Effective October 20, 2014, City council approved the participation in the Texas Municipal Retirement System to provide pension benefits for full time employees. Subsequently, the City began making necessary contributions in accordance with the provisions of the plan.

Plan Description

The City participates as one of 887 plans in the nontraditional, joint contributory, hybrid defined benefit pension plan administered by the Texas Municipal Retirement System (TMRS). TMRS is an agency created by the State of Texas and administered in accordance with the TMRS Act, Subtitle G, Title 8, Texas Government Code (the TMRS Act) as an agent multiple-employer retirement system for municipal employees in the State of Texas. The TMRS Act places the general administration and management of the System with a six-member Board of Trustees. Although the Governor, with the advice and consent of the Senate, appoints the Board, TMRS is not fiscally dependent on the State of Texas. TMRS's defined benefit pension plan is a tax-qualified plan under Section 401 (a) of the Internal Revenue Code. TMRS issues a publicly available comprehensive annual financial report (CAFR) that can be obtained at www.tmr.com.

All eligible employees of the city are required to participate in TMRS.

Benefits Provided

TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the City, within the options available in the state statutes governing TMRS.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Employee Retirement System (continued)

Benefits Provided (continued)

At retirement, the benefit is calculated as if the sum of the employee’s contributions, with interest, and the city-financed monetary credits with interest were used to purchase an annuity. Members may choose to receive their retirement benefit in one of seven actuarially equivalent payments options. Members may also choose to receive a portion of their benefit as a Partial Lump Sum Distribution in an amount equal to 12, 24, or 36 monthly payments, which cannot exceed 75% of the member’s deposits and interest.

At the date the plan began, the City granted monetary credits for service rendered before the plan began of a theoretical amount equal to two times what would have been contributed by the employee, with interest, prior to establishment of the plan. Monetary credits for service since the plan began are 200% of the employee's accumulated contributions.

A summary of plan provisions for the City are as follows:

| | |
|-----------------------------------|---|
| Employee deposit rate | 5% |
| Matching ratio (City to employee) | 2 to 1 |
| Years required for vesting | 5 |
| Service retirement eligibility | 20 years at any age, 5 years at age 60 and above |
| Updated Service Credit | None |
| Annuity Increase to retirees | Ad Hoc |

The City participates in Social Security.

Employees Covered by Benefit Terms

At the December 31, 2019, valuation and measurement date, 11 active City employees were covered by the benefit terms and 5 inactive employees was entitled to but not yet receiving benefits. There were 2 inactive employees or beneficiaries currently receiving benefits as of that date.

Contributions

The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the city matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the city. Under the state law governing TMRS, the contribution rate for each city is determined annually by the consulting actuary, using the Entry Age Normal (EAN) actuarial cost method. The actuarially determined rate is the estimated amount necessary to finance the cost of benefits earned by employees during the year, with an additional amount to finance any unfunded accrued liability.

Employees for the City were required to contribute 5% of their annual gross earnings during the fiscal year. For fiscal year 2020, the City made contributions of 15.28% of the employees’ annual gross income.

Net Pension Liability

The City’s Net Pension Liability (NPL) was measured as of December 31, 2019, and the Total Pension Liability (TPL) used to calculate the Net Pension Liability was determined by an actuarial valuation as of that date.

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Employee Retirement System (continued)

Actuarial Assumptions

The Total Pension Liability in the December 31, 2019, actuarial valuation was determined using the following actuarial assumptions:

| | |
|---------------------------|---|
| Inflation | 2.5% per year |
| Overall payroll growth | 3.5% to 11.5% including inflation |
| Investment Rate of Return | 6.75% net of pension plan investment expense, including inflation |

Salary increases were based on a service-related table. Mortality rates for active members, retirees, and beneficiaries were based on the gender-distinct 2019 Municipal Retirees of Texas mortality tables, with rates multiplied by an additional factor of 93.0%. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements. For disabled annuitants, the mortality tables for healthy retirees is used with a 4-year set-forward for males and a 3-year set-forward for females. In addition, a 3.5% and 3% minimum mortality rate will be applied to reflect the impairment for younger members who become disabled for males and females, respectively. The rates are projected on a fully generational basis by scale UMP to account for future mortality improvements subject to the floor.

