OFFICIAL STATEMENT
DATED MAY 25, 2022

RATINGS:
Fitch: "A+"
S&P: "A-" Insured "AA"
See "BOND INSURANCE," "BOND INSURANCE GENERAL RISKS," AND "RATINGS" herein

NEW ISSUE - Book-Entry-Only

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond 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 2022 Bonds (defined herein) 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 Bond Counsel, interest on the 2022 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond 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 2022 Bonds. See "TAX MATTERS – 2022 Bonds" herein. Bond Counsel observes that interest on the 2022A Taxable Bonds (defined herein) is not excluded from gross income for federal income tax purposes under Section 103 of the Code. See "TAX MATTERS – 2022A Taxable Bonds" herein.

CITY OF BROWNSVILLE, TEXAS

(A political subdivision of the State of Texas
located in Cameron County, Texas)

$17,165,000
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022

$35,605,000
UTILITY SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2022A

Dated: May 1, 2022 (interest accrues from the Closing Date)

Due: September 1 in the years shown on the following page

The City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2022 (the "2022 Bonds") and the City of Brownsville, Texas Utility System Revenue Refunding Bonds, Taxable Series 2022A (the "2022A Taxable Bonds" and collectively with the 2022 Bonds, the "Bonds"), are being issued by the City of Brownsville, Texas (the "City") as Additional Senior Lien Obligations (defined herein) to: (1) refund certain outstanding commercial paper notes to convert short-term variable rate obligations into long-term obligations, as further described in Schedule I attached hereto (the "Refunded Obligations") and (2) pay costs of issuing the Bonds (see "PLAN OF FINANCING" herein). The Bonds are being issued pursuant to the laws of the State of Texas, including Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), an ordinance (the "Ordinance") adopted by the City Commission on April 5, 2022, and the City's Home Rule Charter (see "THE BONDS – Authority for Issuance" herein). As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board (defined herein) officials to execute an Approval Certificate establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an authorized officer of the Board on May 25, 2022.

The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from, and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations (defined herein) and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues (defined herein) of the City's combined water, wastewater and electric utilities system (the "System"). The Bonds are not payable from monies raised or to be raised by taxation (see "THE BONDS – Sources of and Security for Payment" herein). Pursuant to the City's Home Rule Charter, the management, operation and control of the System is delegated to the Brownsville Public Utilities Board (the "Board") (see "THE COMBINED UTILITIES SYSTEM – The Board" and the excerpt of the Ordinance set forth in "Appendix D – Selected Provisions from the Bond Ordinance" attached hereto).

Interest on the Bonds will accrue from the date of the initial delivery of the Bonds (the "Closing Date") to the initial purchasers thereof named below (the "Underwriters"), will be payable on September 1 and March 1, commencing September 1, 2022, until stated maturity or prior redemption and will be calculated on the basis of a 360-day year of twelve 30-day months. The Bonds will be registered in the name of Cede & Co., the nominee of The Depository Trust Company ("DTC") which will act as securities depository for the Bonds. Only beneficial interests in the Bonds in denominations of $5,000 or integral multiples thereof are offered hereby. **No physical delivery of the Bonds will be made to the owners thereof.** The initial paying agent/registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the "Paying Agent/Registrar"). Principal of and interest on the Bonds will be payable by the Paying Agent/Registrar to Cede & Co., which will credit such payments to its participants for disbursement to the beneficial owners of the Bonds.

The scheduled payment of principal and interest on the Bonds when due will be guaranteed under a municipal bond insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM"). See "BOND INSURANCE".

BAM
BUILD AMERICA MUTUAL

See the following page for the maturity schedules, interest rates, initial yields, CUSIP numbers, and redemption provisions of the Bonds.

THIS COVER PAGE IS NOT INTENDED TO BE A SUMMARY OF THE TERMS OR THE SECURITY FOR THE BONDS. INVESTORS ARE ADVISED TO READ THE OFFICIAL STATEMENT IN ITS ENTIRETY TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

The Bonds are offered when, as and if issued and received by the Underwriters and subject to the approval of the Attorney General of the State of Texas and the approval of certain legal matters by Orrick, Herrington & Sutcliffe LLP, Houston, Texas, Bond Counsel. Certain matters will be passed upon for the City by the City Attorney, for the Board by Davidson Troilo Ream & Garza, P.C., San Antonio, Texas, as Special Counsel to the Board, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The Bonds are expected to be available for delivery to and credit through DTC on or about June 10, 2022.

HILLTOPSECURITIES

RBC CAPITAL MARKETS **STIFEL**

MATURITY SCHEDULES, INTEREST RATES, INITIAL YIELDS, CUSIP NUMBERS, AND REDEMPTION PROVISIONS

$17,165,000
CITY OF BROWNSVILLE, TEXAS
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022

CUSIP [(1)] Prefix: 116475

$1,690,000 Serial Bonds

Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield [(2)]	CUSIP[(1)] Suffix
2032	$ 535,000	5.000%	3.470% [(2)]	3F9
2033	565,000	5.000%	3.550% [(2)]	3G7
2034	590,000	5.000%	3.620% [(2)]	3H5

$15,475,000 Term Bonds

$2,635,000 4.000% Term Bond due September 1, 2038 and priced to yield 4.020% – CUSIP[(1)] Suffix 3J1

$3,125,000 5.000% Term Bond due September 1, 2042 and priced to yield 3.840%[(2)] – CUSIP[(1)] Suffix 3K8

$3,795,000 5.000% Term Bond due September 1, 2046 and priced to yield 3.970%[(2)] – CUSIP[(1)] Suffix 3L6

$5,920,000 5.000% Term Bond due September 1, 2051 and priced to yield 4.060%[(2)] – CUSIP[(1)] Suffix 3M4

$35,605,000
CITY OF BROWNSVILLE, TEXAS
UTILITY SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2022A

$16,565,000 Serial Bonds

Maturity (Sept. 1)	Principal Amount	Interest Rate	Price or Yield	CUSIP[(1)] Suffix
2032	$5,285,000	4.406%	4.406%	3N2
2033	5,515,000	4.556%	4.556%	3P7
2034	5,765,000	4.706%	4.706%	3Q5

$**19,040,000 Term Bonds**

$19,040,000 5.006% Term Bond due September 1, 2037 and priced to yield 5.006% – CUSIP[(1)] Suffix 3R3

REDEMPTION . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2032, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS - Redemption of the Bonds - Optional Redemption"). The 2022 Bonds maturing September 1 in the years 2038, 2042, 2046 and 2051 (the "2022 Term Bonds") and the 2022A Taxable Bonds maturing September 1, 2037 (the "2022A Taxable Term Bonds" and, together with the 2022 Term Bonds, the "Term Bonds") are subject to mandatory sinking redemption (see "THE BONDS – Redemption of the Bonds – Mandatory Redemption of the Bonds").

(1) CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed on behalf of The American Bankers Association by FactSet Research Systems, Inc. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP services provided by CUSIP Global Services. CUSIP numbers are included herein solely for the convenience of the owners of the Bonds. Neither the City, the Board, the Financial Advisor (defined herein) nor the Underwriters shall be responsible for the selection or correctness of the CUSIP numbers set forth herein.

(2) Yield calculated based on the assumption that the Bonds denoted and sold at a premium will be redeemed on September 1, 2031, the first optional call date for the Bonds, at a redemption price of par plus accrued interest to the redemption date.

USE OF INFORMATION

This Official Statement, which includes the cover page, Schedule I, and the Appendices hereto, does not constitute an offer to sell or the solicitation of an offer to buy, nor shall there be any sale of the Bonds, in any jurisdiction to any person to whom it is unlawful to make such offer, solicitation or sale.

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

The information set forth herein has been obtained from records of the City, the Board, and other sources believed to be reliable, but such information is not guaranteed as to accuracy or completeness and is not to be construed as a promise or guarantee of the Financial Advisor or the Underwriters. This Official Statement contains, in part, estimates and matters of opinion which are not intended as statements of fact, and no representation is made as to the correctness of such estimates and opinions, or that they will be realized.

The information and expressions of opinion contained herein 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 City, the Board, the System, or other matters described herein.

The Underwriters 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 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.

THE BONDS ARE EXEMPT FROM REGISTRATION WITH THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION AND CONSEQUENTLY HAVE NOT BEEN REGISTERED THEREWITH. THE REGISTRATION, QUALIFICATION, OR EXEMPTION OF THE BONDS IN ACCORDANCE WITH APPLICABLE SECURITIES LAW PROVISIONS OF THE JURISDICTIONS IN WHICH THESE BONDS HAVE BEEN REGISTERED, QUALIFIED, OR EXEMPTED SHOULD NOT BE REGARDED AS A RECOMMENDATION THEREOF.

IN CONNECTION WITH THE OFFERING OF THE BONDS, THE UNDERWRITERS MAY OVERALLOT OR EFFECT TRANSACTIONS THAT STABILIZE OR MAINTAIN THE MARKET PRICE OF THE BONDS AT A LEVEL ABOVE THAT WHICH MIGHT OTHERWISE PREVAIL IN THE OPEN MARKET. SUCH STABILIZING, IF COMMENCED, MAY BE DISCONTINUED AT ANY TIME.

Neither the City, the Board, the Financial Advisor, nor the Underwriters make any representation or warranty with respect to the information contained in this Official Statement regarding the Depository Trust Company or its book-entry-only system described under the caption "THE BONDS - Book-Entry-Only System," or any potential bond insurer or its municipal insurance policy described herein under the headings “BOND INSURANCE GENERAL RISKS”.

The agreements of the City, the Board and others related to the Bonds are contained solely in the contracts described herein. Neither this Official Statement nor any other statement made in connection with the offer or sale of the Bonds is to be construed as constituting an agreement with the purchasers of the Bonds. INVESTORS SHOULD READ THE ENTIRE OFFICIAL STATEMENT, INCLUDING THE SCHEDULE AND ALL APPENDICES ATTACHED HERETO, TO OBTAIN INFORMATION ESSENTIAL TO MAKING AN INFORMED INVESTMENT DECISION.

Build America Mutual Assurance Company (“BAM”) makes no representation regarding the Bonds or the advisability of investing in the Bonds. In addition, BAM has not independently verified, makes no representation regarding, and does not accept any responsibility for the accuracy or completeness of this Official Statement or any information or disclosure contained herein, or omitted herefrom, other than with respect to the accuracy of the information regarding BAM, supplied by BAM and presented under the heading “Bond Insurance” and “Appendix E - Specimen Municipal Bond Insurance Policy”.

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The cover page hereof, this page, the appendices included herein and any addenda, supplement or amendment hereto are part of this Official Statement.

OFFICIAL STATEMENT SUMMARY

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

THE CITY .... The City of Brownsville, Texas (the "City") is a political subdivision and a municipal corporation of the State of Texas located in Cameron County, Texas. The City was incorporated in 1853 and first adopted its Home Rule Charter in 1915. The City's Home Rule Charter has not been amended since 2010. The City operates under a Commission/Manager form of government with a City Commission comprised of the Mayor and six Commissioners elected for staggered four-year terms. The City Manager is the Chief Administrative Officer for the City. The City is approximately 133 square miles in area.

THE BOARD .... Pursuant to the City's Home Rule Charter, the City's combined electric, water and wastewater system (the "System") is managed, operated and maintained by the Public Utilities Board of the City of Brownsville, Texas (the "Board"), which is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City's Mayor serving in an ex-officio capacity.

THE BONDS .... The Bonds are issued as the *City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2022* in the principal amount of $17,165,000 (the "2022 Bonds"), and the *City of Brownsville, Texas Utility System Revenue Refunding Bonds, Taxable Series 2022A* in the principal amount of $35,605,000 (the 2022A Taxable Bonds" and collectively with the 2022 Bonds, the "Bonds"). See "THE BONDS — General" herein.

AUTHORITY .... The Bonds are issued pursuant to the Constitution and general laws of the State of Texas, particularly Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), the City's Home Rule Charter, and an ordinance adopted by the City Commission on April 5, 2022 (the "Ordinance"). As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board officials to execute an Approval Certificate establishing the final pricing terms for the Bonds. The Approval Certificate was executed by an authorized officer of the Board on May 25, 2022.

SECURITY AND SOURCE OF PAYMENT .... The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues of the System (see "THE BONDS – Sources of and Security for Payment" herein). The Bonds are not payable from monies raised or to be raised by taxation.

BOND INSURANCE ……..................The scheduled payment of the principal and interest on the Bonds when due will be guaranteed under an insurance policy to be issued concurrently with the delivery of the Bonds by Build America Mutual Assurance Company ("BAM") (see "BOND INSURANCE" and BOND INSURANCE GENERAL RISKS").

OPTIONAL REDEMPTION ....The City reserves the right, at its option, to redeem the Bonds having stated maturities on and after September 1, 2032, in whole or in part in authorized denominations, on September 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption (see "THE BONDS — Redemption of the Bonds - Optional Redemption").

MANDATORY SINKING FUND REDEMPTION.......................The 2022 Bonds maturing September 1 in the years 2038, 2042, 2046 and 2051 (the "2022 Term Bonds") and the 2022A Taxable Bonds maturing September 1, 2037 (the "2022A Taxable Term Bonds" and, together with the 2022 Term Bonds, the "Term Bonds") are subject to mandatory sinking fund redemption (see "THE BONDS — Redemption of the Bonds – Mandatory Redemption of the Bonds").

2022 BONDS TAX MATTERS.......... In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond 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 2022 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2022 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 Bond Counsel is set forth in Appendix C hereto.

2022A TAXABLE BONDS

TAX MATTERS.............................. Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond Counsel"), observes that interest on the 2022A Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986.

USE OF PROCEEDS......................... Proceeds from the sale of the Bonds will be used to (i) refund certain outstanding commercial paper notes to convert short-term variable rate obligations into long-term obligations, and (ii) pay costs related to the issuance of the Bonds.

RATINGS .... The Bonds have been rated "AA" by S&P Global Ratings ("S&P") by virtue of a bond insurance policy issued by BAM. The Bond have been rated "A+" by Fitch Ratings ("Fitch") and "A-" by S&P without regard to credit enhancement. The underlying ratings of the City (without regard to credit enhancement) are "A+" (outlook negative) by Fitch and "A-" (outlook stable) by S&P. Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating (without regard to credit enhancement) on certain of the City's currently outstanding Previously Issued Senior Lien Obligations of "A2" (outlook stable). Moody's was not requested to provide a rating on the Bonds (see "BOND INSURANCE" and "RATINGS" herein).

BOOK-ENTRY-ONLY SYSTEM ....The definitive Bonds will be initially registered and delivered only to Cede & Co., the nominee of the Depository Trust Company ("DTC") pursuant to its Book-Entry-Only System described herein. Beneficial ownership of the Bonds may be acquired in denominations of $5,000 or integral multiples thereof. No physical delivery of the Bonds will be made to the owners thereof. Principal of, premium, if any, and interest on the Bonds will be payable by the Paying Agent/Registrar (initially, the Bank of New York Mellon Trust Company, N.A., Dallas, Texas) to Cede & Co., which will make distribution of the amounts so paid to the participating members of DTC for subsequent payment to the beneficial owners of the Bonds (see "THE BONDS - Book-Entry-Only System").

PAYMENT RECORD........................ The City has never defaulted on the payment of its bonded indebtedness.

DELIVERY...................................... Delivery of the Bonds is subject to receipt of an approving opinion of the Attorney General of the State of Texas and the approval of certain legal matters by Bond Counsel as to legality and certain other matters, both of which are expected to occur on or about June 10, 2022.

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CITY AND BOARD OFFICIALS

CITY OF BROWNSVILLE, TEXAS
City Hall/Market Square
P.O. Box 911
Brownsville, Texas 78520
Telephone: 956-548-6000

CITY COMMISSION

Juan "Trey" Mendez III.	Mayor
Nurith Galonsky Pizana	Commissioner District 1
Jessica Tetreau-Kalifa	Commissioner District 2
Roy De los Santos, Jr.	Commissioner District 3
Pedro Cardenas	Commissioner District 4
John Cowen, Jr.	Commissioner at Large "A"
Rose M. Z. Gowen, M.D.	Commissioner at Large "B"

HIRED OFFICIALS

Noel Bernal	City Manager
Helen Ramirez	Deputy City Manager
Victor Flores	City Attorney
Jennifer M. Arendano	Assistant City Attorney
Elizabeth Walker	Assistant City Manager
Laure Morgan	Interim City Secretary
Guadalupe "Lupe" Granado, III	Finance Director

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
P.O. Box 3270
Brownsville, Texas 78523-3270
Telephone: 956-983-6100

BOARD MEMBERS

Sandra Saenz	Chair
Patricio Sampayo	Vice Chair
Sandra Lopez-Langley	Secretary/Treasurer
Jude A. Benavides, Ph. D.	Member
Anna E. Oquin	Member
Arthur "Art" Rendon	Member
Mayor Juan "Trey" Mendez III	Ex-Officio Member, Elected

BOARD ADMINISTRATION

John S. Bruciak, P.E.	General Manager and Chief Executive Officer
Marilyn D. Gilbert	Assistant General Manager and Chief Operating Officer
Miguel Perez	Chief Financial Officer

CONSULTANTS AND ADVISORS

Bond Counsel	Orrick, Herrington & Sutcliffe LLP Houston, Texas
Special Counsel to the Board	Davidson Troilo Ream & Garza, P.C. San Antonio, Texas
Local Counsel	Colvin, Saenz, Rodriguez & Kennamer, LLP Brownsville, Texas
Certified Public Accountants	Baker Tilly US, LLP Austin, Texas
Financial Advisor	Estrada Hinojosa & Company, Inc. Dallas, Texas

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OFFICIAL STATEMENT
RELATING TO

CITY OF BROWNSVILLE, TEXAS

(A political subdivision of the State of Texas
located in Cameron County, Texas**)**

$17,165,000
UTILITY SYSTEM REVENUE REFUNDING BONDS,
SERIES 2022

$35,605,000
UTILITY SYSTEM REVENUE REFUNDING BONDS,
TAXABLE SERIES 2022A

INTRODUCTION

This Official Statement, which includes the cover page, and the Appendices hereto, provides certain information regarding the issuance by the City of Brownsville, Texas (the "City") of its *Utility System Revenue Refunding Bonds, Series 2022* in the aggregate principal amount of *$17,165,000* (the "2022 Bonds") and its *Utility System Revenue Refunding Bonds, Taxable Series 2022A* in the aggregate principal amount of *$35,605,000* (the “2022A Taxable Bonds” and collectively with the 2022 Bonds, the “Bonds”). Capitalized terms used in this Official Statement have the same meanings assigned to such terms in the Ordinance authorizing the issuance of the Bonds adopted by the City Commission on April 5, 2022 (the "Ordinance"), except as otherwise indicated herein (see "Appendix D – Selected Provisions from the Bond Ordinance" attached to this Official Statement which contains certain definitions and excerpts from the Ordinance).

The City, incorporated in 1853, is a political subdivision and municipal corporation of the State of Texas (the "State") duly organized and existing under the laws of the State, including the City's Home Rule Charter (the "City Charter"). The City operates under a Commission/Manager form of government, with a City Commission comprised of the Mayor and six Commissioners elected to staggered four-year terms. Elections are held each odd-numbered year. The City provides the following services: public safety (police and fire protection), highways, streets, sanitation, electric, water and sanitary sewer utilities, health and social services, cultural-recreation, airport, public transportation, public improvements, and planning and zoning. The City covers approximately 133 square miles. The 2020 Census population for the City was 186,738, and the estimated population for 2021 is 188,306.

Pursuant to the City Charter, the management, operation, and control of the City’s combined water, wastewater and electric utilities system (the "System") is delegated to the Public Utilities Board of the City of Brownsville, Texas (the "Board"), which is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City’s Mayor serving in an ex-officio capacity.

There follows in this Official Statement descriptions of the Bonds and certain information regarding the City, the Board, the System and its operations and finances. All descriptions of documents contained herein are only summaries and are qualified in their entirety by reference to each such document. A copy of such documents may be obtained upon request from the City's Financial Advisor, Estrada Hinojosa & Company, Inc., Dallas, Texas, by electronic mail or upon payment of reasonable copying, handling, and delivery charges.

This Official Statement speaks only as to its date, and the information contained herein is subject to change. A copy of the final Official Statement pertaining to the Bonds will be filed with the Municipal Securities Rulemaking Board through its Electronic Municipal Market Access ("EMMA") system (see "OTHER INFORMATION - Continuing Disclosure of Information" herein for a description of the City’s undertaking to provide certain information on a continuing basis).

COVID-19

The outbreak of the 2019 Novel Coronavirus Disease (“COVID-19”) has been declared a pandemic by the World Health Organization. The COVID-19 outbreak has affected travel, commerce and financial markets globally. BPUB is closely monitoring the financial impact COVID-19 and the current economic conditions. 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.

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

Since such time, COVID-19 negatively affected commerce, travel and businesses locally and globally, and negatively affected economic growth worldwide and within the State. Following the widespread release and distribution of various COVID-19 vaccines in 2021 and a decrease in active COVID-19 cases generally in the United States, state governments (including the State) have started to lift business and social limitations associated with COVID-19. Beginning in March 2021, the Governor issued various executive orders, which, among other things, rescinded and superseded prior executive orders and provide that there are currently no COVID-19 related operating limits for any business or other establishment. The Governor retains the right to impose additional restrictions on activities if needed to mitigate the effects of COVID-19. Additional information regarding executive orders issued by the Governor is accessible on the website of the Governor at https://gov.texas.gov/. Neither the information on, nor accessed through, such website of the Governor is incorporated by reference into this Official Statement.

With the easing or removal of COVID-19 associated governmental restrictions, economic activity has increased. However, there are no assurances that such increased economic activity will continue or continue at the same rate, especially if there are future outbreaks of COVID-19.

The Board continues to support its customers during the COVID-19 pandemic. Although the Board provided its customers with a temporary moratorium on shutoffs and suspension of delayed payment charges from April 2020 through September 2020, a return to normal business practices resumed in October 2020.

The Board is working proactively with customers to create payment arrangements for those who need them. With the effects of the pandemic and economic contraction, the Board expected an increase in the number of accounts treated as bad debt. The Board has partnered with community agencies to provide aid to our customers and has been able to mitigate the economic impact to date. However, once the funding for aid programs ceases, there may be an increase in bad debt.

The Board continues to be committed to keeping customers and employees safe while still providing reliable utility services. Supply chain disruptions and increased costs have had the most impact on business activities but have not disrupted the utility services provided to the community. The Board continuously evaluates the economic and financial impact as events continue to unfold.

PLAN OF FINANCING

Purpose

The Bonds are being issued to: (i) refund certain outstanding commercial paper notes also shown in "Schedule I" herein to convert short-term variable rate obligations into long-term obligations, as further described in Schedule I attached hereto (the "Refunded Obligations") and (ii) pay costs related to the issuance of the Bonds. The issuance of the Bonds will result in debt service savings for the System.

Sources And Uses Of Funds

2022 Bonds Sources of Funds:		
Principal Amount	$	17,165,000.00
[Net] Premium		1,187,628.80
Total Sources of Funds	$	18,352,628.80

2022A Taxable Bonds Sources of Funds:		
Principal Amount	$	35,605,000.00
Premium		-
Total Sources of Funds	$	35,605,000.00

2022 Bonds Uses of Funds:		
Project Fund Deposit for Commercial Paper	$	18,000,000.00
Underwriters' Discount		109,121.60
Costs of Issuance(1)		243,507.20
Total Uses of Funds	$	18,352,628.80

2022A Taxable Bonds Uses of Funds:		
Project Fund Deposit for Commercial Paper	$	35,000,000.00
Underwriters' Discount		226,348.65
Costs of Issuance(1)		378,651.35
Total Uses of Funds	$	35,605,000.00

(1) Includes Bond Insurance Premium.

THE BONDS

The following is a summary of certain provisions of the Bonds. Reference is hereby made to the Ordinance for the detailed provisions thereof (see "Appendix D – Selected Provisions from the Bond Ordinance").

General

The Bonds will be dated May l, 2022 and will mature on the dates and in the principal amounts and will bear interest at the rates set forth on page ii of this Official Statement. The Bonds will be issued in fully registered form and will be in denominations of $5,000 or any integral multiple thereof. The Bonds will bear interest from the date of the delivery of the Bonds (the "Closing Date"), or from the most recent date to which interest has been paid or duly provided for, and interest will be paid semiannually on each September 1 and March 1, commencing September 1, 2022, until stated maturity or prior redemption. Principal and interest on the Bonds are payable in the manner described below under "THE BONDS - Book-Entry-Only System." In the event the Book-Entry-Only System is discontinued, the interest on the Bonds payable on an interest payment date will be payable to the registered owner as shown on the security register maintained by the Paying Agent/Registrar (initially, the Bank of New York Mellon Trust Company, N.A., Dallas, Texas), as of the Record Date (hereinafter defined), by check, mailed first-class, postage prepaid, to the address of such person on the security register or by such other method acceptable to the Paying Agent/Registrar requested by and at the risk and expense of the registered owner. In the event the Book-Entry-Only System is discontinued, principal of the Bonds will be payable at stated maturity or prior redemption upon presentation and surrender thereof at the corporate trust office of the Paying Agent/Registrar.

If the date for the payment of the principal of, or interest on the Bonds is a Saturday, Sunday, a legal holiday or a day when banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment will be the next succeeding day which is not a Saturday, Sunday, legal holiday or a day on which banking institutions are authorized to close; and payment on such date will have the same force and effect as if made on the original date payment was due.

AUTHORITY FOR ISSUANCE

The Bonds are being issued pursuant to Chapter 1207, Texas Government Code, as amended ("Chapter 1207"), the City's Home Rule Charter, and the Ordinance. As permitted by the provisions of Chapter 1207, the City Commission, in the Ordinance, delegated the authority to certain City or Board officials to execute an Approval Certificate establishing the final terms of the Bonds. The Approval Certificate was executed by an authorized officer of the Board on May 25, 2022.

SOURCES OF AND SECURITY FOR PAYMENT

Net Revenue Pledge . . . The Bonds are special obligations of the City, payable as to principal, premium, if any, and interest solely from and equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City, by a first and prior lien on and pledge of the Net Revenues of the System and such lien is superior to the pledge and lien securing the currently outstanding Junior Lien Obligations, Subordinate Lien Obligations, and Commercial Paper Notes and any Inferior Lien Obligations hereafter issued by the City. Neither the full faith and credit nor the taxing power of the City, Cameron County, Texas, the State, or any other entity is pledged as security to the payment of the principal of, premium, if any, or interest on the Bonds. The Bonds are secured by and payable only from the Net Revenues, and are not secured by or payable from a mortgage or deed of trust on any properties, whether real, personal, or mixed, constituting the System.

Definitions of Net Revenues, Gross Revenues, and Maintenance and Operating Expenses . . . The term "Net Revenues" is defined in the Ordinance as Gross Revenues less Maintenance and Operating Expenses.

Gross Revenues include all revenues, income, and receipts of every nature derived or received by the City or the Board from the operation and ownership of the System (other than grants, restricted gifts, water rights fees, contributions in aid of construction, impact fees charged by the City or the Board pursuant to the provisions of Chapter 395, Texas Local Government Code, as amended, or other similar law, and refundable meter deposits), including the interest income from the investment or deposit of money in any Fund maintained pursuant to the Ordinance (with the exception of the Senior Lien Reserve Fund until the Required Reserve Amount is accumulated, the Project Fund and the Rebate Fund), or maintained by the City in connection with the System.

Maintenance and Operating Expenses (which are to be paid out of Gross Revenues prior to payment of amounts due in respect of any Debt, including the Bonds) include all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, including (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, but only if, in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the City and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of electricity, gas, water supply, treatment of sewage, and other utility services, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the City or the Board under the Ordinance, and (5) any legal liability of the City or the Board arising out of the operation, maintenance, or condition of the System, but excluding any allowance for depreciation, property retirement, depletion, and obsolescence, other items not requiring an outlay of cash, and any Debt Service Requirements of any Debt.

PERFECTION OF SECURITY INTEREST FOR THE BONDS

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of the Net Revenues, and such pledge is therefore valid, effective and perfected. Should Texas law be amended while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of the Net Revenues is subject to the filing requirements of Chapter 9, Texas Business and Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge the City has agreed in the Ordinance to take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur.

RATE COVENANT

In the Ordinance, the City has covenanted that while any of the Senior Lien Obligations are outstanding, it will establish and maintain rates and charges for facilities and services afforded by the System, together with any other lawfully available funds, that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

A. to pay Maintenance and Operating Expenses for each Fiscal Year, including the funding or replenishment of the Operating Reserve Fund;

B. to produce Net Revenues sufficient to pay (1) no less than 1.25 times the annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations then Outstanding, and (2) no less than 1.00 times the amounts required to be deposited to fund or to cure any deficiency in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues;

C. to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the City expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) no less than 1.10 times the annual debt service requirements for such Fiscal Year on the Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and the amounts required to be deposited to fund or cure any deficiency in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues, and (2) no less than 1.00 times the annual debt service requirements on the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the City and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues;

D. to produce Net Revenues, together with any other lawfully available funds, to fund the transfers to the City's General Fund as permitted by the Ordinance (see "Funds and Accounts and Flow of Funds - Transfers to the City's General Fund" and "THE COMBINED UTILITY SYSTEM – Transfers to the City's General Fund" below); and

E. to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

In the event the Board's annual audit report reflects that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements as described above, the Board is required, within thirty (30) days after receipt of such annual audit report, to report such fact to the City Commission and review the operations of the System and the rates and charges for services provided, and the Board (and the City Commission, if required) is required to make the necessary adjustments or revisions, if any, in order that the Net Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirements specified above.

FUNDS AND ACCOUNTS AND FLOW OF FUNDS

The following paragraphs briefly describe in summary form the manner in which Gross Revenues and Net Revenues are utilized and their priority of payment. For a complete description of the flow of funds, see excerpts of the Ordinance which are included in "Appendix D – Selected Provisions from the Bond Ordinance."

Plant Fund . . . The Ordinance requires all Gross Revenues to be deposited by the Board, as collected and received, into a separate account known as the Plant Fund. All Gross Revenues deposited into the Plant Fund shall be transferred for the following uses and in the order of priority shown below:

FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined in the Ordinance or required by statute (including, but not limited to, Chapter 1502, Texas Government Code, as amended) to be a first charge on and claim against the Gross Revenues, including the establishment of a fuel adjustment subaccount or similar accounts. In addition, the Board is required to retain in the Plant Fund a reserve amount to pay Maintenance and Operating Expenses of not less than two months of budgeted Maintenance and Operating Expenses for the current Fiscal Year (the "Operating Reserve Fund") which amount was funded initially in the amount of $12,500,000 with lawfully available funds of the Board, and will be replenished as described in subparagraph ELEVENTH below.

SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable (see "Debt Service Fund" below).

THIRD: to the payment of the amounts required to be deposited into the Senior Lien Reserve Fund and other debt service reserves for Senior Lien Obligations created and established in accordance with the Ordinance (see the provisions of the Ordinance as set forth in Appendix D of this Official Statement) to maintain the amounts required to be deposited in accordance with the provisions of the Ordinance or the ordinances relating to the issuance of any Additional Senior Lien Obligations.

FOURTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City as the same become due and payable.

FIFTH: to the payment of the amounts required to be deposited into the reserve fund created and established in connection with the Junior Lien Obligations to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the City.

SIXTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

SEVENTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the City as the same become due and payable.

EIGHTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of any Inferior Lien Obligations as the same become due and payable.

NINTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of any Inferior Lien Obligations.

TENTH: to the payment of the amounts to be deposited into the City Transfer Fund and to be transferred to the City's General Fund as provided in the Ordinance (see "Transfers to the City's General Fund" below and the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

ELEVENTH: to the payment of the amount to replenish the Operating Reserve Fund to the amount required in subparagraph FIRST above.

TWELFTH: to the payment of the accrual to fund or to replenish the Capital Improvement Fund created and established by the Ordinance, along with the accumulation of any other surplus Net Revenues (see "Capital Improvement Fund" below and the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

Debt Service Fund . . . For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the Board is required to maintain, at a Depository, a separate and special account or fund known as the Debt Service Fund. The Board is required to deposit into the Debt Service Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. If the Net Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment is required to be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

Senior Lien Reserve Fund . . . The Ordinance requires the Board to create, establish, and maintain with a Depository a separate and special fund or account known as the Senior Lien Reserve Fund for the purpose of accumulating a reserve for the payment of the Senior Lien Obligations equal to the least of (1) 100% of the Maximum Annual Debt Service Requirements for the Senior Lien Obligations, (2) 125% of the Average Annual Debt Service Requirements for the Senior Lien Obligations and (3) 10% of the initial principal amount of the Outstanding Senior Lien Obligations (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) (the "Required Reserve Amount").

During such time as the Senior Lien Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Senior Lien Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund. If the Senior Lien Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as described below), the Board is required to cure the deficiency in the Required Reserve Amount by making monthly deposits into such Fund from the Net Revenues, such monthly deposits to be in amounts equal to not less than 1/60th of the Required Reserve Amount covenanted by the City to be maintained in the Senior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored.

The City may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Senior Lien Reserve Fund, subject to the satisfaction of certain conditions set forth in the Ordinance (see the excerpt of the Ordinance as set forth in Appendix D of this Official Statement). The City has reserved the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the City (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Senior Lien Reserve Fund pursuant to the Ordinance to restore the balance in such fund to the Required Reserve Amount for the Senior Lien Obligations.

Prior to the date of delivery of the Bonds, the Senior Lien Reserve Fund will have on deposit therein approximately $38,320,914 (unaudited), which amount exceeds the Required Reserve Amount for the Outstanding Senior Lien Obligations (i.e., $15,388,331). The amount on deposit in the Senior Lien Reserve Fund consists of cash and investments (approximately $14,403,914), a reserve fund surety policy provided in 2005 by Ambac Assurance Corporation ("Ambac") in connection with the issuance of the System's Revenue Improvement and Refunding Bonds, Series 2005A, with a maximum amount available to be drawn thereon equal to $17,874,000, and reserve fund surety policies provided in 2008 by Assured Guaranty Municipal Corp. ("AGM" - as the legal successor in interest to Financial Security Assurance which originally provided such surety policies) in connection with the issuance of the System's Revenue Refunding Bonds, Series 2008, with a maximum amount available to be drawn thereon equal to $6,043,000. After giving effect to the issuance of the Bonds and the defeasance of the Refunded Obligations, the Required Reserve Amount for all Senior Lien Obligations will be $17,191,539. The amounts currently on deposit in the Senior Lien Reserve Fund satisfy the Required Reserve Amount for the Senior Lien Obligations. Accordingly, in connection with the issuance of the Bonds, the City will not make a deposit into the Senior Lien Reserve Fund. Pursuant to the terms of the Ambac reserve fund surety policy, cash in the reserve fund which exceeds the Reserve Fund Requirement must be drawn upon first.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall increase, if required, to an amount calculated in the manner provided in the first paragraph of this subsection. Any additional amount required to be maintained in the Senior Lien Reserve Fund will be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Senior Lien Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the City, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Senior Lien Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

Notwithstanding the provisions of the preceding paragraph, the City (i) may elect to exclude Additional Senior Lien Obligations from the benefit of the Senior Lien Reserve Fund, in which case such Senior Lien Obligations will not be taken into account in calculating the amount of the Required Reserve Amount, nor shall money in the Senior Lien Reserve Fund be used to pay or provide for the payment of principal of or interest on such Senior Lien Obligations, and (2) may elect to fund a separate debt service reserve fund for one or more series of such Additional Senior Lien Obligations to the extent the balance of such fund does not exceed the amount by which the Required Reserve Amount is reduced by such exclusion in any Fiscal Year.

Transfers to the City's General Fund . . . For purposes of providing funds to transfer to the City's General Fund, the Ordinance requires the Board to create and maintain at a Depository a separate and special account or fund to be known as the City Transfer Fund. The Board is required to deposit into the City Transfer Fund from the available Net Revenues an amount equal to one-third of the quarterly amount hereinafter described to be made by the Board to the City in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. After making each of the payments required by the provisions of subparagraphs FIRST through NINTH as described above under "Funds and Accounts and Flow of Funds - Plant Fund," the Designated Financial Officer of the Board is required to transfer no later than the business day preceding the 15th day of the month following the end of each Fiscal Year quarter, an amount of money from the City Transfer Fund equal to ten percent (10%) (or such lesser amount as may be determined from time to time by the City Commission of the City) of the Gross Revenues received for the preceding Fiscal Year quarter, as adjusted in accordance with the next two following sentences, to be utilized by the City in the manner permitted by the provisions of Chapter 1502, Texas Government Code, as amended. Prior to applying the percentage set forth in the preceding sentence to determine the amount to be transferred to the City, the amount of Gross Revenues for a Fiscal Year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter. Furthermore the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Board for the utility services; provided, however, that the Board shall provide the City with a sufficiently detailed statement of charges for such utility services to permit the City to allocate the charges for such utility services to the appropriate office, division, or department of the City and to determine the charges paid by the Board to the Southmost Regional Water Authority with respect to the Southmost Project. To the extent that the available Net Revenues in any quarter are insufficient for the Board to make all or part of the required transfer to the City, the Board shall make up such shortfall (i) in the next quarter in which available Net Revenues exceed the amounts required to make the transfer to the City pursuant to the foregoing provisions and the payment to the Operating Reserve Fund under the provisions of the Ordinance, or (ii) to the extent such shortfall has not been made up by the last quarter of the Fiscal Year, solely from any surplus funds deposited into the Capital Improvement Fund for such Fiscal Year (see the excerpt of the Ordinance as set forth in Appendix D of this Official Statement).

Capital Improvement Fund . . . The Ordinance creates and establishes a special fund known as the Capital Improvement Fund. Money on deposit in the Capital Improvement Fund is used for making capital improvements to the System and for meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or relocation of properties constituting the System including, but not limited to, the replacement of any equipment relating to the System, as may be determined from time to time by the Board, and to fund the costs of any rate stabilization subaccount or any other similar subaccounts.

The Ordinance requires the City to deposit Net Revenues of the System, after making each of the payments required by the provisions of subparagraphs FIRST through ELEVENTH as described above under "Funds and Accounts and Flow of Funds - Plant Fund," into a Capital Reserve Account of the Capital Improvement Fund in an annual sum equal to $3,000,000 until the amount on deposit in the Capital Reserve Account of the Capital Improvement Fund equals or exceeds $15,000,000 (the "Capital Amount"). In the event that such annual payments are not made, the Board is required to request the City to establish sufficient rates and charges for the System to cure any such deficiency with respect to the accumulation of the Capital Amount within one year. When and so long as the cash and investments in the Capital Reserve Account of the Capital Improvement Fund equals the Capital Amount, no deposits will be required to be made to the credit of the Capital Reserve Account of the Capital Improvement Fund; but, if and when the Capital Reserve Account of the Capital Improvement Fund at any time contains less than the Capital Amount, the City is required to cure the deficiency in the Capital Amount by resuming monthly deposits to said Fund from Net Revenues of the System, or at the option of the City from any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/36th of the Capital Amount covenanted by the City to be maintained in the Capital Improvement Fund.

ADDITIONAL BONDS

The City may issue Additional Senior Lien Obligations on a parity with the Bonds if, among other things, the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the City's or the Board's obligations under the Ordinance or any other ordinance authorizing the issuance of any then outstanding Senior Lien Obligations, the City and the Board are not then in default as to any covenant, condition, or obligation prescribed in the Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein, and (c) according to the books and records of the Board, the Net Earnings for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed. In making such a determination of the Net Earnings, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and, for purposes of satisfying the Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

REDEMPTION OF THE BONDS

Optional Redemption of the Bonds . . . The City reserves the right, at its option, to redeem Bonds having stated maturities on and after September 1, 2032, in whole or in part in principal amounts of $5,000 or any integral multiple thereof, on September 1, 2031, or any date thereafter, at the par value thereof plus accrued interest to the date fixed for redemption.

Mandatory Redemption of the Bonds . . . The 2022 Bonds maturing on September 1 in the years 2038, 2042, 2046 and 2051 (the "2022 Term Bonds"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the date and in the principal amounts shown in the following schedule:

4.000% Term Bond
Stated to Mature
on September 1, 2038

Maturity (September 1)		Principal Amount Amount
2035		$ 620,000
2036		645,000
2037		670,000
2038	Maturity	700,000

5.000% Term Bond
Stated to Mature
on September 1, 2042

Maturity (September 1)		Principal Amount
2039		$ 725,000
2040		760,000
2041		800,000
2042	Maturity	840,000

5.000% Term Bond
Stated to Mature
on September 1, 2046

Maturity (September 1)		Principal Amount
2043		$ 880,000
2044		925,000
2045		970,000
2046	Maturity	1,020,000

5.000% Term Bond
Stated to Mature
on September 1, 2051

Maturity (September 1)		Principal Amount
2047		$ 1,070,000
2048		1,125,000
2049		1,180,000
2050		1,240,000
2051	Maturity	1,305,000

The 2022A Taxable Bonds maturing on September 1, 2037, (the "2022A Taxable Term Bonds" and, together with the 2022 Term Bonds, the "Term Bonds"), are subject to mandatory sinking fund redemption prior to their scheduled maturity, and will be redeemed by the City, in part at a redemption price equal to the principal amount thereof, without premium, plus interest accrued to the redemption date, on the date and in the principal amounts shown in the following schedule:

5.006% Term Bond
Stated to Mature
on September 1, 2037

Maturity (September 1)		Principal Amount Amount
2035		$ 6,040,000
2036		6,340,000
2037	Maturity	6,660,000

On or before July 15th of every year in which there are mandatory redemption requirements as set forth above for Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on September 1 of such year after taking into account deliveries for cancellation and optional redemptions of Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select by lot or other customary random method the Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on September 1 of such year, and (iii) shall give notice thereof in the manner hereinbelow provided. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation at least 50 days prior to such mandatory redemption date. In addition, in the exercise of its right of optional redemption contained herein the City may elect to redeem less than all of the Term Bonds of a particular coupon rate and maturity then outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Term Bonds of such coupon rate and maturity by the principal amount of such Term Bonds optionally redeemed and which has not previously been made the basis for a credit against the mandatory requirements for the Term Bonds.

General Provisions . . . If less than all of the Bonds of a stated maturity are to be redeemed, the Paying Agent/Registrar shall determine by lot the particular Bonds, or portions thereof, within such stated maturity to be redeemed. Bonds of a denomination larger than $5,000 may be redeemed in part ($5,000 or any integral multiple thereof). Any Bond to be partially redeemed may be surrendered in exchange for one or more new Bonds in authorized denominations of the same stated maturity and interest rate for the unredeemed portion of the principal of such Bond.

Notice of Redemption . . . Not less than 30 days prior to an optional or mandatory redemption date for the Bonds, the City shall cause a notice of redemption to be sent by United States mail, first class, postage prepaid, to each registered owner of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the registration books of the Paying Agent/Registrar at the close of business on the Record Date. ANY NOTICE OF REDEMPTION SO MAILED SHALL BE CONCLUSIVELY PRESUMED TO HAVE BEEN DULY GIVEN

IRRESPECTIVE OF WHETHER ONE OR MORE BONDHOLDERS FAILED TO RECEIVE SUCH NOTICE. If a Bond is subject by its terms to prior redemption and has been called for redemption and notice of redemption thereof has been duly given as hereinabove provided, such Bond (or the principal amount thereof to be redeemed) shall become due and payable and interest thereon shall cease to accrue from and after the redemption date therefore, provided moneys sufficient for the payment of such Bond (or of the principal amount thereof to be redeemed) at the then applicable redemption price are held for the purpose of such payment by the Paying Agent/Registrar.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state any condition to such redemption and that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified upon satisfaction of such condition, if any, and that thereafter the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the registered owner. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as provided in the Ordinance, such Bonds (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and on the redemption date designated in such notice, interest on said Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue and such Bonds shall not be deemed to be outstanding.

The Paying Agent/Registrar and the City, so long as a Book-Entry-Only System is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance or other notices with respect to the Bonds only to The Depository Trust Company ("DTC"), New York, New York. Any failure by DTC to advise any DTC participant, or of any DTC participant or indirect participant to notify the beneficial owner, shall not affect the validity of the redemption of the Bonds called for redemption or any other action premised or any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its Book-Entry-Only System, redemption of such Bonds held for the account of DTC participants in accordance with its rules or other agreements with DTC participants and then DTC participants and indirect participants may implement redemption of such Bonds from the beneficial owners. Any such selection of Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility to DTC participants, indirect participants or the persons for whom DTC participants act as nominees, with respect to the payments on the Bonds or the providing of notice to DTC participants, indirect participants, or beneficial owners of the selection of portions of the Bonds for redemption (see "THE BONDS - Book-Entry-Only System" below).

AMENDMENTS

Subject to the provisions of the Ordinance, the City may amend the Ordinance without the consent of or notice to any registered owners in any manner not detrimental to the interests of the registered owners, including the curing of any ambiguity, inconsistency, or formal defect or omission therein. In addition, the City may, with the written consent of the registered owners of a majority in aggregate principal amount of the Bonds then outstanding affected thereby, amend, add to, or rescind any of the provisions of the Ordinance; except that, without the consent of the registered owners of all of the Bonds affected, no such amendment, addition, or rescission may (1) change the date specified as the date on which the principal of or any installment of interest on any Bond is due and payable, reduce the principal amount thereof, the redemption price, the rate of interest thereon, change the place or places at or the coin or currency in which any Bond or interest thereon is payable, or in any other way modify the terms of payment of the principal of or interest on the Bonds, (2) give any preference to any Bond over any other Bond, or (3) reduce the aggregate principal amount of Bonds required for consent to any amendment, addition, or waiver.

The Ordinance requires the City to publish notice of any proposed amendment in a financial newspaper or journal published in the City of New York, New York once each week for two consecutive weeks. Such publication is not required, however, if notice in writing is given to each registered owner of any Senior Lien Obligations. With respect to amendments requiring consent of bondholders, whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the City receives an instrument or instruments executed by the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding consenting to and approving such amendment, the City Commission may pass such amendment (see Section 51 of the Ordinance, an excerpt of which is included in Appendix D of this Official Statement).

BOOK-ENTRY-ONLY SYSTEM

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

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

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase.

Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction.

Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in the 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 affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the Paying Agent/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 a maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant in such maturity to be redeemed.

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to the Bonds unless authorized by a Direct Participant in accordance with DTC's MMI Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City 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).