Actuarial assumptions used in the December 31, 2019, valuation were based on the results of actuarial experience studies. This experience study was for the period January 1, 2014 through December 31, 2018, first used in the December 31, 2019 valuation. Assumptions are reviewed annually. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments is 6.75%. The pension plan’s policy in regard to the allocation of invested assets is established and may be amended by the TMRS Board of Trustees. Plan assets are managed on a total return basis with an emphasis on both capital appreciation as well as the production of income, in order to satisfy the short-term and long-term funding needs of TMRS.

The long-term expected rate of return on pension plan investments was determined using a building-block method in which best estimate ranges of expected future real rates of return (expected returns, net of pension plan investment expense and inflation) are developed for each major asset class. These ranges are combined to produce the long-term expected rate of return by weighting the expected future real rates of return by the target asset allocation percentage and by adding expected inflation. The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

| Asset Class | Target Allocation | Long-Term Expected Real Rate of Return (Arithmetic) |
|-----------------------|-------------------|---|
| Global Equity | 30.0% | 5.30% |
| Core Fixed Income | 10.0% | 1.25% |
| Non-core Fixed Income | 20.0% | 4.14% |
| Real Return | 10.0% | 3.85% |
| Real Estate | 10.0% | 4.00% |
| Absolute Return | 10.0% | 3.48% |
| Private Equity | 10.0% | 7.75% |
| Total | 100.0% | |

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Employee Retirement System (continued)

Discount Rate

The discount rate used to measure the Total Pension Liability was 6.75%. The projection of cash flows used to determine the discount rate assumed that employee contributions will remain at the current 7% and employer contributions will be made at the rates specified in statute. Based on that assumption, the pension plan's Fiduciary Net Position was projected to be available to make all projected future benefit payments of current plan members. Therefore, the long-term expected rate of return on pension plan investments was applied to all periods of projected benefit payments to determine the Total Pension Liability.

Sensitivity of the net pension liability to changes in the discount rate

The following presents the net pension liability of the City, calculated using the discount rate of 6.75%, as well as what the City's net pension liability would be if it were calculated using a discount rate that is 1-percentage-point lower (5.75%) or 1-percentage-point higher (7.75%) than the current rate:

| | <u>1% Decrease</u> | <u>Current Discount Rate (6.75%)</u> | <u>1% Increase</u> |
|------------------------------|--------------------|--|--------------------|
| City's net pension liability | \$ 103,764 | \$ 58,045 | \$ 19,276 |

Changes in the Net Pension Liability

| | <u>Increase (Decrease)</u> | | |
|--|------------------------------------|--|----------------------------------|
| | <u>Total Pension Liability</u> | <u>Plan Fiduciary Net Position</u> | <u>Net Pension Liability</u> |
| | (a) | (b) | (a) - (b) |
| Balance at 12/31/2018 | \$ 560,723 | \$ 379,890 | \$ 180,833 |
| Changes for the year: | | | |
| Service Cost | 51,130 | - | 51,130 |
| Interest | 38,226 | - | 38,226 |
| Difference between expected and actual experience | (3,796) | - | (3,796) |
| Changes in assumptions | (30,309) | - | (30,309) |
| Contributions - employer | - | 94,661 | (94,661) |
| Contributions - employee | - | 24,511 | (24,511) |
| Net Investment income | - | 59,208 | (59,208) |
| Administrative expense | - | (332) | 332 |
| Other changes | - | (9) | 9 |
| Net changes | <u>15,284</u> | <u>138,072</u> | <u>(122,788)</u> |
| Balance at 12/31/2019 | <u>\$ 576,007</u> | <u>\$ 517,962</u> | <u>\$ 58,045</u> |

CITY OF IOWA COLONY, TEXAS
NOTES TO FINANCIAL STATEMENTS (continued)

Note 11 - Employee Retirement System (continued)

Pension Plan Fiduciary Net Position

Detailed information about the pension plan’s Fiduciary Net Position is available in a separately issued TMRS financial report. That report may be obtained on the Internet at www.tmr.com.

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions

For the year ended September 30, 2020, the City recognized pension expense of \$23,213.

At September 30, 2020, the City reported deferred outflows of resources related to pensions from the following sources:

| | <u>Deferred Outflows of Resources</u> | <u>Deferred Inflows of Resources</u> |
|--|---|--|
| Differences in expected and actual experience | \$ - | \$ 27,035 |
| Change in assumptions | 3,768 | 23,915 |
| Difference in projected and actual earnings on pension plan investments | - | 15,003 |
| Contributions subsequent to measurement date | <u>73,583</u> | <u>-</u> |
| Total | <u>\$ 77,351</u> | <u>\$ 65,953</u> |

Deferred outflows of resources related to pensions resulting from contributions subsequent to the measurement date of \$73,583 will be recognized as a reduction of the net pension liability for the measurement year ending December 31, 2020 (i.e., recognized in the city’s financial statements September 30, 2021). Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

| <u>Fiscal Year</u> | <u>Net Deferred Outflows (Inflows) of Resources</u> |
|------------------------|---|
| 2021 | \$ (16,487) |
| 2022 | (15,707) |
| 2023 | (12,287) |
| 2024 | (15,187) |
| 2025 | <u>(2,517)</u> |
| Total | <u>\$ (62,185)</u> |

Note 12 - Post-employment Benefits Other Than Pensions (OPEB)

TMRS Supplemental Death Benefits Fund

The City also participates in the cost sharing multiple-employer defined benefit group-term life insurance plan operated by the Texas Municipal Retirement System (TMRS) known as the Supplemental Death Benefits Fund (SDBF). The City elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The City may terminate coverage under and discontinue participation in the SDBF by adopting an ordinance before November 1 of any year to be effective the following January 1.

The death benefit for active employees provides a lump-sum payment approximately equal to the employee's annual salary (calculated based on the employee's actual earnings, for the 12-month period preceding the month of death); retired employees are insured for \$7,500; this coverage is an "other postemployment benefit," or OPEB.

The City contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is equal to the cost of providing one-year term life insurance. The funding policy for the SDBF program is to assure that adequate resources are available to meet all death benefit payments for the upcoming year; the intent is not to pre-fund retiree term life insurance during employees' entire careers.

The City's contributions to the TMRS SDBF for the fiscal year 2020 was \$3,201 which equaled the required contribution amount.

Based on calculations of the plan's actuary under the provisions of GASB Statement No. 75, *Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions*, the city has a total OPEB liability of \$11,603. Management has determined the effects of implementing this pronouncement on the City's government wide net position are not material to the financial statements and no provision for this liability or activity, other than cash paid as part the TMRS contribution of \$3,201 have been recorded in the City's financial statements.

Note 13 – COVID-19 Pandemic

On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States and on March 13, 2020, the President of the United States declared the outbreak of COVID-19 in the United States a national emergency. On March 13, 2020, the Governor of Texas (the "Governor") declared a state of disaster for all counties in Texas in response to the COVID-19, which disaster declaration he has subsequently extended. In addition, certain local officials, including the County Judge of Brazoria County, also declared a local state of disaster.

The full extent of the ongoing impact of COVID-19 on the City's fiscal year 2021 and longer-term operational and financial performance will depend on future developments, many of which are outside of its control, including the effectiveness of the mitigation strategies related to COVID-19, the duration and spread of COVID-19, and future governmental actions, all of which are highly uncertain and cannot be predicted.