Principal, redemption proceeds, if any, and interest payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or the Paying Agent/Registrar, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, premium, if any, and interest payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the City or the Paying Agent/Registrar, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

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

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

The Paying Agent/Registrar and the City, as long as the DTC book-entry-only system is used for the Bonds, will send any notice of redemption, notice of proposed amendment to the Ordinance, or other notices with respect to such Bonds only to DTC. Any failure by DTC to advise any DTC Participant, or of any Direct Participant or Indirect Participant to notify the Beneficial Owners, of any notices and their contents or effect will not affect the validity of the redemption of the Bonds called for redemption or of any other action premised on any such notice. Redemption of portions of the Bonds by the City will reduce the outstanding principal amount of such Bonds held by DTC. In such event, DTC may implement, through its book-entry-only system, a redemption of such Bonds held for the account of DTC Participants in accordance with its own rules or other agreements with DTC Participants and then Direct Participants and Indirect Participants may implement a redemption of such Bonds from the Beneficial Owners. Any such selection of the Bonds to be redeemed will not be governed by the Ordinance and will not be conducted by the City or the Paying Agent/Registrar. Neither the City nor the Paying Agent/Registrar will have any responsibility or obligation to Direct Participants, Indirect Participants, or the persons for whom DTC Participants act as nominees, with respect to the payments on the Bonds or the providing of notice to Direct Participants, Indirect Participants, or Beneficial Owners of the selection of portions of the Bonds for redemption.

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

PAYING AGENT/REGISTRAR

The initial Paying Agent/Registrar is The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. Interest on the Bonds will be paid to registered owners shown on the records of the Paying Agent/Registrar on the Record Date (see "THE BONDS - Record Date for Interest Payment" herein), and such interest will be paid by check sent by mail to the address of such registered owner appearing on the registration books of the Paying Agent/Registrar or by such other customary banking arrangements acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the registered owner.

SUCCESSOR PAYING AGENT/REGISTRAR

The City reserves the right to replace the Paying Agent/Registrar. If the Paying Agent/Registrar is replaced by the City, the new Paying Agent/Registrar shall accept the previous Paying Agent/Registrar's records and act in the same capacity as the previous Paying Agent/Registrar. Any successor Paying Agent/Registrar selected by the City shall be a bank, a trust company, financial institution, or other entity duly qualified and legally authorized to serve and perform the duties of Paying Agent/Registrar for the Bonds. Upon a change in the Paying Agent/Registrar for the Bonds, the City shall promptly cause a written notice thereof to be sent to each registered owner of the Bonds by United States mail, first-class postage prepaid, which notice shall give the address of the new Paying Agent/Registrar.

OWNERSHIP

The City, the Paying Agent/Registrar, and any other person may treat the person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and premium, if any, thereon, and for the further purpose of making and receiving payment of the interest thereon, and for all other purposes, whether or not such Bond is overdue. Neither the City nor the Paying Agent/Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the person deemed to be the owner of any Bond in accordance with the Ordinance shall be valid and effective and shall discharge the liability of the City and the Paying Agent/Registrar for such Bond to the extent of the sums paid.

RECORD DATE FOR INTEREST PAYMENT

The record date ("Record Date") for determining the person to whom the interest will be payable on the Bonds on any interest payment date means the close of business on the 15th day of the preceding month. In the event of a non-payment of interest on a scheduled payment date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which will be 15 days after the Special Record Date) will be sent at least five business days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Holder of a Bond appearing on the registration books of the Paying Agent/Registrar at the close of business on the last business day next preceding the date of mailing of such notice.

DEFEASANCE

The Ordinance provides that any Bond will be deemed paid and will no longer be considered to be outstanding within the meaning of the Ordinance when payment of principal of and interest on such Bond to its maturity has been made or provided for. Payment may be provided for by deposit of any combination of (1) money in an amount sufficient to make such payment and/or (2) Government Securities. Any such deposit must be certified by an independent public accountant to be of such maturities and interest payment dates and bear such interest as will, without reinvestment, be sufficient to make the payment to be provided for on the Bond; provided, however, that no certification by an independent accounting firm of the sufficiency of deposits shall be required in connection with a gross defeasance of Bonds. The Ordinance provides that "Government Securities" means (A) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America, (B) noncallable obligations of an agency or instrumentality of the United States of America, 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, (C) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent, and (D) any additional securities and obligations hereafter authorized by Texas law as eligible for use to accomplish the discharge of obligations such as the Bonds. There is no assurance that the ratings for U.S. Treasury securities acquired to defease any Bonds, or those for any other Government Securities, will be maintained at any particular rating category. Further, there is no assurance that current Texas law will not be amended in a manner that expands or contracts the list of permissible defeasance securities (such list consisting of those securities identified in clauses (A) through (C) above), or any rating requirement thereon, that may be purchased with defeasance proceeds relating to the Bonds ("Defeasance Proceeds"), though the City has reserved the right to utilize any additional securities for such purpose in the event the aforementioned list is expanded. Because the Ordinance does not contractually limit such permissible defeasance securities and expressly recognizes the ability of the City to use lawfully available Defeasance Proceeds to defease all or any portion of the Bonds, registered owners of Bonds are deemed to have consented to the use of Defeasance Proceeds to purchase such other defeasance securities, notwithstanding the fact that such defeasance securities may not be of the same investment quality as those currently identified under Texas law as permissible defeasance securities.

Upon such deposit as described above, such Bonds will no longer be regarded to be outstanding obligations for any purpose, including the application of any limitation on indebtedness. After firm banking and financial arrangements for the discharge and final payment of the Bonds have been made as described above, all rights of the City to take any action amending the terms of the Bonds are extinguished.

TRANSFER, EXCHANGE AND REGISTRATION

So long as any Bonds remain outstanding, the Paying Agent/Registrar shall keep the registration books at its corporate trust office in Dallas, Texas (the "Designated Trust Office") in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of the Bonds in accordance with the terms of the Ordinance.

Each Bond shall be transferable only upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar, duly endorsed for transfer, or accompanied by an assignment duly executed by the owner or his authorized representative in a form satisfactory to the Paying Agent/Registrar. Upon due presentation and surrender of a Bond for transfer, the Paying Agent/Registrar is required to authenticate and deliver in exchange therefore, under such reasonable regulations as the Paying Agent/Registrar may prescribe, a new Bond or Bonds, registered in the name of the transferee or transferees, in authorized denominations and of the same maturity, in the principal amount of $5,000 or any integral multiple thereof, and bearing interest at the same rate as the Bond or Bonds so presented and surrendered.

All Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Trust Office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any authorized denomination, in such aggregate principal amount as discussed above equal to the unpaid principal amount of the Bond delivered in accordance with the Ordinance and shall be entitled to the benefits and security of the Ordinance to the same extent as the Bond or Bonds in lieu of which such Bond is delivered.

The Paying Agent/Registrar may require the 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 reasonable standard or customary fee or charge of the Paying Agent/Registrar for a conversion or exchange shall be paid by the one requesting such conversion or exchange, except that the City shall pay such fee or charge in the case of the conversion or exchange of an assigned and transferred Bond.

In the event the Book-Entry-Only System should be discontinued, the Bonds may be transferred, or exchanged for Bonds of other authorized denominations, only upon presentation and surrender to the Paying Agent/Registrar duly endorsed by the registered owner or its duly authorized agent. Such transfer or exchange shall be without expense or service charge to the registered owner, except for any tax or other governmental charges required to be paid with respect to such registration, exchange and transfer.

BONDHOLDERS' REMEDIES

The Ordinance does not provide for the appointment of a trustee to represent the interests of the Bond owners upon any failure of the City to perform in accordance with the terms of the Ordinance or upon any other condition and, in the event of any such failure to perform, the registered owners would be responsible for the initiation and cost of any legal action to enforce performance of the Ordinance. Furthermore, the Ordinance does not establish specific events of default with respect to the Bonds and, under State law, there is no right to the acceleration of maturity of the Bonds upon the failure of the City to observe any covenant under the Ordinance. A registered owner of Bonds could seek a judgment against the City if a default occurred in the payment of principal of or interest on any such Bonds; however, such judgment could not be satisfied by execution against any property of the City and a suit for monetary damages is vulnerable to the defense of governmental immunity. A registered owner's only practical remedy, if a default occurs, is a mandamus proceeding to compel the City to levy, assess, and collect an annual ad valorem tax sufficient to pay principal of and interest on the Bonds as it becomes due or perform other material terms and covenants contained in the Ordinance. In general, Texas courts have held that a writ of mandamus may be issued to require a public official to perform legally imposed ministerial duties necessary for the performance of a valid contract, and Texas law provides that, following their approval by the Texas Attorney General and issuance, the Bonds are valid and binding obligations for all purposes according to their terms. However, the enforcement of any such remedy may be difficult and time consuming and a registered owner could be required to enforce such remedy on a periodic basis.

The City is also eligible to seek relief from its creditors under Chapter 9 of the U.S. Bankruptcy Code ("Chapter 9"). Although Chapter 9 provides for the recognition of a security interest represented by a specifically pledged source of revenues, the pledge of taxes in support of a general obligation of a bankrupt entity is not specifically recognized as a security interest under Chapter 9. Chapter 9 also includes an automatic stay provision that would prohibit, without Bankruptcy Court approval, the prosecution of any other legal action by creditors or Bond owners of an entity which has sought protection under Chapter 9. Therefore, should the City avail itself of Chapter 9 protection from creditors, the ability to enforce would be subject to the approval of the Bankruptcy Court (which could require that the action be heard in Bankruptcy Court instead of other federal or state court); and the Bankruptcy Code provides for broad discretionary powers of a Bankruptcy Court in administering any proceeding brought before it. The opinion of Bond Counsel will note that all opinions relative to the enforceability of the Ordinance and the

Bonds are qualified with respect to the customary rights of debtors relative to their creditors, including rights afforded to creditors under the Bankruptcy Code.

BOND INSURANCE

Bond Insurance Policy

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

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

Build America Mutual Assurance Company

BAM is a New York domiciled mutual insurance corporation and is licensed to conduct financial guaranty insurance business in all fifty states of the United States and the District of Columbia. BAM provides credit enhancement products solely to issuers in the U.S. public finance markets. BAM will only insure obligations of states, political subdivisions, integral parts of states or political subdivisions or entities otherwise eligible for the exclusion of income under section 115 of the U.S. Internal Revenue Code of 1986, as amended. No member of BAM is liable for the obligations of BAM.

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

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

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

Capitalization of BAM

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

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

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

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

Additional Information Available from BAM

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

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

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

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

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

BOND INSURANCE GENERAL RISKS

The following risk factors related to municipal bond insurance policies generally apply. In the event of default of the scheduled payment of principal of or interest on the Bonds when all or a portion thereof becomes due, any owner of the Bonds shall have a claim under the Policy for such payments. The payment of principal and interest in connection with mandatory or optional prepayment of the Bonds by the City which is recovered by the City from the bond owner as a voidable preference under applicable bankruptcy law is covered by the Policy; however, such payments will be made by the Insurer at such time and in such amounts as would have been due absent such prepayment by the City (unless the Insurer chooses to pay such amounts at an earlier date).

Payment of principal of and interest on the Bonds is not subject to acceleration, but other legal remedies upon the occurrence of non-payment do exist (see "THE BONDS – Bondholders' Remedies"). The Insurer may reserve the right to direct the pursuit of available remedies, and, in addition, may reserve the right to consent to any remedies available to and requested by the Bondholders.

In the event the Insurer is unable to make payment of principal and interest as such payments become due under the Policy, the Bonds are payable solely from and secured only by a lien on and pledge of the Pledged Revenues. In the event the Insurer becomes obligated to make payments with respect to the Bonds, no assurance is given that such event will not adversely affect the market price or the marketability (liquidity) of the Bonds. If a Policy is acquired, the long-term ratings on the Bonds will be dependent in part on the financial strength of the Insurer and its claims-paying ability. The Insurer's financial strength and claims-paying ability are predicated upon a number of factors which could change over time. No assurance can be given that the long-term ratings of the Insurer and of the ratings on the Bonds, whether or not subject to a Policy, will not be subject to downgrade and such event could adversely affect the market price or the marketability (liquidity) for the Bonds.

The obligations of the Insurer under a Policy are general obligations of the Insurer and in an event of default by the Insurer, the remedies available may be limited by applicable bankruptcy law. None of the City, the Board, the Financial Advisor or the Underwriters have made independent investigation into the claims-paying ability of any potential Insurer and no assurance or representation regarding the financial strength or projected financial strength of any potential Insurer is given.

THE COMBINED UTILITIES SYSTEM

GENERAL

Pursuant to the City Charter, the City owns the System as a combined utilities system that provides the City and certain areas of Cameron County, Texas outside the City with electric, water, and wastewater service. All facilities of the System are owned by the City and operated, maintained, and managed through the Board.

The electric system was established in 1904 to provide street lighting and electric service to the area. During the 2021 Fiscal Year, the electric system served approximately 51,912 customers (excluding municipal) and accounted for approximately 89.16% of System operating revenues. In 2021, the electric system experienced a peak of 282.68 megawatts ("MW"). See "THE ELECTRIC SYSTEM."

The water system includes raw water supply from the Rio Grande River, two water treatment plants having a combined nominal treatment capacity of 40 million gallons per day and transmission and distribution facilities that served approximately 53,114 customers (excluding municipal) during the 2021 Fiscal Year. The water system contributed approximately 5.76% of the System's total operating revenues during that period. The Board partnered with the Southmost Regional Water Authority and built a 7.5 million gallon reverse osmosis water treatment plant of which the Board has 92.91% ownership. See "THE WATER SYSTEM."

The wastewater system includes two wastewater treatment plants with a combined primary and advanced secondary capacity of 27.3 million gallons per day and wastewater collection lines serving approximately 53,863 customers (excluding municipal) during Fiscal Year 2021. The wastewater system contributed approximately 5.08% of the System's total operating revenues during that period. See "THE WASTEWATER SYSTEM."

HISTORICAL SYSTEM EARNINGS

The following is a summary of System earnings for the Fiscal Years ended September 30, 2017 through September 30, 2021. Financial statements for the Board for its Fiscal Year ended September 30, 2021 are included in Appendix B and have been examined by Baker Tilly US, LLP, independent certified public accountants, as stated in their report, which is included in Appendix B. This summary should be read in conjunction with the financial statements included in Appendix B.

TABLE 1 – SYSTEM HISTORICAL OPERATING RESULTS (FISCAL YEAR ENDED SEPTEMBER 30) [(1)]

	Audited 2017	Audited 2018	Audited 2019	Audited 2020	Audited 2021
Operating Revenues:					
Electric System Revenues	$ 169,419,343	$ 172,500,017	$ 181,465,067	$ 171,708,196	$ 408,486,140
Water System Revenues	25,975,423	26,080,691	25,550,243	25,983,318	26,618,453
Wastewater System Revenues	23,001,387	23,149,155	22,896,365	23,358,462	23,508,068
Total Operating Revenues	$ 218,396,153	$ 221,729,863	$ 229,911,675	$ 221,049,976	$ 458,612,661
Operating Expenses:					
- Production - Fuel	$ 10,771,078	$ 12,057,570	$ 9,357,311	$ 10,181,355	$ 43,135,682
- Production - Other than fuel	8,003,726	11,417,099	4,517,066	4,164,703	4,051,202
- Production - Oklaunion	11,433,780	12,243,442	13,854,532	7,675,081	-
- Production - Hidalgo	4,392,322	3,346,971	3,213,956	3,231,030	3,223,658
- Purchased Power	27,807,339	27,410,145	44,037,956	44,909,116	162,739,356
- Transmission & Distribution	15,435,802	15,289,129	7,501,896	8,512,114	8,551,987
Water - Supply, Pumping and Treatment	5,076,700	6,492,866	5,905,687	5,986,115	5,869,042
- Transmission and Distribution	3,260,832	3,416,818	3,324,018	3,559,242	3,479,550
Wastewater - Treatment & Pumping	7,970,686	8,217,490	8,654,870	7,953,275	8,044,125
- Collection	772,747	808,444	830,075	741,446	974,216
Customer Accounting	5,804,281	5,140,269	5,650,120	5,479,943	6,008,468
Administrative and General	36,829,800	36,783,602	39,844,676	39,079,273	37,508,602
Total Operating Expenses	$ 137,559,093	$ 142,623,845	$ 146,692,162	$ 141,472,693	$ 283,585,888
Total Net Operating Income	$ 80,837,060	$ 79,106,018	$ 83,219,512	$ 79,577,283	$ 175,026,773
Other Non-Operating Expense (net)	(3,459,921)	(2,292,044)	(1,865,436)	(3,365,453)	(3,205,450)
Balance Available for Debt Service	$ 77,377,139	$ 76,813,974	$ 81,354,077	$ 76,211,830	$ 171,821,323
Debt Service					
Senior Outstanding Series:					
Series 2005A Improvement & Refunding Bonds	$ 5,000	$ 5,000	$ 5,000	$ 5,000	$ 5,000
Series 2008 Revenue Refunding Bonds	3,913,625	3,523,794	5,000	5,000	5,000
Series 2012 Revenue Refunding Bonds	1,251,233	1,153,286	410,281	376,091	-
Series 2013A Revenue Refunding Bonds	6,205,225	6,160,150	6,642,367	12,355,332	10,058,867
Series 2015 Revenue Refunding Bonds	12,381,429	12,358,908	11,814,471	5,859,075	5,837,304
Series 2016 Revenue Refunding Bonds	1,860,216	2,091,883	4,534,020	4,527,008	4,532,321
Series 2018 Revenue Refunding Bonds	-	249,979	1,874,406	1,911,667	1,908,700
Series 2020 Revenue Refunding Bonds	-	-	-	188,964	2,318,763
Series 2020A Revenue Refunding Bonds	-	-	-	204,874	2,453,771
Total Gross Senior Debt Service	25,616,728	25,543,000	25,285,545	25,433,011	27,119,726
Less Capitalized Interest	-	-	-	-	-
Total Net Senior Debt Service	25,616,728	25,543,000	25,285,545	25,433,011	27,119,726
Junior Outstanding Series:					
Series 2007 Junior Lien Bonds	49,109	37,668	-	-	-
Series 2012 Junior Lien Bonds	56,335	47,028	38,427	59,296	58,301
Commercial Paper	55,636	167,579	442,758	451,484	8,861
Total Junior Debt Service	161,080	252,275	481,185	510,780	67,162
Total Debt Service	$ 25,777,808	$ 25,795,275	$ 25,766,730	$ 25,943,791	$ 27,186,888
Debt Service Coverage [(1) (2) (3)]					
Senior Debt Average Annual	4.18	4.24	4.61	4.25	10.37
Senior & Junior Lien Debt Average Annual	4.06	4.23	4.59	4.24	10.35
Balance Available After Debt Service	$ 51,599,331	$ 51,018,699	$ 55,587,347	$ 50,268,039	$ 144,634,435 [(4)]

(1) Does not include Southmost Regional Water Authority.

(2) Debt service coverage ratios for Junior Lien Debt have been omitted. Such coverage ratios vary based on the amount of short-term obligations issued as commercial paper that may be outstanding from time to time.

(3) Debt service coverage for Senior Debt, and Senior & Junior Lien Debt shown above is based on "average annual" levelized debt principal and interest requirements through 2050. Debt service coverage based on "actual" 2021 year-end results are 6.50x for Senior Lien Debt and 6.49x for Senior & Junior Lien Debt combined.

(4) See "THE COMBINED UTLITIES SYSTEM – Management Discussion Relating to Fiscal Year 2021 Operating Revenues and Expenses" below.

Source: Brownsville Public Utilities Board

MANAGEMENT DISCUSSION RELATING TO FISCAL YEAR 2021 OPERATING REVENUES AND EXPENSES

Fiscal Year 2021 operating revenues compared to Fiscal Year 2020 revenues increased $237.6 million. The Electric System operating revenues increased $236.8 million while the Water and Wastewater System operating revenues increased $635,135 and $149,606 respectively.

Interest earned from investments decreased $2.3 million.

The negative change of $49.4 million in net position for Fiscal Year 2021 is attributable to an increase in current liabilities due to incurring short-term debt after Winter Storm Uri and a decrease in the Investment in capital assets and Unrestricted categories of net position due to losses incurred by large purchased power and fuel expenses related to the storm and the loss on retirement of assets due to the closure of the Oklaunion Power Plant. For additional information see the Board's Annual Financial Report for Fiscal Year 2021 attached hereto as Appendix B.

TRANSFERS TO THE CITY'S GENERAL FUND

The transfers to the City are made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of Gross Revenues for a Fiscal Year quarter are reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter as well as funding requirements for the Southmost Regional Water Authority Project; and (2) the amount of funds to be transferred to the City are reduced by any amounts owed by the City to the Board for utility services, provided that the Board shall provide the City with a sufficiently detailed statement of changes for such utility services.

The Board's Fiscal Year 2021 balance available after debt service increased by $94,366,396 compared to its 2020 balance, primarily as a result of an overall increase in Electric System Operating Revenues resulting from off system sales during Winter Storm Uri.

Required payments to the City for the years ended September 30, 2021 and 2020, totaled $20,524,045 and $11,170,349, respectively, of which $13,372,977 and $3,994,072 respectively, was payable at September 30, 2021 and 2020.

SYSTEM DEBT

The following tables set forth the principal amounts of Senior Lien Obligations and Junior Lien Obligations to be outstanding following issuance of the Bonds (see Table 2 below), and the annual debt service requirements on such indebtedness (see Table 3 below).

TABLE 2 – OUTSTANDING SYSTEM REVENUE OBLIGATIONS

Senior Lien Obligations	Principal Amount Outstanding
Utilities System Revenue Improvement and Refunding Bonds, Series 2005A	$ 100,000
Utilities System Revenue Refunding Bonds, Series 2008	100,000
Utilities System Revenue Refunding Bonds, Series 2013A	43,870,000
Utilities System Revenue Refunding Bonds, Series 2015	55,405,000
Utilities System Revenue Refunding Bonds, Series 2016	31,020,000
Utilities System Revenue Refunding Bonds, Series 2018	10,045,000
Utilities System Revenue Refunding Bonds, Series 2020	60,890,000
Utilities System Revenue Refunding Bonds, Series 2020A	53,320,000
Utility System Revenue Refunding Bonds, Series 2022	17,165,000
Utility System Revenue Refunding Bonds, Taxable Series 2022A	35,605,000
Subtotal	$ 307,520,000
Junior Lien Obligations	
Utilities System Junior Lien Revenue Bonds, Series 2012	535,000
Subtotal	535,000
Subordinate Lien Obligations [1]	
None	$ -
Inferior Lien Obligations	
None	$ -
Total	$ 308,055,000

(1) On September 30, 2021, the Board had $46 million in outstanding commercial paper.
Source: Brownsville Public Utilities Board

TABLE 3 – ANNUAL DEBT SERVICE REQUIREMENTS ON SYSTEM REVENUE OBLIGATIONS

Fiscal Year Ended 9/30	Series 2005A Bonds Debt Service	Series 2008 Bonds Debt Service	Series 2013A Bonds Debt Service	Series 2015 Bonds Debt Service	Series 2016 Bonds Debt Service	Series 2018 Bonds Debt Service	Series 2020 Bonds Debt Service	Series 2020A Taxable Bonds Debt Service	Series 2022 Bonds Debt Service	Series 2022A Taxable Bonds Debt Service	Total Combined Senior Lien Debt Service	Plus: Existing Junior Lien Obligations Debt Service	Grand Total Debt Service
2022	5,000	5,000	10,022,200	5,824,700	4,535,300	1,904,300	2,394,144	2,456,118	187,178	384,427	27,718,366	57,319	27,775,685
2023	5,000	5,000	9,981,200	5,803,950	4,526,050	1,913,300	2,460,644	2,456,272	831,900	1,708,564	29,691,880	56,191	29,748,071
2024	5,000	5,000	9,937,200	5,781,200	4,529,550	1,908,300	2,302,894	984,651	831,900	1,708,564	27,994,258	60,007	28,054,265
2025	5,000	5,000	9,894,450	5,761,200	4,529,800	1,909,800	1,966,894	984,651	831,900	1,708,564	27,597,258	58,634	27,655,892
2026	5,000	5,000	9,851,950	5,743,275	4,531,550	1,067,300	2,931,894	984,651	831,900	1,708,564	27,661,083	57,221	27,718,304
2027	5,000	5,000	-	5,760,025	4,529,300	1,017,800	2,703,644	11,089,651	831,900	1,708,564	27,650,883	60,786	27,711,669
2028	5,000	5,000	-	6,636,525	1,917,800	423,550	3,264,394	12,860,400	831,900	1,708,564	27,653,133	59,166	27,712,298
2029	5,000	5,000	-	6,619,275	1,922,200	421,800	3,705,144	12,439,152	831,900	1,708,564	27,658,035	57,521	27,715,555
2030	5,000	5,000	-	6,595,275	1,924,000	417,800	3,780,394	12,385,676	831,900	1,708,564	27,653,609	60,851	27,714,459
2031	105,000	5,000	-	6,474,275	1,918,200	423,400	3,857,144	12,332,816	831,900	1,708,564	27,656,299	58,986	27,715,285
2032	-	5,000	-	1,190,525	1,920,000	423,200	3,839,894	-	1,366,900	6,993,564	15,739,083	62,094	15,801,177
2033	-	105,000	-	1,193,525	1,924,000	322,400	3,842,894	-	1,370,150	6,990,707	15,748,675	-	15,748,675
2034	-	-	-	1,190,325	-	-	3,844,894	-	1,366,900	6,989,443	13,391,562	-	13,391,562
2035	-	-	-	1,191,125	-	-	3,836,494	-	1,367,400	6,993,142	13,388,161	-	13,388,161
2036	-	-	-	1,190,725	-	-	3,839,294	-	1,367,600	6,990,780	13,388,399	-	13,388,399
2037	-	-	-	1,193,138	-	-	3,845,594	-	1,366,800	6,993,400	13,398,931	-	13,398,931
2038	-	-	-	1,189,106	-	-	2,594,194	-	1,370,000	-	5,153,300	-	5,153,300
2039	-	-	-	1,188,838	-	-	2,592,744	-	1,367,000	-	5,148,581	-	5,148,581
2040	-	-	-	1,192,125	-	-	2,587,444	-	1,365,750	-	5,145,319	-	5,145,319
2041	-	-	-	1,188,763	-	-	2,594,300	-	1,367,750	-	5,150,813	-	5,150,813
2042	-	-	-	1,192,750	-	-	2,590,700	-	1,367,750	-	5,151,200	-	5,151,200
2043	-	-	-	1,189,825	-	-	2,594,300	-	1,365,750	-	5,149,875	-	5,149,875
2044	-	-	-	1,190,200	-	-	2,589,700	-	1,366,750	-	5,146,650	-	5,146,650
2045	-	-	-	1,193,663	-	-	2,592,100	-	1,365,500	-	5,151,263	-	5,151,263
2046	-	-	-	-	-	-	2,591,100	-	1,367,000	-	3,958,100	-	3,958,100
2047	-	-	-	-	-	-	2,594,050	-	1,366,000	-	3,960,050	-	3,960,050
2048	-	-	-	-	-	-	2,589,900	-	1,367,500	-	3,957,400	-	3,957,400
2049	-	-	-	-	-	-	2,593,800	-	1,366,250	-	3,960,050	-	3,960,050
2050	-	-	-	-	-	-	2,590,450	-	1,367,250	-	3,957,700	-	3,957,700
2051	-	-	-	-	-	-	-	-	1,370,250	-	1,370,250	-	1,370,250
	$ 150,000	$ 160,000	$ 49,687,000	$ 77,674,331	$ 38,707,750	$ 12,152,950	$ 86,111,031	$ 68,974,038	$ 35,020,528	$ 57,712,537	$ 426,350,165	$ 648,773	$ 426,998,938

Debt Service Coverage Ratios (1)	Amount	Fiscal Year	Coverage
Senior Lien Maximum Annual Debt Service Coverage	$29,691,880	2023	4.87x
Senior Lien Average Annual Debt Service Coverage	14,211,672	2022-2051	10.18x
All Debt Maximum Annual Debt Service Coverage	29,748,071	2023	4.86x
All Debt Average Annual Debt Service Coverage	14,233,298	2022-2051	10.16x

Notes

(1) Coverage rates are based on audited September 30, 2021 Net Revenue Available for Debt Service of $144,634,435.

Source: Brownsville Public Utilities Board

COMMERCIAL PAPER PROGRAM

Pursuant to authorization from the City, the Board maintains a Commercial Paper Program to provide short-term tax-exempt financing for additions, improvements and extensions to the City's electric, waterworks and sewer systems. The Commercial Paper Program, which was initially established in 2004, currently is authorized to issue Notes thereunder in an aggregate principal amount not to exceed $100,000,000 at any time outstanding. Liquidity support for Notes issued under the Commercial Paper Program is provided by a letter of credit issued by Bank of America N.A., which has a stated termination date of November 7, 2022. The City periodically has issued Commercial Paper Notes to finance various improvements. There is currently $53 million in Commercial Paper Notes outstanding.

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THE BOARD

Current Board Members . . . Under the terms of the City Charter, the Board is comprised of seven members, six of whom are appointed by the City Commission for four-year terms, and the seventh member is the City's Mayor serving ex-officio. The present members of the Board and their terms of office are:

Name and Title	Term Expires
Anna E. Oquin, Member …..…………………….……………	July 1, 2022
Jude A. Benavides, Ph.D., Member .…………..……….........	July 1, 2023
Sandra Lopez-Langley, Secretary/Treasurer ….….…………	July 1, 2023
Arthur Rendon, Member ……..……..………………………....	July 1, 2025
Patricio Sampayo, Vice Chair ……..…………….…………	July 1, 2024
Sandra Saenz, Chair ……...………....….………..………….....	July 1, 2025
Mayor Juan "Trey" Mendez III ……………….…………..…..	Concurrent with Mayoral Term

Delegation of Management and Control to Board . . . As provided in the City Charter, the Board has full authority and power with reference to the control, management and operation of the System and the expenditure and application of the Gross Revenues of the System, subject to the provisions contained in the Ordinance and State law. Pursuant to State law, the City Commission retains the power to approve all rates of the System and the issuance of debt for the System. The Board will exercise the powers and perform the duties and functions conferred upon and agreed to by the City in the Ordinance and is required to carry out and perform on behalf of the City all covenants, agreements and obligations undertaken by or imposed upon the City by the terms and provisions of the Ordinance to the extent permitted by law. The Ordinance provides that in the event the City Charter is amended to transfer management and control of the System to the City Commission or if for any lawful reason the Board cannot assume and discharge the duties and obligations thus imposed, the management, control and operation of the System will be assumed and discharged by the City Commission.

Board's Approval of Financing Plan . . . Prior to the adoption of the Ordinance, the Board approved a plan of finance concerning the issuance of the Bonds and recommended the approval of the Bonds by the City Commission. While legally not required to do so, the Board has historically recommended that the City Commission adopt ordinances authorizing the issuance of bonded indebtedness.

MANAGEMENT PERSONNEL

The members of the Board appoint a General Manager and Chief Executive Officer who is responsible for retaining and managing a staff to operate the System. Set forth below are biographical summaries of certain of the current members of the Board's management staff.

John S. Bruciak P.E., General Manager and Chief Executive Officer – Mr. Bruciak is a professional engineer, licensed to practice in the State of Texas and was appointed General Manager & CEO of the Board on October 12, 1998. Mr. Bruciak holds a Bachelor of Science degree in Civil Engineering Technology from Rochester Institute of Technology, Rochester, New York. He originally joined the Board in July 1979 and has more than 40 years of experience working in the utility business. Mr. Bruciak was Director of Water/Wastewater Engineering and Operations for several years and held the position of Interim General Manager before being appointed General Manager & CEO.

Mr. Bruciak serves on the Board of Directors for the Rio Grande Regional Water Planning Group Region M, Texas Public Power Association and the Rio Grande Regional Water Authority. He also serves as the General Manager & CEO of the Southmost Regional Water Authority. Mr. Bruciak also is a member of the American Water Works Association (AWWA), Water Environment Federation (WEF), American Membrane Technology Association (AMTA), and the Texas Municipal Utilities Association (TMUA).

Marilyn D. Gilbert, Assistant General Manager and Chief Operating Officer – Ms. Gilbert joined the Board in 2022 and serves as Assistant General Manager and COO of the Board. She is responsible for the daily operations of the utility's electrical delivery system, system's power supply needs, NERC Compliance, and Water/Wastewater Engineering and Operations divisions. Her departments are responsible for the purchase of both fuel and power for customers, the operation and maintenance of the Silas Ray Power Station, and the dispatch services for customer service calls. In addition, Ms. Gilbert also oversees the water delivery system operations and Resaca operations. Ms. Gilbert holds a Master of Business Administration from The University of Texas at Pan American and a Bachelor of Science in Architectural Engineering from The University of Texas at Austin.

Ms. Gilbert's career spans over 25 years of utility experience. She began her career as a Graduate Engineer at Turner, Collie and Braden, Inc. (later became AECOM), served as Energy Manager at Brownsville Independent School District (BISD) and 14 years of prior experience at BPUB. While at BPUB, Ms. Gilbert held the roles of Director of Energy Services, Energy Risk Manager and Key Account Manager. She moved on to become the Director of Operations Services Oversight at Long Island Power Authority (LIPA) located in New York from November 2014 to May 2019. Her responsibilities included oversight of generation that met the system demands of ~6,000 MW for over 1.1 million customers, business services, storm restorations and contract performance. For the last 3 years, Ms. Gilbert was the Energy Manager at Imperial Irrigation District (IID). IID is the 3rd largest public power utility in California, serves ~159,000 customers in Imperial County and Coachella Valley in Riverside County. IID's service territory and Balancing Authority (operator / owner of the energy grid) spans 6,400 square miles. As department manager, she would plan and direct strategies for the daily management of administration of customer programs, operations, construction, maintenance, engineering, resource planning, energy and gas trading (energy marketing), fuel supply, purchase power, generation, substations, and regulatory/policy management.

Miguel A. Perez, Chief Financial Officer – Mr. Perez joined the Board in February 2006 and served as Director of Finance for several years and as the Acting Chief Financial Officer for a year before being hired as the Chief Financial Officer in November 2021. Mr. Perez has over 16 years of experience in public finance and has a Bachelor of Business Administration degree from Texas A&I University (now Texas A&M Kingsville) located in Kingsville, Texas. Prior to joining the Board, Mr. Perez worked for a local Accounting Firm for 17 years as an auditor specializing in School Districts, Counties, and City government audits. As Chief Financial Officer of the Board, Mr. Perez directs all accounting and financial activities of the organization and is responsible for the execution of broad financial and management policies regarding accounting, auditing, purchasing, investments, debt management, bond issues, budgeting, payroll, rate design, customer services and key accounts, billings and collections, information systems, and environmental services.

RATES

Under Article VI of the City Charter, the Board is required periodically to review rates, fees, and charges for services rendered by the System with due consideration being accorded to the terms, covenants, and conditions contained in any contract of the City or the Board relating to the System or any ordinance authorizing the issuance of any utilities system revenue bonds. In the event the Board's review reflects the necessity of a rate adjustment, the Board is required to submit to the City Commission a report for its review, and the basis upon which the proposed rate adjustment is predicated, accompanied by a written request for approval and adoption of the rates, fees and charges recommended by the Board. If the City Commission approves the adjustment recommended by the Board, it adopts an appropriate ordinance placing such rates, fees and charges in effect. To assist the Board in maintaining a competitive position in multiple-certificated areas and under electric retail competition in Texas, the City Commission delegated authority to the Board to adjust electric customer rates and to negotiate individual customer contracts within certain restrictions.

Under the Ordinance, the City has covenanted to maintain certain rates (see Appendix D – "Selected Provisions From the Bond Ordinance - General Covenants-Rate Covenant").

SYSTEM RATE STUDY AND RATE INCREASES

Historically, the City has utilized revenues generated by the System to fund more than 50% of the cost of capital improvement projects. See "POWER SUPPLY REQUIREMENTS – Electric Capital Improvement Plan and Additional Debt," "THE WATER SYSTEM– Water Supply Capital Improvement Plan and Additional Debt," and "THE WASTEWATER SYSTEM – Wastewater System Capital Improvement Plan and Additional Debt" for a description of projected capital improvement projects and the expected sources of funding thereof.

For additional information regarding rates for the three System utilities, see "THE ELECTRIC SYSTEM – Electric Rates," "THE WATER SYSTEM – Water Rates," and "THE WASTEWATER SYSTEM – Wastewater Rates."

BUDGET

The Board adopts, prior to the beginning of each succeeding fiscal year, an annual budget for the System.

BILLINGS AND COLLECTIONS

The System bills customers monthly on a combined statement which includes charges for electric, water and wastewater services, fuel adjustment charges, and other miscellaneous System charges, all of which constitute part of Gross Revenues, as defined in the Ordinance. Payments are deposited into the Plant Fund (created under the City Charter) within 24 hours after receipt. Under present Board policy and City ordinances, utility bills are treated as delinquent and subject to a 6% penalty if payment is not made on or before 20 days after issuance. Should payment not be made in full within 20 days, a notice is mailed which allows ten days before service is subject to being discontinued. For Fiscal Year 2021, write-offs totaled 0.49% of gross billings (exclusive of service provided to the City and the Board).

The Board also collects utilities sales tax, the City's fees for garbage services, area maintenance fees, and federal unfunded mandate environmental compliance fees, which are not included in Gross Revenues of the System.

CUSTOMER RELATIONS

The Public Utilities Board Consumer Advisory Panel ("PUBCAP") was organized in 1983 for the purpose of better informing Board officials as to the needs and concerns of System customers. PUBCAP is comprised of ten members representing a cross-section of the System's service area community and one staff representative of the Board. PUBCAP also provides a forum for the Board to inform customers of activities and plans involving the System. Subjects covered during PUBCAP meetings have ranged from consumer complaints to detailed discussions of the Board's rate structure.

CONTRIBUTED UTILITY SERVICES

The Board supplies electric, water and wastewater services to the City for bona fide municipal services. While Article VI of the City Charter stipulates that "no charges shall be made for any utilities furnished or used for City purposes," the Ordinance includes a requirement that no free service of the System shall be allowed. This restriction extends to most services for most municipal purposes, except water provided to the City for municipal fire-fighting purposes. Although the City Charter provides that the Board may not charge the City for such contributed services, the Ordinance allows the Board to deduct from the amount transferred to the City's General Fund the reasonable value of electric, water and wastewater services provided by the Board to the City for municipal purposes. (The City transfer provision was adopted in accordance with Section 1502.059, Texas Government Code, in connection with the Board's refunding of System obligations in 2005. For additional information, see “THE COMBINED UTILITY SYSTEM – Transfers to the City’s General Fund.”) In order to determine the amount of such deduction, the contributed services are accounted for in accordance with the Board’s general service rate schedule. Based on such accounting during the 2021 Fiscal Year, the Board provided approximately $4.59 million of contributed electric, water and wastewater services (1.97% of gross System operating revenues) to the City for bona fide City uses.

CUSTOMER STATISTICS

The historical average annual number of customers for the electric, water, and wastewater facilities is shown below.

TABLE 4 - HISTORICAL CUSTOMER STATISTICS AVERAGE ANNUAL NUMBER OF CUSTOMERS (1)

Fiscal Year End 9/30	Electric		Water		Wastewater	
	Customers	Change	Customers	Change	Customers	Change
2012	46,102	1.32%	47,477	1.76%	47,456	1.83%
2013	46,730	1.37%	47,976	1.06%	47,972	1.09%
2014	47,242	1.10%	48,510	1.11%	48,528	1.16%
2015	47,671	0.91%	48,997	1.00%	49,041	1.06%
2016	48,196	1.10%	49,598	1.23%	49,693	1.33%
2017	48,726	1.10%	50,153	1.12%	50,329	1.28%
2018	49,455	1.50%	50,771	1.23%	51,366	2.06%
2019	50,209	1.52%	51,441	1.32%	52,137	1.50%
2020	51,406	2.38%	52,331	1.73%	53,075	1.80%
2021	51,912	0.98%	53,114	1.50%	53,863	1.48%

(1) Municipal customers not included in average number of customer accounts billed.
Source: Brownsville Public Utilities Board

THE ELECTRIC SYSTEM

THE ELECTRIC SYSTEM GENERALLY

The electric system provides retail electric service through its electric facilities to consumers inside and outside the city limits. The existing customer service area of the electric facilities encompasses approximately 133 square miles of Cameron County, including substantially the entire City (estimated by the Public Utilities Board at over 96%).

Electric service is also provided in the unincorporated areas surrounding the City by AEP Texas Central Company (formerly CPL Retail Energy, formerly Central Power and Light Company) and Magic Valley Electric Cooperative, Inc. ("MVEC"). Each such entity also has a small number of customers inside the Brownsville city limits (see "Present Electric System Competition" under this section).

The electric system's maximum net peak electrical demand during Fiscal Year 2021 was 282.68 MW. Total sales during that period, as reported by the Board, were 1,265,066 MWh to an average of 51,912 customers (excluding municipal), resulting in operating revenues of $409,961,738 from the sale of electricity (without including any revenues in respect of contributed service to the City or the Board or wholesale revenues).

The Board operates a fully integrated electric generation, transmission and distribution system, with three transmission interconnections with American Electric Power Company ("AEP") (see "POWER SUPPLY REQUIREMENTS – Interconnections, Transmission and Distribution Within the Electric System" under this section).

The Board, like other municipal electric systems in the State, presently is confronted by fundamental changes to the system of electric utility regulation in the State brought about by the enactment of Senate Bill 7 ("Senate Bill 7" or "SB 7") by the Texas Legislature (the "Legislature") in 1999. As further described below, SB 7 provides for open competition in the provision of retail electric service in the State, which competition commenced on January 1, 2002 in the part of the State that is within the service area of the Electric Reliability Council of Texas ("ERCOT"). The City is located in the ERCOT service area. Senate Bill 7 provides that the municipal governing body or a body vested with the power to manage and operate a municipally-owned utility has the discretion to decide when or if the municipally-owned utility will provide customer choice.

Municipally-owned utilities ("MOUs"), like the electric system, are not required to participate in the competitive market, although they may "opt in" to retail electric competition. To date, no MOU in ERCOT has opted in to competition, and under the statutory scheme of SB 7 any decision by a MOU to opt in would be irrevocable. To date, no action has been taken with respect to opening the Board's service area to retail electric competition as allowed by Senate Bill 7 and the Board’s staff does not believe the Board will open its service area to open competition. The Ordinance contains a covenant not to grant a franchise or permit for facilities that compete with the System to the extent permitted by law, which may restrict the right of the Board to opt in to retail electric competition or restrict the access of competitors to the Board's service area. The Board's staff recognizes that the Ordinance may (but does not necessarily) have to be amended at some point in the future in order to permit the Board to opt in to electric competition (see "The Development of the Competitive Market and the Board’s Response to the Changing Legal and Business Environments" under this section and "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas; Senate Bill 7").

While SB 7 generally deregulates the retail sale of energy in the State, SB 7 maintains the existing regulated structure with respect to electric transmission and distribution services in the State. As discussed below under "The Proposed Wholesale Market Design Rule," there are various rule-makings presently under way by the Public Utility Commission of Texas ("PUCT") (collectively, the "Proposed Wholesale Market Design Rule" or the "Proposed Rule"), that, if fully implemented would dramatically alter the wholesale market design in ERCOT. However, for the reasons discussed below, the Board is of the view that the electric system is positioned to continue to distribute energy within the Board's service area (see "THE TEXAS ELECTRIC UTILITY INDUSTRY – ERCOT - Electric Utility Restructuring in Texas; Senate Bill 7").

ELECTRIC RATES

General. The Public Utilities Board analyzes and adjusts the fuel and purchased energy charge (FPEC) on a monthly basis. Beginning in April 2016, the Public Utilities Board implemented a bill reduction plan which set the FPEC at a rate that maintains an average residential electric bill at $102.00 based on 1,000 kWh of electric consumption. The plan was implemented to maintain a competitive alignment with other local providers. Effective November 2021 the Public Utilities Board started increasing the FPEC based on market conditions and rising fuel costs. The Public Utilities Board will begin phasing out its bill reduction program effective June 2022. The Public Utilities Board utilized rate stabilization funds of $143,387,231 and $20,400,000 in fiscal years ending September 30, 2021 and 2020 respectively, to supplement actual FPEC collections.

The rates and conditions of service of the electric system are established by the City Commission. The rates established by the City Commission for electric usage by ratepayers within the boundaries of the City are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established by the City Commission for electric usage by ratepayers situated outside the boundaries of the City are subject to review under the PUCT's appellate jurisdiction upon a proper filing of a petition by 5% of the ratepayers of the electric system situated outside the boundaries of the City. The Board reports that there is currently no petition on file by ratepayers situated outside the boundaries of the City with respect to any electric rate, and the management of the Board is not aware of any planned filing. The conditions of service established by the Board for ratepayers within the City are not subject to review by the PUCT or any other state or Federal regulatory agency.

Effective October 1, 2011, the electric system base rates increased by 5%. In addition, the rate structure was revised from a single-tier energy charge to a two-tier energy charge rate design. The new rate structure was intended to help promote conservation without impacting any of the electric system's low consumption consumers (consumers utilizing less than 500 kWh).

Additionally, in order to have available adequate revenues to make projected deposits to the Capital Improvement Fund and in anticipation of issuing a significant amount of additional debt to fund the City's portion of a proposed new electric generating plant, which has been cancelled, the Board recommended, and the City Commission approved on December 17, 2012, a five-year rate plan for the electric system. The adopted five-year plan increased electric rates as reflected in the following table. The April 1, 2013, October 1, 2013, October 1, 2014, October 1, 2015 and October 1, 2016 increases were implemented. However, on May 3, 2022, pursuant to the findings by an independent consulting and engineering firm (the "2022 Rate Study") and upon recommendation of the Board, the City Commission approved a partial reduction of electric rates to reverse the base rate increases related to the anticipated debt issuances for the previously planned electric generating plant. The results of the 2022 Rate Study indicated that the rate reduction would return energy rates and demand charges to those made effective October 1, 2013, and that such reductions would not materially impair any obligations under the City Charter of the City, bond ordinances or State law. Such rate reductions will be phased-in over a two year period becoming effective on June 1, 2022 and June 1, 2023.

The table below shows the average electric system rate increases and decreases during the preceding nine-year period and the average electric system rate increases approved by the City Commission in December 2012 and the decreases approved by the City Commission in May 2022:

Effective Date	% of Increase/ (Decrease)
April 2013 ……………………..	7.0%
October 2013 …………………	7.0%
October 2014…………………	7.0%
October 2015..……………….	8.0%
October 2016 ………………...	7.0%
June 2022……………………….	(-11.0%)
June 2023……………………….	(-11.0%)

Electric Retail Service Rates. Under the Texas Public Utility Regulatory Act ("PURA"), significant original jurisdiction over the rates, services, and operations of "electric utilities" is vested in the PUCT. In this context, "electric utility" means an electric investor-owned utility. Since the electric deregulation aspects of SB 7 (hereinafter described) became effective on January 1, 2002, the PUCT's jurisdiction over electric investor-owned utility ("IOU") companies primarily encompasses only the transmission and distribution functions. PURA generally excludes MOUs, such as the System, from PUCT jurisdiction, although the PUCT has jurisdiction over electric wholesale transmission rates (see "Electric Transmission Access and Rate Regulation" herein). Under the PURA, a municipal governing body or the body vested with the power to manage and operate a MOU such as the System has exclusive jurisdiction to set rates applicable to all services provided by the MOU with the exception of electric wholesale transmission activities and rates.