REQUIRED SUPPLEMENTARY INFORMATION

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY INFORMATION - GENERAL FUND
SCHEDULE OF REVENUES, EXPENDITURES, AND CHANGES IN
FUND BALANCES - BUDGET AND ACTUAL (BUDGETARY BASIS)
For the Year Ended September 30, 2020

| | 2020 | | | 2019 | |
|---|---------------------|---------------------|---------------------|-------------------------------|---------------------|
| | Budgeted Amounts | | Actual | Variance with Final Budget | Actual |
| | Original | Final | | | |
| Revenues | | | | | |
| Property taxes | \$ 790,278 | \$ 790,278 | \$ 929,518 | \$ 139,240 | \$ 828,726 |
| Sales and use taxes | 176,000 | 176,000 | 309,073 | 133,073 | 196,397 |
| Franchise taxes | 135,000 | 135,000 | 81,867 | (53,133) | 68,240 |
| Licenses and permits | 1,724,500 | 1,724,500 | 2,590,668 | 866,168 | 2,370,562 |
| Administrative fees | 227,776 | 227,776 | 231,937 | 4,161 | 131,278 |
| Fines and forfeitures | 189,500 | 189,500 | 176,426 | (13,074) | 173,359 |
| Earnings on investments | 1,000 | 1,000 | 2,943 | 1,943 | 6,593 |
| Intergovernmental | - | - | 29,723 | 29,723 | 7,500 |
| Other | 885,000 | 885,000 | 415,987 | (469,013) | 8,969 |
| Total Revenues | 4,129,054 | 4,129,054 | 4,768,142 | 639,088 | 3,791,624 |
| Expenditures | | | | | |
| Current: | | | | | |
| General government | 537,421 | 504,541 | 531,064 | (26,523) | 669,525 |
| Public safety | 1,005,550 | 1,021,256 | 902,228 | 119,028 | 441,859 |
| Public works | 532,220 | 532,220 | 557,379 | (25,159) | 173,394 |
| Municipal courts | 185,830 | 191,710 | 207,723 | (16,013) | 140,895 |
| Community development | 1,653,418 | 1,615,352 | 1,825,874 | (210,522) | 1,543,375 |
| Debt service: | | | | | |
| Bond issuance costs | - | - | 52,275 | (52,275) | - |
| Capital outlay | 1,125,000 | 1,145,000 | 1,437,740 | (292,740) | 357,562 |
| Total Expenditures | 5,039,439 | 5,010,079 | 5,514,283 | (504,204) | 3,326,610 |
| Revenues Over (Under) Expenditures | (910,385) | (881,025) | (746,141) | 134,884 | 465,014 |
| Other Financing Sources (Uses) | | | | | |
| Proceeds from sale of capital assets | 325,000 | 325,000 | 322,356 | (2,644) | - |
| Proceeds from issuance of long-term debt | - | - | 1,255,000 | 1,255,000 | - |
| Total Other Financing Sources (Uses) | 325,000 | 325,000 | 1,577,356 | 1,252,356 | - |
| Changes in Fund Balance | (585,385) | (556,025) | 831,215 | 1,387,240 | 465,014 |
| Fund Balances - Beginning of Year | 2,372,685 | 2,372,685 | 2,372,685 | - | 1,907,671 |
| Fund Balances - End of Year | \$ 1,787,300 | \$ 1,816,660 | \$ 3,203,900 | \$ 1,387,240 | \$ 2,372,685 |

CITY OF IOWA COLONY, TEXAS
NOTES TO REQUIRED SUPPLEMENTARY BUDGETARY INFORMATION

Legal Compliance - Budgets

Typically, prior to September 1, the departments and agencies of the City transmit their estimates of their budgetary requirements to the Mayor. The Council may revise, alter, increase or decrease the items of the budget, provided that when it shall increase the total proposed expenditures, it shall also increase the total anticipated income. The Council approves the budget plan prior to September 30. One or more public hearings are conducted to obtain taxpayer comments. City Council members may transfer unencumbered appropriated balances, or portion thereof, from one department to another. During the year, Council made no amendments to the original budget.

The City's expenditures exceeded appropriations by \$504,204 for the year ended September 30, 2020. The overages were caused by the City experiencing significant growth as the total revenue exceeded anticipated amounts by \$639,088.

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY PENSION INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CHANGES IN NET PENSION LIABILITY AND RELATED RATIOS
Last Six Measurement Years Ended December 31

| | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> | <u>2014</u> |
|---|------------------|-------------------|-------------------|-------------------|-------------------|-------------------|
| Total pension liability: | | | | | | |
| Service cost | \$ 51,130 | \$ 35,822 | \$ 27,020 | \$ 25,040 | \$ 18,263 | \$ 2,931 |
| Interest | 38,226 | 35,677 | 32,084 | 28,720 | 26,581 | 24,149 |
| Difference between expected and actual experience | (3,796) | (21,411) | (8,477) | (3,118) | (18,632) | 343,523 |
| Change in assumptions | (30,309) | - | - | - | 16,153 | - |
| Benefit payments, including refunds of employee contributions | (39,967) | - | (3,602) | - | - | - |
| Net change in total pension liability | 15,284 | 50,088 | 47,025 | 50,642 | 42,365 | 370,603 |
| Total pension liability - beginning | 560,723 | 510,635 | 463,610 | 412,968 | 370,603 | - |
| Total pension liability - ending (a) | <u>576,007</u> | <u>560,723</u> | <u>510,635</u> | <u>463,610</u> | <u>412,968</u> | <u>370,603</u> |
| Plan fiduciary net position: | | | | | | |
| Contributions - employer | 94,661 | 80,321 | 75,643 | 81,768 | 61,097 | 9,799 |
| Contributions - employee | 24,511 | 17,857 | 13,403 | 12,004 | 8,730 | 1,401 |
| Net investment income | 59,208 | (8,765) | 25,102 | 5,506 | 17 | - |
| Benefit payments, including refunds of employee contributions | (39,967) | - | (3,602) | - | - | - |
| Administrative expense | (332) | (168) | (129) | (65) | (11) | - |
| Other | (9) | (10) | (8) | - | - | - |
| Net change in plan fiduciary net position | 138,072 | 89,235 | 110,409 | 99,213 | 69,833 | 11,200 |
| Plan fiduciary net position - beginning | 379,890 | 290,655 | 180,246 | 81,033 | 11,200 | - |
| Plan fiduciary net position - ending (b) | <u>517,962</u> | <u>379,890</u> | <u>290,655</u> | <u>180,246</u> | <u>81,033</u> | <u>11,200</u> |
| Net pension liability - ending (a) - (b) | <u>\$ 58,045</u> | <u>\$ 180,833</u> | <u>\$ 219,980</u> | <u>\$ 283,364</u> | <u>\$ 331,935</u> | <u>\$ 359,403</u> |
| Plan fiduciary net position as a % of total pension liability | 89.92% | 67.75% | 56.92% | 38.88% | 19.62% | 3.02% |
| Covered payroll (measurement year) | \$ 490,220 | \$ 357,145 | \$ 268,052 | \$ 240,075 | \$ 174,599 | \$ 28,020 |
| Net pension liability as a percentage of covered payroll | 11.84% | 50.63% | 82.07% | 118.03% | 190.11% | 1282.67% |

Note: The City began participating in TMRS during the 2014 calendar year.

CITY OF IOWA COLONY, TEXAS
REQUIRED SUPPLEMENTARY PENSION INFORMATION
TEXAS MUNICIPAL RETIREMENT SYSTEM
SCHEDULE OF CONTRIBUTIONS
Last Six Fiscal Years

| | <u>2020</u> | <u>2019</u> | <u>2018</u> | <u>2017</u> | <u>2016</u> | <u>2015</u> |
|--|-------------|-------------|-------------|-------------|-------------|-------------|
| Actuarially determined contribution | \$ 101,598 | \$ 92,000 | \$ 81,648 | \$ 75,874 | \$ 76,809 | \$ 52,491 |
| Contribution in relation of the actuarially determined contribution | 101,598 | 92,000 | 81,648 | 75,874 | 76,809 | 52,491 |
| Contribution deficiency (excess) | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> | <u>\$ -</u> |
| | | | | | | |
| Covered payroll (fiscal year) | \$ 665,101 | \$ 448,754 | \$ 335,852 | \$ 253,819 | \$ 224,351 | \$ 149,040 |
| | | | | | | |
| Contributions as a percentage of covered payroll | 15.28% | 20.50% | 24.31% | 29.89% | 34.24% | 35.22% |

Note: The City began participating in TMRS during the 2015 fiscal year.