The City has covenanted and is obligated under the Ordinance, as provided under the rate covenant, to establish and maintain rates and collect charges in an amount sufficient to pay all maintenance and operating expenses of the System and to pay the debt service requirements on all revenue debt of the System, including the Senior Lien Obligations, and to make all other payments prescribed in the respective bond ordinances relating thereto.

Electric Transmission Access and Rate Regulation. Pursuant to amendments made by the Texas Legislature in 1995 to the PURA ("PURA95"), MOUs, including the System, became subject to the regulatory jurisdiction of the PUCT for transmission of wholesale energy. PURA95 requires the PUCT to establish open access transmission on the interconnected Texas grid for all utilities, co-generators, power marketers, independent power producers and other transmission customers.

The 1999 Texas Legislature amended the PURA95 to expressly authorize rate authority over MOUs for wholesale transmission and to require that the postage stamp method be used exclusively for pricing wholesale transmission transactions, for purposes of recovery of the cost of capital investment in transmission by transmission owners. The PUCT in late 1999 amended its transmission rule to incorporate fully the postage stamp pricing method which sets the price for transmission at the system average for ERCOT. The System's wholesale open access transmission charges are set out in tariffs filed at the PUCT, and are based on its transmission cost of service approved by the PUCT, representing the System's input to the calculation of the statewide postage stamp pricing method. The PUCT's rule, consistent with provisions in PURA §35.005(b), also provides that the PUCT may require construction or enlargement of transmission facilities in order to facilitate wholesale transmission service. With respect to the costs of transmission congestion, pursuant to P.U.C. Docket No. 31540, "Proceeding to Consider Protocols to Implement a Nodal Market in the ERCOT Pursuant to P.U.C. SUBST. R. 25.501," the PUCT has completed the shift from zonal congestion pricing to nodal congestion pricing. ERCOT implemented the nodal system on December 1, 2010.

THE DEVELOPMENT OF THE COMPETITIVE MARKET AND THE BOARD'S RESPONSE TO THE CHANGING LEGAL AND BUSINESS ENVIRONMENTS

Subsequent to the passage of Senate Bill 7, and as a variety of factors that will impact both the statewide electric market and the Board are still evolving, representatives of the Board participated actively at PUCT and ERCOT proceedings to protect the Board's interests. Notwithstanding the evolving issues concerning retail electric competition in the State and the Board's own responses to the options contained in Senate Bill 7, as described below, the Board began planning for increased competition in the mid-1990's. In preparation for deregulation, the Board has taken numerous actions to maintain and enhance its competitive position. Deregulation could occur by either future action by the Texas Legislature, or a decision by the Board to participate in competition. The general consensus of the Board, however, has determined it will remain out of retail competition. The greatest potential impact on the electric system from Senate Bill 7 could result from a decision by the Board to participate in a fully-competitive market. The potential effects of a decision to compete include the potential loss of customers to other Retail Electric Providers ("REPs") resulting in a reduced electric load while owning the existing electric generation facilities and the associated debt service on such facilities. On the other hand, if the Board's retail rates and its ability to deliver dependable service are competitive with those of other REPs, the Board may be successful in retaining existing customers. Any decision of the Board to participate in full retail competition would also permit the electric system to offer electric service to customers that are not presently within the certified service area of the Board.

Among the steps that have been taken by the Board to prepare for possible direct competition is a current rate structure that the Board believes places the System in a competitive position to the System's competitors. The Board's staff is committed to maintaining its electric rates at levels that are competitive with other suppliers, whether or not it is eventually determined to open the Board's service area to competition.

Additionally, the Board established a Fuel Sub-account in 2005 which may be utilized as a rate stabilization/competition fund to be used in a manner that enhances the Board's competitive posture by stabilizing rates or otherwise utilized, as determined by the Board, to competitively position the Board. As of September 30, 2021, the Fuel Sub-account had a balance of $3,675,000.

The Board continues to staff a Key Account Marketing Department, which historically has been successful in acquiring new customers in multiple-certificated service areas. As a result of a pre-Senate Bill 7 agreement with AEP, the Board is authorized under Senate Bill 7 to, and has, expanded its certificated areas in AEP's singly-certificated areas. In such situations, the Board has acquired a significant number of new customers.

Senate Bill 7 also includes a provision that clarifies the right of MOUs, such as the Board, to enter into risk management and hedging contracts for fuel and energy. The Board has not entered into any fuel and hedging transactions.

PRESENT ELECTRIC SYSTEM COMPETITION

The Board has authority to provide electric service to customers within and outside the boundaries of the City in areas to which it is certified for electric service by the PUCT. The Board is singly certified in a substantial portion of its service area within the boundaries of the City and, within this area, it alone is presently authorized to provide electric service. The Board is also singly certified to serve the developed portion of the Port of Brownsville.

In areas where the Board is dually or multiple-certified with other electric utilities, the Board competes with AEP and MVEC principally for electric customers. In these areas the customer chooses the utility system from which it will receive electric service. The Board may serve areas newly annexed by the City only if it is singly, dually, or multiple-certified by the PUCT to serve the area. AEP has agreed not to oppose application to the PUCT by the Board for certification to serve newly annexed areas. No agreement of this nature exists between the Board and MVEC. However, the Board's agreement with AEP allows the Board some opportunity to expand its service territory as the City annexes new areas, and the PUCT has recognized and given effect to the agreement in approving the Board's application for dual certification. H.B. 4059, enacted by the 84th Texas Legislature in 2015, imposed some restrictions on future City annexations which could adversely impact the Board's expansion of electric service areas in certain areas of Cameron County.

Senate Bill 7 allows AEP and MVEC to offer wholesale and retail rates discounted below their approved PUCT tariffs. MVEC may opt out of PUCT rate regulation under the law. Senate Bill 7 will intensify competition in areas with multiple certifications to AEP, MVEC, and the Board (see "CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY – Electric Utility Restructuring in Texas - Senate Bill 7").

In order to afford municipally-owned electric utility systems equal footing for the protection of competitive sensitive records with privately-owned utility systems, Senate Bill 7 excepted from disclosure under the Open Records Act "competitive matters." In 2011, the 82nd Legislature passed Senate Bill 1613 ("SB 1613"), which modified the competitive matters exemption in the Public Information Act for public power utilities concerning public power "competitive matters." SB 1613 updated the existing law based on a decade of experience with competitive electricity markets. It continues to allow the City and other MOUs to protect "competitive matters" from disclosure under the open meetings and open records laws. SB 1613 protects the consumers of MOUs because their utility can participate in wholesale electric markets without being disadvantaged. The Board regularly uses its competitive exception to protect legislative designated competitive matters from disclosure.

ELECTRIC CUSTOMERS

For the Fiscal Year ended September 30, 2021, the Board had approximately 51,912 electric customers (excluding municipal). Residential and commercial/industrial customers provided approximately 31.88% and 31.86% of electric system sales revenues, respectively.

The following table lists the ten largest users of electric energy from the System for Fiscal Year 2021 (excluding general government functions of the City) which represented, in the aggregate, approximately 13.23% of electric system revenues.

SCHEDULE OF TEN LARGEST ELECTRIC CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2021) (1)

Customer Name	Annual Consumption (kWh)	Annual Sales Revenue	Percent of Annual Sales Revenue (1)
Brownsville I S D	67,551,445	$ 6,428,598	5.25%
Trico Technologies Corp.	26,950,061	1,820,683	1.49%
Amfels Inc	12,283,200	1,160,043	0.95%
H E B Stores	15,959,806	1,145,252	0.94%
Rich Product Corp.	16,417,440	1,100,850	0.90%
Cameron County	12,898,709	1,084,759	0.89%
7 Eleven Inc.	11,502,725	957,098	0.78%
Valley Baptist Medical Center	12,388,218	861,719	0.70%
CK Technologies, LLC	12,868,932	845,063	0.69%
Valley Regional Medical Center	12,117,010	780,778	0.64%
TOTAL	200,937,546	$ 16,184,843	13.23%

(1) Does not include municipal sales.
Source: Brownsville Public Utilities Board

POWER SUPPLY REQUIREMENTS

HISTORICAL REQUIREMENTS

As depicted by the table set forth below, in Fiscal Year 2021, peak demand was at 282.68 MW while electric energy requirements decreased by 1.50% over the prior fiscal year. The Board's capacity requirements are calculated based upon the Board's peak summer demand. Many factors, including weather and changes in population, affect electric sales of the System and should be considered when evaluating the power supply requirements of the electric system over the period since 2017 reported on the following page.

TABLE 5 - HISTORICAL ANNUAL ELECTRIC PEAK DEMAND AND ENERGY REQUIREMENTS [(1)]

	Peak Demand		Energy Requirements		
Fiscal Year End 9/30	MW	Change	MWh	Change	Load Factor
2017	284	-2.41%	1,354,043	0.73%	54.43%
2018	300	5.56%	1,360,262	0.46%	51.79%
2019	294	-1.80%	1,333,254	-1.99%	51.70%
2020	282	-4.21%	1,304,173	-2.18%	52.79%
2021	283	0.13%	1,323,762	1.50%	53.46%

(1) Wholesale electric sales not included.
Source: Brownsville Public Utilities Board

POWER SUPPLY RESOURCES – GENERAL

The Board meets its power supply obligations through a combination of resources: (i) the operation of the Silas Ray Power Production Facilities owned and operated by the Board (composed of one conventional steam turbine unit and a re-powered steam turbine in Combined Cycle with a combustion turbine and a GE LM6000 gas turbine generator for an estimated gas fired capability of 115 MW), (ii) the operation of the Calpine/Hidalgo combined cycle Power Plant in which the Board has an ownership interest entitling it to 105 MW of capacity, (iii) a Power Purchase Agreement with Constellation Energy Generation, LLC, formerly Exelon Corporation, entitling the Board to purchase 78 MW of renewable energy, (iv) a Power Purchase Agreement with AEP Energy Partners, Inc. entitling the Board to an estimated 65 MW of energy and (v) economy energy purchases through an economy power interchange arrangement.

The Board currently has a gas transportation agreement with Texas Gas Service ("TGS"), a division of ONE Gas, Inc., a gas supply agreement with Tenaska Marketing Ventures ("TMV") for service to its Silas Ray generation units and a gas supply agreement with Calpine Energy Services, LP for service to its Calpine/Hidalgo Plant.

APPLICATION OF RESOURCES

The tables set forth below, which were prepared by the Board, summarize the electric system's historical loads and resources for the years 2017 through 2021.

TABLE 6 - HISTORICAL PEAK LOADS AND RESOURCES (MW)

	Fiscal Year End (9/30)				
	2017	2018	2019	2020	2021
Available Resources:					
Oklaunion Unit No. 1 [(1)]	70.0	70.0	70.0	70.0	0.0
Oklaunion Unit No. 2 [(1)]	54.0	54.0	54.0	54.0	0.0
Silas Ray Units	115.0	115.0	115.0	115.0	115.0
Hidalgo	105.0	105.0	105.0	105.0	105.0
Sendero Wind Farm	33.9	33.9	33.9	33.9	33.9
AEP Power Purchase Agreement [(2)]	0.0	0.0	0.0	0.0	50.0
Firm Purchase	0.0	0.0	0.0	0.0	0.0
Distributed Generation	0.0	0.0	0.0	0.0	0.0
Total Resources	377.9	377.9	377.9	377.9	303.9
Peak Load Responsibility:					
System Peak Demand	283.5	299.8	294.4	282.3	282.7
Reserves	0.0	0.0	0.0	0.0	0.0
Total Requirements	283.5	299.8	294.4	282.3	282.7
Balance Available	94.4	78.1	83.5	95.6	21.2

(1) Oklaunion was decommissioned on September 30, 2020.
(2) AEP Power Purchase Agreements commenced October 1, 2020.
Source: Brownsville Public Utilities Board

TABLE 7 - HISTORICAL ENERGY REQUIREMENTS AND SOURCES (GWh)

	Fiscal Year End (9/30)				
	2017	2018	2019	2020	2021
Sources:					
Oklaunion Unit No. 1 (1)	181.3	217.8	250.8	94.6	0.0
Oklaunion Unit No. 2 (1)	139.5	167.6	193.0	72.8	0.0
Silas Ray Units	50.2	40.5	42.4	105.4	16.0
Hidalgo	378.2	381.1	392.2	456.5	413.4
Sendero Wind Energy	275.7	257.6	268.3	237.9	103.5
AEP Power Purchase Agreement (2)	0.0	0.0	0.0	0.0	438.0
Firm Purchase	0.0	0.0	0.0	0.0	0.0
Economy Purchases	329.0	295.7	186.5	336.9	352.9
Distributed Generation	0.0	0.0	0.0	0.0	0.0
Total Requirements	1,354.0	1,360.3	1,333.3	1,304.1	1,323.8

(1) Oklaunion was decommissioned on September 30, 2020.
(2) AEP Power Purchase Agreements commenced October 1, 2020.
Source: Brownsville Public Utilities Board

PROJECTED REQUIREMENTS

The Board's staff analyzes the historical load of the electric system and develops a load model for use in its forecast of future power and energy requirements. The tables below set forth the results of that analysis for the five years ending September 30, 2026. The forecasted requirements set forth below are based upon the estimated most probable growth rates (see "OTHER INFORMATION – Forward Looking Statements").

PROJECTED ANNUAL ELECTRIC PEAK DEMAND AND ENERGY REQUIREMENTS

Peak Demand			Energy Requirements		
Fiscal Year End 9/30	MW	Change	MWh	Change	Load Factor
2022	303	7.15%	1,340,362	1.25%	50.51%
2023	306	1.00%	1,367,169	2.00%	51.01%
2024	309	1.00%	1,394,513	2.00%	51.52%
2025	312	1.00%	1,422,403	2.00%	52.03%
2026	315	1.00%	1,450,851	2.00%	52.55%

Source: Brownsville Public Utilities Board

PROJECTED POWER REQUIREMENTS

The Board has updated the long range power supply strategy to meet its projected need for additional capacity. An assortment of resource options have been reviewed and will be considered, including (i) distributed generation, and (ii) construction of new generating facilities in the Board's service area. Additionally, the Board is discussing power supply options with other power supply entities. The following tables summarize the Board's estimated future loads and resources for the Fiscal Years 2022 through 2026 (see "OTHER INFORMATION – Forward Looking Statements").

PROJECTED PEAK LOADS AND RESOURCES (MW)

	Fiscal Year End (9/30)				
	2022	2023	2024	2025	2026
Capacity Resources					
Silas Ray	115.0	115.0	115.0	115.0	115.0
Oklaunion Unit No. 1 (1)	0.0	0.0	0.0	0.0	0.0
Oklaunion Unit No. 2 (1)	0.0	0.0	0.0	0.0	0.0
Hidalgo	105.0	105.0	105.0	105.0	105.0
Sendero Wind Energy (2)	33.9	33.9	33.9	33.9	33.9
AEP	57.0	57.0	57.0	57.0	57.0
Firm & Other Purchases	0.0	0.0	0.0	0.0	0.0
Distributed Generation	0.0	0.0	0.0	0.0	0.0
Total Resources	310.9	310.9	310.9	310.9	310.9
Peak Load Responsibility					
System Peak Demand(3)	302.9	305.9	309.0	312.1	315.2
Reserves	0.0	0.0	0.0	0.0	0.0
Total Load	302.9	305.9	309.0	312.1	315.2
Balance Available	8.0	5.0	1.9	-1.2	-4.3

(1) Please see discussion regarding Oklaunion Decommissioning found on page 15.

(2) Name plate capacity 78.0 MW. Sendero P-50: Summer peak average capacity value 43.4%. Value during peak 33.96 MW.

(3) Peak Demand estimated at 95% confidence interval for capacity planning purposes.

Source: Brownsville Public Utilities Board

PROJECTED ENERGY REQUIREMENTS AND RESOURCES (GWh)

	Fiscal Year End (9/30)				
	2022	2023	2024	2025	2026
Energy Requirements	1,340.4	1,367.2	1,394.5	1,422.4	1,450.9
Resources:					
Silas Ray	54.9	57.1	54.5	55.5	56.9
Oklaunion Unit No. 1 (1)	0.0	0.0	0.0	0.0	0.0
Oklaunion Unit No. 2 (1)	0.0	0.0	0.0	0.0	0.0
Hidalgo	395.8	437.3	508.3	522.4	535.5
Sendero Wind Energy	304.0	309.1	310.0	309.1	309.1
AEP Power Purchase Agreement	512.9	512.9	514.0	512.9	512.9
Firm & Other Purchases	0.0	0.0	0.0	0.0	0.0
Economy Purchases	72.9	50.8	7.6	22.5	36.5
Distributed Generation	0.0	0.0	0.0	0.0	0.0
Total Resources	1,340.4	1,367.2	1,394.5	1,422.4	1,450.9

(1) Oklaunion was decommissioned on September 30, 2020.

OWNED GENERATION FACILITIES

The following paragraphs describe electric generating facilities owned by the City:

Silas Ray Plant

General . . . The Board wholly owns and operates power production facilities in the City that are located at the Silas Ray Plant on the north bank of the Rio Grande River, west of downtown Brownsville, Texas. Designated as Unit #10, a simple cycle, natural gas fired GE LM6000 gas turbine (installed in 2004) is located just south of the main plant building. The main plant building houses the steam turbine generator for Unit #6 installed in 1961. The Unit #6 turbine generator has been re-powered through more efficient combined cycle operation with Unit #9. Unit #9, a natural gas-fired combustion turbine (installed in 1997), is located adjacent to the plant building. The gas turbine discharges its waste heat into a Heat Recovery Steam Generator that in turn produces steam to power the existing Unit #6 steam turbine for an overall plant capacity of 115 MW.

In response to the winter storm of February 2021, BPUB has taken measures to weatherize the Silas Ray Power Plant. This includes the installation of new heat trace systems and insulation on water tank level valves and transmitters as well as wind breaks on select equipment.

Fuel . . . The Board currently has a gas transportation agreement with Texas Gas Service ("TGS"), a division of ONE Gas, Inc., a gas supply agreement with Tenaska Marketing Ventures ("TMV") for service to its Silas Ray generation units.

Calpine/Hidalgo

General. . . The Board purchased an equity ownership in a gas fired plant from Duke Energy which entitles the Board to 105 MWs of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from the City. Calpine Energy subsequently acquired the ownership interest of Duke Energy. The unit consists of two gas turbines with heat recovery steam generators and one steam turbine generator. This unit is extremely efficient with an average heat rate of 7,040 BTU/KWH.

Fuel . . . The Board currently has a gas supply agreement with Calpine Energy Services, LP for service to its Calpine/Hidalgo Plant.

Wind Energy

The Board evaluated renewable energy opportunities, and on January 23, 2014, entered into a Power Purchase Agreement ("PPA") with Sendero Wind Energy, LLC ("SWE") which entitles the Board to purchase 78 MW of renewable electric energy. On December 19, 2014, Exelon Corporation acquired the Sendero Wind Energy Project. The PPA shall remain in full force and effect until the twenty-fifth (25th) anniversary of the commercial operation date of the wind turbine facility. Exelon developed, constructed and achieved at its sole cost and expense, commercial operation of the facility during December 2015 and is delivering to the Board the full energy output of the facility. Constellation Energy Generation, LLC, formerly Exelon Corporation, owns, operates, and maintains the facility, which consists of thirty-nine (39) General Electric 2.0 MW wind turbines and associated equipment having a designed output of approximately 78.0 MW.

Economy Energy

General . . . The Board meets its power supply obligations through a combination of resources: (i) the operation of the Silas Ray Power Production Facilities owned and operated by the Board (composed of one conventional steam turbine unit and a re-powered steam turbine in Combined Cycle with a combustion turbine and a GE LM6000 gas turbine generator for an estimated gas fired capability of 115 MW), (ii) the operation of the Calpine/Hidalgo combined cycle Power Plant in which the Board has an ownership interest entitling it to 105 MW of capacity, (iii) a Power Purchase Agreement with Constellation Generation, LLC, formerly Exelon Corporation, entitling the Board to purchase 78 MW of renewable energy, (iv) a Power Purchase Agreement with AEP Energy Partners, Inc. entitling the Board to an estimated 65 MW of energy and (v) economy energy purchases through an economy power interchange arrangement.

In Fiscal Year 2021, economy purchases accounted for approximately 17.2% of the Board's energy requirements.

ELECTRIC CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Electric Capital Improvement Plan (the "Electric CIP") identifies projects for a five-year period ending September 30, 2026. The Electric CIP identifies approximately $107.2 million in generation, transmission and distribution projects, of which $30.3 million are projected to be debt financed.

Capital projects involve the acquisition or construction of major facilities and equipment. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

AGREEMENT BETWEEN THE BOARD, AEP, AND CFE

A 138/69 kV double circuit transmission line connecting the Board's and AEP's transmission lines with Mexico's Commission Federal De Electricidad ("CFE") was constructed in 1993. The Board owns 18.52% of the line. With this line, the Board could potentially buy, sell, or exchange 200 megawatts of power with CFE by scheduling energy flows through ERCOT.

INTERCONNECTIONS; TRANSMISSION AND DISTRIBUTION WITHIN THE ELECTRIC SYSTEM

The electric system is currently interconnected with AEP at four locations, all of which are rated at 138 kilovolts ("kV"), and has four substations connected directly to AEP transmission lines. The Board's interconnection capacity with AEP is greater than 400 mega-volt- amperes ("MVA") and the four substations have a service capacity of 150 MVA. AEP has constructed a 138 kV transmission line around the north side of the City to interconnect the two 138 kV ties which AEP has with the Board. This 138 kV line improves the overall reliability of the Board's transmission interconnections to the ERCOT grid by providing an alternative feed to each of the Board's 138 kV interconnection points. The bulk power transmission network of the electric system consists of approximately 49 circuit miles of 138 kV transmission lines made up of multiple loops within the electric system service area. The electric system is supplied with power from the 69/138 kV double bus at the Silas Ray Station via 69-138 kW autotransformers which also connect the Board's Silas Ray generation to ERCOT. Fourteen (14) distribution substations are served from the 138 kV transmission system. As a result of improvements, the loop is capable of carrying the electric system load in the event of any single transmission segment being out of service during an emergency or maintenance outage. The electric system currently has fourteen substations connected to the transmission network and serving its 12.5 kV distribution network. The distribution system includes 385 circuit miles of primary overhead distribution line and 353 miles of primary underground distribution line to serve retail customers.

S.B. 776, enacted by the 84th Texas Legislature in 2015, requires a municipally owned electric utility to acquire a Certificate of Convenience and Necessity from the PUCT prior to construction of new electric transmission facilities outside its certificated retail service areas.

NEW VALLEY HUB IN ERCOT

ERCOT is working on establishing a new hub in its system for the Lower Rio Grande Valley. This has the effect of isolating the Lower Rio Grande area when ERCOT is determining the statewide average wholesale electricity price. ERCOT is expected to complete the implementation of the new hub in 2nd quarter 2024. The economic impact on the cost of power in the Lower Rio Grande Valley is yet to be fully determined.

ERCOT has determined that the Lower Rio Grande Valley area will have satisfactory transmission infrastructure through 2026. If there are no new Liquified Natural Gas (LNG) customers requiring a substantial increase in demand before then, ERCOT has identified a new 345 kV line between two local substations named Delsol and Frontera to improve the Valley load serving capability after 2026. There have been discussions at ERCOT about a potential new LNG customer requiring an additional 405 MW of load, and ERCOT has before it two rival transmission projects to import power into the Valley in the event such a customer materializes.

ENERGY CONSERVATION

The System has taken steps to implement a coordinated energy conservation program consisting of the following elements: (1) retrofitting energy efficient components such as lighting and HVAC systems in existing internal facilities; (2) implementing energy efficient rebate programs for electric customers; (3) providing the option of paperless billing; (4) maintaining an interactive web based educational tool with unlimited access to the public; (5) executing a media and advertising campaign to instruct and promote energy conservation; and (6) obtaining media coverage for energy conservation activities.

Coal Supply in National Emergency . . . Federal energy legislation enacted in 1978 authorizes the President of the United States to allocate coal supplies in the event of an energy supply interruption or fuel supply shortage, authorized the Federal Energy Regulatory Commission ("FERC") to order mandatory interconnection and wheeling and to review automatic rate adjustment clauses and directs state regulatory authorities and nonregulated utilities to consider certain standards for rate design and other utility procedures. To date, the legislation has not affected operations.

CERTAIN FACTORS AFFECTING THE ELECTRIC UTILITY INDUSTRY

THE ELECTRIC UTILITY INDUSTRY GENERALLY

The electric utility industry in general has been, and in the future may be, affected by a number of factors which could impact the business affairs, financial condition and competitiveness of an electric utility, and the level of utilization of generating facilities, such as those of the electric system. One of the most significant of these factors has been the effort on national and local levels to restructure the electric utility industry from a heavily regulated monopoly to an industry in which there is open competition for power supply on both the wholesale and retail level. For a description of the competition in the electric utility industry in Texas and the response of the Board thereto, see "The Electric Utility Industry Generally - Electric Utility Restructuring in Texas - Senate Bill 7" below.

Such factors include, among others, (i) effects of compliance with rapidly changing cyber, environmental, safety, licensing, regulatory, and legislative requirements; (ii) changes resulting from conservation and demand-side management programs on the timing and use of electric energy; (iii) changes that might result from a national energy policy; (iv) increased competition from independent power producers; (v) "self-generation" by certain industrial and commercial customers; (vi) issues relating to the ability to issue tax-exempt obligations; (vii) severe restrictions on the ability to sell to non-governmental entities electricity from generation projects financed with outstanding tax-exempt obligations; (viii) changes from previously projected future electricity requirements; (ix) increases in costs; (x) shifts in the availability, intermittency and relative costs of different fuels; (xi) management and integration of renewable generation and storage systems into the supply portfolio; and (xii) effects of the financial difficulties confronting the power marketers. Any of these factors (as well as other factors) could have an effect on the financial condition of any given electric utility and likely will affect individual utilities in different ways. The Board cannot predict what future effects these factors may or will have on its business operations and financial condition, but the effects could be significant. The following is a brief discussion of several factors. This discussion does not purport to be comprehensive or definitive, and these matters are subject to change subsequent to the date of this Official Statement. Extensive information on the electric utility industry is available from sources in the public domain, and potential purchasers of the Bonds should obtain and review such information.

TEXAS DEREGULATION STRUCTURE, STATUS AND ISSUES

The following discussion is presented for the purpose of providing information concerning the current Texas legal and market structure. The Texas market is unique in many respects from deregulated markets in other parts of the United States, in part due to the isolation of the market in ERCOT, which is essentially a transmission grid and associated generation facilities with few interconnects to other transmission grids.

The wholesale energy market in ERCOT was established by legislation enacted in the 1995 Texas Legislature, and has been significantly modified and developed through enactment of SB 7 and the commencement of retail electric choice in Texas on January 1, 2002. The discussion below describes some of the effects on the market and the challenges presented to the market as a whole, as well as, in some instances, local regions within ERCOT that are facing particular effects of deregulation.

The information in this section is derived from various PUCT and ERCOT source materials, and in particular, portions of this section are excerpted from the 2007, 2009, 2011, 2013, 2015, 2017, 2019 and 2021 PUCT Reports to the Texas Legislature (The 2007, 2009, 2011, 2013, 2015, 2017, 2019 and 2021 PUCT Reports, collectively the "PUCT Legislative Reports"). The 2021 PUCT Report is available in full on the PUCT website at http://www.PUCT.texas.gov/agency/resources/reports/bar/2021_Biennial_Agency_Report.pdf and previous biennial reports to the Texas Legislature are available in full on the PUCT website at http://www.PUCT.texas.gov/industry/electric/reports/scope/ScopeArchive.aspx. Except for specific references to the Board or the System or as otherwise noted as being provided by another source or entity, all expressions of opinion, summaries of events and statistical information contained in such sections are from the PUCT Legislative Reports. The Board does not take responsibility for the content of the PUCT Legislative Reports on either the PUCT or ERCOT websites or in ERCOT reports. References to website 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 websites and information or links contained therein are not incorporated into, and are not part of, this official statement.

In general, the restructuring of the electric utility industry in accordance with SB 7 continues to evolve, and the Board is observing and evaluating the changes in the developing energy market in the State. Since January 1, 2002 when consumer choice began in competitive areas of ERCOT, there has been continued development within ERCOT of a market-driven wholesale market in which energy is a commodity. It is apparent that traditional planning methods using known generation resources paired with known load has become less important as a planning approach in the market in general. As the competitive market matures in Texas, the market will almost certainly experience ebbs and flows in the construction of new generation and transmission facilities, and some of the existing generation will be displaced by newer resources, which may affect the market price of energy on both the retail and wholesale levels, as well as the demands on, and capacity of, the existing electric transmission system.

ERCOT

ERCOT is one of eight Regional Reliability Councils in the North American Reliability Corporation ("NERC"). The ERCOT bulk electric system is located entirely within the State and serves approximately 25 million customers, representing approximately 90% of the State's electrical load. The ERCOT service region covers 75%, or 200,000 square miles, of the State and contains a total of 46,500 miles of transmission lines, including 9,249 miles at 345-kV. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current ("DC") ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/export capability.

In response to legislative directive, ERCOT amended its articles of incorporation to establish an ISO in 1996. Under ERCOT's organizational structure, the independent transmission system operators ("ISOs") report to the ERCOT Board of Directors, but the PUCT has complete authority to oversee and investigate ERCOT's finances, budget, and operations as necessary to ensure that ERCOT is accountable. ISO responsibilities include security operations of the bulk system, facilitation and efficient use of the transmission system by all market participants, and coordination of regional transmission planning among transmission owning utilities and providers.

ERCOT's statutory functions include establishing and enforcing procedures relating to the reliability of the regional electrical network and accounting for the production and delivery of electricity among generators and all other market participants. The procedures are subject to PUCT oversight and review, and the PUCT chairman is an ex-officio member of the ERCOT Board. The PUCT may authorize ERCOT to charge a reasonable and competitively neutral rate to wholesale buyers and sellers to cover the independent organization's costs. Individual electric utilities own sections or components of the ERCOT transmission grid and are responsible for operating and maintaining their own transmission lines and equipment. The ISO coordinates the operation of the transmission grid to ensure its reliability, and ERCOT coordinates with the various transmission-owning electric utilities to make sure the transmission system will meet the needs of the electric market. The 1999-enacted SB 7 (described in greater detail below under "Electric Utility Restructuring in Texas – Senate Bill 7") provides that a retail electric provider, municipally owned utility, electric cooperative, power marketer, transmission and distribution utility, or Power Generation Company shall observe all scheduling, operating, planning, reliability, and settlement policies, rules, guidelines and procedures established by the ISO.

Under the PUCT's transmission open access rules, each transmission service provider in ERCOT is required to provide transmission service to transmission customers in ERCOT. As compensation for this service, each transmission service provider annually recovers, through ERCOT-wide transmission charges, its Transmission Cost of Service ("TCOS"), which is set by the PUCT. The PUCT recently approved changes to the Substantive Rule 25.247 that establishes a filing schedule for non-investor-owned transmission service providers ("TSPs") operating within ERCOT - effective November 28, 2018. A non-investor-owned TSP that has not had a commission-approved change to its transmission service rate since January 1, 2017 must submit a comprehensive or interim transmission cost of service within two years of the effective date of the rule. The Board's most recently filed Earnings Monitoring Report was submitted on May 28, 2020. The rule also requires periodic interim or comprehensive filings every 48 months for entities with a wholesale transmission cost of service greater than one percent of the total ERCOT wholesale transmission costs. Smaller non-investor-owned TSPs with charges less than one percent of the total ERCOT wholesale transmission charges must file every 96 months.

On June 14, 2017, the ERCOT Board of Directors endorsed a transmission project that includes two new 345-kV lines to address future reliability concerns in West Texas. ERCOT only has asynchronous ties to other reliability councils and is only connected through two direct current C1DC11) ties to the eastern interconnect and three small DC ties to Mexico, providing only limited import/ export capability.

ERCOT has faced criticism in the wake of the 2021 Winter Storm Uri and the Texas Legislature has taken action to reform ERCOT. Additionally, significant leadership changes have occurred at ERCOT. At this time, the Board cannot predict the potential financial and other impacts that any such reform or leadership changes will have on the Board or the System.

THE PUBLIC UTILITY COMMISSION OF TEXAS ("PUCT")

The PUCT exercises regulatory authority over the retail and wholesale markets of Texas. The PUCT is comprised of two commissioners and a chair appointed by the Governor. The PUCT writes rules that determine the workings of the ERCOT market and has enforcement authority relating to violations of its rules and the ERCOT protocols. Beginning in 2021, as a result of legislation passed by the 84th Legislature in 2015, the PUCT will require MOUs to file certificates of convenience and necessity ("CCN") to build transmission outside its city limits. The PUCT adopted new rules, effective July 5, 2016, revising the process to obtain CCNs in accordance with the new legislation. These rules allow for MOUs to continue building transmission outside their service areas plus 10 miles until the 2021 effective date, without having to go to the PUCT for a CCN. Effective May 28, 2017, the PUCT issued a new rule allowing the PUCT, after notice and hearing, to revoke or amend any CCN if the PUCT finds that certain adverse conditions exist. The PUCT does not directly regulate retail rate cases of municipally owned electric utilities, but it does have limited appeal jurisdiction related to ratepayers outside of municipal jurisdiction.

TEXAS RELIABILITY ENTITY, INC. ("TEXAS RE")

Headquartered in Austin, Texas, Texas RE performs the regional entity functions described in the 2005 Energy Act (defined below), which created Section 215 of the Federal Power Act, for the ERCOT region, as mandated by the delegation agreement with the NERC. The delegation agreement was approved by FERC. Texas RE is authorized by NERC to develop, monitor, assess, and enforce compliance with NERC Reliability Standards within the geographic boundaries of the ERCOT region, as well as to assess and periodically report on the reliability and adequacy of the bulk power system. In addition, Texas RE has been authorized by the PUCT and is permitted by NERC to investigate compliance with the ERCOT Protocols and Operating Guides, working with the PUCT staff regarding any potential protocol violations. Texas RE is independent of all users, owners, and operators of the bulk power system. The regional entity functions and protocol compliance were previously performed by Texas Regional Entity, a functionally independent division of ERCOT. Texas RE took over all responsibilities of Texas Regional Entity on July 1, 2010.

ELECTRIC UTILITY RESTRUCTURING IN TEXAS – SENATE BILL 7

During the 1999 Legislative Session, the Texas Legislature enacted SB 7, providing for retail electric open competition. The enactment of SB 7 modified the PURA and required that retail and wholesale competition begin on January 1, 2002. SB 7 continues Texas electric transmission wholesale open access, which came into effect in 1997 and requires all transmission system owners to make their transmission systems available for use by others at prices and on terms comparable to each respective owner's use of its system for its own wholesale transactions. SB 7 modifications to PURA also fundamentally redefined and restructured the Texas electric industry. The following discussion of SB 7 applies primarily to ERCOT.

SB 7 includes provisions that apply directly to MOUs, such as the Board, as well as other provisions that govern investor owned utilities ("IOUs") and electric co-operatives ("Electric Co-Ops"). As of January 1, 2002, SB 7 allows retail customers of IOUs to choose their electric energy suppliers. SB 7 also allows retail customers of those MOUs and Electric Co-Ops that elect to opt-in, on or after that date, to choose their electric energy suppliers. Provisions of SB 7 that apply to the Board's electric system, as well as provisions that apply only to IOUs and Electric Co-Ops, are described below, the latter for the purpose of providing information concerning the overall restructured electric utility market in which the Board and the City could choose to directly participate in the future.

SB 7 required IOUs to separate their retail energy service activities from regulated utility activities by September 1, 2000, and to unbundle their generation, transmission/ distribution and retail electric sales functions into separate units by January 1, 2002. An IOU may choose to sell one or more of its lines of business to independent entities, or it may create separate but affiliated companies and possibly operating divisions. If so, these new entities may be owned by a common holding company, but each must operate largely independent of the others. The services offered by such separate entities must be available to other parties on non- discriminatory bases. MOUs and Electric Co-Ops which open their service territories ("opt-in") to retail electric competition are not required to, but may, unbundle their electric system components.

ENTITIES THAT HAVE OPTED-IN TO COMPETITION

The following discussion relates to entities that are currently in electric competition in Texas and does not apply to the Board and the City, but could apply if the Board and the City opt-in to electric competition.

Generation assets of IOUs are owned by Power Generation Companies, which must register with the PUCT and must comply with certain rules that are intended to protect consumers, but they otherwise are unregulated and may sell electricity at market prices. IOU owners of Transmission and Distribution Utilities ("TDUs") are fully regulated by the PUCT. Retail sales activities are performed by Retail Electric Providers ("REPs") which are the only entities authorized to sell electricity to retail customers (other than MOUs and Electric Co-Ops within their service areas, or, if they have adopted retail competition, also outside their service areas). REPs must register with the PUCT, demonstrate financial capabilities, and comply with certain consumer protection requirements. REPs buy electricity from Power Generation Companies, power marketers, and/ or other parties and may resell that electricity to retail customers at any location in ERCOT (other than within service areas of MOUs and Electric Co-Ops that have not opened their service areas to retail competition). TDUs, MOUs, and Electric Co-Ops that have chosen to participate in competition are obligated to deliver electricity to retail customers and are also required to transport electricity to wholesale buyers. The PUCT is required to approve the construction of TDUs' new transmission facilities and may order the construction of new facilities in Texas in order to relieve transmission congestion. TDUs are required to provide access to both their transmission and distribution systems on a non¬discriminatory basis to all eligible customers. Retail rates for the use of distribution systems of MOUs and Electric Co-ops are exclusively within the jurisdiction of these entities' governing bodies rather than that of the PUCT.

SB 7 also provides a number of consumer protection provisions. Each service area within the State that participates in retail competition has a designated Provider of Last Resort; those Providers of Last Resort serving in former service areas of IOUs are selected and approved by the PUCT. The City has the option to be designated as a Provider of Last Resort for its service area if it chooses to opt-in. The Provider of Last Resort is a REP that must offer to sell electricity to any retail customer in its designated area at a standard rate approved by the PUCT. The Provider of Last Resort must also serve any customer whose REP has failed to provide service. Each MOU and Electric Co-op that opts-in to retail competition may designate itself or another qualified entity as the Provider of Last Resort for its service territory. In such cases, the respective MOU or Electric Co-op, not the PUCT, will set the electric rates for such respective Provider of Last Resort.

Under SB 7, IOUs may recover a portion of their "stranded costs" (the net book value of certain "non-economic" assets less market value and certain "above market" purchased-power costs) and "regulatory assets", which is intended to permit recovery of the difference between the amount necessary to pay for the assets required under prior electric regulation and the amount that can be collected through market-based rates in the open competition market. SB 7 establishes the procedure to determine the amount of IOU stranded costs and regulatory assets. The PUCT has determined the stranded costs, which have been and will be collected through a non-by passable competitive transition charge collected from the end retail electric users within the IOU's service territory as it existed on May 1, 1999. The charge is collected primarily as an additional component to the rate for the use of the retail electric distribution system delivering electricity to such end user.

IOUs may recover a certain portion of their respective stranded costs through the issuance of bonds, with a maturity not to exceed 15 years, whereby the principal, interest and reasonable costs of issuing, servicing, and refinancing such bonds is secured by a qualified rate order of the PUCT that creates the "competitive transition charge." Neither the State nor the PUCT may amend the qualified rate order in any manner that would impair the rights of the "securitized" bondholders.

The Texas Legislature continues to look at the impacts of SB 7. On May 1, 2018, the Senate Business & Commerce Committee took invited testimony on an interim charge to: examine the competitive nature of the Texas retail electric system and what government competitive intrusions in the free energy markets may have in distorting those markets; review the impact of competitive versus noncompetitive retail electricity markets across the State in terms of price and reliability; and consider the projected impact of establishing competitive electric retail markets statewide. The MOU panelists addressed the competitive nature of the retail electric market and the contributions offered by MOUs in the ERCOT market. No senators overtly advocated that MOUs and Co-Ops be forced to opt-in to retail competition, but a general preference for competitive markets was evident through all phases of the hearing.

ADDITIONAL IMPACTS OF SENATE BILL 7 DEREGULATION

MOUs and Electric Co-Ops are largely exempt from the requirements of SB 7 that apply to IOUs. While MOUs became subject to retail competition beginning on January 1, 2002, the governing bodies of MOUs and Electric Co-Ops have the sole discretion to determine whether and when to opt-in to retail competition. However, if a MOU or Electric Co-op has not voted to opt-in, it will not be able to compete for retail energy customers at unregulated rates outside its traditional electric service area or territory.

Any future decision of the Board and the City Commission to participate in full retail competition would permit the Board to offer electric energy service to customers located in areas participating in retail choice that are not presently within the certificated service area of the Board's electric system. The Board and the City Commission could likewise choose to open the Board's service area to competition from other suppliers while choosing not to have the Board compete for retail customers outside its certified service area.

As discussed above, MOUs and Electric Co-Ops will also determine the rates for retail use of their distribution systems after they open their territories to retail competition, although the PUCT has established by rule the terms and conditions applicable to have access to those systems. SB 7 also permits MOUs and Electric Co-Ops to recover their stranded costs through collection of a non- by passable transition charge from their customers if so determined by such entities through procedures that have the effect of procedures available to MOUS under SB 7. Unlike IOUs, the governing body of a MOU determines the amount of stranded costs to be recovered pursuant to rules and procedures established by such governing body. MOUs and Electric Co-Ops are also permitted to recover their respective stranded costs through the issuance of bonds in a similar fashion to the IOUs. Any decision by the Board and the City as to the magnitude of its stranded costs, if any, would be made in conjunction with the decision as to whether or not to participate in retail competition.

A MOU that decides to participate in retail competition and to compete for retail customers outside its traditional service area will be subject to a PUCT-approved code of conduct governing affiliate relationships and anti-competitive practices. The PUCT has established by a standard rule the terms and conditions, but has no jurisdiction over the rates, for open access by other suppliers to the distribution facilities of MOUs electing to compete in the retail market.

SB 7 preserves the PUCT's regulatory authority over electric transmission facilities and open access to such transmission facilities. SB 7 provides for an independent transmission system operator (an ISO as previously defined) that is governed by a board comprised of market participants and independent members and is responsible for directing and controlling the operation of the transmission network within ERCOT. The PUCT has designated ERCOT as the ISO for the portion of Texas within the ERCOT area. In addition, SB 7 (as amended by the Texas Legislature after 1999) directs the PUCT to determine electric wholesale transmission open access rates on a 100% "postage stamp" pricing methodology.

Among other provisions, SB 7 provides that nothing in that act or in any rule adopted under it may impair any contracts, covenants that may impair the tax-exempt status of municipalities or compel them to use facilities in a manner that violates any bond covenants, or obligations between municipalities and bondholders of revenue bonds issued by municipalities. The bill also improves the competitive position of MOUs by allowing local governing bodies, whether or not they implement retail choice, to adopt alternative procurement processes under which less restrictive competitive bidding requirements can apply and to implement more liberal policies for the sale and exchange of real estate. Also, matters affecting the competitiveness of MOUs are made exempt from disclosure under the open meetings and open records acts and the right of MOUs to enter into risk management and hedging contracts for fuel and energy is clarified.

The 84th Texas Legislature in its 2015 session passed legislation to protect Cameron County cities and towns from encirclement through the City's annexation actions in order for the other cities and towns to expand their boundaries. The Board is enabled through a settlement agreement with AEP to expand its electric service area in areas newly annexed by the City to provide competition with AEP. To the extent the City is limited to annex new geographical areas in AEP's electric service areas as a result of the legislation, there may be some limitation for the Board to expand its electric service areas. The legislation did provide that in any areas which the City may be required to "roll back" areas, the Board could provide electric service as if the "roll back" had not occurred. The City may contest this legislation by initiation of litigation.

TEXAS LEGISLATIVE IMPACT ON THE ELECTRIC INDUSTRY

Most Recent Legislative Session

Public Utility Commission of Texas and ERCOT Reform . . . During the 87th Regular Legislative Session, Governor Abbott declared ERCOT reform an emergency item for the session, following Winter Storm Uri, which resulted in lengthy outages statewide on the ERCOT grid.

The Legislature focused on reforming ERCOT, the PUCT, and the electric utility and gas industries . . . As to ERCOT reform, the Governor signed Senate Bill 2 into law on June 8, 2021, which changes the composition of the ERCOT Board of Directors (the "ERCOT Board"). Under the previous law, the ERCOT Board was made up of the Chairman of the PUCT, the Counsellor for the Office of Public Utility Council, six market participants elected by their respective market segments, and one member representing industrial consumer interest, one member representing large commercial consumer interest, and five members unaffiliated with any market segment. Senate Bill 2 drastically changes the composition of the ERCOT Board to include the following: (1) the Chairman of the PUCT; (2) the Counsellor for the Office of Public Utility Counsel; (3) the ERCOT CEO; and (4) eight members selected by the "selection committee," who have executive-level experience in finance, business, engineering, trading, risk management, law, or electric market design. All members of the ERCOT Board must be a resident of Texas. The selection committee is comprised of three members – one appointed by the governor, one appointed by the lieutenant governor, and one appointed by the speaker of the Texas House of Representatives. The selection committee is required to retain an outside consulting firm to help select the members of the ERCOT Board. Further, the selection committee designates the chair and vice chair of the ERCOT Board. In addition to changing the ERCOT Board's composition, Senate Bill 2 increases the oversight by the PUCT. That is, any rules adopted by ERCOT or enforcement actions taken by ERCOT cannot take effect before receiving PUCT approval. Moreover, the ERCOT Board is required to establish and implement a formal process for adopting new protocols or revisions to existing protocols, and the process must require that new or revised protocols may not take effect until the PUCT approves a market impact statement describing the new or revised protocols.

For PUCT reform, like ERCOT reform, the legislature restructured the composition of the PUCT. Specifically, instead of three commissioners appointed by the governor with advice and consent of the senate, under Senate Bill 2154, there will now be five commissioners appointed by the governor with advice and consent of the senate. All commissioners must be a Texas resident. Further, at least two commissioners must be well informed and qualified in the field of public utilities and utility regulation.

The Legislature also passed Senate Bill 3 to address the electric utility and gas industries after Winter Storm Uri. Senate Bill 3 became effective on June 8, 2021. The legislation encompasses several areas of reform.

- Power Outage Alert: The Texas Department of Public Safety is charged with developing and implementing a power outage alert to be activated when power supply may not be able to meet demand. The Power Outage Alert system would utilize Texas Department of Transportation dynamic message signs, as well as other forms of communication, to notify the public.

- Formation of Texas Energy Reliability Council: Senate Bill 3 creates the Texas Energy Reliability Council to (1) ensure that energy and electric industries meet high priority human needs and address critical infrastructure concerns; and (2) enhance coordination and communication in the energy and electric industries. The Council is comprised of agency representatives from the PUCT, Texas Railroad Commission ("RRC"), the Office of Public Utility Counsel, Texas Commission on Environmental Quality ("TCEQ"), Texas Transportation Commission, ERCOT, and other representatives from the electricity industry, energy sectors, industrial concerns, motor fuel producers, and chemical manufacturers.