Notes to Required Supplementary Pension Information:

Valuation Date: Actuarial determined contribution rates are calculated as of December 31 each year and become effective in January, 12 months and a day later.

Methods and Assumptions Used to Determine Contribution Rates:

Actuarial Cost Method: Entry Age Normal
Amortization Method: Level Percentage of Payroll, Closed
Remaining Amortization Period: 6 years
Asset Valuation Method: 10 Year smoothed market; 15% soft corridor
Inflation: 2.5%
Salary Increases: 3.50% to 10.50% including inflation
Investment Rate of Return: 6.75%
Retirement Age: Age Experience-based table of rates that are specific to the City's plan of benefits. Last updated for the 2019 valuation pursuant to an experience study of the period 2014 – 2018.
Mortality: Post-retirement - 2019 Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP. Pre-retirement - PUB(10) mortality tables, with the Public Safety table used for males and the General Employee table used for females. The rates are projected on a fully generational basis with scale UMP.
Other Information: There were no benefit changes during the year.



APPENDIX D

PROPOSED FORM OF LEGAL OPINION OF BOND COUNSEL

MULLER



LAW GROUP

A PROFESSIONAL LIMITED LIABILITY COMPANY

202 Century Square Blvd. | Sugar Land, TX 77478 | 281.500.6050

_____, 2021

WE HAVE ACTED AS BOND COUNSEL for the Iowa Colony Development Authority (“Authority”), which we also represent on other matters, in connection with an issue of bonds described as follows:

IOWA COLONY DEVELOPMENT AUTHORITY TAX INCREMENT CONTRACT REVENUE BONDS, SERIES 2021, dated _____, 2021, in initial denominations equal to the entire principal amount of each scheduled maturity of the Bonds, aggregating \$_____ (“Bonds”).

The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and in the Resolution of the Authority’s Board of Directors authorizing the Bonds (“Bond Resolution”) and the Indenture of Trust (the “Indenture”), by and between the Authority and The Bank of New York Mellon Trust Company N.A., as trustee (“Trustee”). Portions of the Bonds are subject to optional [and mandatory] redemption prior to maturity as set out in the Bonds and in the Bond Resolution.

WE HAVE ACTED AS BOND COUNSEL for the sole purpose of rendering an opinion with respect to the legality and validity of the Bonds under the Constitution and laws of the State of Texas. We have not investigated or verified original proceedings, records, data or other material, but have relied solely upon certificates executed by officers, agents, and representatives of the Authority. We have assumed no responsibility with respect to the financial condition of the City, the Zone, the Authority, or the Trustee, or the reporting or disclosure thereof in connection with the sale of the Bonds. Our role in connection with the Authority’s Official Statement prepared for use in connection with the sale of the Bonds has been limited as described therein.

IN OUR CAPACITY AS BOND COUNSEL, we have participated in the preparation of and have examined a transcript of certified materials pertaining to the Bonds, on which we have relied in giving our opinion. The transcript contains certified copies of certain proceedings of the City of Iowa Colony, Texas (“City”), Reinvestment Zone Number Two, City of Iowa Colony, Texas (“Zone”), the Authority, and the Trustee; certain certifications and representations and other material facts within the knowledge and control of the City, the Zone, the Authority, and the Trustee, upon which we rely; and other certified showings relating to the authorization and issuance of the Bonds. We also have examined executed Bond No. IB-1 of this issue.