- Natural Gas Reform: Senate Bill 3 requires that the RRC adopt rules for designating certain natural gas facilities as critical customers or critical gas suppliers during energy emergencies. Only facilities that are prepared to operate during a weather emergency may be designated as a critical customer. Moreover, the RRC must adopt rules to require any "gas supply chain facility" that is designated as critical to weatherize facilities. Additionally, the RRC must adopt rules regarding measures a gas pipeline facility must implement to weatherize during extreme weather conditions if that gas pipeline facility services a natural gas electric facility operating to provide power to the ERCOT power region and is included on the electricity supply chain map. The RRC is further tasked with inspecting for compliance with weatherization requirements. The RRC must also adopt rules to establish a classification system for violations and associated penalties.

Further, the RRC is tasked with adopting rules to designate certain natural gas facilities and entities as critical during energy emergencies. The rules must provide for prioritizing these critical facilities during load shed events, and provide discretion to electric utilities, municipally owned utilities, and electric cooperatives to prioritize power delivery and power restoration among these designated critical facilities and entities.

The RRC must also analyze certain emergency operations plans and prepare a weather emergency preparedness report on weatherization preparedness of applicable facilities.

- Electric Utility Reform: Senate Bill 3 requires that the PUCT adopt rules for the weatherization of generation facilities and the weatherization of facilities for utilities providing transmission service in the ERCOT region. ERCOT is required to conduct inspections of generation and transmission facilities to ensure compliance. Penalties may be assessed for non¬compliance. The PUCT is also required to review ancillary services to determine whether they meet the needs in the ERCOT market, and evaluate whether additional services are needed for reliability and provide adequate incentives for dispatchable generation. The PUCT must require ERCOT to modify the design, procurement, and cost allocation of ancillary services for the region in a manner consistent with cost causation principles and on a nondiscriminatory basis.

  The PUCT is further required to adopt rules related to the allocation of load shedding among electric cooperatives, municipally owned utilities, and transmission and distribution utilities providing transmission service in the ERCOT power region during involuntary load shedding events. The PUCT and ERCOT are required to conduct simulated or tabletop load shedding exercises. Senate Bill 3 requires electric utilities, MOUs, and electric cooperatives to periodically provide retail customers with information regarding procedures for involuntary load shedding, types of customers considered critical care residential customers and critical load industrial customers, the procedures for customers to apply to be considered a critical care residential customers or critical load industrial customers, and reducing electricity use at times when involuntary load shedding may be implemented.

  Senate Bill 3 also addresses dispatchable generation. The PUCT is required to ensure that ERCOT establishes requirements to meet the reliability needs of ERCOT, determines the quantity and characteristics of ancillary services necessary for reliability in extreme weather conditions, procures ancillary or reliability services, develops appropriate qualification and performance requirements for providing these ancillary or reliability services, and sizes the services to prevent prolonged rotating outages. The PUCT is required to ensure that such services are dispatchable, meet certain winter resource capability qualifications, and meet certain summer resource capability qualifications.

  Senate Bill 3 addresses wholesale power pricing mechanisms. Under Senate Bill 3, the PUCT is required to establish an emergency pricing program for the wholesale electric market with the following qualifications: (1) the emergency pricing program must take effect if the high system-wide offer cap has been in effect for 12 hours in a 24-hour period; (2) the pricing program may not allow an emergency pricing program cap to exceed any nonemergency high system-wide offer cap; (3) it shall establish an ancillary services cap to be in effect during the period an emergency pricing program is in effect; (4) any wholesale pricing procedure that has a low system-wide offer cap may not allow the low system-wide offer cap to exceed the high system-wide offer cap; (5) the PUCT shall review each system-wide offer cap program adopted by the PUCT, including the emergency pricing program, at least once every five years; and (6) the emergency pricing program must allow generators to be reimbursed for reasonable, verifiable operating costs that exceed the emergency cap.

  There are also new reporting and registration requirements for distributed generation (but not applicable to distributed generation serving a residential property).

- Formation of Texas Electricity Supply Chain Security and Mapping Committee: Senate Bill 3 also creates the Texas Electricity Supply Chain Security and Mapping Committee to serve the following purposes: (1) map the state’s electricity supply chain; (2) identify critical infrastructure resources in the electricity supply chain; (3) establish best practices to maintain service in extreme weather events; and (4) designate priority service needs to prepare for, respond to, and recover from an extreme weather event.

It is difficult at this time to predict the specifics of how these legislative reforms and related rulemaking will get implemented and the ultimate impact on the electric market in ERCOT.

Market Structure after Winter Storm Uri

During its 2021 regular session, the Texas legislature adopted legislation pertaining to the recovery of unforeseen costs in the ERCOT market related to Winter Storm Uri in February 2021, including HB 4492, “relating to financing certain costs associated with electric markets; granting authority to issue bonds.” HB 4492 became effective on June 16, 2021. This legislation allows for the use of debt financing for the recovery of two categories of costs accrued during a “period of emergency.” The bill designates these two categories as the “default balance” and the “uplift balance.” HB 4492 defines the “period of emergency” as that period during Winter Storm Uri beginning 12:01 a.m., February 12, 2021, and ending 11:59 p.m., February 20, 2021.

The default balance is comprised of approximately $800 million owed to ERCOT from defaults by market participants on payments owed during the period of emergency. Financing is to come from the state's Economic Stabilization Fund – also known as the "Rainy Day" fund – and repaid by ERCOT market participants through charges established by the PUCT.

The "uplift balance" consists of approximately $2.1 billion in ancillary service charges and reliability deployment price adders imposed during the period of emergency in excess of the system-wide Offer Cap. HB 4492 enables ERCOT to finance repayment on this amount through the issuance of debt with PUCT approval.

Default Balance – HB 4492 provides that the "default balance" includes:

(1) amounts owed to ERCOT by competitive market participants from the period of emergency that otherwise would be uplifted to other wholesale market participants (i.e., competitive market participant short-pay defaults);

(2) congestion revenue rights ("CRR") auction receipts used by ERCOT to temporarily reduce short-pay amounts related to the period of emergency; and

(3) reasonable costs incurred to implement a debt obligation order consistent with this financing.

The legislation provides that the Comptroller of Public Accounts invest not more than $800 million from the Economic Stabilization Fund balance to finance the default balance. This is to be repaid by ERCOT market participants through charges established by the PUCT. The term of the debt cannot not exceed 30 years, with charges assessed on a non-bypassable basis to market participants generally, and not just to load serving entities.

Uplift Balance – The legislation enables ERCOT to finance an "uplift balance" of up to $2.1 billion on behalf of wholesale market participants through the issuance of debt obligations approved by the PUCT. "Uplift balance" includes amounts that ERCOT previously uplifted to load-serving entities during the period of emergency for reliability deployment price adder charges and ancillary services costs in excess of the PUCT's system-wide offer cap. However, it excludes those amounts covered under separate legislation (SB 1580) pertaining to securitization for electric cooperatives.

load serving entities will repay the uplift balance debt on a load-ratio basis over a period not to exceed 30 years. Uplift charges are non-bypassable, except that certain load serving entities and transmission-voltage customers served by a REP may opt out of paying uplift charges if they pay in full all invoices owed for usage during the period of the emergency.

Other Provisions – HB 4492 amends Section 39.151, Utilities Code, by adding Subsection (j-1) to bar ERCOT from reducing payments or uplifting short-paid amounts relating to a default occurring before May 29, 2021 to any municipally owned utility that became subject to ERCOT's jurisdiction from May 29, 2021 through December 30, 2021, which includes LP&L.

HB 4492 also amends Subchapter D, Chapter 39 of the Utilities Code, by adding Section 39.159. This new section requires that all market participants fully and promptly pay ERCOT all amounts owed to the organization, or provide for the prompt and full payment of such amounts. ERCOT must report to the PUCT any market participant that has defaulted in such payments. The PUCT may not allow any defaulting market participant to continue to participate in the ERCOT market for any purpose until all default amounts are paid in full.

In accordance with the legislation and orders of the PUCT, BPUB opted out of the HB 4492 "uplift balance" debt financing and instead made the determination to finance costs incurred as a result of Winter Storm Uri through its commercial paper program.

Prior Legislative Sessions

From January 8, 2019 to May 27, 2019, the 86th Texas Legislature convened its regular session. Certain bills passed will have a direct operational impact on the Board pending their respective regulatory rulemaking process.

HB 4150 adds comprehensive reporting regarding transmission line inspections and safety incidents for all electric utilities. All utilities (MOUs, IOUs and Electric Co-Ops) will be required to report what percentage of transmission infrastructure, defined as over 60 KV, was inspected during the preceding five year period, and what percentage is expected to be inspected in the upcoming five year period. The bill also contains annual reporting requirements on safety education and training taking place or changed/appended, any known noncompliant maintenance issues and incidents, fatalities, and injuries with a corrective action plan. The bill also requires utilities to inspect lines over public recreational lakes in their service territory for compliance with National Electrical Safety Code height requirements. A rulemaking at the PUCT to implement HB 4150 was adopted effective March 5, 2020 with the initial reports due May 1, 2020.

Other bills include HB 864 and HB 866 and pertain to gas infrastructure safety and reporting. As of July 2019, the Railroad Commission of Texas ("RRCT") initiated a comprehensive rulemaking to implement these bills, as well as make other updates to Chapter 8 and Chapter 3.70 of Title 16 of the Texas Administrative Code, as amended, to bring the RRCT rules, definitions, and procedures in line with federal Pipeline and Hazardous Materials Safety Administration ("PHMSA") requirements and sections of State law that relate to the provisions. The result of the rulemaking, which is in the process of reformulation, will impact the reports the Board currently files with the RRCT regarding new pipeline construction and the Board's annual risk-based programs for identifying and replacing gas infrastructure.

Two additional bills of note are SB 1012 and SB 1938. SB 1012, filed at the request of the PUCT, clarifies and reaffirms the current ability of MOUs and Electric Co-Ops to own battery storage without having to register as power generation companies ("PGC"). SB 1938 codifies within State law certain ERCOT protocols as they pertain to transmission owners' ability to construct off existing transmission end-points.

In regard to cyber and grid security, three bills passed relevant to the electric utility industry. All of these bills are pending implementation and further action by the PUCT and ERCOT. SB 64 establishes a program for the PUCT to coordinate and share with utilities best practices on a number of cyber-related items, including guidance for cybersecurity controls for supply chain risk management. The bill also directs ERCOT to conduct an internal cybersecurity risk assessment and submit an annual confidential report to the PUCT. SB 475 creates the "Texas Electric Grid Security Council", an advisory body that will coordinate the sharing of information and implementation of best security practices in the electric industry. This council will be comprised of representatives from the PUCT, ERCOT and the Governor's office, and coordinate with industry and specific State and federal entities. Finally, SB 936 requires the PUCT and ERCOT to contract with an entity to act as PUCT's cybersecurity monitor. This bill was also filed at the request of the PUCT.

During its 83rd Legislative Session in 2013, the Texas Legislature reviewed and passed the mission and performance of the PUCT as required by the Texas Sunset Act. This act provides that the Sunset Advisory Commission, composed of legislators and public members, periodically evaluate a state agency to determine if the agency is still needed, and what improvements are needed to ensure that tax dollars are appropriately utilized. Based on recommendations of the Sunset Advisory Commission, the Texas Legislature ultimately decides whether an agency continues to operate into the future. The 86'h Texas Legislature passed SB 619, which groups the next Sunset review of the PUCT, Office of Public Utility Counsel, and ERCOT in 2024-2025.

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FEDERAL ENERGY POLICY AND FEDERAL REGULATION OF ELECTRIC TRANSMISSION SERVICES

General . . . Many bills have been introduced in the United States House of Representatives, the United States Senate and the Texas Legislature to deregulate the electric utility industry on the federal or state level. Many of the bills provide for open competition in the furnishing of electricity to all retail customers (i.e., retail wheeling). In addition, various bills have been introduced that would impact the issuance of debt by or the operations of the System. No prediction can be made as to whether these bills or any future proposed federal bills will become law or, if they become law, what their final form or effect would be.

The Energy Policy Act of 1992 . . . The Energy Act of 1992 (the "1992 Energy Act") greatly expands the authority of FERC to order utilities, including utilities within ERCOT, to provide transmission service for other utilities, qualifying facilities, and independent power producers. FERC also has authority to determine the prices that may be charged for transmission, but has generally deferred to the PUCT electric transmission open access rules for access and pricing within ERCOT.

The Energy Policy Act of 2005 . . . The Energy Policy Act of 2005 ("2005 Energy Act") extended limited FERC jurisdiction, known as "FERC-Lite," over public power entities within ERCOT, such as the Board, that own transmission lines, and gave FERC authority to delegate certain transmission reliability standard-setting responsibilities to the Energy Reliability Organization ("ERO") and to establish mandatory reliability standards for operation of the nation's transmission system. The 2005 Energy Act included several provisions that could affect the Board's business and continue to be evaluated by management, including:

- repeal of existing Public Utility Holding Company Act of 1935 requirements;
- conditional termination of the mandatory federal purchase and sale requirements for co-generation and small power production;
- expansion of FERC's merger review authority;
- re-authorization of renewable energy production incentives for solar, wind, geothermal, and biomass, and authorization of new incentives for landfill gas;
- incentives for development of new commercial nuclear power plants and other non- or low-carbon emitting technologies;
- establishment of a 7.5% goal for increased renewable energy use by the federal government by 2013, and a 20% required reduction in energy use by federal buildings by 2015; and
- increased funding for weatherization of low-income homes and state energy efficiency programs.

Furthermore, the 2005 Energy Act amended the Public Utility Regulatory Policies Act of 1978 ("PURPA") by adding five new standards that MOUs must consider and determine whether to implement. These new standards address net metering, diversity of fuel sources, efficiency of fossil-fuel-fired generation, time-based or "smart" metering, and the interconnection of distributed generation.

In December 2007, President Bush signed the Energy Independence and Security Act ("EISA") requiring utilities to consider, for adoption, rejection, or modification by December 19, 2009, the implementation of (1) integrated resource planning; (2) rate design modifications to promote energy efficiency investments; (3) smart grid investments; and (4) smart grid information. MOUs, such as the Board, are designated as "non-regulated" under EISA, as well as the 2005 Energy Act, because those utilities are not regulated by state utility commissions.

<u>Retail Wheeling</u> . . . The authority to order retail wheeling, which allows a retail customer to be located in one utility's service area and to obtain power from another utility or non-utility source, is specifically excluded from the enhanced authority granted to FERC under the Energy Act. However, while the states may have authority to determine whether retail wheeling will be permitted, FERC has determined that it has jurisdiction over the rates, terms and conditions of retail wheeling.

<u>Critical Infrastructure Protections ("CIP")</u> . . . In 2013, President Obama issued an Executive Order "Improving Critical Infrastructure Cybersecurity," to develop a voluntary risk-based cybersecurity framework. The National Institute of Standards and Technology ("NIST") framework (the "Framework") was finalized and released in mid-February 2014. The Framework is designed to be a living document and continual updates occur concerning its development. The Framework covers 16 sectors and the portion pertaining to the energy sector will be implemented by the United States Department of Energy (the "DOE"). Compliance is voluntary. Pursuant to an executive order issued by President Trump on May 11, 2017, entitled "Strengthening the Cybersecurity of Federal Networks and Critical Infrastructure," all federal agencies are required to use the Framework to manage cybersecurity risks. In July 2019, NIST published its "Smart Grid Profile," which applies risk management strategies from the Framework to the smart grid. Congress continues to make cybersecurity and grid security a priority regarding preparedness of the electric utility sector for cybersecurity threats. The Board participates in a variety of physical and cyber initiatives and continues to analyze vulnerabilities and update its security, monitoring, and alerting technology in an effort to prevent cybersecurity incidents and maintain compliance with federal and state requirements.

The Board uses multiple security measures to protect its physical assets. In-house and third-party physical security audits and analysis are routinely performed. Access control/ card reader systems, cameras, and security lighting are located throughout the electric utility system and are employed to deter, detect, and prevent security threats.

On March 7, 2014, the FERC directed NERC to develop reliability standards requiring owners and operators of the bulk-power system to address risks due to physical security threats and vulnerabilities. NERC drafted a standard ("CIP-014-1"), which requires transmission owners and operators to (1) perform a risk assessment of their system to identify facilities that, if damaged, could have a critical impact on the operation of the bulk-power system; (2) evaluate potential threats and vulnerabilities to those facilities; and (3) develop and implement a security plan to address potential threats and vulnerabilities. FERC approved the reliability standard on November 20, 2014. The Board has taken steps to comply with CIP-014-1.

In July 2016 the FERC directed NERC to develop a CIP reliability standard that requires entities supporting the bulk electric system to develop and implement a supply chain management plan for industrial control system hardware, software, and vendor services associated with electric system operations. The standard was approved by FERC on July 19, 2018, as revised on June 20, 2019, (to extend mandatory reporting of cyber incidents to attempted attacks and events that comprised the system without necessarily impacting a reliability task) and will be effective on or about January 1, 2021. The Board is making the necessary preparations to comply with this new CIP standard, as supplemented.

<u>Production Tax Credit ("PTC")/Investment Tax Credit ("ITC")</u> . . . Beginning with the 112th United States Congress, lawmakers extended various tax credits, including approval of a $205 billion package on tax credit extenders that includes extensions and changes to a number of energy-related tax credits. The package expired on December 31, 2013, including the tax credit for electricity produced by wind and other renewable resources. Congress in 2014 failed to pass legislation extending these tax credits. At the end of 2015, the 114th Congress passed a five-year extension, modification and phase-out of the Investment Tax Credit ("ITC") for solar power and the Production Tax Credit ("PTC") for wind and other renewables. The bill extended the PTC as-is for two years (including one retroactive year because the credit expired at the end of 2014), and phases out the credit to 80% in 2017, 60% in 2018, and 40% in 2019. The 30% temporary ITC was extended for three additional years (from its original December 31, 2016 expiration), and would then be phased out with a 26% credit in 2020, a 22% credit in 2021, and a 10% credit in 2022.

FERC Authority. . . In 1992, pursuant to the 1992 Energy Act, the FERC required utilities under its jurisdiction to provide access to their electric transmission systems for interstate wholesale transactions on terms and at rates comparable to those available to the owning utility for its own use. MOUs are subject to FERC orders requiring provision of wholesale transmission service to other utilities, qualifying cogeneration facilities, and independent power producers. Under FERC rules promulgated subsequent to the 1992 Energy Act, FERC further expanded open access wholesale transmission by requiring public utilities operating in interstate commerce to file open access non¬discriminatory transmission tariffs. Because the interconnected ERCOT grid operates outside interstate commerce and because PURA95 and SB 7, State laws discussed below, provide comparable wholesale transmission authority to the PUCT for utilities in ERCOT pursuant to which the PUCT has required open access of transmission facilities in ERCOT, the exercise of FERC authority relating to open access transmission has not been a major factor in the operation of the wholesale market in ERCOT. The 2005 Energy Act authorizes FERC to encourage and approve the voluntary formation of regional transmission organizations in order to promote fair and open access to electric transmission service and facilitate wholesale competition. The ERCOT open access system is administered by an ISO conducting many of the functions that would be administered by a Regional Transmission Organization.

Section 1211 of the 2005 Energy Act amended the Federal Power Act to include a new section, designated as Section 215, which directed FERC to certify an ERO and develop procedures for establishing, approving and enforcing electric reliability standards. FERC designated NERC to serve as the ERO and to set and monitor through Regional Entities ("RE") implementation of electric reliability standards. Within the ERCOT region, the Texas Reliability Entity serves as the RE for the ERCOT service area.

On November 16, 2016, FERC proposed to amend its regulations under the Federal Power Act to remove barriers to the participation of electric storage resources and distributed energy resource aggregations in the capacity, energy, and ancillary service markets operated by regional ISOs. Specifically, FERC proposed to require each ISO to revise its tariff to (1) establish a participation model consisting of market rules that, recognizing the physical and operational characteristics of electric storage resources, accommodates their participation in the organized wholesale electric markets and (2) define distributed energy resource aggregators as a type of market participant that can participate in the organized wholesale electric markets under the participation model that best accommodates the physical and operational characteristics of its distributed energy resource aggregation. In a per curium opinion issued by the United States Court of Appeals for the District of Columbia on June 20, 2017, the court denied Advanced Energy Management Alliance's petition to vacate FERCs approval as to capacity performance program changes.

Chairman Richard Glick was named by President Biden to be Chairman of the Federal Regulatory Commission on January 21, 2021 and is serving a Commission term that ends June 30, 2022. Glick was nominated to the Federal Energy Regulatory Commission by President Donald J. Trump in August 2017 and confirmed by the U.S. Senate on November 2, 2017.

FERC Final Rules and Proposed Rulemakings in Federal Regulation of Electric Utilities. . . To establish foundations necessary to develop a competitive wholesale electricity market and effectuate the transmission access provisions of the Energy Act, on April 24, 1996, FERC issued two final rules ("FERC Rules") on non-discriminatory open access transmission services by public utilities and stranded cost recovery rules. Both of these substantially survived appellate review, including two petitions addressed in a published opinion of the United States Supreme Court. The first of the FERC Final Rules, Order No. 888, requires all public utilities that own, control or operate facilities used for transmitting electric energy in interstate commerce to (i) file open-access, non-discriminatory transmission tariffs containing, at a minimum, the non-price terms and conditions set forth in the order and (ii) functionally unbundled wholesale power services by (1) applying a unified transmission tariffs system to all customers, (2) providing separate rate systems for wholesale generation, transmission and ancillary services, and (3) relying on the same electronic information dissemination network that its transmission customers rely on in selling and purchasing energy.

The second final rule, Order No. 889, requires all public utilities to establish or participate in an Open Access Same-Time Information System (OASIS) that meets certain specifications, and comply with standards of conduct designed to prevent employees of a public utility (or any employees of its affiliates) engaged in wholesale power marketing functions from obtaining preferential access to pertinent transmission system information.

FERC stated that its overall objective is to ensure that all participants in wholesale electricity markets have non-discriminatory open access to transmission service, including network transmission service and ancillary services. FERC also indicated that it intends to apply the principles set forth in the FERC Rules to the maximum extent to municipal and other non-FERC regulated utilities, both in deciding cases brought under the Federal Power Act and by requiring such utilities to agree to provide open access transmission service as a condition to securing transmission service from jurisdictional investor-owned utilities under open access tariffs.

FERC has continued to refine the requirements imposed in Orders 888 and 889, through measures such as the imposition of standard provisions for interconnection with new generation, and revised codes of conduct for transmission providers.

In addition, on December 20, 1999, FERC issued Order No. 2000, a rule seeking to advance the formation of Regional Transmission Organizations ("RTOs"). The rule contemplates RTOs as voluntary participation associations of power transmission owning entities, comprising public and non-public utility entities, which would more efficiently address operational and reliability issues confronting the industry in particular by improving grid reliability, increasing efficiencies in transmission grid management, preventing discriminatory practices and improving market performance. Because of the voluntary nature of Order No. 2000, the rule was not subject to judicial review. Commission policy has continued to evolve, and now appears to permit the formation of ISOs as well as RTOs.

Although these FERC Rules do not directly regulate municipally-owned and other non-FERC regulated utilities such as the System, the FERC Rules have a significant impact on such utilities' operations. The FERC Rules have significantly changed the competitive climate in which the non-FERC regulated utilities operate, giving their customers much greater access to alternative sources of electric transmission services. The rules require them to provide open access transmission service conforming to the requirements for investor-owned utilities whenever they are properly requested to do so under the Energy Act or as a condition of taking transmission service from an investor-owned utility. In certain circumstances, the non-FERC regulated utilities are required to pay compensation to their present suppliers of wholesale power and energy for stranded costs that may arise when the non-FERC regulated utilities exercise their option to switch to an alternative supplier of electricity.

FERC orders such as Orders 888, 889, and 2000 do not have direct application in the ERCOT region of Texas, where the Board operates, because the PUCT exercises jurisdiction over most intra-ERCOT transmission service and over the ERCOT ISO. However, developments at FERC have industry-wide impacts and can influence practices within ERCOT.

Federal Energy Regulatory Commission Regulation . . . The Board substantially conforms to the FERC Uniform System of Accounts in maintaining its books of accounts. FERC has authority under the Federal Power Act to require such reports even from utilities such as the Board, which are not directly subject to FERC regulation as public utilities or licensees. The Board is not otherwise under any active regulatory supervision by FERC at this time.

Historically, electric utilities operating in the ERCOT region of Texas have not had any interstate connections other than in certain emergency situations and hence, with the exception of AEP Texas Central Co. (formerly Central Power & Light Co.) and AEP Texas North Co. (formerly West Texas Utilities Co.), investor-owned utilities, municipal utilities and electric cooperatives and their electric facilities have not been subject to the FERC regulatory requirements on the basis of such interstate connections. Over the past several years, various efforts have been made to provide some interstate connections. These efforts have resulted in protracted judicial and administrative proceedings involving ERCOT members. FERC has issued orders, which, among other things, permit ERCOT members other than AEP Texas Central and AEP Texas North to avoid federal regulation of rates as the result of the ordered interconnections with another interstate connected utility except for regulation of transmission service "to, from and over" the interstate connections. As a result, the Texas Public Utility Commission regulates matters within ERCOT, such as transmission service and wholesale market design, which are regulated by FERC in most other portions of the conterminous United States.

Additional areas of FERC regulatory authority that extend into ERCOT include the authority to require the provision of transmission service in response to a complaint jurisdiction to determine "qualifying facility" and "exempt wholesale generator" status, and licensing jurisdiction over most non-federal hydropower facilities. Moreover, the Secretary of Energy, who issues Presidential Permits authorizing the construction of international electric transmission lines, has delegated to FERC the Secretary's authority over the terms and conditions of transmission service over such lines.

ENVIRONMENTAL REGULATION

General . . . Electric utilities are subject to numerous environmental regulations administered at the Federal and State level. Over time such regulations have become more stringent as water and air quality goals have tightened, and as pollution control technologies have advanced. Although it is expected that this trend will continue into the future, the uncertainty associated with future regulations, coupled with the piecemeal and uncoordinated manner in which they are implemented, presents the electric utility industry with a formidable challenge. This challenge was further compounded in 1999 when the EPA launched a major enforcement initiative targeting older coal-fired electric generation plants. In undertaking this action, it was the EPA's assertion that a number of coal-fired electric generation plants have undertaken major modifications in the past without concurrently upgrading pollution controls as required under the new source review ("NSR") provision of the FCAA. The seriousness of this enforcement initiative has had a chilling effect on the electric utility industry, as many companies are hesitant to pursue improvements or perform needed maintenance on their generation assets for fear of unwittingly triggering NSR provisions or actual EPA enforcement actions.

Through several rulemaking actions, the EPA has attempted to provide both clarity and some degree of reform to the implementation of the NSR provisions.

Clean Power Plan ("CPP")/Affordable Clean Energy ("ACE") Rule . . . The intent of these rules is to regulate emissions of carbon dioxide ("CO2") and their potential to affect climate change. On July 8, 2019, the U.S. Environmental Protection Agency ("EPA") published the ACE Rule replacing the CPP that had been issued in 2015. The new rule bases the Best System of Emission Reduction ("BSER") for carbon dioxide on Heat Rate Improvements ("HRI") at the power plant. State Implementation Plans ("SIPs") for this rule will set unit-specific performance standards that may consider remaining useful life of the plant and other factors. On January 19, 2021, the U.S. Court of Appeals for the District of Columbia Circuit ("DC Circuit") vacated the ACE Rule, but did not reinstate the 2015 CPP. The DC Circuit remanded the Rule to the EPA for further consideration and provided the Biden Administration with a path to construct a new framework for regulating greenhouse gas emissions from power plants. On April 20, 2021, a resolution introduced to the U.S. House of Representatives called for the creation of a Green New Deal. While the Green New Deal has clear goals, it is too early to determine what impact these goals will have on the System.

Restrictions on emissions of Greenhouse Gases ("GHGs") imposed by EPA, the Texas Commission on Environmental Quality ("TCEQ"), legislation, or civil litigation could have an adverse effect on the System. The Board cannot predict whether climate change legislation will be enacted in this or any future session of Congress, or whether State legislation could be enacted that would regulate carbon dioxide emissions. Moreover, the Board cannot predict the financial impact that any such legislation, if finally enacted and signed into law, would have on the System or the electric market in general.

Steam Electric Effluent Limitations Guidelines ("ELG") . . . The intent of this rule is to regulate the composition of wastewaters (liquid component) associated with "wet scrubbing" of flue gases while the CCR rule (discussed below) regulates the solid components (coal ash and gypsum).

EPA published the ELG rule on November 3, 2015. On September 13, 2017, EPA postponed compliance dates for scrubber wastewater and bottom ash transport water from November 2018 to November 2020 pending reconsideration of the rule. The final rule was issued on August 31, 2020. The ELG Rule is now under reconsideration by the Biden Administration.

Coal Combustion Residuals ("CCR") . . . This rule regulates the solid component associated with coal ash, as opposed to the ELG rule (discussed above) which regulates the liquid component.

On April 17, 2015, EPA published the CCR rule to regulate the combustion solids generated at coal-fired power plants, including the various types of coal ash and gypsum (a product from the wet scrubber). The rule went into effect on October 19, 2015.

On December 16, 2016, the Water Infrastructure for the Nation ("WIIN") Act was signed into law authorizing state CCR programs. On April 6, 2017, the Texas legislature allocated funding to the Texas Commission on Environmental Quality ("TCEQ") for the development of a state CCR Program and on November 1, 2019, TCEQ proposed rulemaking to create Chapter 352 to implement a new CCR management program for owners and operators of landfills and surface impoundments used to manage or dispose of CCR generated from the combustion of coal by electric utilities and independent power producers. The proposed new Chapter 352 State CCR Program would establish a registration requirement as well as design and operating criteria including compliance monitoring and reporting for regulated facilities. On May 8, 2020 Texas adopted a state CCR program which became effective July 29, 2021.

On July 29, 2020, EPA issued the final (federal) CCR rule entitled: *Hazardous and Solid Waste Management System: Disposal of Coal Combustion Action: Residuals from Electric Utilities; A Holistic Approach to Closure Part A: Deadline to Initiate Closure*. This final rule provides various deadlines for compliance depending on site-specific situations.

National Ambient Air Quality Standards ("NAAQS") . . . The primary intent of this rule is to regulate the concentration of ozone in the atmosphere. Ozone is formed through the interaction of nitrogen oxides (NOx) and other compounds in the atmosphere under strong sunlight. It is therefore more prevalent in the summer season.

The EPA has established national ambient air quality standards for six regulated pollutants: ozone, lead, carbon monoxide, sulfur dioxide, nitrogen dioxide, and particulate matter. When a pollutant concentration in an area exceeds a standard, the area is classified as "nonattainment" for that pollutant. A nonattainment designation then triggers a process by which the affected state must develop and implement a plan to improve air quality and "attain" compliance with the appropriate standard. This so-called State Implementation Plan or "SIP" entails enforceable control measures and time frames.

For ozone non-attainment SIPs, the emission reductions are generally targeted at nitrogen oxide and volatile organic compound emission sources because it is believed that the chemical reaction between these compounds in the presence of sunlight leads to ozone depletion.

EPA has an obligation to revisit the NAAQS every five years, and that process has resulted in the tightening of the ozone standard. In response, states must develop new SIPs designed to ensure that nonattainment areas will continue to make progress toward attainment of those more-stringent standards. In July 1997, EPA adopted a revised and more stringent ozone standard based on an 8-hour average of ozone concentrations, as compared to the prior standard based on a 1-hour average. TCEQ was required to submit to EPA new SIP rules in June 2007 to address compliance with this new 8-hour ozone standard. EPA also lowered the ozone standard in 2008.

In an effort to improve the air quality in both existing and impending non-attainment areas, the State has implemented two regional programs targeted at reducing statewide nitrogen oxide emissions from power plants. Nitrogen oxide emissions are targeted since these compounds react with volatile organic compounds in the presence of sunlight to form ground level ozone. The first program, which was part of SB 7, required "grandfathered" power plants, i.e., facilities that were constructed prior to the 1971 Texas Clean Air Act, obtain a Texas Air Permit and reduce nitrogen oxide emissions by approximately 50%. The Board's Silas Ray facilities is presently in compliance with the relevant air permits.

The second program was implemented on April 19, 2000, when the TCEQ adopted a regional nitrogen oxide reduction rule affecting permitted power plants in the attainment counties in the eastern half of the State. The regional rule, as with the grandfathered provisions of SB 7, calls for an approximate 50% reduction of nitrogen oxide from permitted power plants. To the extent applicable, the Silas Ray facilities and the Hidalgo Unit are in compliance with the regional rule.

Through these regional nitrogen oxide reductions, the power plant sources located in the non-attainment regions are facing much more severe nitrogen oxide control requirements.

On October 1, 2015, EPA published a final rule setting the 8-hour ozone standard at 70 parts per billion ("ppb"). TCEQ approved a SIP on August 8, 2018.

EPA estimates the cost of meeting a 70 ppb standard in all states except California at $1.4 billion annually in 2025. EPA's cost estimates are substantially less than one from the National Association of Manufacturers that has been widely circulated. EPA estimates the economic value of the benefits of reducing ozone concentration at $2.9-$5.9 billion annually by 2025.

Any State plan formulated to reduce ground-level ozone may curtail new industrial, commercial and residential development in metropolitan areas within the State. Examples of past efforts by the EPA and the TCEQ to provide for annual reductions in ozone concentrations in areas of nonattainment under the former NAAQS include imposition of stringent limitations on emissions of volatile organic compounds ("VOCs") and NOx from existing stationary sources of air emissions, as well as specifying that any new source of significant air emissions, such as a new industrial plant, must provide for a net reduction of air emissions by arranging for other industries to reduce their emissions by 1.3 times the amount of pollutants proposed to be emitted by the new source. Studies have shown that standards significantly more stringent than those in place before October 1, 2015, across the State are required to meaningfully impact an area's ground-level ozone reading, which will be necessary to achieve compliance with the new eight-hour ozone standard. Due to the magnitude of air emissions reductions required as well as the limited availability of economically reasonable control options, the development of a successful air quality compliance plan for areas of nonattainment within the State has proven to be extremely challenging and will inevitably impact a wide cross-section of the business and residential community.

Failure by an area to comply with the eight-hour ozone standards by the requisite time could result in the EPA's imposing a moratorium on the awarding of federal highway construction grants and other federal grants for certain public works construction projects, as well as severe emissions offset requirements on new major sources of emissions for which construction has not already commenced.

Other constraints on economic growth and development include lawsuits filed under the Federal Clean Air Act ("FCAA") by plaintiffs seeking to require emission reduction measures that are even more stringent than those approved by the United Stated Environmental Protection Agency (the "EPA"). From time to time, various plaintiff environmental organizations have filed lawsuits against the Texas Commission of Environmental Quality ("TCEQ") and the 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 even more stringent air emission controls that could threaten continued growth and development across the State.

It remains to be seen exactly what steps will ultimately be required to meet federal air quality standards, how the EPA may respond to developments as they occur, and what impact such steps and any EPA action have upon the State's economy and its business and residential communities.

Rules for the Regulation of Sulfur Dioxide ("SO2") and Nitrogen Oxide ("NOx") Emissions. . . SO2 and NOx emissions were identified in the 1960s as the main cause of acid rain and, over the years, a variety of rules have been introduced to regulate them.

In March 2005, EPA issued the Clean Air Interstate Rule ("CAIR") to provide more stringent standards for SO2 and NOx from power plants. CAIR was vacated by the U.S. Court of Appeals for the Washington D.C. Circuit (the "D.C. Circuit") on July 11, 2008 but was reinstated as an interim measure by the same court on December 28, 2008 while the EPA worked on a replacement rule.

In August 2011, EPA published the replacement rule, known as the Cross-State Air Pollution Rule ("CSAPR") which also included cap-and-trade programs for annual SO2 and annual NOx emissions. These programs came into effect on January 1, 2012. However, on August 21, 2012, the D.C. Circuit vacated CSAPR and remanded rulemaking to EPA. In the meantime, CAIR was reinstated until October 23, 2014 when the D.C. Circuit Court of Appeals lifted the stay on CSAPR. Then, on July 28, 2015, the D.C. Circuit Court decided that CSAPR emissions budgets for Texas and other states were invalid and remanded the rule to EPA for reconsideration. On October 26, 2016, EPA published a final CSAPR rule that retains only the NOx summer season (May through September) program for Texas. This became effective in the summer season of 2017. On March 15, 2021, the EPA finalized the Revised Cross-State Air Pollution Rule Update ("CSAPR Update") in order to resolve 21 states' outstanding interstate pollution transport obligations for the 2008 ozone NAAQS. For 9 of the 21 states for which the CSAPR Update was previously found to be only a partial remedy (Alabama, Arkansas, Iowa, Kansas, Mississippi, Missouri, Oklahoma, Texas, and Wisconsin), projected 2021 emissions do not significantly contribute to nonattainment or maintenance problems for the 2008 ozone NAAQS in downwind states. Thus, no further emission reductions beyond those under the CSAPR Update are required for these states to address interstate air pollution under the 2008 ozone NAAQS.

Clean Air Mercury Rule (the "Mercury Rule"). . . established "standards of performance" for new and existing coal-fired power plants and creates a market-based cap and trade program that began on January 1, 2010. The Mercury Rule was to be implemented in two phases, the first being the establishment of a national emissions cap of 38 tons in 2010 (about a 20% reduction from the estimated 48 tons that U.S. coal plants emit each year). The second phase cap of 15 tons was to be effective in 2018, at which time it was expected that proven dedicated mercury controls would be commercially available. By implementing the Mercury Rule, the EPA stated its goal of reducing mercury emissions from power plants by 70.0% from today's levels. The Mercury Rule also required continual mercury monitory to be installed and operational.

On February 8, 2008, a Washington D.C. Circuit Court vacated the Mercury Rule on grounds that the EPA, in its creation of the Mercury Rule, failed to adhere to the requirements of the FCAA. On December 21, 2011, EPA issued a replacement rule which is specific to mercury omissions but covers additional hazardous air pollutants, such as arsenic, chromium, nickel, acid gases, dioxins and furans. This Mercury and Air Toxic Standards Rule is of great concern to the electric power sector.

On December 15, 2015, the U.S. Court of Appeals for the District of Columbia decided to leave the EPA's mercury and air toxics standards ("MATS" or "Mercury Rule") for power plants in place, despite a 2015 ruling by the U. S. Supreme Court, in Michigan v. EPA, that the EPA erred in the first step of its rulemaking process. The Supreme Court held that cost was a necessary factor for the EPA to consider when deciding it was "appropriate and necessary" to regulate power plant emissions of mercury. On April 14, 2016, the EPA confirmed that it is appropriate and necessary to regulate air toxics, including mercury, from power plants after a consideration of costs. After evaluating several cost metrics relevant to the power sector and considering public comments, the EPA found that the cost of compliance with its standards is reasonable and that the electric power industry can comply with MATS and maintain its ability to provide reliable electric power to consumers at a reasonable cost.

THE WATER SYSTEM

GENERAL

The raw water system draws water from the Rio Grande River and consists of a river rock weir, a river pump station, two reservoirs providing 187 million gallons total capacity, and a raw water transport system. Surface water treatment is achieved by two water treatment plants providing 40 million gallons per day (MGD) of total capacity, 20 MGD treatment capacity each. Two clear wells provide 6.84 million gallons storage capacity, and three elevated storage tanks provide 5.0 million gallons of elevated storage capacity. Water is pumped by three high-service pumping stations into the distribution system which consists of 676 miles of transmission and distribution mains. For the fiscal year ended 2021, the Board's 53,114 water customers (excluding municipal) were composed of residential and commercial within the City and adjacent unincorporated areas. The Board also sells treated water at wholesale to three water distribution systems, and in fiscal year 2021 these sales accounted for approximately 5.64% of the water system's operating revenues and 8.43% of its sales volume. The Board coordinated the creation of the Southmost Regional Water Authority which built a 7.5 million gallon per day (Design Capacity) reverse osmosis water treatment plant of which the Board has 92.91% ownership. This plant includes a 7.5 million gallon storage tank and one high service pump station. SRWA completed construction on a microfiltration pretreatment and capacity expansion in November 2015. BPUB's share of SRWA capacity increased from 7.0 MGD to 9.3 MGD. With completion of the plant expansion at SRWA, BPUB's combined treatment capacity, which was at 47.0 MGD, increased to 49.3 MGD.

The Board is subject to regulation of water quality by the Texas Commission of Environmental Quality (TCEQ). The Board presently has a "Superior" water system as rated by TCEQ.

WATER RATES

Monthly charges are levied for the actual units of service rendered to individual customers. All non-residential retail customers pay a uniform rate per thousand gallons of water consumed. For residential retail customers, the volume rate increases 51% for water used above 16,000 gallons per month. Certain wholesale customers have special rate agreements with the Board. Connection charges include both front footage and meter installation charges and are designed to recover the capital costs of installing the distribution system. These charges are adjusted periodically to reflect inflation, as evidenced by changes in the actual cost of meters, pipe, labor and miscellaneous appurtenances necessary to connect an individual customer to the distribution system.

The rates for water service are established by the City Commission upon recommendation of the Board. The rates established by the City Commission for water service to ratepayers within the boundaries of the City, other than certain wholesale water utilities and contract customers, are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established for water service to ratepayers situated outside the boundaries of the City and to certain wholesale water utilities are subject to review for justness, reasonableness and nondiscriminatory effect by the PUCT under its appellate jurisdiction. Appeals to the PUCT by ratepayers outside the boundaries of the City must be initiated within 90 days after the effective date of the rate change by the filing of a petition for review with the PUCT signed by the lesser of 10,000 or 10% of those ratepayers whose rates have been changed and who are eligible to appeal. Appeals to the PUCT by wholesale water utilities receiving service from the Board must be initiated within 90 days after notice of the rate increase is received. The PUCT also asserts original jurisdiction over certain contract rate disputes.

The residential water system rate structure continues utilizing a rate structure consisting of four (4) tiers with inclining volumetric charges. The current rate structure established in Fiscal Year 2006 is intended to help promote conservation with minimal impact to the water system's low consumption consumers (consumers utilizing less than 9,000 gallons).

The Board periodically submits its review and written recommendations for adjustment of rates, fees, and charges for water service to the City Commission, and the City Commission establishes the rates by enactment of an ordinance. To assist in budgeting for the payment of future capital improvement projects with available revenues, in January, 2020 the BPUB Board contracted with Willdan Financial Services to conduct a Water and Wastewater Rate Study. On May 3, 2022, the Commission approved a five-year rate plan to increase the average water and wastewater rates and adoption of a resaca fee to recover costs related to costs of resaca maintenance and improvement programs. The resaca fee will help fund BPUB's ongoing Resaca Restoration Project by providing a source of funding for a local matching contribution that will supplement federal funding already earmarked for resaca improvements. In addition to the ongoing restoration project, the resaca fee will provide a source of funding for additional resaca improvement projects in the future. The restoration project is important for the maintenance and operation of BPUB's water system since clean resacas add to the capacity of raw water storage and storm waters add to the water supply in the resacas. The Resaca Restoration Projects provides additional benefits, as well, including improved aesthetics and park areas and enhanced habitats for birds and wildlife.

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The table below shows the average water system rate increases approved since 2011:

Average Water Rate Increases

Effective Date	Increase
October 2013 ……..…………	6.0%
October 2014 …………………	4.0%
October 2015 ……..…………	4.0%
October 2016 ………..………	6.0%
June 2022 …...……………….	8.0%
January 2023 ………………..	8.0%
January 2024 ………………..	6.0%
January 2025 ………………..	4.0%
January 2026 ………………..	5.0%

The table below shows the resaca fee approved as a part of the Five-Year Rate Plan:

Monthly Resaca Fee

Effective Date	Increase
June 2022 …...……………….	$4.50
January 2023 ………………..	$6.25
January 2024 ………………..	$10.00
January 2025 ……………….	$10.00
January 2026 ………………..	$12.50

WATER SYSTEM COMPETITION

The Board's water service area is subject to the certification jurisdiction of the PUCT. The Board has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the "extraterritorial jurisdiction") of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the System. All of its treated water is supplied by the Board’s water system.

WATER CUSTOMERS

For the fiscal year ended 2021, the Board’s 53,114 water customers (excluding municipal) were composed of residential and commercial within the City and adjacent unincorporated areas. The Board also sells treated water at wholesale to three water distribution systems, and in fiscal year 2021 these sales accounted for approximately 5.93% of the water system’s operating revenues and 9.18% of its sales volume. The table below lists the ten major consumers of the water system and the corresponding percentage of total water system revenues for each during Fiscal Year 2021.

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TABLE 8 - SCHEDULE OF TEN LARGEST WATER CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2021) (1)

Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue (1)
El Jardin Water Supply Corp.	350,266	$ 945,718	3.78%
Brownsville I S D	121,981	513,301	2.05%
Brownsville Navigation District	190,190	453,136	1.81%
Texas Southmost College	45,130	162,448	0.65%
University of Texas Rio Grande Valley	43,770	161,830	0.65%
Cameron County	50,972	157,450	0.63%
Military Highway Water Supply Corp.	60,468	147,878	0.59%
Rich Products Corp.	53,822	145,316	0.58%
Valley Regional Medical Center	37,876	107,001	0.43%
Valley Baptist Medical Center Brownsville	28,700	80,467	0.32%
TOTAL	983,175	$ 2,874,545	11.49%

(1) Does not include municipal sales
Source: Brownsville Public Utilities Board

The following tables list the historical and projected treated water production requirements (see "OTHER INFORMATION – Forward Looking Statements").

TABLE 9 - TREATED WATER PRODUCTION REQUIREMENTS (HISTORICAL)

Fiscal Year	Customers (Excluding Municipal) Number	Increase	Raw Water Pumped MG	Change	Plant Capacity MGD	Day Production MG	Change	Annual Production MG	Change	Water Sales MG	Change	Unmetered Water
2017	50,153	3.39%	5,580	5.26%	49.3	34.14	17.11%	7,901	5.94%	6,732	5.32%	14.8%
2018	50,771	1.23%	5,875	5.29%	49.3	30.43	-10.87%	8,163	3.32%	6,695	-0.55%	18.0%
2019	51,441	1.32%	5,319	-9.46%	49.3	27.06	-11.07%	7,536	-7.68%	6,335	-5.38%	15.9%
2020	52,331	1.73%	5,299	-0.38%	49.3	27.20	0.52%	7,589	0.70%	6,758	6.68%	11.0%
2021	53,114	1.50%	5,327	0.53%	49.3	24.53	-9.82%	7,467	-1.61%	6,741	-0.25%	9.7%
AVG	51,562	1.83%	5,480	0.25%	49.3	28.67	-2.83%	7,731	0.13%	6,652	1.16%	13.9%

TREATED WATER PRODUCTION REQUIREMENTS (PROJECTED)

Fiscal Year	Customers (Excluding Municipal) Number	Increase	Raw Water Pumped MG	Increase	Treatment Plant Capacity MGD	Maximum Day Production MG	Increase	Annual Production MG	Increase	Water Sales MG	Increase	Unmetered Water
2022	54,043	1.75%	5,576	1.91%	49.3	29.17	1.75%	7,866	1.75%	6,859	1.75%	15.0%
2023	54,989	1.75%	5,674	1.75%	49.3	29.68	1.75%	8,004	1.75%	6,979	1.75%	15.0%
2024	55,951	1.75%	5,773	1.75%	49.3	30.20	1.75%	8,144	1.75%	7,101	1.75%	15.0%
2025	56,930	1.75%	5,874	1.75%	49.3	30.73	1.75%	8,287	1.75%	7,225	1.75%	15.0%
2026	57,926	1.75%	5,977	1.75%	49.3	31.27	1.75%	8,432	1.75%	7,351	1.75%	15.0%

Notes:
1. Growth rate provided by AECOM in 2015 W/WW Master Plan and System Modeling-Table 3-2 Growth Rates.
2. 2020 Average Customers based on previous year's number and projected out 2021-24 at growth rate. Projections were based on information prior to the impact of COVID-19.
3. 2020 Production and pumpage on previous five year average, projected out 2021-24 at growth rate. Projections were based on information prior to the impact of COVID-19.

Source: Brownsville Public Utilities Board

WATER SUPPLY

One of the more critical concerns in Texas today is an adequate future water supply for municipal, industrial, and agricultural purposes. This concern applies equally to the lower Rio Grande Valley Area, where the City and the Board are situated. Water from the Rio Grande River is allocated between the United States and Mexico pursuant to a 1944 treaty. Reserves of Rio Grande River water for both countries have experienced recent significant declines due to a prolonged drought in northern Mexico and South Texas.

The Texas Water Development Board ("TWDB") updated the Texas Water Plan in 2017, which is the State's official 50-year plan for guiding the development of Texas water resources. In order to meet the challenges of growing water-related demands and limited resource availability facing Texas in the 21st century, the TWDB plan emphasizes conservation, expanded reuse of existing supplies, and development of new sources.

The projected water use was developed by the Board based on three scenarios: low, medium, and high use. The Board is committed to meeting the needs of its customers through a combination of approaches. These include an intensive conservation program, acquisition of additional raw water rights, purchases from other water supply entities, additional water permits from the TCEQ, and providing the funds necessary for undertaking a feasibility study of the proposed construction of one additional channel dam on the Rio Grande River. Increased production of existing water treatment plants was accomplished by improvements to both facilities. Transfer of Permit No. 1838 from the Brownsville Navigation District to the Board has given the Board the right to 40,000 acre/feet of surplus water, as further discussed in " – Other Projects" below.

The Board has an annual allocation of municipal priority water rights from the TCEQ in the amount of 31,965.633 acre-feet of water which is dependent upon inflow to the Falcon and Amistad Reservoirs. For additional information, see the first paragraph under "Treatment Transmission, and Distribution Facilities". The Board requires new developments to provide water rights or the funds to buy water rights to satisfy the demand.

WATER CONSERVATION

The Board prepared and adopted the Water Conservation and Drought Contingency Plan (the "WCDC Plan") pursuant to the provision of Texas Administrative Code Chapter 288, Water Conservation Plans, Guidelines, and Requirements. The WCDC Plan contains goals, and the specific strategies for attaining goals, that will improve water use efficiency and reduce long-term water demands. Periodically, the Board revises the WCDC Plan to update its goals and strategies. The Board approved a Water Conservation and Drought Contingency Plan in May 2019.

The Emergency Water Conservation Plan/Ordinance, which was adopted by the City in April 2002, implements strategies to reduce water demands during water emergency conditions. The Emergency Water Conservation Plan/Ordinance gives the General Manager & CEO and/or the Mayor of the City the authority to initiate or terminate applicable drought response stages as well as related water use restrictions during a water crisis. The Drought Contingency Plan has four stages, including voluntary water conservation, water shortage alert, water shortage warning, and water shortage emergency. In the event that water shortage conditions threaten the public health, safety, and welfare, the General Manager & CEO may initiate water rationing.

The Board has a recurring Water Conservation Public Information Campaign for its customers. Educational information is provided in the Annual Drinking Water Quality Report distributed to all of its customers by the end of July every year. Brochures/bill inserts are included in the summer-long conservation campaign and made available in English and Spanish. Water conservation and water saving tips and mandatory water conservation restrictions are found on the Board's website: http://www.brownsville-pub.com. The website provides information on the Board's high efficiency toilet rebate program, information on how much water is used in various parts of the home, and an application that calculates the amount of water wasted through a leak. A link to the Texas Drought Report is also available to keep customers abreast of the latest information pertaining to the drought.

The Board's water and wastewater rate structures adhere to the American Water Works Association's ("AWWA") policy that rates be developed with cost of service principles. The water rates consist of an inverted or increasing block structure to promote water conservation.

REDUCTION OF LOSS

The Board has and continues to implement programs and construct facilities to conserve water and to reduce losses. These programs include a water meter replacement program, leak detection program, water distribution audit, water reuse study, raw water metering study, and water conservation education program.

OTHER PROJECTS

In December 1993, the Board approved an agreement with the Brownsville Navigation District relating to the amendment, acquisition, and development of the water rights evidenced by Permit No. 1838 issued by the Texas Board of Water Engineers (the predecessor to the TCEQ) to the District in 1956. Working in cooperation with the Brownsville Navigation District, the Board obtained an amendment to the water rights permit from the TCEQ in September 1994. This authorizes the diversion and use of up to 40,000 acre-feet of water from the Rio Grande River for industrial and municipal purposes, subject to the terms and conditions specified in the permit. Once the amendment was final, the Brownsville Navigation District transferred its interest in the permit to the Board in October 1994. The Board has diverted andused water from the Rio Grande River pursuant to the permit.

The seawater desalination pilot plant study was completed in 2008. Because of urgent water needs and strong regional support, the Brownsville project was the only one of three feasibility studies tapped to proceed to a pilot phase. In 2006, the TWDB awarded the project $1.34 million in state funding; the Board contributed $1,466,000 in cash plus $384,000 in in-kind assistance. The Port of Brownsville donated the site for the pilot plant.

The study collected ocean water data and evaluated the performance of different treatment approaches for desalinating seawater by use of reverse-osmosis membranes. Based on the results of the study, the Board has determined key characteristics and estimated the project cost for a 25 million-gallon-per-day seawater desalination facility at $171.0 million. The Board, although committed to further diversifying its water supply sources by adding seawater desalination to its portfolio, does not presently have the water demand nor the financial resources to implement the full-scale project. Nevertheless, to continue advancing the development of seawater desalination supplies, it formulated a phased approach which entails building an initial 2.5 million-gallon-per-day production and demonstration facility that would eventually be expanded into the full-scale 25 million-gallon-per-day facility originally envisioned. Under this approach, the first phase of the project includes a 2.5 million-gallon-per-day production prototype on the south bank of the Brownsville Ship Channel. The plan would include designing and building some of the facilities to the project's ultimate 25 million-gallon-per-day production capacity. The cost of the initial phase is estimated at $60.0 million. The funding package would consist of three essential components: grants, State Participation Program Funding, and Water Infrastructure Funding.

In addition, the Board has implemented a resaca dredging program which provides some additional storage capacity of raw water within the City.

TREATMENT, TRANSMISSION, AND DISTRIBUTION FACILITIES

The Rio Grande is a major source of water supply for the region. The two international impoundment reservoirs on the Rio Grande that are used for water storage for the region include Falcon and Amistad Reservoirs. Diversions from the river are regulated by the TECQ through water rights and a watermaster. The TCEQ Rio Grande Watermaster continuously monitors stream flows, reservoir levels, and water use in the river basin. The Watermaster also can allocate flows among priority users, such as municipal water rights holders, during water shortages. The Board owns municipal priority water rights in the amount of 31,965.633 acre-feet of water. In addition, the Board holds Permit No. 1838 entitling it the right to 40,000 acre-feet of surplus water.

Raw water is taken from the Rio Grande River by two pumping stations that discharge to raw water reservoirs for short term storage. The reservoirs are located next to the Rio Grande River and adjacent to the Silas Ray Plant. Raw water is pumped from the reservoir to Water Treatment Plant No. 1, which is also adjacent to the Silas Ray Plant. Water Treatment Plant No. 1 has a maximum treatment capacity of 20 MGD and is the oldest of the Board's treatment plants. Water Treatment Plant No. 2 is centrally located and is approximately four and one-half miles from Water Treatment Plant No. 1. Water from the raw water reservoirs flows by gravity through the Resaca de la Guerra system and/or the raw water pipeline to Water Treatment Plant No. 2, where it is pumped into the plant for treatment. Water distribution piping at Water Treatment Plants No. 1 and No. 2 are connected by a 30-inch pipeline for reliability purposes.

In 2004, the Board partnered with SRWA and built a 7.5 MGD brackish groundwater reverse osmosis water treatment plant of which the Brownsville PUB has 92.91% ownership. In 2015, the SRWA plant completed an expansion to provide microfiltration pretreatment and a total production capacity of 10 MGD. With completion of the project, Brownsville's overall water treatment capacity will increase to 49.3 MGD for the water system.

Two clear wells provide 6.84 million gallons of storage capacity, and three elevated storage tanks provide 5 million gallons of elevated storage capacity. The SRWA plant provides additional water storage, including a 7.5 million gallon storage tank. The water system meets the minimum storage requirements as specified by the TCEQ.

Water is pumped into the distribution system by four high-service pumping stations (including the SRWA pumping station). The water distribution system consists of 676 miles distribution mains and waterlines. The Board mainly sells to residential and commercial customers, but also sells treated water on a wholesale basis to three other water distribution companies that amount to approximately 7% of sales.

The Board's water utility service area is subject to the certification jurisdiction of the PUCT. The Brownsville PUB has been certified singly to provide water service within the boundaries of the City. A large portion of the area, three and one-half miles surrounding the boundaries (the "extraterritorial jurisdiction") of the City, is dually certified. There is a small water utility system (El Jardin Water Supply Corporation) whose customers are situated adjacent to or within the System. All of its treated water is supplied by the Board's water system. The Board is subject to regulation of water quality by the TCEQ. The Board presently has a "Superior" water system as determined in accordance with current TCEQ regulations.

WATER SYSTEM CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Capital Improvement Plan for the water system (the "Water System CIP") identifies projects for a five-year period ending September 30, 2026. The Water System CIP identifies approximately $94.9 million in projects, of which approximately 38.22% are projected to be debt financed, and approximately 61.78% from internally generated cash, state loans and grants and contributions in aid of construction

Capital projects involve the acquisition or construction of major facilities and equipment including Water Plant I and II Filter System Rehabilitation Project. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

THE WASTEWATER SYSTEM

GENERAL

The wastewater system, consisting of collection and treatment facilities, includes gravity wastewater collection lines, 178 lift stations and two treatment plants. Wastewater is transported by lift stations and associated force mains to one of two wastewater treatment plants - the Robindale Plant or the South Plant. For additional information on the two treatment plants, see "Wastewater Treatment and Collection Facilities".

The wastewater system provided service to approximately 53,863 customers (excluding municipal) during Fiscal Year 2021 and accounted for approximately 5.08% of the Board's total operating revenues during that period.

The wastewater system is subject to regulation by the EPA and the TCEQ with regard to operations of the facilities and the water quality of the wastewater plants' effluent.

WASTEWATER RATES

The Board imposes two types of charges to reflect wastewater costs: monthly charges and connection charges. Each customer's monthly bill contains a billing charge plus a rate per thousand gallons of metered water used and returned to the wastewater system. Approximately 98% of all wastewater system customers are also customers of the Board's water system. Commercial customers are billed 95% of their metered water usage as wastewater while residential customers are charged 80% of their water usage as wastewater.

Connection charges include front footage, lift station, and wastewater service lateral charges and are designed to recover the capital costs of installing the collection system. These charges are adjusted periodically to reflect inflation, as evidenced by changes in the actual cost of material and labor to construct the facilities to connect an individual customer to the collection system.

Capital facilities charges, first instituted in June 1979, are designed to recover a portion of the cost of the treatment plants, interceptors, master lift stations, force mains, and additional facilities required to provide adequate wastewater service for new customers. Capital facilities charges are made when the customer joins the system and provides the means for differentiating between the capital investment necessary to service existing customers of the wastewater system and the increased capital investment required to provide service to new customers.

The rates for wastewater service are established by the City Commission upon recommendation of the Board. The rates established by the City Commission for wastewater service by ratepayers within the boundaries of the City, other than certain sewer utilities, are not subject to review by the PUCT or any other state or federal regulatory agency. Rates established for wastewater service to ratepayers situated outside the boundaries of the City and to certain sewer utilities are subject to review for justness, reasonableness and nondiscriminatory effect by the PUCT under its appellate jurisdiction. Appeals to the PUCT by ratepayers outside the boundaries of the City must be initiated within 90 days after the effective date of the rate change by filing a petition for review with the PUCT signed by the lesser of 10,000 or 10% of those ratepayers whose rates have been changed and who are eligible to appeal. Appeals to the PUCT by certain sewer utilities receiving service from the Board must be initiated within 90 days after notice of the rate increase is received. The Board reports that there is currently no petition on file at the PUCT by ratepayers eligible to appeal, nor is the management of the Board aware of any planned filing. Regulations promulgated by the EPA, through which grants have been received for the construction of wastewater facilities by the wastewater system, require that the wastewater rates of the Board be self-supporting.

In addition, EPA regulations impose certain criteria upon wastewater rates for recipients of federal grants, including the wastewater system. EPA regulations require sewerage rates to be distributed among various classes of users based upon the loading attributable to each user. The Board maintains an acceptable industrial cost recovery program which meets these requirements and all residential customers are assessed at a uniform rate.

In order to have available adequate revenues to make projected deposits to the Capital Improvement Fund, the Board recommended, and the City Commission approved on December 17, 2012, a five-year rate plan. The adopted five-year plan increases wastewater system rates as reflected in the following table. The October 1, 2013 and October 1, 2014 increases have been implemented. The five-year plan recommended that no rate increases be implemented for 2015 or 2016. On May 3, 2022, the Commission approved a five-year rate plan to increase average water and wastewater rates.

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The table below shows the average wastewater system rate increases approved since 2011:

Average Wastewater Rate Changes

Effective Date	Increase
October 2011 …………………	5.0%
October 2013 …………………	2.0%
October 2014 …………………	4.0%
June 2022 …..………………	9.0%
January 2023 …………………	9.0%
January 2024 …………………	9.0%
January 2025 …………………	4.0%
January 2026 …………………	5.0%

The residential wastewater system rate structure continues utilizing a rate structure consisting of two (2) tiers with increasing volumetric charges. (1) The current rate structure, established in Fiscal Year 2007, is intended to help promote water conservation with minimal impact to the wastewater system's low consumption consumers (consumers utilizing less than 7,000 gallons).

(1) Residential outside-City customers rate structure consists of a single-tier.

WASTEWATER SYSTEM COMPETITION

The Board has the authority to provide wastewater service both inside and outside the Brownsville city limits. The Brownsville Navigation District owns and operates its own wastewater treatment facilities. There is no competition between the System's wastewater system and the Brownsville Navigation District, since the Brownsville Navigation District operates in defined areas in which the System has no wastewater lines.

WASTEWATER CUSTOMERS

For the Fiscal Year ended September 30, 2021, the wastewater system provided service to 53,863 customers (excluding municipal) and accounted for approximately 5.13% of the Board's total operating revenues during that period. Residential and commercial and industrial customers provided approximately 59.22% and 30.04%, respectively of the total wastewater system sales revenues. The table on the following page lists the ten major users of the wastewater system in Fiscal Year 2021.

TABLE 10 - SCHEDULE OF TEN LARGEST WASTEWATER CUSTOMERS (FISCAL YEAR ENDED SEPTEMBER 30, 2021) (1)

Customer Name	Annual Consumption (1,000 Gallons)	Annual Sales Revenue	Percent of Annual Sales Revenue (1)
Brownsville I S D	101,406	$ 476,837	2.09%
Cameron County	43,989	177,400	0.78%
Rich Products Corp.	38,897	159,504	0.70%
Texas Southmost College	34,170	148,797	0.65%
Valley Regional Medical Center	31,229	120,279	0.53%
University of Texas Rio Grande Valley	30,828	139,631	0.61%
Valley Baptist Medical Center	25,127	96,976	0.43%
Raybec Posada LLC	22,180	79,004	0.35%
Brownsville Housing Authority	19,792	75,267	0.33%
Trico Technologies Corp.	16,098	63,450	0.28%
TOTAL	363,716	$ 1,537,145	6.75%

(1) Does not include municipal sales
Source: Brownsville Public Utilities Board

WASTEWATER TREATMENT AND COLLECTION FACILITIES

The wastewater system includes wastewater collection lines, lift stations of various sizes, and associated force mains. Wastewater is transported by gravity force assisted by multiple lift stations. The wastewater system also includes two wastewater treatment plants.

The South Plant, the wastewater system's first treatment facility, was originally designed as a trickling filter plant with a treatment capacity of 5 MGD. In 1971, it was expanded to a capacity of 7.8 MGD and was further modified in 1978 to include activated sludge, complete-mix, and aerobic digestion. Sludge is thickened and disposed of at a Dedicated Land Disposal ("DLD"). In 2000, the plant was expanded to 12.8 MGD. A two meter belt filter press was added in July 2010 for bio-solids dewatering to replace centrifuges. In addition, an odor control system was added to the headwork facility in July 2016.

In 1984, the Board completed an EPA-sponsored collection system rehabilitation and reconstruction program associated with the construction of the System’s Robindale 5 MGD Plant, which was placed into service in 1980. In 1995, it was expanded to a capacity of 10 MGD. The Robindale renovation and expansion project, completed in June 2014, increased the treatment capacity to 14.5 MGD. The Robindale Plant provides preliminary treatment with new technology, headworks facility features fine screens with headcell grit removal with combined compactor washer system and includes an odor control system. It also provides secondary waste treatment utilizing a Modified Ludzack-Ettinger (MLE) process (anoxic and aerobic with an internal nitrate cycle) of activated sludge, turbo blowers (with magnetic bearings) with auto dissolved oxygen control, secondary setting, ultra-violet light system (as alternate source of disinfection), effluent cascade aeration system, sludge thickening, aerobic digestion, mechanical sludge dewatering (via 2-meter belt filter press) and land disposal of sludge via a DLD site of 137 acres.

WASTEWATER TREATMENT STATISTICS

The following tables depict annual historical and projected inflow for the Fiscal Years indicated. The forecasted volumes depicted were developed from projected water use figures by applying the historical ratios between treated water production and sewage inflow (see "OTHER INFORMATION - Forward Looking Statements").

TABLE 11 - WASTEWATER SYSTEM STATISTICS (HISTORICAL)(1)

Fiscal	Customers (Excluding Municipal)		Treatment Plant Capability	Maximum Day(2)		Annual Demand		Wastewater Billed	
Year	Number	Increase	MGD	MG	Change	MG	Change	MG	Change
2017	50,329	1.28%	27.3	21.2	-34.97%	5,370	-3.76%	4,670	3.71%
2018	51,366	2.06%	27.3	34.8	64.15%	5,301	-1.29%	4,586	-1.80%
2019	52,137	1.50%	27.3	29.8	-14.37%	5,270	-0.58%	4,433	-3.34%
2020	53,075	1.80%	27.3	36.5	22.48%	5,240	-0.57%	4,672	5.39%
2021	53,974	1.69%	27.3	38.4	5.21%	5,385	2.77%	4,681	0.19%
AVG	52,176	1.67%	27.3	32.1	8.50%	5,313	-0.69%	4,608	0.83%

(1) Statistics taken from data provided by the Board.
(2) Maximum Day MG includes a combination of regular daily treatment and rain inflows. Although maximum day volumes may exceed treatment plant capacity, plants are designed with a treatment peaking factor of 3 times their MGD capacity for a short period of time.

WASTEWATER SYSTEM STATISTICS (PROJECTED)(1)

Fiscal	Customers (Excluding Municipal)		Treatment Plant Capability	Maximum Day(2)		Annual Demand		Wastewater Billed	
Year	Number	Increase	MGD	MG	Change	MG	Change	MG	Change
2022	54,919	1.75%	27.3	32.7	-14.84%	5,479	1.75%	5,031	1.50%
2023	55,880	1.75%	27.3	33.2	1.62%	5,575	1.75%	5,106	1.50%
2024	56,858	1.75%	27.3	33.8	1.72%	5,673	1.76%	5,183	1.50%
2025	57,853	1.75%	27.3	34.4	1.78%	5,772	1.75%	5,261	1.50%
2026	58,865	1.75%	27.3	35.0	1.74%	5,873	1.75%	5,340	1.50%

(1) Statistics taken from data provided by the Board. Projections were based on information prior to the impact of COVID-19.
(2) Maximum Day MG includes a combination of regular daily treatment and rain inflows. Although maximum day volumes may exceed treatment plant capacity, plants are designed with a treatment peaking factor of 3 times their MGD capacity for a short period of time.

Source: Brownsville Public Utilities Board

ROBINDALE WASTEWATER TREATMENT PLANT REHABILITATION AND EXPANSION PROJECT

The Board proceeded with the renovation and expansion of the existing Robindale Wastewater Treatment Plant to meet current needs and facilitate population growth projections to provide a maximum of 14.5 MGD 30-day average daily flow. Prior to the expansion, the plant average discharge of Ammonia-Nitrogen was about 14 mg/L. TCEQ imposed an Ammonia-Nitrogen effluent limit that the existing Robindale WWTP was not originally designed to treat. The expansion project was designed to meet and exceed the daily average discharge limitation of 4 mg/L for Ammonia-Nitrogen. The draft discharge permit required the Board to obtain plan and specifications approval for TCEQ no later than April 2012. The Board approved a "notice to proceed" for the construction phase in July 2012 and the Design Builder achieved final completion in July 2014.

The Board used local and federal funding sources to complete the Robindale Wastewater Treatment Plant Rehabilitation and Expansion Project. The Design-Build contract amount for the project was $37.5 million. EPA supported this project with $15.8 million, and the remaining cost of the project was covered with local funds.

WASTEWATER SYSTEM CAPITAL IMPROVEMENT PLAN AND ADDITIONAL DEBT

The Board's current Capital Improvement Plan for the wastewater system (the "Wastewater System CIP") identifies projects for a five-year period ending September 30, 2026. The Wastewater System CIP identifies approximately $68.35 million in projects, of which approximately 80.56% are projected to be debt financed and approximately 19.44% from internally generated cash, state loans and grants and contributions in aid of construction.

Capital projects involve the acquisition or construction of major facilities and equipment. Due to its nature as a planning tool, a capital budget, while identifying and prioritizing capital expenditures, is subject to revision as circumstances change, including changes in the economy. Consequently, the inclusion of an expenditure in a capital budget is not a firm commitment to a project, particularly as the planning horizon extends into the future.

WATER AND WASTEWATER REGULATION

ENVIRONMENTAL REGULATIONS

The City is subject to the environmental regulations of the State and the United States in the operation of its water, wastewater, and storm water systems. These regulations are subject to change, and the City is required to expend substantial funds to meet the requirements of such regulatory authorities.

SAFE DRINKING WATER ACT

In August 1996, amendments to the Federal Safe Drinking Water Act were signed into law. The Federal Safe Drinking Water Act requires the EPA to regulate a wide variety of contaminants that may be present in drinking water, including volatile organic chemicals ("VOCs"), other synthetic organic chemicals, inorganic chemicals, microbiological contaminants, and radionuclide contaminants. The list of contaminants to be regulated is so lengthy that the amendments require the EPA to establish a schedule for developing regulations regarding the contaminants. There are several phases in the EPA's regulatory timetables that are to be undertaken over the next few years. The initial impacts of the amendments to the System have not been significant, as the System has been able to materially comply with the regulations that have been promulgated to date. The full impact is difficult to project at this time, and would be dependent upon what maximum contaminant levels may be set for some future parameters and enhanced water treatment rules. Many of these parameters, such as waterborne pathogens, radionuclides and infection by-products contaminants, may require treatment changes that have not as yet been established by the EPA.

Continued changes in rules and regulations may continue to cause process modifications, which may increase the costs of the maintenance and operation of the City's drinking water treatment and distribution facilities. These modifications and upgrades may require increased capital expenditures, which may be financed by the issuance of additional revenue bonds.

FEDERAL AND STATE REGULATION OF THE WASTEWATER FACILITIES

The Federal Clean Water Act and the Texas Water Code regulate the Wastewater System's operations, including the collection system and the wastewater treatment plants. All discharges of pollutants into the nation's navigable waters must comply with the Clean Water Act. The Clean Water Act allows municipal wastewater treatment plants to discharge treated effluent to the extent allowed in permits issued by the EPA pursuant to the National Pollutant Discharge Elimination System (the "NPDES") program, a national program established by the Clean Water Act for issuing, revoking, monitoring, and enforcing wastewater discharge permits. The Clean Water Act authorized the EPA to delegate the EPA's NPDES permit responsibility to State or interstate agencies after certain prerequisites have been met by the relevant agencies. The EPA has delegated NPDES permit authority to the TCEQ, which means that the TCEQ is the lead agency for issuing Clean Water Act permits to the System. The System has current TPDES permits for its facilities, issued by the TCEQ, which are also issued under authority granted to the TCEQ by the Texas Water Code. Both EPA and TCEQ have authority to enforce the Texas Pollutant Discharge Elimination System (the "TPDES") permits.

TPDES permits set limits on the type and quantity of wastewater discharge, in accordance with State and Federal laws and regulations. The Clean Water Act requires municipal wastewater treatment plants to meet secondary treatment effluent limitations (as defined in EPA regulations). The Clean Water Act also requires that municipal plants meet any effluent limitations established by State or federal laws or regulations, which are more stringent than secondary treatment.

On June 1, 2010, the EPA published a notice in the Federal Register seeking stakeholder input to help the EPA determine whether to modify the NPDES regulations as they apply to municipal sanitary sewer collection systems and sanitary sewer overflows. Four public listening sessions were conducted in June and July 2010 in which stakeholder and public comment was received by the EPA. The EPA represented that it has not yet determined whether new rules or policies will be proposed. Should the EPA propose new requirements in NPDES permits, the Board may incur additional costs associated with the operation and maintenance of the sanitary sewer system. On October 27, 2011, the Office of Water and the Office of Enforcement and Compliance Assurance issued a Memorandum on Achieving Water Quality Through Integrated Municipal Stormwater and Wastewater Plans. The memorandum outlines the development of an integrated planning approach framework to help EPA work with local governments towards cost effective decisions and solutions regarding the implementation of NPDES-related obligations. The framework will identify: (1) the essential components of an integrated plan; (2) steps for identifying municipalities that might make the best use of such an approach; and (3) how best to implement the plans with state partners under the Clean Water Act permit and enforcement programs. On June 5, 2012, the EPA issued its Integrated Municipal Stormwater and Wastewater Planning Approach document. This document encourages the EPA Regions to work with the states in their regions to implement integrated planning that will assist municipalities on their critical paths to achieving health and water quality objectives of the Clean Water Act by identifying efficiencies in implementing requirements that arise from distinct wastewater and stormwater programs.

STATUS OF DISCHARGE PERMITS FOR CITY'S WASTEWATER TREATMENT PLANTS

The Robindale Plant and the South Plant wastewater treatment plants have been issued TPDES discharge permits by the TCEQ. An occasional upset may cause permit violations, but generally each of these plants are in compliance with their respective discharge permits.

POTENTIAL PENALTIES FOR THE CITY'S WASTEWATER SYSTEM'S VIOLATIONS

The failure by the System to achieve compliance with the Clean Water Act could result in either a private plaintiff or the EPA instituting a civil action for injunctive relief and civil penalties of up to $37,500 per day per violation. In addition, the EPA has the power to issue administrative orders compelling compliance with its regulations and the applicable permits. The EPA can also bring criminal actions for recovery of penalties of up to $50,000 per day for willful or negligent violations of permit conditions or discharge without a permit. Violations of permits or administrative orders may result in the disqualification of a municipality from eligibility for federal assistance to finance capital improvements pursuant to the Clean Water Act. Even though the System will be operating under TPDES permits, it still may be liable for penalties from the EPA under the Clean Water Act.

Under State law, civil penalties for violation of State wastewater discharge permits or orders of the TCEQ can be a maximum of $25,000 per day per violation. The Executive Director of the TCEQ also has authority to levy administrative penalties of up to $25,000 per day effective September 1, 2011 for violations of rules, orders or permits. Orders resulting from a civil action could require the imposition of additional user or service charges or the issuance of additional bonds to finance the improvements required to ameliorate a condition that may have caused the violation of a TCEQ permit.

PENSION AND OTHER POST-EMPLOYMENT BENEFITS

The Board provides pension benefits for all of its eligible employees through a nontraditional, joint contributory, hybrid defined benefit plan in the state-wide Texas Municipal Retirement System ("TMRS"), an agent multiple-employer public employee retirement system. Benefits depend upon the sum of the employees' contributions to the plan, with interest, and the Board financed monetary credits, with interest. In addition to providing pension benefits, the Board also provides post-retirement health care benefits and supplemental death benefits to its employees. See Notes 8 and 9 of the Board's Fiscal Year 2021 audit attached hereto as Appendix B for additional information regarding pension benefits and post-employment benefits provided by the Board.

INVESTMENT POLICIES

The System invests its funds in investments authorized by Texas law in accordance with investment policies approved by the Board. Both State law and the Board's investment policies are subject to change.

LEGAL INVESTMENTS

Under Texas law, the Board is authorized to invest in (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 of Texas 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 is guaranteed or insured by or backed by the full faith and credit of, the State of Texas 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 the National Credit Union Share Insurance Fund or their respective successors; (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 Board selects from a list the governing body or designated investment committee of the Board adopts as required by Section 2256.025; or (ii) a depository institution with a main office or branch office in this state that the Board selects; (B) the broker or depository institution as described in clause (8)(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 Board'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 investing Board appoints as the Board's custodian of the banking deposits issued for the Board's account: (i) the depository institution selected as described by Paragraph (A); (ii) an entity described by Section 2257.041(d) of the Texas Government Code; or (iii) a clearing broker dealer registered with the Securities and Exchange Commission and operating under Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3-3), (9) certificates of deposit or share certificates (i) meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code) that are issued by or through an institution that either has its main office or a branch in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund (or their respective successors), or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and amount provided by law for Board deposits or, (ii) where the funds are invested by the Board through (I) a broker that has its main office or a branch office in the State of Texas and is selected from a list adopted by the Board as required by law or (II) a depository institution that has its main office or a branch office in the State of Texas that is selected by the Board; (iii) the broker or the depository institution selected by the Board 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 Board; (iv) 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 (v) the Board appoints the depository institution selected under (ii) above, an entity as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the Securities and Exchange Commission and operating pursuant to Securities and Exchange Commission Rule 15c3-3 (17 C.F.R. Section 240.15c3- 3) as custodian for the Board with respect to the certificates of deposit issued for the account of the Board; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1), and require the securities being purchased by the Board or cash held by the Board to be pledged to the Board, held in the Board's name, and deposited at the time the investment is made with the Board or with a third party selected and approved by the Board, 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 Board, held in the Board's name and deposited at the time the investment is made with the Board or a third party designated by the Board; (iii) a loan made under the program is placed through either a primary government securities dealer (as defined by 5 C.F.R. Section 6801.102(f), as that regulation existed on September 1, 2003) or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less; (12) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least "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 270 days or less that is rated at least "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 U.S. or state bank; (14) no-load money market mutual funds registered with and regulated by the SEC that provide the Board with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940, and that complies with SEC Rule 2a-7; and (15) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations described in this paragraph or (ii) have a duration of less than one year and an investment portfolio 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 in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The Board 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. The Board may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or 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 Board retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the Board must do so by order, ordinance, or resolution. The Board has not contracted with, and has no present intention of contracting with, any such investment management firm or the State Securities Board to provide such securities.

The Board 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.

INVESTMENT POLICIES

Under Texas law, the Board is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and includes a list of authorized investments for Board funds, maximum allowable stated maturity of any individual investment owned by the Board and the maximum average dollar-weighted maturity allowed for pooled fund groups. All Board funds must be invested consistent with a formally adopted "Investment Strategy Statement" specifically addressing each fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, Board investments must be made "with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person's own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived." At least quarterly the investment officers of the Board shall submit an investment report detailing: (1) the investment position of the Board, (2) that all investment officers jointly prepared and signed the report, (3) the book value and market value of each separately listed asset at the end of the reporting period, (4) the maturity date of each separately invested asset, (5) the account or fund or pooled fund group for which each individual investment was acquired, and (6) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) State law. No person may invest Board funds without express written authority from the Board.

ADDITIONAL PROVISIONS

Under Texas law, the Board is additionally required to: (1) annually review its adopted policies and strategies, (2) adopt a rule, order, ordinance or resolution stating the system has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution, (3) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the entity to disclose the relationship and file a statement with the Texas Ethics Commission and the Board of Trustees; (4) require the qualified representative of firms offering to engage in an investment transaction with the: (a) receive and review the Board's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the Board and the business organization which are not authorized by the investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the Board's entire portfolio, requires an interpretation of subjective investment standards, or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the Board and the business organization attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the investment policy; (6) provide specific investment training for the Treasury Manager, Chief Financial Officer and investment officers; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in non-money market mutual funds in the aggregate to no more than 15% of the monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the Board.

TABLE 12-CURRENT INVESTMENTS [(1)]

As of September 30, 2021 the Board held investments as follows:

Investment Type		Amortized Costs	Weighted Average Maturity (Days)	Allocation	Rating
Certificates of Deposit	$	248,000	0.1	0.2%	N/A
U.S. Agencies		-		0.0%	
U.S. Treasury Note		-		0.0%	
Local Government Investment Pools					
Texas TERM		23,000,000	32	14.6%	AAAf
TexasDaily		58,760,806	48	37.3%	AAAmmf
TexPool		72,284,316	37	45.9%	AAAm
TexStar		3,063,645	39	1.9%	AAAm
Total	$	157,356,767		100.0%	

(1) Does not include Southmost Regional Water Authority.
Source: Brownsville Public Utilities Board

As of such date, the market value of such investments (as determined by the Board by reference to published quotations, dealer bids, and comparable information) was approximately 100% of their book value. No funds of the Board are invested in derivative securities, *i.e.*, securities whose rate of return is determined by reference to some other instrument, index, or commodity.

TAX MATTERS

2022 Bonds

In the opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel ("Bond 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 2022 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986 (the "Code"). Bond Counsel is of the further opinion that interest on the 2022 Bonds is not a specific preference item for purposes of the federal alternative minimum tax. Bond 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 2022 Bonds. A complete copy of the proposed form of opinion of Bond Counsel is set forth in Appendix C hereto.

The following discussion summarizes certain United States federal income tax considerations generally applicable to U.S. Holders (as defined in the 2022A Taxable Bonds discussion, below) of the 2022 Bonds that acquire their 2022 Bonds in the initial offering, and does not address tax considerations applicable to any investors in the 2022 Bonds other than investors that are U.S. Holders.

To the extent the issue price of any maturity of the 2022 Bonds is less than the amount to be paid at maturity of such 2022 Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2022 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 2022 Bonds which is excluded from gross income for federal income tax purposes. For this purpose, the issue price of a particular maturity of the 2022 Bonds is the first price at which a substantial amount of such maturity of the 2022 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 2022 Bonds accrues daily over the term to maturity of such 2022 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 2022 Bonds to determine taxable gain or loss upon disposition (including sale, redemption, or payment on maturity) of such 2022 Bonds. Beneficial Owners of the 2022 Bonds should consult their own tax advisors with respect to the tax consequences of ownership of 2022 Bonds with original issue discount, including the treatment of Beneficial Owners who do not purchase such 2022 Bonds in the original offering to the public at the first price at which a substantial amount of such 2022 Bonds is sold to the public.

2022 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 2022 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 2022 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 2022 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 2022 Bonds. The City has made certain representations and covenanted to comply with certain restrictions, conditions and requirements designed to ensure that interest on the 2022 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 2022 Bonds being included in gross income for federal income tax purposes, possibly from the date of original issuance of the 2022 Bonds. The opinion of Bond Counsel assumes the accuracy of these representations and compliance with these covenants. Bond 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 Bond Counsel's attention after the date of issuance of the 2022 Bonds may adversely affect the value of, or the tax status of interest on, the 2022 Bonds. Accordingly, the opinion of Bond Counsel is not intended to, and may not, be relied upon in connection with any such actions, events or matters.

Although Bond Counsel is of the opinion that interest on the 2022 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 2022 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. Bond 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 2022 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 2022 Bonds. Prospective purchasers of the 2022 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 Bond Counsel expresses no opinion.

The opinion of Bond Counsel is based on current legal authority, covers certain matters not directly addressed by such authorities, and represents Bond Counsel's judgment as to the proper treatment of the 2022 Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service ("IRS") or the courts. Furthermore, Bond Counsel cannot give and has not given any opinion or assurance about the future activities of the City or about the effect of future changes in the Code, the applicable regulations, the interpretation thereof or the enforcement thereof by the IRS. The City has covenanted, however, to comply with the requirements of the Code.

Bond Counsel's engagement with respect to the 2022 Bonds ends with the issuance of the 2022 Bonds, and, unless separately engaged, Bond Counsel is not obligated to defend the City or the Beneficial Owners regarding the tax-exempt status of the 2022 Bonds in the event of an audit examination by the IRS. Under current procedures, 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 City legitimately disagrees, may not be practicable. Any action of the IRS, including but not limited to selection of the 2022 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 2022 Bonds, and may cause the City or the Beneficial Owners to incur significant expense.

Payments on the 2022 Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate Beneficial Owner of 2022 Bonds may be subject to backup withholding with respect to "reportable payments," which include interest paid on the 2022 Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2022 Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against a Beneficial Owner's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain Beneficial Owners (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. The failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

2022A Taxable Bonds

Bond Counsel observes that interest on the 2022A Taxable Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Code. Bond Counsel expresses no opinion regarding any other tax consequences relating to the ownership or disposition of, or the amount, accrual, or receipt of interest on, the 2022A Taxable Bonds.

The following discussion summarizes certain U.S. federal income tax considerations generally applicable to holders of the 2022A Taxable Bonds that acquire their 2022A Taxable Bonds in the initial offering. The discussion below is based upon laws, regulations, rulings, and decisions in effect and available on the date hereof, all of which are subject to change, possibly with retroactive effect. Prospective investors should note that no rulings have been or are expected to be sought from the U.S. Internal Revenue Service (the "IRS") with respect to any of the U.S. federal tax consequences discussed below, and no assurance can be given that the IRS will not take contrary positions.

Further, the following discussion does not deal with U.S. tax consequences applicable to any given investor, nor does it address the U.S. tax considerations applicable to all categories of investors, some of which may be subject to special taxing rules (regardless of whether or not such investors constitute U.S. Holders), such as certain U.S. expatriates, banks, REITs, RICs, insurance companies, tax-exempt organizations, dealers or traders in securities or currencies, partnerships, S corporations, estates and trusts, investors that hold their 2022A Taxable Bonds as part of a hedge, straddle or an integrated or conversion transaction, investors whose "functional currency" is not the U.S. dollar, or certain taxpayers that are required to prepare certified financial statements or file financial statements with certain regulatory or governmental agencies. Furthermore, it does not address (i) alternative minimum tax consequences, (ii) the net investment income tax imposed under Section 1411 of the Code, or (iii) the indirect effects on persons who hold equity interests in a holder. This summary also does not consider the taxation of the 2022A Taxable Bonds under state, local or non-U.S. tax laws. In addition, this summary generally is limited to U.S. tax considerations applicable to investors that acquire their 2022A Taxable Bonds pursuant to this offering for the issue price that is applicable to such 2022A Taxable Bonds (i.e., the price at which a substantial amount of the 2022A Taxable Bonds are sold to the public) and who will hold their 2022A Taxable Bonds as "capital assets" within the meaning of Section 1221 of the Code.

As used herein, "U.S. Holder" means a beneficial owner of a 2022A Taxable Bond that for U.S. federal income tax purposes is an individual citizen or resident of the United States, a corporation or other entity taxable as a corporation created or organized in or under the laws of the United States or any state thereof (including the District of Columbia), an estate the income of which is subject to U.S. federal income taxation regardless of its source or a trust where a court within the United States is able to exercise primary supervision over the administration of the trust and one or more United States persons (as defined in the Code) have the authority to control all substantial decisions of the trust (or a trust that has made a valid election under U.S. Treasury Regulations to be treated as a domestic trust). As used herein, "Non-U.S. Holder" generally means a beneficial owner of a 2022A Taxable Bond (other than a partnership) that is not a U.S. Holder. If a partnership holds 2022A Taxable Bonds, the tax treatment of such partnership or a partner in such partnership generally will depend upon the status of the partner and upon the activities of the partnership. Partnerships holding 2022A Taxable Bonds, and partners in such partnerships, should consult their own tax advisors regarding the tax consequences of an investment in the 2022A Taxable Bonds (including their status as U.S. Holders or Non-U.S. Holders).

Prospective investors should consult their own tax advisors in determining the U.S. federal, state, local or non-U.S. tax consequences to them from the purchase, ownership and disposition of the 2022A Taxable Bonds in light of their particular circumstances.

U.S. Holders

Interest. Interest on the 2022A Taxable Bonds generally will be taxable to a U.S. Holder as ordinary interest income at the time such amounts are accrued or received, in accordance with the U.S. Holder's method of accounting for U.S. federal income tax purposes.

To the extent that the issue price of any maturity of the 2022A Taxable Bonds is less than the amount to be paid at maturity of such 2022A Taxable Bonds (excluding amounts stated to be interest and payable at least annually over the term of such 2022A Taxable Bonds) by more than a de minimis amount, the difference may constitute original issue discount ("OID"). U.S. Holders of 2022A Taxable Bonds will be required to include OID in income for U.S. federal income tax purposes as it accrues, in accordance with a constant yield method based on a compounding of interest (which may be before the receipt of cash payments attributable to such income). Under this method, U.S. Holders generally will be required to include in income increasingly greater amounts of OID in successive accrual periods.

2022A Taxable Bonds purchased for an amount in excess of the principal amount payable at maturity (or, in some cases, at their earlier call date) will be treated as issued at a premium. A U.S. Holder of a 2022A Taxable Bond issued at a premium may make an election, applicable to all debt securities purchased at a premium by such U.S. Holder, to amortize such premium, using a constant yield method over the term of such 2022A Taxable Bond.

Sale or Other Taxable Disposition of the 2022A Taxable Bonds. Unless a nonrecognition provision of the Code applies, the sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition of a 2022A Taxable Bond will be a taxable event for U.S. federal income tax purposes. In such event, in general, a U.S. Holder of a 2022A Taxable Bond will recognize gain or loss equal to the difference between (i) the amount of cash plus the fair market value of property received (except to the extent attributable to accrued but unpaid interest on the 2022A Taxable Bond, which will be taxed in the manner described above) and (ii) the U.S. Holder's adjusted U.S. federal income tax basis in the 2022A Taxable Bond (generally, the purchase price paid by the U.S. Holder for the 2022A Taxable Bond, decreased by any amortized premium, and increased by the amount of any OID previously included in income by such U.S. Holder with respect to such 2022A Taxable Bond). Any such gain or loss generally will be capital gain or loss. In the case of a non-corporate U.S. Holder of the 2022A Taxable Bonds, the maximum marginal U.S. federal income tax rate applicable to any such gain will be lower than the maximum marginal U.S. federal income tax rate applicable to ordinary income if such U.S. holder's holding period for the 2022A Taxable Bonds exceeds one year. The deductibility of capital losses is subject to limitations.

Defeasance of the 2022A Taxable Bonds. If the City defeases any 2022A Taxable Bond, the 2022A Taxable Bond may be deemed to be retired for U.S. federal income tax purposes as a result of the defeasance. In that event, in general, a holder will recognize taxable gain or loss equal to the difference between (i) the amount realized from the deemed sale, exchange or retirement (less any accrued qualified stated interest which will be taxable as such) and (ii) the holder's adjusted U.S. federal income tax basis in the 2022A Taxable Bond.

Information Reporting and Backup Withholding. Payments on the 2022A Taxable Bonds generally will be subject to U.S. information reporting and possibly to "backup withholding." Under Section 3406 of the Code and applicable U.S. Treasury Regulations issued thereunder, a non-corporate U.S. Holder of the 2022A Taxable Bonds may be subject to backup withholding at the current rate of 24% with respect to "reportable payments," which include interest paid on the 2022A Taxable Bonds and the gross proceeds of a sale, exchange, redemption, retirement or other disposition of the 2022A Taxable Bonds. The payor will be required to deduct and withhold the prescribed amounts if (i) the payee fails to furnish a U.S. taxpayer identification number ("TIN") to the payor in the manner required, (ii) the IRS notifies the payor that the TIN furnished by the payee is incorrect, (iii) there has been a "notified payee underreporting" described in Section 3406(c) of the Code or (iv) the payee fails to certify under penalty of perjury that the payee is not subject to withholding under Section 3406(a)(1)(C) of the Code. Amounts withheld under the backup withholding rules may be refunded or credited against the U.S. Holder's federal income tax liability, if any, provided that the required information is timely furnished to the IRS. Certain U.S. holders (including among others, corporations and certain tax-exempt organizations) are not subject to backup withholding. A holder's failure to comply with the backup withholding rules may result in the imposition of penalties by the IRS.

Non-U.S. Holders

Interest. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders," payments of principal of, and interest on, any 2022A Taxable Bond to a Non-U.S. Holder, other than (1) a controlled foreign corporation described in Section 881(c)(3)(C) of the Code, and (2) a bank which acquires such 2022A Taxable Bond in consideration of an extension of credit made pursuant to a loan agreement entered into in the ordinary course of business, will not be subject to any U.S. federal withholding tax provided that the beneficial owner of the 2022A Taxable Bond provides a certification completed in compliance with applicable statutory and regulatory requirements, which requirements are discussed below under the heading "Information Reporting and Backup Withholding," or an exemption is otherwise established.

Disposition of the 2022A Taxable Bonds. Subject to the discussions below under the headings "Information Reporting and Backup Withholding" and "Foreign Account Tax Compliance Act ("FATCA,")—U.S. Holders and Non-U.S. Holders," any gain realized by a Non-U.S. Holder upon the sale, exchange, redemption, retirement (including pursuant to an offer by the City or a deemed retirement due to defeasance of the 2022A Taxable Bond) or other disposition of a 2022A Taxable Bond generally will not be subject to U.S. federal income tax, unless (i) such gain is effectively connected with the conduct by such Non-U.S. Holder of a trade or business within the United States; or (ii) in the case of any gain realized by an individual Non-U.S. Holder, such holder is present in the United States for 183 days or more in the taxable year of such sale, exchange, redemption, retirement (including pursuant to an offer by the City) or other disposition and certain other conditions are met.