BASED ON SAID EXAMINATION, IT IS OUR OPINION as follows:

- (1) The transcript of certified proceedings evidences complete legal authority for the issuance of the Bonds in full compliance with the Constitution and laws of the State of Texas presently in effect; the Indenture, the Bond Resolution and the Bonds have been authorized, executed and delivered by the Authority and constitute valid and

legally binding obligations of the Authority enforceable in accordance with the terms and conditions thereof, except to the extent that the rights and remedies of the owners of the Bonds may be limited by laws heretofore or hereafter enacted relating to bankruptcy, insolvency, reorganization, moratorium or other similar laws affecting the rights of creditors and the exercise of judicial discretion in appropriate cases; and the Bonds have been authorized and delivered in accordance with the law and the Indenture;

- (2) The Bonds are special obligations of the Authority entitled to the benefits and security of the Indenture and payable, both as to principal and interest, from Pledged Revenues and are not obligations of the State of Texas, Brazoria County, the City, or any other entity; and
- (3) The Bonds are Parity Bonds under the Indenture.

Our opinion is based on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinion to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective.

APPENDIX E
PROPOSED FORM OF LEGAL OPINION
OF SPECIAL TAX COUNSEL



Orrick, Herrington & Sutcliffe LLP

609 Main Street
40th Floor
Houston, TX 77002-3106

+1 713 658 6400

orrick.com

_____, 2021

We have served as Special Tax Counsel in connection with the issuance by the Iowa Colony Development Authority (the "Authority") of its Tax Increment Contract Revenue Bonds, Series 2021 (the "Bonds"), dated September 29, 2021, in initial denominations equal to the entire principal amount of each maturity of the Bonds, aggregating \$_____. The Bonds mature, bear interest and may be transferred and exchanged as set out in the Bonds and in the resolution of the Board of Directors of the Authority authorizing the Bonds (the "Bond Resolution").

We have served as special tax counsel for the sole purpose of rendering an opinion to you with respect to the exclusion of interest on the Bonds from gross income under federal income tax law. In such capacity we have examined the federal income tax law and a transcript of certain certified proceedings pertaining to the issuance of the Bonds. The transcript contains certified copies of certain proceedings of the Authority; certain certifications and representations and other material facts within the knowledge and control of the Authority, upon which we rely; and certain other customary documents and instruments authorizing and relating to the issuance of the Bonds.

Based on our examination as described above and on the assumption that the Bonds have been authorized and issued in accordance with the Constitution and laws of the State of Texas and that the Bonds are valid and legally binding obligations of the Authority, which we understand is the subject of the opinion received by the Authority from The Muller Law Group, PLLC, Bond Counsel, and the Office of the Attorney General of the State of Texas, dated the date hereof, we are of the opinion that interest on the Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Interest on the Bonds is not a specific preference item for purposes of the federal alternative minimum tax. We express no opinion regarding other tax consequences related to the ownership or disposition of, or the amount, accrual or receipt of interest on, the Bonds.

The opinion set forth in the first sentence of the immediately preceding paragraph is subject to the condition that the Authority comply with all requirements of the Code that must be satisfied subsequent to the issuance of the Bonds in order that interest thereon be, or continue to be, excluded from gross income for federal income tax purposes. The Authority has covenanted in the Bond Resolution and the Federal Tax Certificate executed by the Authority on the date hereof, to comply with each such requirement. Failure to comply with certain of such requirements may cause the inclusion of interest on the Bonds in gross income for federal income tax purposes to be retroactive to the date of issuance of the Bonds. The Code and the existing regulations, rulings and court decisions thereunder, upon which the foregoing opinion is based, are subject to change, which could prospectively or retroactively result in the inclusion of the interest on the Bonds in gross income of the owners thereof for federal income tax purposes.

Our opinion is based on existing law, which is subject to change. Such opinion is further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement



our opinion to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinion is not a guarantee of result and is not binding on the Internal Revenue Service; rather, such opinion represents our legal judgment as of the date hereof based upon our review of existing law that we deem relevant to such opinion and in reliance upon the representations and covenants referenced above.

Orrick, Herrington & Sutcliffe LLP