Information Reporting and Backup Withholding. Subject to the discussion below under the heading "Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders," under current U.S. Treasury Regulations, payments of principal and interest on any 2022A Taxable Bonds to a holder that is not a United States person will not be subject to any backup withholding tax requirements if the beneficial owner of the 2022A Taxable Bond or a financial institution holding the 2022A Taxable Bond on behalf of the beneficial owner in the ordinary course of its trade or business provides an appropriate certification to the payor and the payor does not have actual knowledge that the certification is false. If a beneficial owner provides the certification, the certification must give the name and address of such owner, state that such owner is not a United States person, or, in the case of an individual, that such owner is neither a citizen nor a resident of the United States, and the owner must sign the certificate under penalties of perjury. The current backup withholding tax rate is 24%.

Foreign Account Tax Compliance Act ("FATCA")—U.S. Holders and Non-U.S. Holders

Sections 1471 through 1474 of the Code impose a 30% withholding tax on certain types of payments made to foreign financial institutions, unless the foreign financial institution enters into an agreement with the U.S. Treasury to, among other things, undertake to identify accounts held by certain U.S. persons or U.S.-owned entities, annually report certain information about such accounts, and withhold 30% on payments to account holders whose actions prevent it from complying with these and other reporting requirements, or unless the foreign financial institution is otherwise exempt from those requirements. In addition, FATCA imposes a 30% withholding tax on the same types of payments to a non-financial foreign entity unless the entity certifies that it does not have any substantial U.S. owners or the entity furnishes identifying information regarding each substantial U.S. owner. Under current guidance, failure to comply with the additional certification, information reporting and other specified requirements imposed under FATCA could result in the 30% withholding tax being imposed on payments of interest on the Bonds. In general, withholding under FATCA currently applies to payments of U.S. source interest (including OID) and, under current guidance, will apply to certain "passthru" payments no earlier than the date that is two years after publication of final U.S. Treasury Regulations defining the term "foreign passthru payments." Prospective investors should consult their own tax advisors regarding FATCA and its effect on them.

The foregoing summary is included herein for general information only and does not discuss all aspects of U.S. federal taxation that may be relevant to a particular holder of 2022A Taxable Bonds in light of the holder's particular circumstances and income tax situation. Prospective investors are urged to consult their own tax advisors as to any tax consequences to them from the purchase, ownership and disposition of 2022A Taxable Bonds, including the application and effect of state, local, non-U.S., and other tax laws.

RATINGS

The Bonds have been rated "AA" by S&P Global Ratings ("S&P") by virtue of a bond insurance policy issued by BAM. The Bonds have been rated "A+" by Fitch Ratings ("Fitch") and "A-" by S&P without regard to credit enhancement. The City's underlying rating is (without regard to credit enhancement) "A+" by Fitch (outlook negative) and "A-" by S&P (outlook stable), respectively. Moody's Investors Service, Inc. ("Moody's") has assigned an underlying rating (without regard to credit enhancement) on certain of the City's currently outstanding Previously Issued Senior Lien Obligations of "A2" (outlook stable). Moody's was not requested to provide a rating on the Bonds.

An explanation of the significance of such ratings may be obtained from the companies furnishing the ratings. The ratings reflect only the views of such organizations, and the City makes no representation as to the appropriateness of the ratings. There is no assurance that such ratings will continue for any given period of time or that they will not be revised downward or withdrawn entirely by such rating companies, if in the judgment of either or both companies, circumstances so warrant. Any such downward revision or withdrawal of such ratings may have an adverse effect on the market price of the Bonds. A securities rating is not a recommendation to buy, sell or hold securities and may be subject to revision or withdrawal at any time.

UNDERWRITING

The Underwriters have agreed, subject to certain conditions, to purchase the 2022 Bonds from the City at an underwriting discount of $109,121.60 from the initial offering prices for the 2022 Bonds and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the 2022 Bonds if any 2022 Bonds are purchased. The 2022 Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have agreed, subject to certain conditions, to purchase the 2022A Taxable Bonds from the City at an underwriting discount of $226,348.65 from the initial offering prices for the 2022A Taxable Bonds and no accrued interest. The Underwriters' obligation is subject to certain conditions precedent. The Underwriters will be obligated to purchase all of the 2022A Taxable Bonds if any 2022A Taxable Bonds are purchased. The 2022A Taxable Bonds may be offered and sold to certain dealers and others at prices lower than such offering prices, and such public prices may be changed, from time to time, by the Underwriters.

The Underwriters have provided the following sentence for inclusion in this Official Statement. The Underwriters have reviewed the information in this Official Statement in accordance with their 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.

The Underwriters and their respective affiliates are full service financial institutions engaged in various activities, which may include sales and trading, commercial and investment banking, advisory, investment management, investment research, principal investment, hedging, market making, brokerage and other financial and non-financial activities and services. Certain of the Underwriters and their respective affiliates have provided, and may in the future provide, a variety of these services to the issuer and to persons and entities with relationships with the issuer, for which they received or will receive customary fees and expenses.

In the ordinary course of their various business activities, the Underwriters and their respective affiliates, officers, directors and employees may purchase, sell or hold a broad array of investments and actively trade securities, derivatives, loans, commodities, currencies, credit default swaps and other financial instruments for their own account and for the accounts of their customers, and such investment and trading activities may involve or relate to assets, securities and/or instruments of the issuer (directly, as collateral securing other obligations or otherwise) and/or persons and entities with relationships with the issuer. The Underwriters and their respective affiliates may also communicate independent investment recommendations, market color or trading ideas and/or publish or express independent research views in respect of such assets, securities or instruments and may at any time hold, or recommend to clients that they should acquire, long and/or short positions in such assets, securities and instruments.

Certain of the Underwriters have entered into distribution agreements with other broker-dealers (that have not been designated by the City as Underwriters) for the distribution of the Bonds at the original issue prices. Such agreements generally provide that the relevant Underwriters will share a portion of its underwriting compensation or selling concession with such broker-dealers.

OTHER INFORMATION

LITIGATION

It is the opinion of the City Attorney, the Board's staff, Special Counsel, and Local Counsel to the Board that there is no pending or threatened litigation against the Board or the System which can reasonably be expected to have a material adverse effect on the financial condition or prospects of the City or the System.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

The sale of the Bonds has not been registered under the federal Securities Act of 1933, as amended, in reliance upon the exemption provided thereunder by Section 3(a)(2); and the Bonds have not been qualified under the Securities Act of Texas in reliance upon various exemptions contained therein; nor have the Bonds been qualified under the securities acts of any jurisdiction. The City assumes no responsibility for qualification of the Bonds under the securities laws of any jurisdiction in which the Bonds may be sold, assigned, pledged, hypothecated or otherwise transferred. This disclaimer of responsibility for 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 provisions.

LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code) provides that the Bonds are negotiable instruments governed by Chapter 8, Texas Business and Commerce Code, and are legal and authorized investments for insurance companies, fiduciaries, and trustees, and for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the Public Funds Investment Act (Chapter 2256, Texas Government Code), requires that the Bonds be assigned a rating of at least "A" or its equivalent as to investment quality by a national rating agency (see "RATINGS" herein). In addition, various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value.

No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. The City has made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

CONTINUING DISCLOSURE OF INFORMATION

In the Ordinance, the City has made the following agreement for the benefit of the holders and beneficial owners of the Bonds. The City is required to observe the agreement for so long as it remains obligated to advance funds to pay the Bonds. Under the agreement, the City 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"). The information provided to the MSRB will be available to the public free of charge via the Electronic Municipal Market Access ("EMMA") system through an internet website accessible at www.emma.msrb.org as described in this subsection under "Availability of Information."

Annual Reports. Under Texas law, including, but not limited to, Chapter 103, as amended, Texas Local Government Code, the City must keep its fiscal records in accordance with generally accepted accounting principles, must have its financial accounts and records audited by a certified public accountant and must maintain each audit report within 120 days after the close of the City's fiscal year. The City's fiscal records and audit reports are available for public inspection during the regular business hours, and the City is required to provide a copy of the City's audit reports to any bondholder or other member of the public within a reasonable time on request upon payment of charges prescribed by the Texas General Services Commission.

The City will file certain updated financial information and operating data to the MSRB annually. The information to be updated includes all quantitative financial information and operating data with respect to the City of the general type included in Tables 1, 2, and 4 through 12 and in Appendix B to this Official Statement. The City will update and provide this information within six months after the end of each fiscal year. The City will provide the updated information to the MSRB in an electronic format, which will be available through EMMA to the general public without charge.

The City may provide updated information in full text or may incorporate by reference certain other publicly available documents, as permitted by Rule 15c2-12 (the "Rule") of the United States Securities and Exchange Commission (the "SEC"). The updated information will include audited financial statements, if the City commissions an audit and it is completed by the required time. If audited financial statements are not available by the required time, the City will provide unaudited financial statements by the required time, and will provide 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, the Ordinance or such other accounting principles as the City may be required to employ from time to time pursuant to state law or regulation.

The City's current fiscal year end is September 30. Accordingly, it must provide updated information by March 31 of the following year, unless the City changes its fiscal year. If the City changes its fiscal year, it will file notice of such change with the MSRB through EMMA.

Notice of Certain Events. The City will also provide timely notices of certain events to the MSRB. The City will provide notice of any of the following events with respect to the Bonds to the MSRB in a timely manner (but not in excess of ten 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 holders 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 City, which shall occur as described below; (13) the consummation of a merger, consolidation, or acquisition involving the City or the sale of all or substantially all of its assets, other than in the ordinary course of business, the entry into of a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; (14) appointment of a successor or additional trustee or the change of name of a trustee, if material; (15) incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and (16) default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties. In addition, the City will provide timely notice of any failure by the City to provide annual financial information in accordance with their agreement described above under "ANNUAL REPORTS." For these purposes, any event described in (12) in the immediately preceding paragraph is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the City 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 City, 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 City. Additionally, the City intends the words used in the immediately preceding paragraphs (15) and (16) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in Rule 15c2-12, as evidenced by SEC Release No. 34-83885, dated August 20, 2018 (the "2018 Release") and any further written guidance provided by the SEC or its staff with respect to the amendments to Rule 15c2-12 effected by the 2018 Release. In addition, the City has agreed to provide notice of any failure and to timely provide annual financial information in accordance with the agreement described above under the heading - "ANNUAL REPORTS." The City will provide each notice described in this paragraph to the MSRB.

Availability of Information. Effective July 1, 2009 (the "EMMA Effective Date"), the SEC implemented amendments to the Rule which approved the establishment by the MSRB of EMMA, which is now the sole successor to the national municipal securities information repositories with respect to filings made in connection with undertakings made under the Rule after the EMMA Effective Date. Commencing with the EMMA Effective Date, all information and documentation filing required to be made by the City in accordance with its undertaking made for the Bonds will be made with the MSRB in electronic format in accordance with MSRB guidelines. Access to such filings will be provided, without charge to the general public by the MSRB.

With respect to debt of the City issued prior to the EMMA Effective Date, the City remains obligated to make annual required filings, as well as notices of material events, under its continuing disclosure obligations relating to those debt obligations (which includes a continuing obligation to make such filings with the Texas state information depository (the "SID")). Prior to the EMMA Effective Date, the Municipal Advisory Council of Texas (the "MAC") had been designated by the State and approved by the SEC staff as a qualified SID. Subsequent to the EMMA Effective Date, the MAC entered into a Subscription Agreement with the MSRB pursuant to which the MSRB makes available to the MAC, in electronic format, all Texas-issuer continuing disclosure documents and related information posted to EMMA's website simultaneously with such posting. Until the City receives notice of a change in this contractual agreement between the MAC and EMMA or of a failure of either party to perform as specified thereunder, the City has determined, in reliance on guidance from the MAC, that making its continuing disclosure filings solely with the MSRB will satisfy its obligations to make filings with the SID pursuant to its continuing disclosure agreements entered into prior to the EMMA Effective Date.

Limitations and Amendments. The City has agreed to update information and to provide notices of material events only as described above. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided, except as described above. The City 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 City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of its continuing disclosure agreement or from any statement made pursuant to its agreement, although holders or registered owners of Bonds may seek a writ of mandamus to compel the City to comply with its agreement.

The City may amend its continuing disclosure agreement to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the City, if the agreement, as amended, would have permitted an underwriter to purchase or sell Bonds in the offering described herein in compliance with the Rule and either the holders of a majority in aggregate principal amount of the outstanding Bonds consent or any person unaffiliated with the City (such as nationally recognized bond counsel) determines that the amendment will not materially impair the interests of the holders or beneficial owners of the Bonds. If the City 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. The City may also amend or repeal the provisions of this continuing disclosure agreement if the

SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds, respectively, in the primary offering of the Bonds.

Compliance with Prior Undertakings. In connection with the issuance of the City's utility system revenue bonds such as the Bonds, the Board has undertaken the responsibility to comply with the City's continuing disclosure agreements under the Rule. However, the Board has not undertaken the responsibility to fulfill the City's continuing disclosure obligations under the Rule related to debt secured with revenues other than the City's utility system revenue. Additionally, the Board has undertaken the responsibility to comply with certain continuing disclosure obligations under the Rule in connection with bonds issued by the Southmost Regional Water Authority.

During the last five years, the City has complied materially with all continuing disclosure agreements made by it in accordance with the Rule, except for an untimely filing on November 24, 2020 with respect to a private placement loan, Combination Tax and Revenue Certificates of Obligation, Series 2020, placed with the Texas Water Development Board. The City has modified its prior continuing disclosure practices and believes that is has implemented procedures that will help to ensure that filings in the future are made appropriately in compliance with its continuing disclosure undertakings.

LEGAL MATTERS

The delivery of the Bonds is subject to the approval of the Attorney General of Texas to the effect that the Bonds are valid and legally binding special obligations of the City payable from a lien on and pledge of the Net Revenues of the System, and the approving legal opinion of Orrick, Herrington & Sutcliffe LLP, Bond Counsel to the City ("Bond Counsel"), to like effect and to the effect that the interest on the Bonds will be excludable from gross income for federal income tax purposes, subject to the matters described under "TAX MATTERS" herein. The Form of Legal Opinion of Bond Counsel is attached hereto as Appendix C. The legal fee to be paid Bond Counsel for services rendered in connection with the issuance of the Bonds is contingent upon the sale and delivery of the Bonds. Certain legal matters will be passed upon for the City by the City Attorney, for the Board by Davidson Troilo Ream & Garza, P.C., San Antonio, Texas, as special counsel to the Board, and for the Underwriters by their counsel, McCall, Parkhurst & Horton L.L.P., San Antonio, Texas. The fees of counsel to the Underwriters are contingent upon the sale and delivery of the Bonds.

Though they represent the Underwriters from time to time in matters unrelated to the issuance of the Bonds, Bond Counsel has been engaged by the Board and only represents the Board and the City in connection with the issuance of the Bonds. Except as noted below, Bond Counsel was not requested to participate, and did not take part in the preparation of this Official Statement, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained herein except that in its capacity as Bond Counsel, such firm has reviewed the information appearing under captions or sub captions "THE BONDS" (except for the information contained in the sub captions "Perfection of Security Interest for the Bonds," "Book-Entry-Only System," and "Bondholders' Remedies," as to which no opinion is expressed), "TAX MATTERS," "OTHER INFORMATION – Legal Investments and Eligibility to Secure Public Funds in Texas," "OTHER INFORMATION – Registration and Qualification of Bonds for Sale," "OTHER INFORMATION – Continuing Disclosure of Information" (except for the information contained in the sub caption "Compliance with Prior Undertakings," as to which no opinion is expressed), and "Appendix D – Selected Provisions from the Bond Ordinance," and such firm is of the opinion that the information relating to the Bonds and the Ordinance contained under such captions is a fair and accurate summary of the information purported to be shown and that the information and descriptions contained under such captions relating to the provisions of applicable state and federal laws are correct as to matters of law.

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

AUTHENTICITY OF FINANCIAL DATA AND OTHER INFORMATION

The financial data and other information contained herein have been obtained from City records, audited financial statements and other sources which are believed to be reliable. There is no guarantee that any of the assumptions or estimates contained herein will be realized. All of the summaries of the statutes, documents and ordinances contained in this Official Statement are made subject to all of the provisions of such statutes, documents and ordinances. These summaries do not purport to be complete statements of such provisions, and reference is made to such documents for further information. Reference is made to original documents in all respects.

FINANCIAL ADVISOR

Estrada Hinojosa & Company, Inc. is employed as Financial Advisor to the City and the Board in connection with the issuance of the Bonds. The Financial Advisor's fee for services rendered with respect to the sale of the Bonds is contingent upon the issuance and delivery of the Bonds. Estrada Hinojosa & Company, Inc., in its capacity as Financial Advisor, has relied on the opinion of Bond Counsel and has not verified and does not assume any responsibility for the information, covenants, and representations contained in any of the legal documents with respect to the federal income tax status of the Bonds, or the possible impact of any present, pending or future actions taken by any legislative or judicial bodies.

The Financial Advisor has provided the following sentence for inclusion in this Official Statement. The Financial Advisor has reviewed the information in this Official Statement in accordance with its responsibilities to the City and the Board 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.

FORWARD LOOKING STATEMENTS

The statements contained in this Official Statement, and in any other information provided by the City or the Board, that are not purely historical, are forward-looking statements, including statements regarding the City's and the Board's expectations, projections, estimates, hopes, intentions, or strategies regarding the future. All forward looking statements included in this Official Statement are based on information available to the City or the Board on the date hereof, and the City or the Board assume no obligation to update any such forward-looking statements. It is important to note that actual results could differ materially from those predicted or forecasted in such forward-looking statements.

The forward-looking statements herein are necessarily based on various assumptions and estimates and are inherently subject to various risks and uncertainties, including risks and uncertainties relating to the possible invalidity of the underlying assumptions and estimates and possible changes or developments in social, economic, business, industry, market, legal and regulatory circumstances and conditions and actions taken or omitted to be taken by third parties, including customers, suppliers, business partners and competitors, and legislative, judicial and other governmental authorities and officials. Assumptions related to the foregoing involve judgments with respect to, among other things, future economic, competitive, and market conditions and future business decisions, all of which are difficult or impossible to predict accurately and many of which are beyond the control of the City or the Board. Any of such assumptions could be inaccurate and, therefore, there can be no assurance that the forward-looking statements included in this Official Statement will prove to be accurate.

LINKS TO INTERNET WEBSITES

Except for specific references attributable to the Board, all expressions of opinion, summaries of events and statistical information contained in any web site referenced in this Official Statement are provided for general information purposes, and the Board does not take responsibility for the content of any other information presented on such web sites.

APPROVAL OF OFFICIAL STATEMENT

The City Commission of the City has approved the form and content of this Official Statement, and authorized its further use by the Underwriters in the offering of the Bonds.

CITY OF BROWNSVILLE, TEXAS

By: /s/ Juan "Trey" Mendez III
Mayor

BROWNSVILLE PUBLIC UTILITIES BOARD
OF THE CITY OF BROWNSVILLE, TEXAS

By: /s/ John S. Bruciak, P.E.
General Manager and Chief Executive Officer

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SCHEDULE I

SCHEDULE OF REFUNDED OBLIGATIONS

City of Brownsville, Texas
Commercial Paper Notes
Dealer: Citi

Issue Date	Maturity Date	Principal Amount	Interest Amount	Interest %	Mode
5-31-2022	6-10-2022	$18,000,000	$4,191.78	0.85%	Tax-Exempt
5-31-2022	6-10-2022	35,000,000	9,109.59	0.95%	Taxable
		$53,000,000	$13,301.37		

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Appendix A
GENERAL INFORMATION REGARDING THE CITY

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THE CITY

The City of Brownsville (the "City") is a political subdivision of the State of Texas operating as a home-rule city and is the county seat of Cameron County. It is the southernmost city in Texas and the largest city in the lower Rio Grande Valley. The City is located about 25 miles inland from the Gulf of Mexico on the north bank of the Rio Grande directly across from Matamoros, Mexico, which it joins by three international bridges. The City serves as a trade center for much of the lower Rio Grande Valley.

PRIMARY EMPLOYERS (1)

Name	Classification	Employees
Brownsville ISD	Education	6,553
UT Rio Grande Valley	Education	1,830
Cameron County	Government	1,775
Caring For You Home Health	Medical Healthcare	1,300
City of Brownsville	Government	1,147
H.E.B. Food Stores	Retail	1,113
Abundant Life Home Health	Medical Healthcare	1,011
Valley Baptist Medical Center	Medical	841
Wal-Mart	Retail	801
Valley Regional Medical Center	Medical Healthcare	700

Source: Municipal Advisory Council of Texas
(1) As of September 30, 2020.

TRANSPORTATION

The City is the only location on the U.S./Mexican border offering all modes of transportation including highway, air, railroad and shipping. The City is the terminus of U.S. Highway 77, 83, and 281. Three International Bridges, B & M, a privately owned bridge, Veterans' Bridge at Los Tomates, and Gateway International, owned by Cameron County, connect the City with Matamoros, Mexico. A third bridge has been completed. Several bus companies including Greyhound Bus Line and Valley Transit, and motor freight carriers also serve the area. Two international airports are within a 30-mile area, including the Brownsville/South Padre Island International Airport, which now services international flights through Continental Airlines, and the Valley International Airport serviced by Southwest, Continental and American Eagle. Air cargo is provided by Emery Worldwide and Burlington Air Express.

Railroad needs are met by Union Pacific and Ferrocarriles Nacionales de Mexico. Shipping is provided through the Port of Brownsville.

TOURISM

Tourism is one of the area's biggest industries. The City ranks among the top five cities in Texas for long and short term stays, with the Rio Grande Valley as the number one area in the State of Texas as a destination point for automobile tourist traffic entering Texas. The Brownsville area has 34 hotels and motels with 1,690 rooms and two country clubs. Vacationers are attracted by subtropical climate, proximity to Mexico and access to South Padre Island. In addition to a rich historical past, Brownsville has one of the finest zoos in the nation, the Gladys Porter Zoo, donated by the Sam's Foundation. Also the Laguna-Atascosa Wildlife Refuge, Confederate Airforce Flying Museum and the Port Isabel Lighthouse are open for tourists.

Source: The City of Brownsville.

BRIDGE BORDER TRAFFIC

Gateway Bridge Border Traffic at Brownsville			Veteran's Bridge Border Traffic at Brownsville		
Fiscal Year Ended	Vehicles (1)	Pedestrians (1)	Fiscal Year Ended	Vehicles (1)	Pedestrians (1)
2012	1,371,493	1,750,139	2012	1,212,284	579
2013	1,454,083	1,793,623	2013	1,041,917	325
2014	1,330,974	1,843,231	2014	1,198,306	680
2015	1,334,443	1,959,648	2015	1,313,545	944
2016	1,300,963	2,028,000	2016	1,433,830	978
2017	1,367,316	2,185,403	2017	1,547,673	913
2018	1,349,115	2,258,090	2018	1,789,396	1,248
2019	1,247,467	2,311,480	2019	1,714,485	1,815
2020	946,364	1,483,643	2020	1,334,714	1,869
2021	935,870 (2)	941,271 (2)	2021	1,121,015 (2)	2,247 (2)

(1) These figures include people crossing from Brownsville to Matamoros, Mexico only.
(2) Estimates through September 2021.

"IN-BOND" INDUSTRIALIZATION PROGRAM

The two cities, Brownsville, Texas, U.S.A. and H. Matamoros, Tamps., Mexico have established over the past twenty-five years the "In-Bond" Industrialization or "Maquiladora" program. This program allows the assembly of labor intensive products at advantageous costs; thus, allowing North American products to be more competitive on a world-wide basis. Since its inception in 1966, the "In-Bond" program has grown to an estimated 108 companies, expanding to a total of 4,300,000 square feet of manufacturing space, and employing approximately 52,000 people.

Brownsville gains greatly from these operations since all of the Mexican plants have offices, warehouses, or twin plants on the U.S. side; U.S. management and technical personnel live in Brownsville; goods and services are purchased in Brownsville for use in the Matamoros facilities.

EDUCATION

The City is encompassed by the Brownsville Independent School District. The District is currently comprised of 37 elementary schools, seven high schools, 11 middle schools, and three alternative schools.

In addition to the public schools, there are several private schools ranging from kindergarten through high school available in the City. St. Joseph's Academy, its most prominent parochial school, provides education from 7th to 12th grades.

SECONDARY EDUCATION

The University of Texas Rio Grande Valley was created by the Texas Legislature in 2013 after combining the resource and assets of the UT Brownsville campus and UT Pan American located approximately 60 miles from Brownsville in Edinburg, Texas.

Within the City of Brownsville is Texas Southmost College. The College formally opened on September 28, 1926 with the Southmost Union Junior College District being created in November 1949, separating the college from the public schools. The College is a two-year comprehensive community college with boundaries encompassing all of the Brownsville, Point Isabel and Los Fresnos Independent School Districts and part of the San Benito Independent School District.

Texas State Technical Institute, located in Harlingen (25 miles from the City), is a vocational/technical school that offers a full curriculum of programs. An industrial start-up program implemented through TSTI, is designed to reduce the start-up training costs of new and expanding industries. The Institute's administration actively works with representatives of companies who have specific labor training needs in order to design training courses which meet the requirements of each company.

MEDICAL FACILITIES

The Valley Baptist Medical Center (243 beds) and the Valley Regional Medical Center (214 beds) are accredited by the Joint Commission on Accreditation of Health Care Institutions. Both hospitals offer full emergency room facilities, lab work facilities, and the latest heart and radiology equipment. Several bacteriological, clinical, and medical laboratories are also available. The City has several nursing homes and is a member of the Texas Visiting Nurse Services, Inc., with complete nurse service and medical supplies.

BUILDING PERMITS (CITY OF BROWNSVILLE)

Fiscal Year	New Residential	Total Value	New Commercial	Total Value
2012	639	$ 59,659,088	79	$ 38,984,883
2013	496	50,186,757	77	67,686,288
2014	599	54,102,527	74	75,986,058
2015	504	68,822,317	94	52,531,425
2016	496	46,162,399	54	48,699,936
2017	506	48,736,975	56	26,354,137
2018	596	56,516,702	45	57,491,091
2019	643	58,691,377	67	108,901,822 (1)
2020	737	56,459,341	58	42,309,341
2021	903	71,772,700	43	45,361,170 (2)

Source: City of Brownsville
(1) Includes Airport Terminal valued at $45 million
(2) Through September 2021

THE PORT OF BROWNSVILLE

The Port of Brownsville is not liable in any way on the Bonds and the information contained herein is solely for background information concerning the area.

LOCATION . . . The Port is the southernmost port in Texas and the western terminus of the Gulf Intracoastal Waterway System. The Port, a man-made basin 3,500 feet by 1,200 feet, three miles north of the Rio Grande and the Mexican border, five miles east of the City of Brownsville, and seven miles from the rail and highway border crossing. The Port is connected with the Gulf of Mexico by a 17-mile long ship channel. Entrance from the Gulf of Mexico is at Brazos-Santiago Pass (Latitude 26 degrees 04 mins. North; Longitude 97 degrees 08 mins. 30 sec. West).

CHANNELS . . . The Entrance Channel is protected by two rock jetties each over 5,000 feet in length and 1,200 feet apart. The 17-mile ship channel has no bridges or other obstructions for the entire length of this virtually straight waterway. Currently the channel has a depth of 42 feet to within .85 mile of the Turning Basin, and a depth of 36 feet to and through the Turning Basin. The channel has a controlling (or minimum) width of 250 feet. The Turning Basin has a width of 1,200 feet.

HARBOR FACILITIES . . . The Main Harbor consists of the Turning Basin and Approach, containing over five miles of improved frontage. The Turning Basin is 3,500 feet long and 1,200 feet wide and contains ten General Cargo Docks aggregating 5,200 lineal feet plus a 30-foot small craft dock. Four Oil Docks, a 400 foot Bulk Cargo Dock serving the Grain Elevator and Bulk Plant, a Liquid Cargo Dock, an Express Dock and the newly completed 600 foot by 280 foot General Cargo Dock are located in the Turning Basin Approach which is 7,000 feet long with a 650 foot bank width and a 500 foot controlling bottom width. A privately-owned 3,750,000 bu. capacity grain elevator as well as corrugated iron sprinklered cargo transfer sheds; open, surfaces storage yards; 41 miles of railroad trackage and mechanical freight handling equipment augment the Port's ability to handle a wide variety of cargos.

A complete new, modern shrimp and Fishing Harbor, separate and apart from the Main Harbor, was completed and placed in service in mid-summer 1953. A second phase was finished in December, 1968. All docks were completely rebuilt in a project that was completed in 1993. Located four miles east of the main Turning Basin, with a protected entrance to the Ship Channel, this basin measures 2,100 feet by 1,600 feet overall with two 300 feet by 1,200 foot peninsulas in the center. The channel connecting with the Ship Channel is 200 feet wide and 600 feet long. Controlling depth in the Fishing Harbor is 14 feet. This basin provides 12,000 lineal feet of dock space for trawlers, tugs, and other small craft and is equipped with all necessary facilities for handling and processing fish and shrimp, as well as maintaining and servicing shrimp vessels. More than 200 shrimp trawlers are home-ported at the Fishing Harbor, more than double that number of foreign trawlers call regularly for repairs, fuel and stores.

TERMINAL OPERATIONS . . . All waterfront facilities on the Brownsville Ship Channel, at the Main Harbor and the Fishing Harbor, are owned by the Brownsville Navigation District (the "District"). Certain small craft facilities are leased to private operators, but all deep-water facilities at the Main Harbor are operated as public facilities. Vessels and agents are assigned berths at the discretion of the District. Vessel loading and discharge is performed by stevedoring contractors. Rail car and truck loading and unloading is customarily performed by stevedoring contractors.

Around-the-clock supervision of vessels and vehicle traffic at the Port is provided by the District. The Harbormaster's Office schedules vessel arrivals and departures, maintains radio contact with the pilot boat of the Brazos-Santiago Pilots' Association and provides up-to-the-minute information on schedules useful to agents, stevedores, tugboats, line-runners and the general public. Vessels can call on Channel 16 twenty-four hours a day.

All General Cargo Sheds, except Shed No. 2, are protected with automatic fire sprinkler systems, hose stations, and fire extinguishers suitable for the type of cargo normally handled through the particular shed. Fire hydrants are located on wharf aprons and throughout the Port's storage facilities. Water supply is from a 16-inch main connecting with the City of Brownsville Public Utilities Board's distribution system. Storage capacity and pressure equalization are provided by one 500,000 gallon and one 1,000,000 gallon elevated water storage tank. Around-the-clock guard service is provided to all general cargo facilities.

The District's Administration Offices are located at the Port. These offices handle inquiries on trade and industrial development, environmental issues, accounting, purchasing, credit, traffic, personnel, and engineering.

All docks at the Port of Brownsville are equipped with electric lights, light and power lines, and fresh water. All docks are served by rail. Wastewater and ballast facilities are available. All of the facilities are operated for hire on a first-come, first-served basis.

The dry dock Los Alamos has been signed over to the District by the Navy. It is leased at present to AMFELS for operation as a dry dock to repair drilling rigs. It was placed into service by AMFELS in May, 1996, and is now one of the few dry docks carrying out oilrig repairs.

The District owns and controls approximately 50,000 acres of land adjoining the Turning Basin and Ship Channel, and approximately 18,000 acres of this land have been developed as an industrial park with additional land available for development. In recent years over $150 million worth of industrial development has been located on Port property, including petro-chemical plants, tank farms, heavy and light manufacturing, seafood processing, steel fabrication, and a grain elevator and storage facility. Plant sites of virtually any size, with access to the deep-water harbor, rail connections, paved highways, and utilities may be rented on long-term leases at attractive prices from the District.

FOREIGN TRADE ZONE . . . On October 20, 1980, U. S. Customs created Foreign Trade Zone ("FTZ") Number 62 with the District as the Grantee and operator. There is a total of 2,680 acres available for FTZ status at the Port, the Brownsville/South Padre Island International Airport, the Harlingen Industrial Park and the NAFTA Industrial Park. The District receives fees from tenants utilizing the District's zone status. There are currently six Foreign Trade Zone tenants operating within the FTZ with general purpose warehousing and liquid bulk storage available.

CARGO TONNAGE OF THE PORT OF BROWNSVILLE

Calendar Year [(1)]	Inbound Tonnage	Outbound Tonnage	Total Tonnage	Number of Vessels	Foreign Trade Zone Traffic Value (000)[(2)]
2011	4,178,817	1,221,890	5,400,707	1,237	3,154,609
2012	4,440,890	1,092,380	5,533,270	1,083	3,868,081
2013	3,868,117	1,462,747	5,330,864	1,059	3,221,802
2014	4,865,468	1,378,157	6,243,626	1,059	2,896,317
2015	5,616,936	1,458,518	7,075,454	1,140	3,219,785
2016	5,719,732	1,235,014	6,954,746	1,091	2,796,318
2017	6,194,867	1,137,640	7,332,507	1,317	3,693,770
2018	7,204,403	1,068,820	8,273,223	1,306	3,863,908
2019	5,620,456	958,943	6,579,399	1,566	4,385,555
2020	5,736,934	1,415,384	7,152,318	1,671	3,576,401

(1) As of December 31,
(2) September fiscal year ending
Source: Brownsville Navigation District - Traffic Department

CAMERON COUNTY

Cameron County is not liable in any way on the Bonds and the information contained herein is solely for background information concerning the area.

Cameron County was created in 1848, and it is the southernmost County in Texas. According to the 2010 U.S. Census, the population of the County is 406,220, an increase of 35.97% since 1990. The area of the County is approximately 883 square miles, comprising the Brownsville-Harlingen-San Benito Metropolitan Area. The largest city in the County is Brownsville which serves as the county seat. The economy is well diversified, based on agricultural production, fishing industries, manufacturing plants and tourism. Major agricultural crops include oranges, grapefruit, cotton, grains and sugar cane. Principal manufacturing products include off-shore drilling platforms, fiberglass products, dairy products, clothing, electric equipment and frozen foods. The County is the only port of entry from Mexico that provides all four methods of transportation - sea, air, highway and rail. Tourist attractions include South Padre Island, Laguna-Atascosa Wildlife Refuge, and the Gladys Porter Zoo. The Port of Brownsville is one of the world's largest shrimp loading points and a very important link between the United States and Mexico.

The County is traversed by U.S. Highways 77, 83 and 281; State Highways 4, 48, 100, 107 and 245; and nine farm-to-market roads. Fifteen motor freight trucking firms provide service to and from Brownsville. Rail transportation is provided by Union Pacific and National Railways of Mexico. Commercial air service is provided to Brownsville by Continental Airlines; and to Harlingen by Southwest, American, and Continental Airlines. Air freight service is provided by Emery, UPS, Kitty Hawk, Casino Express, and Burlington. The Brownsville International Airport also includes an industrial park. The Port of Brownsville is the main shipping port for the Rio Grande Valley and South Texas. Port facilities include a man-made basin connected by 17 miles of channel to the Gulf of Mexico, various docking and terminal facilities, turning basin and approach, fishing harbor, warehousing and railway switching operations, worldwide shipping lines and barge transportation services.

POPULATION STATISTICS

Year	Brownsville	Cameron County
2012	178,448	414,123
2013	178,448	415,557
2014	180,097	423,868
2015	181,860	436,584
2016	183,046	420,392
2017	183,046	426,897
2018	185,848	422,135
2019	185,848	423,725
2020	185,848	427,963
2021	182,781	423,163

Source: City of Brownsville

EMPLOYMENT

	City of Brownsville			State of Texas		
	February 2022	February 2021	February 2020	February 2022	February 2021	February 2020
Civilian Labor Force	79,864	79,552	75,868	14,540,775	14,143,980	14,069,276
Total Employment	73,914	71,475	71,451	13,855,155	13,176,261	13,588,407
Total Unemployment	5,950	8,077	4,417	685,620	967,719	480,869
Percentage Unemployment	7.5%	10.2%	5.8%	4.7%	6.8%	3.4%

Source: Texas Workforce Commission

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Appendix B

EXCERPTS FROM THE
BROWNSVILLE PUBLIC UTILITIES BOARD
ANNUAL FINANCIAL REPORT
For the Year Ended September 30, 2021

The information contained in this Appendix consists of excerpts from the Brownsville Public Utilities Board Annual Financial Report for the Year Ended September 30, 2021, and is not intended to be a complete statement of the System's financial condition. Reference is made to the complete Report for further information. Baker Tilly US, LLP, our independent auditor, has not been engaged to perform and has not performed, since the date of its report included herein, any procedures on the financial statements addressed in that report. Baker Tilly US, LLP, has also not performed any procedures relating to this official statement.

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Independent Auditors' Report

To the Board of Directors of
Brownsville Public Utilities Board

Report on the Financial Statements

We have audited the accompanying financial statements of the Brownsville Public Utilities Board, a component unit of the City of Brownsville, Texas, as of and for the years ended September 30, 2021 and 2020, and the related notes to the financial statements, which collectively comprise the Brownsville Public Utilities Board'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.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audits 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 auditors' 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 over financial reporting relevant to the Brownsville Public Utilities Board'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 Brownsville Public Utilities Board'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 opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Brownsville Public Utilities Board as of September 30, 2021 and 2020, and the respective changes in financial position and cash flows thereof for the years 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 Management's Discussion and Analysis and other required supplementary 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.

Other Information

Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The introductory and statistical information as identified in the table of contents is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has not been subjected to the auditing procedures applied in the audit of the basic financial statements, and accordingly, we express no opinion or provide any assurance on it.

Other Reporting Required by Government Auditing Standards

In accordance with *Government Auditing Standards*, we have issued our report dated January 20, 2022 on our consideration of the Brownsville Public Utilities Board's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is solely to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the Brownsville Public Utilities Board internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the Brownsville Public Utilities Board's internal control over financial reporting and compliance.

Baker Tilly US, LLP

Austin, Texas
January 20, 2022

MANAGEMENT'S DISCUSSION AND ANALYSIS (Unaudited)

This section of the Public Utilities Board of the City of Brownsville, Texas' (Public Utilities Board) annual financial report presents management's analysis of its financial performance during the fiscal years that ended on September 30, 2021 and 2020. Please read it in conjunction with the financial statements that follow this section.

Overview of Annual Financial Report

The financial statements report information about the Public Utilities Board using full accrual accounting methods as utilized by similar business activities in the private sector. The financial statements include the statements of net position, the statements of revenues, expenses, and changes in net position, the statements of cash flows, and the notes to the financial statements.

The Statements of Net Position present the financial position of the Public Utilities Board on a full accrual, historical cost basis. The Statements of Net Position present information on all of the Public Utilities Board's assets and deferred outflows of resources, and liabilities and deferred inflows of resources, with the difference reported as net position. Over time, increases and decreases in net position are one indicator of whether the financial position of the Public Utilities Board is improving or deteriorating.

While the Statements of Net Position provide information about the nature and amount of resources and obligations at year-end, the Statements of Revenues, Expenses, and Changes in Net Position present the results of the business activities over the course of the fiscal year and information as to how the net position changed during the 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 the related cash flows. This statement also provides certain information about the Public Utilities Board's recovery of its costs.

The Statements of Cash Flows present changes in cash and cash equivalents, resulting from operating, non-capital financing, and capital and related financing, and investing activities. These statements present cash receipts and cash disbursement information, without consideration of the earnings event, when an obligation arises, or depreciation of capital assets.

The notes to the financial statements provide required disclosures and other information that are essential to a full understanding of material data provided in the statements. The notes present information about the Public Utilities Board's accounting policies, significant account balances and activities, material risks, obligations, commitments, contingencies and subsequent events.

Financial Analysis

The following condensed financial information and other selected information serve as the key financial data and indicators for management monitoring and planning.

Financial Condition

One of the most important questions asked about the Public Utilities Board's finances is, "Is the Public Utilities Board, as a whole, better off or worse off as a result of the year's activities?" The Statement of Net Position and the Statement of Revenues, Expenses, and Changes in Net Position report information about the Public Utilities Board's activities in a way that will help answer this question. These two statements report the net position of the Public Utilities Board and changes in them. Increases or decreases in net position over time is a useful indicator of whether the Public Utilities Board's financial health is improving or deteriorating.

The Public Utilities Board's assets plus deferred outflows of resources exceeded liabilities and deferred inflows of resources by $430.7 million at the close of fiscal year 2021. Although total net position decreased by $49.4 million or 10.3% compared to the previous fiscal year, the total net position is a good indicator of the Public Utilities

Board's overall financial health. Much of the decrease can be attributed to an increase in short-term borrowings that were necessary after Winter Storm Uri, a loss on disposition of capital assets, and a net operating loss reflected in total net position. The results of Winter Storm Uri will be discussed later in the narrative.

Net position in investment in capital assets totaled $260.9 million and $298.3 million for fiscal years 2021 and 2020, respectively. The restricted net position of $157.7 million and $153.8 million for fiscal years 2021 and 2020, respectively, is subject to external restrictions on how it may be used. The remaining balances of unrestricted net position, totaling $12.1 million and $28.0 million for fiscal years 2021 and 2020, respectively, may be used to meet the Public Utilities Board's ongoing obligations. The Public Utilities Board's changes in net position are further analyzed in Table A-1 and Table A-2.

While affordability is always a concern, the rate increases implemented will allow the Public Utilities Board to continue investing in core service areas including energy reliability, water quality, and wastewater treatment services.

Net Position

A condensed summary of the Public Utilities Board's Statements of Net Position is presented in Table A-1.

TABLE A-1

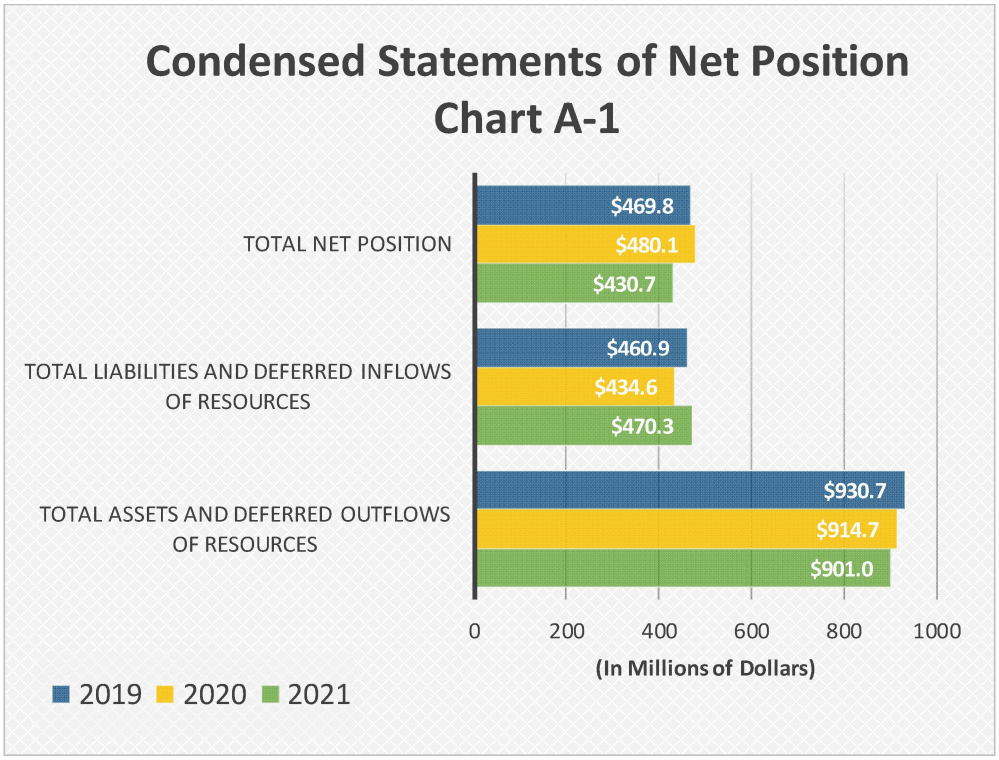
CONDENSED STATEMENTS OF NET POSITION

September 30, 2021, 2020 and 2019

(In millions of dollars)

				Change		Change	
	2021	**2020**	**2019**	2021 vs. 2020		2020 vs. 2019	
Current assets	$ 136.9	$ 147.5	$ 134.9	$ (10.6)	-7.2%	$ 12.6	9.3%
Non-current assets	137.1	148.2	145.8	(11.1)	-7.5%	2.4	1.6%
Capital assets	598.6	587.6	617.0	11.0	1.9%	(29.4)	-4.8%
Total assets	872.6	883.3	897.7	(10.7)	-1.2%	(14.4)	-1.6%
Deferred outflows of resources	28.4	31.4	33.0	(3.0)	-9.6%	(1.6)	-4.9%
Total assets plus deferred outflows of resources	901.0	914.7	930.7	(13.8)	-1.5%	(16.0)	-1.7%
Current liabilities	114.5	56.7	91.2	57.8	102.0%	(34.5)	-37.8%
Long-term liabilities	342.1	366.4	345.3	(24.4)	-6.7%	21.1	6.1%
Total liabilities	456.6	423.1	436.5	33.4	7.9%	(13.4)	-3.1%
Deferred inflows of resources	13.7	11.5	24.4	2.3	19.6%	(12.9)	-52.9%
Total liabilities plus deferred inflows of resources	470.3	434.6	460.9	35.6	8.2%	(26.3)	-5.7%
Net position:							
Investment in capital assets	260.9	298.3	301.9	(37.4)	-12.5%	(3.6)	-1.2%
Restricted	157.7	153.8	154.4	3.9	2.6%	(0.6)	-0.4%
Unrestricted	12.1	28.0	13.5	(15.9)	-56.9%	14.5	107.4%
Total net position	$ 430.7	$ 480.1	$ 469.8	$ (49.4)	-10.3%	$ 10.3	2.2%

A graphic summary of the Public Utilities Board's Statements of Net Position is presented in Chart A-1 below.



The Public Utilities Board's net position as of September 30, 2021, decreased by $49.4 million or 10.3% from FY 2020. The decrease in FY 2021 from prior year is primarily attributed to an increase in current liabilities due to incurring short-term debt after Winter Storm Uri and a decrease in the Investment in capital assets and Unrestricted categories of net position due to losses incurred by large purchased power and fuel expenses related to the storm and the loss on retirement of assets due to the closure of the Oklaunion Power Plant. Net position for FY 2020 increased by $10.3 million or 2.2% from FY 2019. The increase in FY 2020 from prior year is primarily attributed to recognition of the gain on retirement of assets, although the Public Utilities Board did record accelerated depreciation on the Oklaunion Plant of $17.1 million.

The following is a condensed, tabular summarization of the Statement of Revenues, Expenses, and Changes in Net Position.

TABLE A-2

CONDENSED STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NET POSITION

For Fiscal Years Ended September 30, 2021, 2020 and 2019

(In millions of dollars)

	2021	2020	2019	Change 2021 vs. 2020		Change 2020 vs. 2019	
Operating revenues:							
Operating revenues - sales (net)	$ 313.0	$ 198.5	$ 206.3	$ 114.5	57.7%	$ (7.8)	-3.8%
Total operating revenues	313.0	198.5	206.3	114.5	57.7%	(7.8)	-3.8%
Non-operating revenues:							
Investment and interest income	0.3	2.6	5.2	(2.3)	-88.3%	(2.56)	-50.0%
Gain on retirement of assets	-	17.3	-	(17.3)	-100.0%	17.3	100.0%
Non-operating revenue	2.2	-	2.1	2.2	100.0%	(2.1)	-100.0%
Total non-operating revenues	2.5	19.9	7.3	(17.4)	-87.6%	12.6	172.5%
Total revenues	315.5	218.4	213.6	97.0	44.4%	4.8	2.2%
Operating expenses:							
Purchased power and fuel	209.1	66.0	70.4	143.1	216.8%	(4.4)	-6.3%
Personnel services	41.0	42.6	45.1	(1.6)	-3.8%	(2.5)	-5.5%
Materials and supplies	7.5	7.5	7.6	(0.1)	-1.1%	(0.1)	-1.3%
Repairs and maintenance	3.6	3.9	3.8	(0.3)	-6.9%	0.1	2.6%
Contractual and other services	22.5	21.8	21.0	0.7	3.2%	0.8	3.8%
Depreciation expense	28.5	47.0	48.9	(18.5)	-39.3%	(1.9)	-3.9%
Total operating expenses	312.2	188.8	196.8	123.4	65.4%	(7.9)	-4.0%
Non-operating expenses:							
Interest expense	11.1	12.0	12.8	(0.9)	-7.1%	(0.8)	-6.3%
Loss on disposition of capital assets	26.4	0.1	0.9	26.3	25311.0%	(0.8)	-88.9%
Non-operating expense	-	0.5	-	(0.5)	-100.0%	0.5	0.0%
Project abandonment	-	-	9.3	-	0.0%	(9.3)	-100.0%
Other payments to the City of Brownsville	-	2.3	-	(2.3)	-100.0%	2.3	100.0%
Payments to the City of Brownsville	20.5	11.2	11.9	9.4	83.7%	(0.7)	-5.9%
Total non-operating expenses	58.0	26.0	34.9	32.0	123.2%	(8.9)	-5.9%
Total expenses	370.3	214.8	231.7	155.4	72.4%	(16.8)	-7.3%
Changes in net position before capital contibutions	(54.8)	3.6	(18.1)	(58.4)	-1623.6%	21.7	-119.9%
Capital contributions	5.4	6.7	4.4	(1.3)	-19.9%	2.3	52.3%
Change in net position	(49.4)	10.3	(13.7)	(59.7)	-579.6%	24.0	-175.2%
Beginning net position	480.1	469.8	483.5	10.3	2.2%	(13.7)	-2.8%
Ending net position	$ 430.7	$ 480.1	$ 469.8	$ (49.4)	-10.3%	$ 10.3	2.2%

While the Statements of Net Position show the yearly change in financial position, the Statements of Revenues, Expenses, and Changes in Net Position provides answers as to the nature and source of these changes. For fiscal year 2021, the Public Utilities Board experienced an increase in operating revenues from prior year of $114.5 million due primarily to an increase in off-system electric sales, while water and wastewater revenues increased only slightly from prior year. The unusually high fiscal year 2021 electric revenues are a result of the Winter Storm Uri event in February 2021. Investment earnings decreased $2.3 million from fiscal year 2020. Capital contributions decreased by $1.3 million from the prior year. Loss on retirement of assets resulted in $26.4 million. Nearly all of the loss on retirement of assets is due to the Oklaunion Power Plant closure.

Operating expenses increased overall from fiscal year 2020 by $123.4 million. Purchased power and fuel expenses increased from prior year by $143.1 million. The unusually high fuel and purchased energy costs in fiscal year 2021 are a result of the Winter Storm Uri event in February 2021. Depreciation expense decreased in fiscal year 2021 due to the write-off of Oklaunion Power Plant assets. In fiscal year 2020, the Public Utilities Board had accelerated depreciation of Oklaunion assets due to the upcoming closure. Other operating expense changes from prior year were minimal. Overall, the Public Utilities Boards net position decreased by $49.4 million in 2021.

For fiscal year 2020, the Public Utilities Board experienced a decrease in operating revenues from prior year of $7.8 million due primarily to a decrease in wholesale electric sales, while water and wastewater revenues increased only slightly from prior year. Investment earnings decreased $2.6 million from fiscal year 2019. Capital contributions increased by $2.3 million from the prior year. The retirement of assets resulted in $17.3 million gain.

Operating expenses decreased overall from fiscal year 2019 by $8.0 million. Repairs and maintenance and Contractual and other services were the only two categories with increases from 2019 by $0.1 million and $0.8 million, respectively. Purchased power and fuel expenses decreased from prior year by $4.4 million. Personnel services decreased by $2.5 million. Other operating expense changes from prior year were minimal. Overall, the Public Utilities Boards net position increased by $10.3 million in 2020.

Capital Assets

At the end of 2021 and 2020, the Public Utilities Board's net capital assets in Table A-3 of $598.6 million and $587.6 million, respectively. This represents a 1.9% or an $11.0 million increase for fiscal year 2021 as compared to fiscal year 2020. In fiscal year 2021, a new Service Center was completed, causing the increase in Buildings and structures. Also, in fiscal year 2021, several lift stations were rehabilitated with Odor Control Systems installed, some new wastewater infrastructure was added, and other Plant improvements were completed. In fiscal year 2020, there was a 4.8% or a $29.4 million decrease as compared to fiscal year 2019 because of the upcoming Oklaunion Plant closure. The Public Utilities Board segregated $22.7 million of capital assets on the Statement of Net Position as Assets held for sale. For more details on the Oklaunion Plant closure, see Note 5 – Joint Operations.

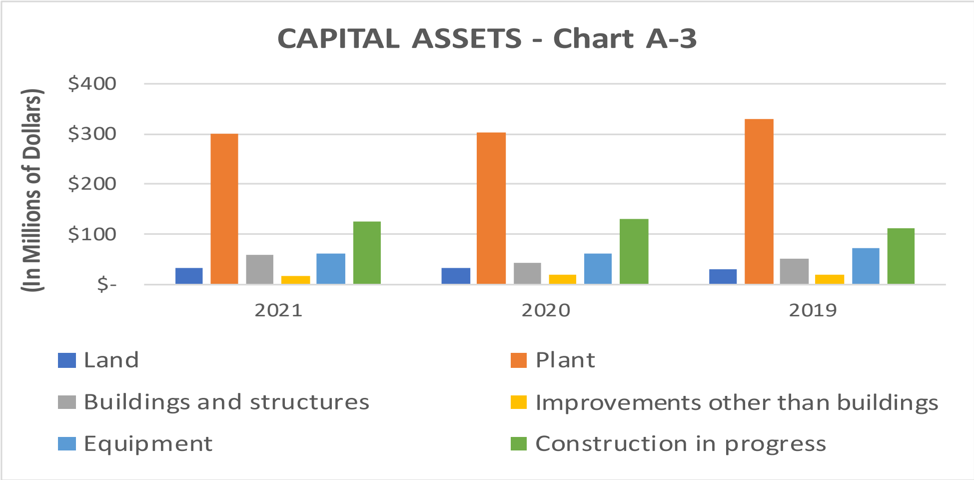
TABLE A-3

CAPITAL ASSETS

September 30, 2021, 2020 and 2019

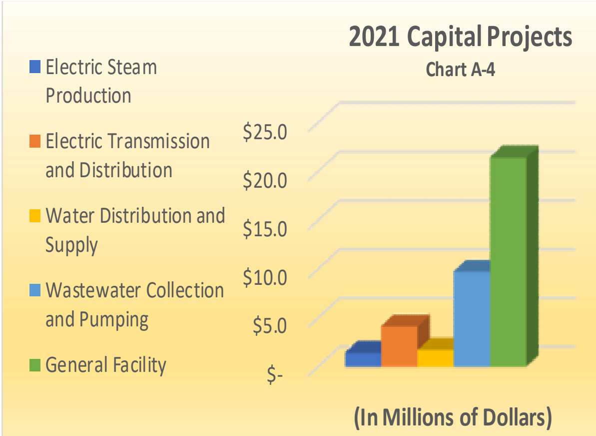
(In millions of dollars)

				Change		Change	
	2021	**2020**	**2019**	2021 vs. 2020		2020 vs. 2019	
Land	$ 32.9	$ 31.4	$ 30.6	$ 1.4	4.6%	$ 0.8	2.6%
Plant	697.7	681.6	765.4	16.1	2.4%	(83.8)	-10.9%
Buildings and structures	99.1	78.9	94.9	20.2	25.6%	(16.0)	-16.8%
Improvements other than buildings	47.9	48.0	48.1	(0.1)	-0.1%	(0.1)	-0.2%
Equipment	140.8	140.0	144.8	0.8	0.6%	(4.8)	-3.3%
Construction in progress	126.4	129.9	112.7	(3.5)	-2.7%	17.2	15.3%
Subtotal	1,144.8	1,109.8	1,196.5	35.0	3.2%	(86.7)	-7.2%
Less accumulated depreciation	(546.2)	(522.2)	(579.5)	(24.0)	4.6%	57.3	-9.9%
Net capital assets	$ 598.6	$ 587.6	$ 617.0	$ 11.0	1.9%	$ (29.4)	-4.8%

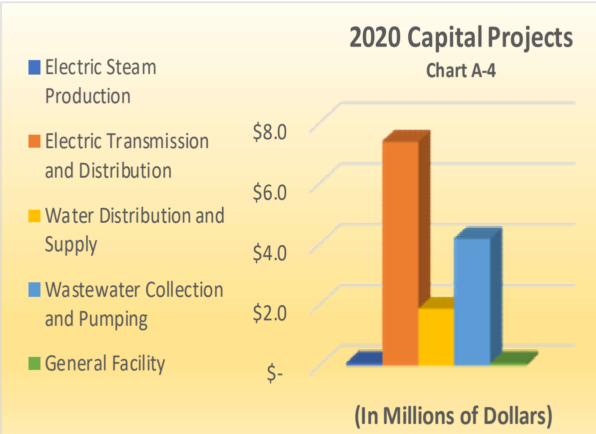


The following is a summary of some of the major improvements to the utility system during each fiscal year:

Project Category:	2021
Electric Steam Production	$ 1.5
Electric Transmission and Distribution	4.2
Electric General	-
Water Distribution and Supply	1.8
Wastewater Collection and Pumping	9.8
General Facility	21.5
(Reported in millions of dollars)	



Project Category:	2020
Electric Steam Production	$ 0.1
Electric Transmission and Distribution	7.4
Electric General	-
Water Distribution and Supply	1.9
Wastewater Collection and Pumping	4.2
General Facility	0.1
(Reported in millions of dollars)	



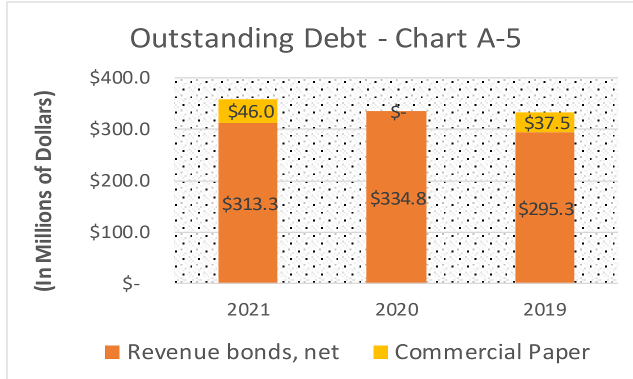
At September 30, 2021 and 2020, the Public Utilities Board had contractual obligations totaling approximately $12,856,518 and $23,848,868, respectively, for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board and restricted funds. Additional information on the Public Utilities Board's capital assets can be found in Note 4 to the financial statements.

Debt Administration

The Public Utilities Board's outstanding debt is summarized as follows:

TABLE A-4
OUTSTANDING DEBT
September 30, 2021, 2020 and 2019
(In millions of dollars)

	2021	2020	2019
Revenue bonds, net	$ 313.3	$ 334.8	$ 295.3
Commercial Paper	46.0	-	37.5
Total	$ 359.3	$ 334.8	$ 332.8



Additional information on the Public Utilities Board's debt can be found in Notes 6 and 7 of this report.

Standard & Poor's Ratings Services, a division of The McGraw-Hill Companies, Inc., has assigned short term insured ratings of AA. The Public Utilities Board underlying ratings on its senior lien debt are "A2", "A-" and "A+" by Moody's, Standard & Poor's, and Fitch Ratings, respectively.

Revenue bonds outstanding at September 30, 2021 and 2020 were $278,045,000 and $296,400,000, respectively. Interest on bonds is due semi-annually on March 1 and September 1, and the principal is due annually on September 1. Revenue bond debt service coverage for the Public Utilities Board's priority and second lien obligations was calculated at 6.28 and 2.94 times at September 30, 2020 and 2019, respectively.

On January 15, 2003, the Public Utilities Board sold $76,400,000 variable rate demand bonds as series 2002A and 2002B Utility System Subordinate Lien Revenue and Refunding Bonds. The bonds' variable rate was synthetically fixed at 2.576% until 2008 utilizing a swap financing strategy. The City Commission of the City of Brownsville, Texas, authorized the execution of a Rate Cap Agreement effective September 1, 2006, through September 1, 2011, to give an insurance against increasing short term rates. The Public Utilities Board executed an agreement with an eligible provider for a notional amount of $41,880,000 with an interest rate cap of 4.50%. The notional amount of the original swap decreased to $10,830,000 effective September 1, 2006, provided a synthetic fixed rate of 2.576%. Proceeds from the sale of the bonds were used to retire currently outstanding revenue bonds, to build, improve, extend, enlarge, and repair the system, and to pay costs of issuance of the bonds. On August 24, 2005, the Public Utilities Board sold $163,725,000 in tax exempt bonds and $56,855,000 in taxable bonds as part of a major debt restructuring. The tax exempt bonds, Series 2005A, provided proceeds to refund $50,890,000 in Series 1995 outstanding obligations, $50,000,000 in Series 2001A and $50,000,000 in Series 2001B variable rate outstanding obligations, and $7,250,000 in outstanding commercial paper notes, and provided $20,000,000 in new money bonds. The taxable bonds, Series 2005B, provided proceeds to defease $27,420,000 in Series 1992 outstanding obligations and $22,120,000 in Series 1995 outstanding obligations.

On December 1, 2006, the Public Utilities Board issued $601,000 City of Brownsville, Texas Utilities System Junior Lien Revenue Bonds, Series 2007 for the purpose of building, improving, extending, enlarging, and repairing the City's utilities system and to pay costs of issuance of the bonds.

The Public Utilities Board issued $77,805,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2008. The refunding bonds provided proceeds to defease $40,000,000 of Commercial Paper Notes, Series 2004, $32,285,000 of the Series 2002A Utility System Subordinate Lien Revenue and Refunding Bonds, and $13,415,000 of the Series 2002B Utility System Subordinate Lien Revenue and Refunding Bonds.

On February 28, 2011, the Public Utilities Board issued $12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund $6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and $5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On September 25, 2012, the Public Utilities Board issued $20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus $5,275,000 in issuer contributions were used to defease $24,450,000 of Commercial Paper notes.

On October 1, 2012, the Public Utilities Board issued $840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from sale of the Obligations will be used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On May 1, 2013, the Public Utilities Board issued $118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bonds provided proceeds to refund $109,985,000 of Utility System Improvement and Refunding Bonds, Series 2005A. In addition, the proceeds provided funds of $11,818,500 to make a cash deposit into the Debt Service Reserve Fund.

On July 15, 2015, the Public Utilities Board issued $94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The bonds provided proceeds to refund $49,060,000 of Series 2005A Revenue Improvement & Refunding Bonds, $27,815,000 of Series 2005B Revenue Refunding Bonds and $5,480,000 of Series 2011 Revenue Refunding Bonds. In addition, the proceeds provided funds to defease $20,000,000 in outstanding Commercial Paper Notes.

On May 15, 2016, the Public Utilities Board issued $39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The bonds, plus a premium of $7,705,681, provided proceeds to refund $42,505,000 of the Series 2008 Revenue Refunding Bonds.

On July 1, 2018, the Public Utilities Board issued $14,000,000 in Utilities System Revenue Refunding Bonds, Series 2018. The bonds, plus a premium of $1,404,015, provided proceeds to refund $14,980,000 of the Series 2007 Jr. Lien Revenue Bonds, Series 2008 Revenue Refunding Bonds, and a portion of Series 2012 Sr. Lien Revenue Refunding Bonds.

The Public Utilities Board's participation in the Southmost Regional Water Authority's (the Authority) desalination plant project was complete and operational during 2005. The Authority successfully issued $30,975,000 in Water Supply Contract Revenue Bonds during fiscal year 2003 and has expended approximately 100.0% of bond proceeds in the construction of the desalination plant. The Series 2002 bonds were issued with insured ratings of "Aaa" and "AAA" by Moody's Investor Services and Fitch Ratings, respectively. The Authority's Water Supply Contract Revenue Refunding Bonds, Series 2017 was rated A2 by Moody's for Uninsured and AA by S&P for Insured. The Authority's underlying ratings on its Water Supply Contract Revenue Refunding Bonds, Series 2012 are "A2" by Moody's and "A+" by Fitch, respectively. The Public Utilities Board total interest in the project is 92.91%. The Authority is considered a blended component unit of the Public Utilities Board. As a participating owner, the Public Utilities Board is obligated to contribute its percentage allocation of the Authority's debt service obligations and annual system budget. The Public Utilities Board's total 2021 and 2020 contributions to the Authority were $6,197,740 and $6,410,252, respectively. The Public Utilities Board's participation in the Authority's desalination project provides the City with an alternate, long-term, drought-resistant source of drinking water.

The Authority issued $9,950,000 in aggregate principal amount of Water Supply Contract Revenue Refunding Bonds, Series 2006. The refunding bonds provided proceeds to defease $9,360,000 of the Series 2002 Revenue Bonds for the years 2019 and from 2028 through 2032.

On December 7, 2009, the Authority issued $9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and $3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the Texas Water Development Board Drinking Water State Revolving Fund for the construction of a full scale Micro Filtration Pretreatment

System. The objective of this project is to achieve compliance with both existing and future maximum contaminant levels for arsenic in public drinking water by constructing a full scale Micro Filtration Pretreatment System prior to entering the existing reverse osmosis treatment process. An additional need is to control and reduce iron levels to eliminate complaints of colored water. Project objectives also include an additional 1.0 million gallons per day of capacity through upgrading certain pumps within the existing well field and adding one additional reverse osmosis train.

On September 26, 2012, the Southmost Regional Water Authority issued $13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease $14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On April 18, 2017, the Authority issued $9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of $725,245 were used to defease $9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

On July 29, 2020, the Public Utilities Board issued $53,590,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020. The refunding bond proceeds plus the bond premium of $9,295,486 were used to defease $12,105,000 of the Series 2012 Utilities System Senior Lien Revenue Refunding Bonds for the years 2026-2037, and $50,000,000 of Commercial Paper Notes.

On July 29, 2020**,** the Public Utilities Board issued $62,320,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020A (Taxable). The refunding bond proceeds were used to defease $54,480,000 of the Series 2013A Utilities System Revenue Refunding Bonds for the years 2027- 2031.

COVID-19 Global Pandemic

The Public Utilities Board continues to support its customers during the COVID-19 pandemic. Although the Public Utilities Board provided its customers with a temporary moratorium on shutoffs and suspension of delayed payment charges from April 2020 through September 2020, a return to normal business practices resumed in October 2020.

The Public Utilities Board is working proactively with customers to create payment arrangements for those who need them. With the effects of the pandemic and economic contraction, the Public Utilities Board expected an increase in the number of accounts treated as bad debt. The Public Utilities Board has partnered with community agencies to provide aid to our customers and has been able to mitigate the economic impact to date. However, once the funding for aid programs ceases, there may be an increase in bad debt.

The Public Utilities Board continues to be committed to keeping customers and employees safe while still providing reliable utility services. Supply chain disruptions and increased costs have had the most impact on business activities, but have not disrupted the utility services provided to the community. The Public Utilities Board continuously evaluates the economic and financial impact as events continue to unfold.

Request For Information

This financial report is designed to provide the reader with a general overview of the Public Utilities Board's finances. Questions concerning any of the information provided in this report or requests for additional financial

information should be addressed to the Chief Financial Officer, P.O. Box 3270, Brownsville, TX 78523-3270. This report is available on the Public Utilities Board's website at www.brownsville-pub.com.

FINANCIAL STATEMENTS

- *Statements of Net Position*
- *Statements of Revenues, Expenses, and Changes in Net Position*
- *Statements of Cash Flows*

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Net Position
September 30, 2021 and 2020

Assets	**2021**	**2020**
Current assets:		
Cash	$ 18,829,421	$ 26,994,421
Investments	34,716,471	28,376,644
Receivables:		
Fees and services, net of allowance for uncollectible accounts of $924,670 and $893,248 in 2021 and 2020, respectively	34,433,311	28,285,803
Intergovernmental	411,421	411,421
Accrued interest receivable	6,495	301,682
Contract receivable	-	15,000,000
Fuel cost under-recovery	-	1,578,272
Inventories	6,391,001	6,243,580
Prepaids	1,154,246	976,308
Total current assets	95,942,366	108,168,131
Current restricted assets:		
Cash	9,049,422	48,383
Investments	31,896,476	39,273,595
Total restricted current assets	40,945,898	39,321,978
Total current assets	136,888,264	147,490,109
Non-current restricted assets:		
Cash	37,012,306	3,048,955
Investments	97,880,222	119,938,881
Capital assets, net of accumulated depreciation	598,613,034	587,613,737
Assets held for sale	-	22,746,859
Regulatory assets	2,220,171	2,420,578
Total non-current assets	735,725,733	735,769,010
Total assets	872,613,997	883,259,119
Deferred Outlfows of Resources		
Deferred charge on refunding	21,580,659	23,945,549
Deferred outflows related to pension	3,906,942	4,365,075
Deferred outflows related to OPEB	2,933,228	3,136,530
Total deferred outflows of resources	28,420,829	31,447,154
Total assets plus deferred outflows of resources	$ 901,034,826	$ 914,706,273

- Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Net Position - Continued
September 30, 2021 and 2020

Liabilities	**2021**	**2020**
Current liabilities:		
Accounts payable	$ 24,169,471	$ 22,496,556
Accrued vacation and sick leave	5,602,596	5,845,116
Due to primary government	13,372,977	3,994,072
Self insurance worker's compensation claims	241,452	118,877
Commercial paper	46,000,000	-
Total unrestricted current liabilities	89,386,496	32,454,621
Current liabilities payable from restricted assets:		
Accrued interest	911,627	926,807
Customer deposits	5,089,470	4,913,015
Current portion of revenue bonds payable	19,145,000	18,355,000
Total current liabilities payable from restricted assets	25,146,097	24,194,822
Total current liabilities	114,532,593	56,649,443
Non-current liabilities:		
Revenue bonds payable net of unamortized premium	294,109,524	316,423,606
Other post-employment benefits	24,816,551	23,461,920
Net pension liability	23,091,948	26,288,017
Self insurance worker's compensation claims	28,704	275,453
Total non-current liabilities	342,046,727	366,448,996
Total liabilities	456,579,320	423,098,439
Deferred Inflows of Resources		
Fuel cost over-recovery	2,774,551	-
Deferred inflows related to pension	6,309,761	6,020,188
Deferred inflows related to OPEB	4,651,496	5,462,731
Total deferred inflows of resources	13,735,808	11,482,919
Total liabilities plus deferred inflows of resources	470,315,128	434,581,358
Net position:		
Investment in capital assets	260,939,170	298,269,059
Restricted for:		
Debt service	16,702,671	17,302,070
Repair and replacement	116,837,288	104,187,325
Operating reserve	17,000,051	17,078,367
Fuel adjustment subaccount	3,675,000	10,975,000
Capital projects	2,900,140	3,756,691
Meter deposits	612,510	602,373
Unrestricted	12,052,868	27,954,030
Total net position	430,719,698	480,124,915
Total liabilities plus deferred inflows of resources plus net position	$ 901,034,826	$ 914,706,273

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Revenues, Expenses, and Changes in Net Position
For the Fiscal Years Ended September 30, 2021 and 2020

	2021	2020
Operating revenues:		
Sales and service charges	$ 460,930,071	$ 223,461,644
Less Rate Stabilization	(143,387,231)	(20,400,000)
Less utilities service to the City of Brownsville, Texas	(4,587,001)	(4,570,832)
Total operating revenues	312,955,839	198,490,812
Operating expenses:		
Purchased power and fuel	209,098,696	65,996,582
Personnel services	40,975,381	42,600,179
Materials and supplies	7,563,164	7,548,777
Repairs and maintenance	3,576,179	3,949,001
Contractual and other services	22,543,946	21,711,981
Depreciation	28,488,709	46,971,872
Total operating expenses	312,246,075	188,778,392
Operating income	709,764	9,712,420
Nonoperating revenues (expenses):		
Investment and interest income	309,837	2,639,908
Interest expense	(11,115,373)	(11,969,522)
Gain (Loss) on disposition of capital assets	(26,411,470)	17,146,063
Other	2,254,729	(513,241)
Other payments to the City of Brownsville	-	(2,250,000)
Payments to City of Brownsville	(20,524,044)	(11,170,348)
Net nonoperating revenues (expenses)	(55,486,321)	(6,117,140)
Income before capital contributions	(54,776,557)	3,595,280
Capital contributions	5,371,340	6,706,008
Change in net position	(49,405,217)	10,301,288
Net position, beginning of year	480,124,915	469,823,627
Net position, end of year	$ 430,719,698	$ 480,124,915

See accompanying notes to financial statements.

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Cash Flows
For the Fiscal Years Ended September 30, 2021 and 2020

	2021	2020
Cash flows from operating activities:		
Cash received from customers	$ 312,988,552	$ 200,883,946
Cash payments to suppliers for goods and services	(242,434,891)	(97,247,290)
Cash payments to employees for services	(45,276,105)	(42,755,396)
Net cash provided by operating activities	25,277,556	60,881,260
Cash flows from non-capital financing activities:		
Required payments to City of Brownsville	(11,145,139)	(11,486,766)
Net cash (used in) non-capital financing activities	(11,145,139)	(11,486,766)
Cash flows from capital and related financing activities:		
Commercial paper proceeds	46,000,000	12,500,000
Principal paid on capital debt - bond issues	(18,355,000)	(15,980,000)
Additional deposit to defease debt	-	(1,410,637)
Interest paid on capital debt	(11,130,552)	(10,675,960)
Capital contributions	1,839,226	1,974,441
Acquisition and construction of capital assets	(36,387,675)	(35,276,753)
Proceeds for sale of assets	15,000,000	-
Net cash provided by/(used in) capital and related financing activities	(3,034,001)	(48,868,909)
Cash flows from investing activities:		
Interest received	605,025	3,208,772
Purchases of investment securities	(400,165,406)	(469,760,138)
Proceeds from sales of investment securities	456,124,767	523,045,471
Net cash provided by (used in) investing activities	56,564,386	56,494,105
Net increase in cash and cash equivalents	67,662,802	57,019,690
Cash and cash equivalents, beginning of year	136,977,516	79,957,826
Cash and cash equivalents, end of year	$ 204,640,318	$ 136,977,516

- Continued

PUBLIC UTILITIES BOARD OF THE CITY OF BROWNSVILLE, TEXAS
(A Component Unit of the City of Brownsville, Texas)
Statements of Cash Flows - Continued
For the Fiscal Years Ended September 30, 2021 and 2020

	2021	2020
Reconciliation of operating income to net cash provided by operating activities:		
Operating income	$ 709,764	$ 9,712,420
Adjustments to reconcile operating income to net cash provided by operating activities:		
Depreciation	28,488,709	46,971,872
Non-operating expense	1,650,946	(1,688,726)
Provisions for uncollectible accounts	31,422	(128,098)
Changes in operating assets and liabilities:		
(Increase) decrease in accounts receivable	(6,178,933)	4,772,244
(Increase) decrease in inventory	(147,421)	1,015,217
(Increase) decrease in prepaids	(177,938)	(313,665)
Increase (decrease) in accounts payable and accrued liabilities	(3,525,896)	(13,188,047)
Increase (decrease) in unearned revenues	372	(228)
Increase (decrease) in accrued vacation and sick leave	(242,520)	(1,080,396)
Increase (decrease) in fuel cost recovery	4,352,823	2,477,840
Increase (decrease) in customer deposits liability	176,455	124,708
Changes in deferred inflows of resources	661,435	4,355,037
Changes in deferred outflows of resources	(521,662)	7,851,082
Net cash provided by operating activities	$ 25,277,556	$ 60,881,260
Non-cash investing, capital, and financing activities:		
Contribution in aid of construction	$ 3,532,114	$ 4,731,567
Bond proceeds to refund commercial paper	-	50,000,000
Bond proceeds deposited into escrow for refunding long-term debt	-	74,588,645
Loss on Oklaunion decommissioning	22,746,859	
Amortization	630,333	1,175,485
Changes in fair value	13,612	(13,612)
Reconciliation of cash and cash equivalents per Statements of Cash Flows to the Statements of Net Position:		
Cash and cash equivalents:		
Cash	$ 64,891,149	$ 30,091,759
Short-Term Investments and Money Market Mutual Funds	139,749,169	106,885,757
Total Cash and Cash Equivalents	$ 204,640,318	$ 136,977,516

See accompanying notes to the financial statements.

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(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies employed in the preparation of these financial statements.

The Reporting Entity – The Public Utilities Board of the City of Brownsville, Texas (Public Utilities Board), a component unit of the City of Brownsville, Texas (City), was formed in 1960 to provide electric, water, and wastewater services to its customers in the Brownsville area. The financial statements of the Public Utilities Board have been prepared in conformity with accounting principles generally accepted in the United States of America as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles.

The Public Utilities Board is a component unit of the City of Brownsville, Texas, based upon the selection of the governing authority. It is a separate operating authority established by the City's charter. Its purpose is to own, operate, and maintain a combined utilities system which provides the City and certain adjacent unincorporated areas with electricity, water, and wastewater services. The specific elements of oversight responsibility of the Public Utilities Board is that the City Commission appoints six of the seven-member governing board and the Mayor of the City serves Ex-Officio as the seventh member. Each appointed board member serves a four-year term. The Public Utilities Board does not have the right to encumber, sell, or hypothecate the utilities system. The specific elements of accountability for fiscal matters are that the City Commission is vested with the right to set utility rates and approve the issuance of debt. The financial statements presented here are also included in the Comprehensive Annual Financial Report of the City of Brownsville, Texas.

<u>Southmost Regional Water Authority</u>

The reporting entity of the Public Utilities Board consists of the primary government (in this case, the Public Utilities Board) and a blended component unit, Southmost Regional Water Authority (the Authority). The Authority is a conservation and reclamation district created pursuant to Article XVI, Section 59, of the Texas Constitution and the Act of June 12, 1981, 67th Leg., Ch. 511, 1981 Tex. Gen. Laws 2196. The Authority is reported as a blended component unit because the Public Utilities Board manages the day-to-day operations and owns 92.91% of the Authority entitling it to 92.91% of the total water allocation.

The Authority provides treated water to various areas of Cameron County. The structure of the Authority includes five territories located in Brownsville and surrounding cities. Each participating entity is accorded a percentage of interest.

The members and their allocated portion is as follows:

Brownsville Public Utilities Board	92.91 %
Valley Municipal Utility District #2	2.51 %
City of Los Fresnos	2.28 %
Brownsville Navigation District	2.10 %
Town of Indian Lake	.20 %
	100.00%

Member contracts are from March 3, 2003 for a term of thirty years and thereafter until payment in full of the principal, premium, if any, and interest on all bonds issued during the initial term and all related fees to be paid pursuant to any bond resolution or indenture securing such bonds.

Essential disclosures related to the Authority are included in its complete financial statements. These statements may be obtained at P.O. Box 3270, Brownsville, Texas 78523-3270.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Measurement Focus, Basis of Accounting, and Financial Statement Presentation – The financial statements are presented in accordance with accounting standards generally accepted in the United States of America for proprietary funds of governmental entities. The Public Utilities Board complies with all applicable pronouncements of the GASB. The Public Utilities Board is accounted for as a proprietary fund. Proprietary funds are used to account for operations that are financed and operated in a manner similar to private business enterprises where the intent is to recover the cost of operations through user charges. A proprietary fund is accounted for on the "economic resources" measurement focus using the accrual basis of accounting, under which revenues are recognized in the accounting period in which they are earned and the related expenses are recorded in the accounting period incurred, if measurable. All assets and deferred outflows of resources and liabilities and deferred inflows of resources are included on the statement of net position.

GASB Statement Implementations – In fiscal year 2021, the Public Utilities Board implemented the following GASB statements:

- GASB Statement No. 98, *The Annual Comprehensive Financial Report* – This Statement establishes the term annual comprehensive financial report and its acronym ACFR. That new term and acronym replace instances of comprehensive annual financial report and its acronym in generally accepted accounting principles for state and local governments. The Public Utilities Board's report for fiscal years September 30, 2021 and 2020, will reflect the name change.

In fiscal year 2020, there were no significant GASB statements implements by the Public Utilities Board.

Budgets and Budgetary Accounting – The Public Utilities Board is not legally required to adopt a budget; therefore, comparative statements of actual expenses to budget expenses are not included within the financial statements.

Cash and Cash Equivalents – The Public Utilities Board's cash and cash equivalents are considered to be cash on hand, demand deposits, money market accounts, and investments with original maturities of three months or less from the date of acquisition.

Investments – The Public Utilities Board invests funds in accordance with its policy, bond indentures, and the Texas Public Funds Investment Act. Investments consist primarily of United States Treasury obligations and government-backed securities. Statutes authorize the Public Utilities Board to invest in obligations of the United States or its agencies and instrumentalities; direct obligations of the State of Texas or its agencies; obligations of states, agencies, counties, cities and other political subdivisions of any state rated not less than A or its equivalent; certificates of deposit; certain commercial paper; certain mutual funds; and fully collateralized repurchase agreements.

The Public Utilities Board follows the provisions of GASB Cod. Sec. I50, Investments. In accordance with GASB Cod. Sec. I50, the Public Utilities Board's general policy is to report short-term investments at amortized cost. All other investments are reported at fair value. The term "short-term" refers to investments that have a remaining term to maturity of one year or less at time of purchase. Fair value determinations of all securities are made on a quarterly basis.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Accounts Receivable – Accounts receivable balances are subject to risk of non-payment. Allowances to the account for that risk have been calculated based on a three-year average of customer write-offs, except in certain cases, where amounts were recorded directly to bad debt expense and excluded from the three-year average. The allowance for doubtful accounts balance was $0.9 million and $0.9 at September 30, 2021 and 2020, respectively.

Also included in accounts receivable balances are the unbilled revenues. These are revenues earned but not yet billed as of September 30th each year. The amounts of unbilled revenues recorded at September 30, 2021 and 2020, were $11.7 million and $10.2 million, respectively.

Contract Receivable – The contract receivable balance on September 30, 2020, is related to a confidential agreement. Payment was received in October 2020. See Note 3 – Contract Receivable for more information.

Inventories – Materials and supplies inventories are stated at cost.

Prepaids – Certain payments to vendors reflect costs applicable to future accounting periods and are recorded as prepaid. The cost of prepaid items is recorded as an expense when consumed rather than when purchased.

For fiscal years 2021 and 2020, current prepaid amounts relate primarily to insurance and other miscellaneous expenses.

Restricted Assets – Mandatory segregation of assets are presented as restricted assets. Such segregations are required by bond ordinance and other external parties. Current liabilities payable from these restricted assets are so classified.

Capital Assets – Utility plant-in-service is stated at cost which generally includes the cost of contracted services and certain materials and labor. Maintenance and repairs of property and items determined to be less than units of property are charged to operating and maintenance expenses; major plant replacements are capitalized.

Assets acquired through contributions, such as those from land developers, are capitalized at estimated fair value at the date contributed. Donated capital assets, donated works of art and similar items, and capital assets received in a service concession arrangement are reported at acquisition value rather than fair value.

Capital assets are defined by the Public Utilities Board as assets with an initial, individual cost of more than $5,000 and an estimated useful life in excess of eighteen months. Meter and line transformer inventory have been included in utility plant to conform to Federal Energy Regulatory Commission guidelines. Depreciation is computed using the straight-line method over the estimated useful lives of the assets.

Assets Held for Sale – Due to the sale of the Oklaunion Power Station, the Public Utilities Board has classified some assets as held for sale as of September 30, 2020. Capital assets held for sale totaled $21,488,378. Inventory parts totaled $1,258,481. The total amount segregated on the Statement of Net Position related to the sale is $22,746,859. The sale of the Oklaunion Power Station was completed in fiscal year 2021. See Note 4 and 5 for more information.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

The following estimated useful lives are used for depreciation purposes in 2021 and 2020:

Classification	Range of lives
Electric, Water & Wastewater plant-in-service	30 to 50 years
Buildings	30 to 50 years
Improvements other than buildings	25 to 50 years
Equipment	10 to 50 years
Vehicles	3 to 5 years

Regulatory Assets – The Public Utilities Board elected to establish a regulatory asset for the debt issuance costs in accordance with regulated operations under GASB Cod. Sec. Re10, Regulated Operations. September 30, 2021 and 2020 amounts were $2.2 million and $2.4 million respectively.

Deferred Outflows of Resources – In addition to assets, the statement of financial position will sometimes report a separate section for deferred outflows of resources. This separate financial statement element, deferred outflows of resources, represents a consumption of net position that applies to a future period(s) and so will not be recognized as an outflow of resources (expense) until then.

For refunding of debt, the difference between the reacquisition price and the net carrying amount of the old debt is recorded as unamortized reacquisition costs and reported as deferred outflows of resources. These amounts are amortized as components of interest expense over the shorter of the remaining life of the refunding or the refunded debt. At September 30, 2021 and 2020, reacquisition costs totaled $21.6 million and $23.9 million, respectively. Recognition of deferred outflows of resources related to pension and OPEB amounted to $6.8 million as of September 30, 2021, and $7.5 million as of September 30, 2020.

Recoverable Fuel Costs – Recoverable fuel costs represent fuel costs incurred by the Public Utilities Board which have not yet been billed to customers or which have been billed to customers based on estimated fuel costs and has not been incurred. The Public Utilities Board recovers these costs via the fuel adjustment charge assessed with the monthly utility bills. At September 30, 2021 and 2020, the Public Utilities Board had over-collected $2.8 million and under-collected $1.6 million, respectively, in current recoverable fuel costs. These monies are considered either a deferred inflow of resources or a receivable as the amounts deferred are expected to be offset by October fuel charges.

	Balance at 1-Oct	Recoverable Fuel Costs	Applied Fuel Adjustment	Balance at 30-Sep
2021	$ 1,578,272	$ 139,034,408	$ (143,387,231)	$ (2,774,551)
2020	$ 4,056,112	$ 19,422,160	$ (21,900,000)	$ 1,578,272

Accounts Payable – Accounts payable consists primarily of standard operating vendor accounts payable, including fuel and retainages payable. At September 30, 2021, this amount was $19.0 million. Other amounts that comprise the remaining balance include $1.9 million for the City garbage contract; $1.4 million for employee-related accounts payable; $0.1 million for related parties; and $1.8 million of miscellaneous accounts payable and accrued liabilities.

At September 30, 2020, amounts related to standard operating vendor accounts payable, including fuel and retainages payable was $15.8 million. Other amounts that comprise the remaining balance include $2.4 million for the City garbage contract; $2.0 million for employee-related accounts payable; $0.1 million for related parties; and $2.2 million of miscellaneous accounts payable and accrued liabilities.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Accrued Vacation and Sick Leave – The Public Utilities Board's annual vacation and sick leave policies allow employees to accumulate and vest in annual vacation and sick leave benefits up to specified limits. Upon termination, employees are paid for any unused vacation and sick leave with certain options available. The Public Utilities Board records its obligations for these unused benefits as they are earned by the employees.

Due to Primary Government – Bond Ordinance requires the Public Utilities Board to make payments to the City of Brownsville (the "City") City Transfer Fund each month after making other required payments required by the Bond Ordinance. The amount of the payment is equal to ten percent (10%) of the Gross Revenue. See also Note 12 – Transfers to the City.

Customer Deposits – The Public Utilities Board collects an advance deposit from new customers to secure payment of the customer's final bill. The deposit is refundable once the customer has demonstrated an acceptable payment history of no more than two late payments within the first twelve-month period. The Public Utilities Board may collect an additional deposit for customers whose service has been turned off for non-payment and need to restore service.

Long-Term Debt – To support its long-term capital financing needs, the Public Utilities Board uses several types of debt instruments. As of September 30, 2021, and 2020, these included fixed-rate bonds as well as commercial paper. Amortization of debt discount and premium is computed using the effective yield method over the life of the related bond issues and is recorded as interest expense. Relative to the bond instruments, provisions may be included that allow for refunding after specified time periods during the bond term. See also Note 7 – Long-term Debt.

Refundings and Defeasance of Debt – Subject to applicable timing restrictions that may prevent early payoff, the Public Utilities Board also has the option to defease or extinguish debt. A defeasance occurs when funds are placed in an irrevocable trust to be used solely for satisfying scheduled payments of both interest and principal of the defeased debt, which fully discharges the bond issuer's obligation. At the time of an extinguishment, since the issuer no longer has the legal obligation, the defeased debt is removed from the Statements of Net Position and the gain or loss is immediately recognized.

Current refundings involve issuing new debt (refunding bonds) to redeem existing debt (refunded bonds) that can be called within 90 days of the call date of the refunded bonds. In these circumstances, the refunding bond proceeds are irrevocably escrowed with a third party. These proceeds, and income thereon, are used to pay the debt service on the refunded bonds until the refunded bonds can be called. Refunding bonds are generally issued to achieve debt service savings.

Other Post-employment Benefits (OPEB) – For purposes of measuring the net OPEB liability, deferred outflows of resources and deferred inflows of resources related to OPEB, and OPEB expense, information about the fiduciary net position of the OPEB plans and additions to/from the OPEB fiduciary net position have been determined using the same basis as they are reported in the Public Utilities Board's OPEB plans. For this purpose, benefit payments, including refunds of employee contributions, are recognized when due and payable in accordance with benefit terms. See also Note 10 – Other Post-Employment Benefits.

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

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES – Continued

Pensions (continued) - 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. See also Note 9 – Texas Municipal Retirement System.

Deferred Inflows of Resources – In addition to liabilities, the statement of financial position will sometimes report a separate section for deferred inflows of resources. This separate financial statement element, deferred inflows of resources, represents an acquisition of net position that applies to a future period(s) and so will not be recognized as an inflow of resources (revenue) until that time.

Recognition of deferred inflows of resources related to pension and OPEB amounted to $11.0 million as of September 30, 2021, and $11.5 million as of September 30, 2020.

Restricted Net Position – Restricted Net Position is all subject to restrictions externally imposed by creditors through bond covenants. In accordance with bond covenants related to the funds and accounts and flow of funds, the Public Utilities Board is required to retain in the Plant Fund a reserve amount to pay operating and maintenance expenses of not less than two months of budgeted operating and maintenance expenses for the current fiscal year. When both restricted and unrestricted resources are available for use, it is the policy of the Public Utilities Board to use restricted resources first, then unrestricted resources as they are needed.

Net position is restricted for the following purposes at September 30:

	2021	2020
Debt service	$ 16,702,671	$ 17,302,070
Repair and replacement	116,837,288	104,187,325
Operating reserve	17,000,051	17,078,367
Fuel adjustment subaccount	3,675,000	10,975,000
Capital projects	2,900,140	3,756,691
Meter deposits	612,510	602,373
Total restricted net position	$ 157,727,660	$ 153,901,826

Operating Revenues and Expenses – Operating revenues and expenses generally result from providing services and producing and delivering goods in connection with the Public Utilities Board's principal ongoing operations. The principal operating revenues of the Public Utilities Board are charges to customers for sales and services. Operating expenses include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenues and expenses not meeting this definition are reported as non-operating revenues and expenses.

Operating revenue consists of cash receipts from quasi-external transactions with the City and other governments, and other cash receipts that do not result from transactions defined as capital and related financing, non-capital financing, or investment activities.

The Public Utilities Board did not use any revenue received from fees collected from a water supply or sewer service constructed in whole or in part from funds from the economically distressed areas program account for purposes other than utility purposes.

(1) SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES - Continued

Utility Service Revenue and Electric Purchased Power Expense – Electric, water, and wastewater revenues are recognized as billed on a cycle basis with recognition of unbilled revenues at September 30, 2021 and 2020, based upon the meter reading dates for the unbilled portion of each cycle. Unbilled revenue amounts at September 30, 2021 and 2020, were $11.7 million and $10.2, respectively. Electric rate schedules include power cost adjustment clauses that permit recovery of purchased power costs, not included in base rates, and in the month after such costs are incurred. The Public Utilities Board charges to expense the cost of purchased power in the period of purchase.

Other Accounts – Accounts not classified as operating revenues or expenses or relating to other non-operating categories presented on the Statement of Revenues, Expenses, and Changes in Net Position are presented as Other. Income accounts may include insurance proceeds, pole rental, billing and sales tax discounts, monies received from damaged property, and energy credits. Expenses may include investor service charges, amortization of regulatory asset, loss on refunding, and premium and discounts, and other miscellaneous expenses.

Grant Revenue – Revenue from state and federal grants is recognized as earned to the extent of incurred program expenses. Grant funds are considered to be earned when all eligibility requirements have been met. Accordingly, when such funds are received in advance, they are recorded as unearned revenue.

Capital Contributions – Cash and capital assets are contributed to the utility from customers, the municipality, or external parties. The value of property contributed to the utility is reported as revenue on the Statements of Revenues, Expenses, and Changes in Net Position.

Use of 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 amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Actual results could differ from those estimates.

Comparative Data/Reclassifications – Comparative total data for the prior year have been presented in the accompanying financial statements in order to provide an understanding of changes in the Public Utilities Board's financial position and operations. Also, certain amounts presented in the prior year data have been reclassified in order to be consistent with the current year's presentation.

Deferred Compensation Plan – The Public Utilities Board offers a deferred compensation plan created in accordance with Internal Revenue Code Section 457. The plan, available to all Public Utilities Board employees, permits them to defer a portion of their salary until future years. The deferred compensation is not available to employees until termination, retirement, death, or unforeseeable emergency.

Amendments to the laws governing Section 457 deferred compensation plans substantially became effective January 1, 1997. The Public Utilities Board approved plan amendments such that plan assets are held in trust, with AXA Advisors as trustee, for the exclusive benefit of the plan participants and their beneficiaries. The assets cannot be diverted to any other purpose. The Public Utilities Board does not have legal access to the resources of the deferred compensation plan; as such the plan is not reported in the Public Utilities Board's financial statements.

(2) DEPOSITS AND INVESTMENTS

Basis of Investments – On September 14, 2020, the Public Utilities Board approved a revised Investment Policy which included an "Investment Strategy Statement" that addressed the understanding of investment suitability, the preservation and safety of principal, liquidity, marketability of the investment prior to maturity, diversification, and yield of the investment portfolio. In regards to the safety and risk of investments, the Public Utilities Board abided by the Investment Policy that requires all available funds to be invested in conformance with state and federal regulations, and applicable bond ordinance requirements. Each investment transaction shall seek to first and foremost ensure that capital losses are avoided, whether they are from securities' defaults or erosion of fair value.

The Public Utilities Board's investments are also subject to the rules and regulations of the Public Funds Investment Act (PFIA). The PFIA regulates what types of investments can be made, requires written investment policies, mandates training requirements of investment officers, requires internal management reports produced at least quarterly, and provides for the selection of authorized broker-dealers and investment managers.

The Public Utilities Board's bank deposits and Certificates of Deposit investments were entirely covered by the Federal Deposit Insurance Corporation or by collateral held by a third-party safekeeping bank in the Public Utilities Board's name.

As of September 30, the Public Utilities Board reported the following deposits:

	2021	2020
Cash and cash on hand	$ 64,891,149	$ 30,091,759
Certificates of Deposits (Non-negotiable)	744,000	7,860,000
	$ 65,635,149	$ 37,951,759

As of September 30, 2021, and 2020, the Public Utilities Board had the following investments:

	September 30, 2021			
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	$ 855,636	38	0.5%	AAAm
Local Govt Investment Pools				
Texas TERM	24,000,000	32	14.6%	AAAf
TexasDaily	62,816,612	48	38.4%	AAAmmf
TexPool	73,013,277	37	44.6%	AAAm
TexSTAR	3,063,644	39	1.9%	AAAm
Total	$ 163,749,169		100.0%	

	September 30, 2020			
Investment Type	Amount	Weighted Avg Maturity (Days)	Allocation	Rating
Money Market Mutual Funds	$ 196,401	48	0.1%	A1P1
U.S. Agencies	24,048,860	35	13.8%	AA+
U.S Treasury Note	28,794,503	14	16.5%	
Local Govt Investment Pools				
Texas TERM	20,000,000	35	8.6%	AAAf
TexasDaily	78,702,757	57	45.0%	AAAm
TexPool	24,924,111	38	14.3%	AAAm
TexSTAR	3,062,488	44	1.7%	AAAm
Total	$ 179,729,120		100.0%	

(2) DEPOSITS AND INVESTMENTS – Continued

Interest rate risk – In accordance with the Public Utilities Board's Investment Policy the weighted average to maturity for the Public Utilities Board's portfolio limits the maximum allowable maturity to two years by not exceeding the anticipated cash flow requirements. As of September 30, 2021, and 2020, the investment portfolio had maturities that met anticipated cash flow requirements.

The Public Utilities Board's invests in TexPool, TexasDAILY, and TexStar to provide its liquidity needs. These pools are structured somewhat like money market mutual funds and allow shareholders the ability to deposit or withdraw funds on a daily basis. Texpool and TexStar are rated AAAm by Standard and Poor's and TexasDAILY is rated AAAmmf by Fitch and must maintain a dollar weighted average maturity not to exceed a 60-day limit. At September 30, 2021, TexPool, TexasDAILY, and TexStar had a weighted average maturity of 37 days, 48 days, and 39 days, respectively. The Public Utilities Board invests in government investment pools with 100% overnight liquidity. The Public Utilities Board's external investment pools meet the criteria described in GASB Cod. Sec. In5, *Investment Pools (External)*, and measure all of their investments at amortized cost; therefore in accordance with GASB Cod. Sec. I50, *Investments,* the Public Utilities Board has also measured their investments in these external investment pools at amortized cost for financial reporting purposes. In addition, the pools do not have any limitations or restrictions on withdrawals such as notice periods or maximum transaction amounts. The pools do not impose any liquidity or redemption gates.

Credit risk – The Public Utilities Board identifies and manages credit risks by following the Investment Policy. The Public Utilities Board implements its investment strategy, establishes and monitors compliance with investment policies and procedures, and consistently monitors prudent risk controls. The Public Utilities Board will seek to control the risk of loss by monitoring the ratings of portfolio positions to assure compliance with the rating requirements imposed by the Public Funds Investment Act. The Public Utilities Board also manages exposure to credit risk by limiting its investments to a rating of "A" or better. As of September 30, 2021, and 2020, any Public Utilities Board's security agencies investments had a rating of AA+ or above.

Custodial credit risk – In accordance with the Public Utilities Board's Investment Policy, the financial institution must collateralize all funds with a minimum of 102% of the fair value of the principal portion. The Public Utilities Board seeks to control the risk of loss due to the failure of a security issuer or grantor. Such risk shall be controlled by investing only in the safest types of securities as defined in the Investment Policy.

The Public Utilities Board signed an agreement with its financial institution pledging funds to 102% minimum of the fair value of the principal position. As of September 30, 2021, and 2020, the Public Utilities Board invested 0% and 14%, respectively, in U.S. Agencies (Federal Home Loan Bank, Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, or Federal Farm Credit Bank), which hold high ratings by nationally recognized statistical rating organizations. Investments in U.S. Agencies are proven to be the safest investments with minimal risk of loss. All investments are insured, registered, or held by an agent in the Public Utilities Board's name; therefore, the Public Utilities Board is not exposed to custodial credit risk.

Concentration of credit risk – In accordance with the Investment Policy, the Public Utilities Board manages its credit risk exposure through diversification, and limiting its investments in each government-sponsored security to 75%. At September 30, 2021, the Public Utilities Board had no investments in securities. At September 30, 2020, the Public Utilities Board had investments of 5% in FFCB and 8% in FHLB securities. As of September 30, 2021, and 2020, the portfolio was in compliance as noted above.

(2) DEPOSITS AND INVESTMENTS – Continued

TexPool – The State of Texas Comptroller of Public Accounts exercises oversight responsibility over TexPool, the Texas Local Government Investment Pool, along with Federated Investors managing the daily operations of the pool under a contract with the State Comptroller. Oversight includes the ability to significantly influence operations, designation of management and accountability for fiscal matters. Additionally, the State Comptroller has established an advisory board composed both of participants in TexPool and of other persons who do not have a business relationship with TexPool. The advisory board members review the investment policy and approves any fee increases. TexPool is rated AAAm by Standard & Poor's.

As a requirement to maintain the rating weekly portfolio, information must be submitted to Standard & Poor's as well as the office of the Comptroller of Public Accounts for review. TexPool operates in a manner consistent with the SEC's Rule 2a-7 of the Investment Company Act of 1940. As such, TexPool uses amortized cost to report net assets and share prices since that amount approximates fair value.

TexSTAR – Texas Short Term Asset Reserve Program (TexSTAR) is a local government investment pool providing short-term liquidity requirements. JPMorgan Fleming Asset Management, Inc. and First Southwest Asset Management, Inc. serve as co-administrators under an agreement with the TexSTAR Board of Directors to provide investment and participant services for this pool. JPMorgan Chase Bank or its subsidiary J.P. Morgan Investor Services Company provides the custodial, transfer agency, fund accounting, and depository services for this pool. At year end, TexSTAR was rated AAAm by Standard & Poor's. The Public Utilities Board reports its investment in TexSTAR at the fair value amount provided by TexSTAR, which is the same as the value of the pool share.

TexasDAILY – TexasDAILY is a local government investment pool. Administrative and investment services to the pool are provided by PFM Asset Management LLC, under an agreement with the TexasTERM Advisory Board and act on behalf of the pool participants. At year end, TexasDAILY was rated AAAmmf by Fitch. The Public Utilities Board reports its investment in TexasDAILY at the fair value amount provided by TexasDAILY, which is the same as the value of the pool share.

TexasTERM – The TexasTERM Program offers fixed-rate, fixed-term investment options. Investment maturities are for a minimum of sixty days and a maximum of one year. At year end, TexasTERM was rated AAAf by Fitch.

TexasTERM CD Purchase Program – The TexasTERM CD Purchase Program offers investments in FDIC-insured CDs from banks throughout the Unites States. Investments are for a minimum of ninety days and a maximum of one year, with a minimum balance required. Each CD investment is held in the name of the participant. The CD's held by the Public Utilities Board at fiscal year-end are not rated because they were within the FDIC insurance coverage limits.

Fair Value measurement – The Public Utilities Board records assets and liabilities in accordance with GASB Cod. Sec. 3100, *Fair Value Measurement*, which determines fair value, establishes a framework for measuring fair value and expands disclosures about fair value measurement. The Public Utilities Board's fair value measurements are performed on a recurring basis.

As a basis for considering market participant assumptions in fair value measurements, GASB Cod. Sec. 3100 establishes a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value into three levels as described below:

(2) DEPOSITS AND INVESTMENTS – Continued

- Level 1 – inputs are quoted prices (unadjusted) for identical assets or liabilities in active markets that a government can access at the measurement date. Equity securities and U.S. Government Treasury securities are examples of Level 1 inputs.
- Level 2 – inputs are inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly or indirectly. Government agency and mortgage-backed securities and certificates of deposit are examples of Level 2 inputs.
- Level 3 – inputs are unobservable inputs that reflect the Public Utilities Board's own assumptions about factors that market participants would use in pricing the asset or liability (including risk assumptions).

The valuation technique the Public Utilities Board uses to measure fair value is the market approach. This approach uses prices and other relevant information generated by market transactions involving identical or comparable assets, liabilities, or a group of assets and liabilities, and is applied consistently.

The following table presents fair value balances and their levels within the fair value hierarchy as of September 30, 2021 and 2020. Investment balances presented exclude amounts related to money market mutual fund investments and external investment pools accounted for using amortized cost.

	September 30, 2021			
Fair Value Investments:	Level 1	Level 2	Level 3	Total
U.S. Agencies				
Federal Farm Credit Bank	$ -	$ -	$ -	$ -
Federal Home Loan Bank	-	-	-	-
U.S. Treasury Note	-	-	-	-
Total fair value investments	$ -	$ -	$ -	$ -

	September 30, 2020			
Fair Value Investments:	Level 1	Level 2	Level 3	Total
U.S. Agencies				
Federal Farm Credit Bank	$ -	$ 8,996,436	$ -	$ 8,996,436
Federal Home Loan Bank	-	15,052,424	-	15,052,424
U.S. Treasury Note	28,794,503	-	-	28,794,503
Total fair value investments	$ 28,794,503	$ 24,048,860	$ -	$ 52,843,363

(3) CONTRACT RECEIVABLE

On September 18, 2018, the Public Utilities Board entered into a $22.25 million contract with $2.25 million receipted in January 2019 with the remaining to be received through monthly payments starting on October 2020 through December 2029. As a result, in fiscal year 2019 a receivable was recorded for $20 million with a corresponding deferred inflow of $22.25 million to be recognized over the life of the contract. The contract does not include any adjustment for time value of money.

On September 30, 2020, the original contract amount was amended to a total of $17.25 million. The remaining $15 million was received in fiscal year 2021 and was recorded as a gain on retirement of assets in fiscal year 2020.

(4) CAPITAL ASSETS

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2021, were as follows:

	Beg. Balance 10/1/2020	Additions	Deletions	Reclassifications	End Balance 9/30/2021
Capital assets, non-depreciable:					
Land	$ 31,426,189	$ 1,334,147	$ -	$ 113,446	$ 32,873,782
Construction in progress	129,899,095	35,386,334	-	(38,869,843)	126,415,586
Total capital assets, non-depreciable	161,325,284	36,720,481	-	(38,756,397)	159,289,368
Capital assets, depreciable:					
Plant	681,622,170	2,945,939	(3,033,022)	16,209,018	697,744,105
Buildings and structures	78,844,851	-	(151,150)	20,348,091	99,041,792
Improvements other than buildings	48,001,100	-	(86,397)	15,173	47,929,876
Equipment	140,026,711	814,099	(2,210,260)	2,184,115	140,814,665
Total capital assets, depreciable	948,494,832	3,760,038	(5,480,829)	38,756,397	985,530,439
Less accumulated depreciation for:					
Plant	(381,026,889)	(18,732,079)	2,247,226	-	(397,511,742)
Buildings and structures	(37,214,222)	(2,244,797)	18,605	-	(39,440,414)
Improvements other than buildings	(29,194,939)	(1,039,641)	46,259	-	(30,188,321)
Equipment	(74,770,329)	(6,472,192)	2,176,226	-	(79,066,295)
Total accumulated depreciation	(522,206,379)	(28,488,709)	4,488,316	-	(546,206,772)
Capital assets, net	$ 587,613,737	$ 11,991,810	$ (992,513)	$ -	$ 598,613,034

Changes in the Public Utilities Board's capital assets for the year ended September 30, 2020, were as follows:

	Beg. Balance 10/1/2019	Additions	Deletions	Reclassifications	Assets Held for Sale	End Balance 9/30/2020
Capital assets, non-depreciable:						
Land	$ 30,561,843	$ 1,979,449	$ -	$ 1,186,759	$ (2,301,862)	$ 31,426,189
Construction in progress	112,716,839	30,906,342	-	(13,724,086)		129,899,095
Total capital assets, non-depreciable	143,278,682	32,885,791	-	(12,537,327)	(2,301,862)	161,325,284
Capital assets, depreciable:						
Plant	765,361,778	3,064,783	(1,195,699)	11,738,737	(97,347,429)	681,622,170
Buildings and structures	94,910,393	-	-	138,841	(16,204,383)	78,844,851
Improvements other than buildings	48,073,035	-	(72,929)	994	-	48,001,100
Equipment	144,828,657	3,230,020	(336,788)	658,755	(8,353,933)	140,026,711
Total capital assets, depreciable	1,053,173,863	6,294,803	(1,605,416)	12,537,327	(121,905,745)	948,494,832
Less accumulated depreciation for:						
Plant	(435,035,066)	(29,020,274)	1,171,266	-	81,857,185	(381,026,889)
Buildings and structures	(44,424,887)	(6,397,638)	-	-	13,608,303	(37,214,222)
Improvements other than buildings	(28,108,346)	(1,129,762)	43,169	-	-	(29,194,939)
Equipment	(71,886,915)	(10,424,198)	287,044	-	7,253,740	(74,770,329)
Total accumulated depreciation	(579,455,214)	(46,971,872)	1,501,479	-	102,719,228	(522,206,379)
Capital assets, net	$ 616,997,331	$ (7,791,278)	$ (103,937)	$ -	$ (21,488,379)	$ 587,613,737

(5) JOINT OPERATIONS

Oklaunion Project – In May 1986, the Public Utilities Board and Central Power & Light (CP&L), now known as AEP Texas Central Company (TCC), executed the Oklaunion Unit No. 1 Ownership Interest Assignment Agreement (Agreement). This Agreement allowed the Public Utilities Board to purchase an undivided 56.54% of TCC's undivided 17.97% ownership interest in the Oklaunion unit (10.16% of the project as a whole). This Agreement committed the Public Utilities Board to become a 10.16% participant in the Oklaunion unit and obligated the Public Utilities Board to contribute its 10.16% share of the Oklaunion unit's operating expenses. As a result of their participation, the Public Utilities Board is entitled to receive 10.16% of the total power generated by the plant.

On February 5, 2004, TCC notified the Public Utilities Board that it had contracted to sell its ownership interest in Oklaunion Unit No. 1 to Golden Spread Electric Cooperative, Inc. ("Golden Spread") for $42,750,000, subject to the exercise by the Public Utilities Board of its right of first refusal to purchase TCC's ownership interest under the Oklaunion Unit No. 1 Construction, Ownership and Operating Agreement dated May 26, 1985. Both the Public Utilities Board and Oklahoma Municipal Power Authority ("OMPA") exercised their rights of first refusal for the entire TCC interest in May 2004 and each deposited in escrow $42,750,000, respectively. The Public Utilities Board funded its obligation through the sale of Commercial Paper Notes. Golden Spread challenged the exercise of the first refusal rights in State District Court in Dallas County, Texas. In May 2006, the Dallas Court of Appeals issued an opinion upholding the City of Brownsville's right to acquire an additional interest in Oklaunion Unit No 1.

Golden Spread appealed to the Texas Supreme Court to overturn the Dallas Court of Appeals' ruling and allow it to buy Texas Central Company's interest instead of the City of Brownsville. On December 15, 2006, the Texas Supreme Court declined to review the ruling by the Dallas Court of Appeals in favor of the City of Brownsville and the Public Utilities Board. The Public Utilities Board also engaged in litigation with OMPA, contending that OMPA had not timely and properly exercised its right of first refusal. Settlement of that litigation resulted in the Public Utilities Board having the uncontested right to purchase the interest offered for sale. Subsequently on February 14, 2007, the Public Utilities Board completed its purchase of the additional 54 megawatts (7.8%) of the Oklaunion Power Station for $51 million. Overall the Public Utilities Board then held an undivided 17.98% ownership interest.

The Operating Agreement between the Public Utilities Board and its three other owners terminated on April 26, 2020 but could continue beyond that date from year to year unless two owners owning in the aggregate 60% or more of the plant voted to terminate the Operating Agreement. On August 1, 2018, the Public Utilities Board engaged an independent and nationally recognized consulting and engineering firm to evaluate the impact on the Public Utilities Board's electric power system of a potential shutdown and decommissioning of the plant in 2020. On August 29, 2018, based upon the results of the report and in accordance with Bond Covenants, the Public Utilities Board adopted a resolution that recommended the City Commission approve and adopt findings as necessary to implement the Public Utilities Board's recommendation regarding disposition of Oklaunion. On September 4, 2018, the City Commission approved a resolution authorizing the Public Utilities Board's plan for disposition of the City's ownership in Oklaunion. On September 19, 2018, at an ownership meeting, a motion was passed, by the vote of two owners owning more than 60% of the plant, to cease operations permanently and dispose of the plant not later than October 1, 2020. As a result of the upcoming plant closure, the Public Utilities Board accelerated depreciation of the Oklaunion plant in fiscal year 2020. On October 14, 2020, the Oklaunion Power Station was sold by all four of its Owners to a third party who agreed to perform the decommissioning and demolition of unusable facilities of the plant and assume any and all liabilities with respect to, associated with, arising under or resulting from: (a) the acquired

(5) JOINT OPERATIONS - Continued

assets and any assets that are or should be the subject of decommissioning; (b) any and all liabilities and obligations associated with the decommissioning activities; and (c) any and all environmental liabilities arising from the sellers' ownership; or operation of the Oklaunion Power Station. The remaining sales agreement provisions, schedules, attachments, et cetera, are confidential. Costs to retire assets, along with decommissioning costs, are recorded as loss on disposition of capital assets on the Statement of Revenues, Expenses, and Changes in Net Position. The assets related to the Oklaunion Power Station are segregated on the Statements of Net Position and classified as assets held for sale at September 30, 2020, and recognized as a loss on retirement in fiscal year 2021. The Public Utilities Board's portion of sale proceeds, when net with the proportionate decommissioning costs, are deemed to be immaterial.

Calpine/Hidalgo Project – On December 15, 1999, the Public Utilities Board purchased an undivided interest from Calpine Energy which entitles the Public Utilities Board to 105 MW of the 500 MW combined cycle plant located in Edinburg, Texas, approximately 56 miles from Brownsville, Texas. The unit consists of two gas turbines, a heat recovery steam generator and steam turbine.

(6) SHORT-TERM DEBT

Commercial paper balances and activity as of and for the year ended September 30, are as follows:

	2021	2020
Beginning Balance	$ -	$ 37,500,000
Additions	46,000,000	12,500,000
Reductions	-	(50,000,000)
Ending Balance	$ 46,000,000	$ -

The Public Utilities Board issued $46,000,000 of Commercial Paper during fiscal year 2021 and $12,500,000 of Commercial Paper during fiscal year 2020.

On September 25, 2012, the Public Utilities Board issued $20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The bonds had a closing date of October 18, 2012, and the proceeds plus $5,275,000 in issuer contributions were used to defease $24,450,000 of Commercial Paper Notes.

On April 20, 2004, the City Commission of the City of Brownsville, Texas, approved and authorized the issuance of short term obligations in an aggregate principal amount not to exceed $50,000,000. A total of $44,500,000 was issued in fiscal year 2004. The purpose of the Commercial Paper Program is to pay for additions, improvements, and extensions to the City's combined electric system, waterworks system and sewer system. The Commercial Paper was used to purchase an additional ownership interest in Oklaunion, an electric generating plant. The Reimbursement and Credit Agreement was executed between the City, acting through the Public Utilities Board, and State Street Bank and Trust Company, Credit and Liquidity Provider, for the Commercial Paper. In order to assure timely payment of the principal of and interest on the Commercial Paper Notes, a Letter of Credit was executed by the City and Deutsche Bank Trust, as beneficiary Issuing and Paying Agency. The stated amount of the Letter of Credit is $50,000,000 (principal plus accrued interest cannot exceed $50,000,000).

On September 17, 2013, the City Commission of the City of Brownsville adopted an Ordinance No. 2013-1582 authorizing the issuance of the City of Brownsville, Texas Utilities System Commercial Paper Notes, Series A in a maximum aggregate principal amount of $100,000,000 outstanding at any time. Subsequently on September 20, 2016, the City Commission of the City of Brownsville adopted Ordinance No. 2016-1619 supplementing the Original Ordinance and authorizing the substitution of the Credit Facility. On

(6) SHORT-TERM DEBT - Continued

November 1, 2016, the City of Brownsville and the Mitsubishi UFJ Financial Group (MUFG) entered into a Reimbursement Agreement related to the Commercial Paper Notes, Series A. The City of Brownsville requested that the Bank issue its Letter of Credit to secure certain payments to be made with respect to the Commercial Paper Notes in the amount of $111,095,891, of which $100,000,000 will be available to pay principal of the Commercial Paper Notes upon maturity thereof, and of which $11,095,891 will be available to pay accrued interest on the Commercial Paper Notes at maturity.

In anticipation of the expiration of the MUFG Letter of Credit on November 1, 2019, the Public Utilities Board issued a Request for Proposal for a new provider. The Public Utilities Board entered into a three-year agreement with Bank of America, N.A. effective November 1, 2019, under the same terms as the previous Letter of Credit with MUFG.

On March 18, 2021, the Public Utilities Board amended the Commercial Paper program to permit issuance on a taxable and a tax-exempt basis. This amendment would allow for the issuance, sale, terms and forms of commercial paper notes as Subordinate Lien Obligations in an aggregate principal amount not to exceed $100,000,000 at any one time outstanding.

(7) LONG-TERM DEBT

Revenue Bonds – Revenue bond information and balances for the years ended September 30, 2021 and 2020, are as follows:

		Original	Installment Amounts			Interest Rates	Final	Outstanding	Outstanding
Brownsville Public Utilities Board:		Borrowing	From		To	to Maturity	Maturity	at 9/30/21	at 9/30/20
2005	Utilities System Revenue Improvement and Refunding Bonds (Series A)	$ 163,725,000	$ 100,000	-	$ 100,000	3.5% - 5.0%	2031	$ 100,000	$ 100,000
2008	Utilities System Revenue Refunding Bonds	77,805,000	100,000	-	100,000	4.0% - 5.0%	2033	100,000	100,000
2012	Utilities System Junion Lien Revenue Bonds*	840,000	40,000	-	60,000	0.27% - 3.49%	2032	535,000	575,000
2013	Utilities System Revenue Refunding Bonds (Series A)	118,185,000	7,445,000	-	9,565,000	2.0% - 4.0%	2026	43,870,000	51,620,000
2015	Utilities System Revenue Refunding Bonds	94,770,000	675,000	-	8,995,000	4.0% - 5.0%	2045	55,405,000	58,480,000
2016	Utilities System Revenue Refunding Bonds	39,410,000	1,515,000	-	3,930,000	5.0%	2033	31,020,000	33,955,000
2018	Utilities System Revenue Refunding Bonds	14,000,000	310,000	-	1,650,000	4.0% - 5.0%	2033	10,045,000	11,415,000
2020	Utilities System Revenue Refunding Bonds	53,590,000	270,000	-	2,515,000	2.0% - 5.0%	2050	53,320,000	53,590,000
2020A	Utilities System Revenue Refunding Bonds	62,320,000	840,000	-	1,210,000	2.0% - 5.0%	2031	60,890,000	62,320,000
								255,285,000	272,155,000
Southmost Regional Water Authority:									
2009	Revenue Bonds (Series A)*	9,295,000	305,000	-	310,000	0.0%	2039	5,575,000	5,885,000
2009	Revenue Bonds (Series B)*	3,795,000	190,000	-	270,000	0.1% - 4.25%	2029	1,885,000	2,080,000
2012	Water Supply Contract Revenue Refunding Bonds	13,530,000	935,000	-	1,285,000	3.0% - 5.0%	2027	6,980,000	7,960,000
2017	Water Supply Contract Revenue Refunding Bonds	9,255,000	935,000	-	1,795,000	4.125% - 5.5%	2032	8,320,000	8,320,000
								22,760,000	24,245,000
								$ 278,045,000	$ 296,400,000
*	Direct Placement Bonds								

(7) LONG-TERM DEBT - Continued

The following tables summarizes revenue bond transactions for the years ended September 30, 2021 and 2020:

	Beg. Balance 10/1/2020	Additions	Reductions/ Amortization	End Balance 9/30/2021	Due Within One Year
Revenue Bonds	$ 287,860,000	$ -	$ (17,810,000)	$ 270,050,000	$ 18,590,000
Direct Placement Bonds	8,540,000	-	(545,000)	7,995,000	555,000
Unamortized Premium	40,208,890	-	(3,303,372)	36,905,518	-
Unamortized Discount	(1,830,284)	-	134,290	(1,695,994)	-
Total Bonds Payable, Net	$ 334,778,606	$ -	$ (21,524,082)	$ 313,254,524	$ 19,145,000

	Beg. Balance 10/1/2019	Additions	Reductions/ Amortization	End Balance 9/30/2020	Due Within One Year
Revenue Bonds	$ 253,975,000	$115,910,000	$ (82,025,000)	$ 287,860,000	$ 17,810,000
Direct Placement Bonds	9,080,000	-	(540,000)	8,540,000	545,000
Unamortized Premium	33,836,502	9,295,486	(2,923,098)	40,208,890	-
Unamortized Discount	(1,586,040)	(616,844)	372,600	(1,830,284)	-
Total Bonds Payable, Net	$ 295,305,462	$124,588,642	$ (85,115,498)	$ 334,778,606	$ 18,355,000

Principal and interest amounts due for each of the next five years and thereafter to maturity are:

	Revenue Bonds			Direct Placement Bonds		
	Principal	Interest	Total	Principal	Interest	Total
Year Ending September 30:						
2022	$ 18,590,000	$ 10,243,462	$ 28,833,462	$ 555,000	$ 92,156	$ 647,156
2023	19,465,000	9,376,616	28,841,616	560,000	83,956	643,956
2024	18,675,000	8,464,745	27,139,745	575,000	75,212	650,212
2025	19,210,000	7,530,995	26,740,995	585,000	65,699	650,699
2026	20,185,000	6,625,320	26,810,320	595,000	55,086	650,086
2027-2031	112,440,000	22,288,689	134,728,689	2,590,000	104,333	2,694,333
2032-2036	22,740,000	8,986,094	31,726,094	1,610,000	2,094	1,612,094
2037-2041	14,460,000	5,706,244	20,166,244	925,000	-	925,000
2042-2046	14,650,000	3,074,338	17,724,338	-	-	-
2047-2050	9,635,000	733,200	10,368,200	-	-	-
	$ 270,050,000	$ 83,029,702	$ 353,079,702	$ 7,995,000	$ 478,536	$ 8,473,536

The Public Utilities Board is required by various debt agreements to comply with various financial statements and other covenants including maintaining required debt service coverage ratios. No non-compliance with covenants was noted which constitutes an "event of default" under these agreements.

On December 7, 2009, the Authority issued $9,295,000 in Water Supply Contract Revenue Bonds, Series 2009A and $3,795,000 in Water Supply Contract Revenue Bonds, Series 2009B through the TWDB Drinking Water State Revolving Fund for the construction of a full-scale Micro Filtration Pretreatment System. The Series 2009A bonds were issued at 0.0% interest with annual installments ranging from $305,000 to $310,000 through maturity in 2039. The Series 2009B bonds bear interest at a range from 0.10% to 4.25% with annual installments ranging from $125,000 to $270,000 through maturity in 2029.

(7) LONG-TERM DEBT – Continued

On February 28, 2011, the Public Utilities Board issued $12,305,000 in Utilities System Revenue Refunding Bonds, Series 2011. The refunding bonds provided proceeds to refund $6,270,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005A and $5,980,000 of Junior Lien Exchange Revenue Refunding Bonds, Series 2005B.

On October 1, 2012, the Public Utilities Board issued $840,000 in Utility System Junior Lien Revenue Bonds, Series 2012. Proceeds from the sale of the Obligations were used for the purpose of funding construction improvements to the wastewater system on the FM 511 – 802 Colonia Project.

On September 25, 2012, the Public Utilities Board issued $20,690,000 in Utility System Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012 and the proceeds plus $5,275,000 in issuer contributions were used to defease $24,450,000 of Commercial Paper notes.

On September 26, 2012, the Authority issued $13,530,000 in Water Supply Contract Revenue Refunding Bonds, Series 2012. The refunding bonds had a closing date of October 18, 2012, and the proceeds plus the bond premium were used to defease $14,990,000 of the Series 2002 Revenue Bonds for the years 2013 through 2027.

On May 1, 2013, the Public Utilities Board issued $118,185,000 in Utilities System Revenue Refunding Bonds, Series 2013. The refunding bond proceeds plus a bond premium of $16,723,650 were used to defease $109,985,000 of the Series 2005A Utilities System Revenue Improvement and Refunding Bonds which are callable on September 1, 2015, and funded $11,818,500 of Public Utilities Board Senior Lien Reserve Fund.
On October 18, 2012, the Public Utilities Board issued $20,690,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2012. The proceeds of the refunding bonds plus $5,275,000 in issuer contributions were used for a current refunding of $24,450,000 of Commercial Paper Notes. As a result, the refunded commercial paper notes are considered to be defeased and the liability was removed from long-term debt.

On July 15, 2015, the Public Utilities Board issued $94,770,000 in Utilities System Revenue Refunding Bonds, Series 2015. The refunding bond proceeds plus a bond premium of $8,945,752 were used to defease $49,060,000 of the Series 2005A Utility System Revenue Improvement and Refunding Bonds; $27,815,000 of the Series 2005B Utility System Revenue Refunding Bonds; $5,480,000 of the Series 2011 Utility System Revenue Refunding Bonds; and $20,000,000 of the Utilities System Commercial Paper Notes.

On May 15, 2016, the Public Utilities Board issued $39,410,000 in Utilities System Revenue Refunding Bonds, Series 2016. The refunding bond proceeds plus a bond premium of $7,705,681 were used to defease $42,505,000 of the Series 2008 Utility System Revenue Refunding Bonds. As a result, the refunded debt is considered to be defeased and the liability was removed from long-term debt.

On April 18, 2017, the Authority issued $9,255,000 in Water Supply Contract Revenue Refunding Bonds, Series 2017. The refunding bond proceeds plus the bond premium of $725,245 were used to defease $9,715,000 of the Series 2006 Water Supply Contract Revenue Refunding Bonds for the years 2019 through 2032.

On July 1, 2018, the Public Utilities Board issued $14,000,000 in Utilities System Revenue Refunding Bonds, Series 2018. The bonds, plus a premium of $1,404,015, provided proceeds to refund $14,980,000 of the Series 2007 Jr. Lien Revenue Bonds, Series 2008 Revenue Refunding Bonds, and a portion of Series 2012 Sr. Lien Revenue Refunding Bonds.

(7) LONG-TERM DEBT – Continued

During fiscal year 2020, the Public Utilities Board issued $53,590,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020, and $62,320,000 in aggregate principal amount of Utilities System Revenue Refunding Bonds, Series 2020A (Taxable).

Current Refunding – For Series 2020, the refunding bonds were issued to provide resources to purchase State and Local Government purchases that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $12,105,000 of the Series 2012 Utilities System Senior Lien Revenue Refunding Bonds for the years 2026-2037, and $50,000,000 of Commercial Paper Notes. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old bonds by $257,853. This amount is being netted against the new debt and amortized through the year 2050. The Public Utilities Board completed the refunding to reduce its total debt service payments over the next 30 years by $2,024,748 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $1,758,201.

Advance Refunding – For Series 2020A, the refunding bonds were issued to provide resources to purchase open market purchases that were placed in an irrevocable trust for the purpose of generating resources for all future debt service payments of $54,480,000 of the Series 2013A Utilities System Revenue Refunding Bonds for the years 2027- 2031. As a result, the refunded bonds are considered to be defeased and the liability has been removed from long-term debt. The reacquisition price exceeded the net carrying amount of the old debt by $7,470,026. This amount together with $4,806,674 unamortized deferred amount from the prior refunding is being netted against the new debt and amortized through the year 2031. The Public Utilities Board completed the refunding to reduce its total debt service payments over the next 10 years by $5,399,381 and to obtain an economic gain (difference between the present values of the old and new debt service payments) of $4,975,869.

Direct Placement Bonds – As of September 30, 2021, direct placement bonds with the Texas Water Development Board (TWDB) consisted of Junior Lien Series 2015 for the Public Utilities Boards in an outstanding amount of $535,000. Direct placement debt for the Authority consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of $5,575,000 and $1,885,000, respectively. Interest rates on the junior lien fixed rate bonds range from 0.27% to 3.49% for the Public Utilities Board. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

As of September 30, 2020, direct placement bonds with the Texas Water Development Board (TWDB) consisted of Junior Lien Series 2015 for the Public Utilities Boards in an outstanding amount of $575,000. Direct placement debt for the Authority consisted of Series 2009 A and Series 2009 B Revenue Bonds for the Authority in an outstanding amount of $5,885,000 and $2,080,000, respectively. Interest rates on the junior lien fixed rate bonds range from 0.27% to 3.49% for the Public Utilities Board. Interest rates on the junior lien fixed rate bonds for the Authority range from 0.0% for Series 2009A and 0.1% to 4.25% for Series 2009B.

Prior Year Defeasance of Debt – In prior years, the Public Utilities Board has defeased various bond issues by creating separate irrevocable trust funds. New debt has been issued and the proceeds have been used to purchase U.S. government securities and open market purchases that were placed in the trust funds. The investments and fixed earnings from the investments are sufficient to fully service the defeased debt until the debt is called or it matures. For financial reporting purposes, the debt has been considered defeased and therefore removed as a liability from long-term debt. As of September 30, 2021, and 2020, the amount of defeased debt outstanding but removed from long-term debt amounted to $54,480,000.

(8) RISK MANAGEMENT

The Public Utilities Board is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; and natural disasters for which the entity carries commercial insurance. The Public Utilities Board has established a limited risk management program for employee health and workers' compensation for which the Public Utilities Board retained risk of loss. For insured programs, there have been no significant reductions in insurance coverage. Liabilities are reported when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Liabilities include an amount for claims incurred but not reported. The result of the process to estimate the claims liability is not an exact amount as it depends on many complex factors, such as inflation, changes in legal doctrines, and damage awards. Accordingly, claims are reevaluated periodically. The estimate of the claims liability also includes amounts for claim incremental adjustment expenses. Estimated recoveries from third parties are another component of claims expense. A General liability insurance policy covers individual claims in excess of $25,000 each occurrence. An Auto liability insurance policy covers individual claims in excess of $1,000.

Workers' compensation insurance covers individual claims in excess of $350,000 (each Accident) / $1,050,000 (Aggregate). A Directors & Officers and Employment Practices liability insurance policy covers individual claims in excess of a $200,000 per claim retention. Property insurance and other ancillary lines of insurance coverage for crime, mobile equipment, cyber liability and pollution are also in force.

Workers' Compensation Program

The Public Utilities Board has a workers' compensation self-insurance plan for the purpose of providing medical and indemnity payments as required by law for on-the-job related injuries. The plan is administered by a service agent. The Public Utilities Board has an excess workers' compensation insurance contract with an insurance carrier coverage which provides Texas statutory limits for claims in excess of $350,000 for any one accident or occurrence. The aggregate deductible under this policy is $1,050,000. Management feels that the contributions made during the year for workers' compensation will offset any claims paid during the year. Therefore, the entire liability is estimated to be long term and recorded as such.

Health Insurance Program

The Public Utilities Board has a group health self-insurance plan for the purpose of providing health insurance for the employees and their dependents. The plan is administered by a service agreement. The Public Utilities Board has a stop loss contract with an insurance carrier covering individual health claims in excess of $200,000 per individual. The Public Utilities Board also has aggregate limits, which fluctuate with enrollment but are currently at $8,930,676 for the health insurance plan and $432,170 for the dental insurance plan. This is the maximum liability for health and dental claim costs for the plan year ending December 31, 2021.

The following is a summary of changes in claims liability for the Workers' Compensation and Health Insurance programs, which is included in accounts payable and accrued liabilities payable from restricted assets, for the years ended September 30, 2021 and 2020:

	Beginning Balance 2020	Claims and Adjustments	Claims Payments	Ending Balance 2021	Amounts Due Within One Year
Workers' Compensation	$ 394,330	$ 247,011	$ (371,185)	$ 270,156	$ 241,452
Health Insurance	$ 252,985	$ 8,637,585	$ (8,630,983)	$ 259,587	$ 259,587

(8) RISK MANAGEMENT - Continued

	Beginning Balance 2019	Claims and Adjustments	Claims Payments	Ending Balance 2020	Amounts Due Within One Year
Workers' Compensation	$ 359,075	$ 468,740	$ (433,485)	$ 394,330	$ 118,877
Health Insurance	$ 290,753	$ 7,714,639	$ (7,752,407)	$ 252,985	$ 252,985

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM

Plan Description – The Public Utilities Board participates as one of 886 plans in the defined benefit cash-balance plan administered by the Texas Municipal Retirement System (TMRS). TMRS is a statewide public retirement plan 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 employees of Texas participating cities. The TMRS Act places the general administration and management of TMRS with a six-member, Governor-appointed Board of Trustees; however, TMRS is not fiscally dependent on the State of Texas. TMRS issues a publicly available Annual Comprehensive Financial Report (Annual Report) that can be obtained at tmrs.com. All eligible employees of the Public Utilities Board are required to participate in TMRS.

Plan provisions for the Public Utilities Board for fiscal years 2021 and 2020 were as follows:

Employee deposit rate:	7%
Matching ratio (PUB to employee):	2 to 1
Years required for vesting:	5 years
Members can retire at certain ages, based on the years of service with the Public Utilities Board. The Service Retirement Eligibilities for the Public Utilities Board are:	5 years/age 60 20 years/any age
Updated Service Credit	100% Repeating, Transfers
Annuity Increase (to retirees)	70% of CPI Repeating
Supplemental Death Benefit to Active Employees	Yes
Supplemental Death Benefit to Retirees	Yes

Benefits Provided – TMRS provides retirement, disability, and death benefits. Benefit provisions are adopted by the governing body of the Public Utilities Board, within the options available in the state statutes governing TMRS.

At retirement, the Member's benefit is calculated based on the sum of the Member's contributions, with interest, and the city-financed monetary credits with interest. The retiring Member may select one of seven monthly benefit payment options. Members may also choose to receive a portion of their benefit as a lump sum distribution in an amount equal to 12, 24 or 36 monthly payments, which cannot exceed 75% of the total Member contributions and interest.

At the date the plan began, the Public Utilities Board 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 a percentage (100%, 150%, or 200%) of the employee's accumulated contributions.

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

In addition, the Public Utilities Board can grant, as often as annually, another type of monetary credit referred to as an updated service credit which is a theoretical amount which, when added to the employee's accumulated contributions and the monetary credits for service since the plan began, would be the total monetary credits and employee contributions accumulated with interest if the current employee contribution rate and the Public Utilities Board matching percent had always been in existence and if the employee's salary had always been the average of his salary in the last three years that are one year before the effective date.

At the December 31 valuation and measurement date, the following employees were covered by the benefit terms:

	December 31, 2020	December 31, 2019
Active employees	575	579
Inactive employees or beneficiaries currently receiving benefits	306	283
Inactive employees entitled to but not yet receiving benefits	125	121
Total Plan Participants	1,006	983

Contributions – The contribution rates for employees in TMRS are either 5%, 6%, or 7% of employee gross earnings, and the Public Utilities Board matching percentages are either 100%, 150%, or 200%, both as adopted by the governing body of the Public Utilities Board. Under the state law governing TMRS, the contribution rate for each entity is determined annually by the actuary, using the Entry Age Normal (EAN) actuarial cost method. The Public Utilities Board's contribution rate is based on the liabilities created from the benefit plan options selected by the city and any changes in benefits or actual experience over time.

Employees of the Public Utilities Board were required to contribute 7% of their annual gross earnings during the fiscal year. The contribution rates for the Public Utilities Board were 17.57% and 17.21% for calendar years 2021 and 2020, respectively. The Public Utilities Board's contributions to TMRS in the fiscal year ended September 30, 2021, were $5,171,612, and $5,340,253 for fiscal year ended September 30, 2020, and equaled the required contributions.

Net Pension Liability – The Public Utilities Board's net pension liability (NPL) was measured as of December 31, 2020 and 2019, and total pension liability (TPL) used to calculate the net pension liability was determined by actuarial valuations as of that date.

The Public Utilities Board's changes in net pension liability were as follows:

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2019	$ 196,887,584	$ 170,599,567	$ 26,288,017
Changes for the year:			
Service cost	5,473,264	-	5,473,264
Interest	13,195,952	-	13,195,952
Change of benefit terms	-	-	-
Difference between expected and actual experience	(1,314,974)	-	- (1,314,974)
Changes in assumptions	-	-	-
Contributions - employer	-	5,458,074	(5,458,074)
Contributions - employee	-	2,221,035	(2,221,035)
Net investment income	-	12,958,264	(12,958,264)
Benefit payments, including refunds of employee contributions	(8,257,271)	(8,257,271)	- -
Administrative expense	-	(83,793)	83,793
Other changes	-	(3,269)	3,269
Net changes	9,096,971	12,293,040	(3,196,069)
Balance at 12/31/2020	$ 205,984,555	$ 182,892,607	$ 23,091,948

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

	Increase (Decrease)		
	Total Pension Liability (a)	Plan Fiduciary Net Position (b)	Net Pension Liability (a) - (b)
Balance at 12/31/2018	$ 186,129,503	$ 147,609,405	$ 38,520,098
Changes for the year:			
Service cost	5,125,439	-	5,125,439
Interest	12,500,119	-	12,500,119
Change of benefit terms	-	-	-
Difference between expected and actual experience	(70,448)	-	(70,448)
Changes in assumptions	213,516	-	213,516
Contributions - employer	-	5,205,992	(5,205,992)
Contributions - employee	-	2,088,363	(2,088,363)
Net investment income	-	22,839,170	(22,839,170)
Benefit payments, including refunds of employee contributions	(7,010,545)	(7,010,545)	-
Administrative expense	-	(128,944)	128,944
Other changes	-	(3,874)	3,874
Net changes	10,758,081	22,990,162	(12,232,081)
Balance at 12/31/2019	$ 196,887,584	$ 170,599,567	$ 26,288,017

Actuarial assumptions – The total pension liability in the December 31, 2020 and 2019, actuarial valuations were determined using the following actuarial assumptions:

	12/31/2020	12/31/2019	
Inflation	2.50%	2.50%	per year
Overall payroll growth	2.75%	2.75%	per year
Investment Rate of Return	6.75%	6.75%	net of pension plan investment expense, including inflation

Salary increases were based on a service-related table. For 2020 and 2019, mortality rates for active members are based on the PUB(10) mortality tables with the Public Safety table used for males and the General Employee table used for females. Mortality rates for healthy retirees and beneficiaries are based on the Gender-distinct 2019 Municipal Retirees of Texas mortality tables. The rates for actives, healthy retirees and beneficiaries are projected on a fully generational basis by Scale UMP to account for future mortality improvements. For disabled annuitants, the same 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 3.0% minimum mortality rate is applied, for males and females respectively, to reflect the impairment for younger members who become disabled. The rates are projected on a fully generational basis by Scale UMP to account for future mortality improvements subject to the floor.

For 2020 and 2019, the actuarial assumptions were developed primarily from the actuarial investigation of the experience of TMRS over the four-year period from December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation. The post-retirement mortality assumption for Annuity Purchase Rates (APRs) is based on the Mortality Experience Investigation Study covering 2009 through 2011 and dated December 31, 2013. 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.

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

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. In determining their best estimate of a recommended investment return assumption under the various alternative asset allocation portfolios, actuaries focused on the area between (1) arithmetic mean (aggressive) without an adjustment for time (conservative) and (2) the geometric mean (conservative) with an adjustment for time (aggressive).

The target allocation and best estimates of arithmetic real rates of return for each major asset class are summarized in the following table:

	September 30, 2021		September 30, 2020	
Asset Class	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)	Target Allocation	Long-Term Expected Real Rate of Return (Arithmetic)
Global Equity	30.0%	5.30%	35.0%	5.30%
Core Fixed Income	10.0%	1.25%	10.0%	1.25%
Non-Core Fixed Income	20.0%	4.14%	20.0%	4.14%
Real Return	10.0%	3.85%	10.0%	3.85%
Real Estate	10.0%	4.00%	10.0%	4.00%
Absolute Return	10.0%	3.48%	10.0%	3.48%
Private Equity	10.0%	7.75%	5.0%	7.75%
Total	100.0%		100.0%	

Discount Rate – The discount rate used to measure the Total Pension Liability recorded as of September 30, 2021 and 2020, was 6.75%. The projection of cash flows used to determine the discount rate assumed that Member 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 active and inactive 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 Public Utilities Board, calculated using the discount rate of 6.75%, as well as what the Public Utilities Board'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:

Measurement Date	1% Decrease 5.75%	Current Single Discount Rate Assumption 6.75%	1% Increase 7.75%
12/31/2020	$ 52,620,475	$ 23,091,948	$ (1,184,416)
12/31/2019	$ 54,650,401	$ 26,288,017	$ 2,958,403

Pension Plan Fiduciary Net Position – Detailed information about the pension plan's Fiduciary Net Position is available in a separately-issued TMRS financial report in the Schedule of Changes in Fiduciary Net Position, by Participating City. That report may be obtained at tmrs.com.

(9) TEXAS MUNICIPAL RETIREMENT SYSTEM – Continued

Pension Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to Pensions – The Public Utilities Board recognized $2,643,908 in pension expense for the fiscal year ended September 30, 2021, and $5,363,010 in pension expense for the fiscal year ended September 30, 2020.

At September 30, 2021 and 2020, the Public Utilities Board reported deferred outflows of resources and deferred inflows of resources related to pensions from the following sources:

	September 30,	
	2021	2020
Deferred outflows of resources		
Changes in assumptions	$ 157,236	$ 209,324
Differences between expected and actual experience on pension assets	62,782	103,025
Employer's contributions to the Plan subsequent to the measurement of total pension liability	3,686,924	4,052,726
Total deferred outflows of resources	$ 3,906,942	$ 4,365,075
Deferred inflows of resources		
Differences between expected and actual experience on pension assets	$ (1,405,676)	$ (758,989)
Differences between projected and actual earnings on pension assets (net)	(4,904,085)	(5,261,199)
Total deferred inflows of resources	$ (6,309,761)	$ (6,020,188)

The amount reported as deferred outflows of resources, $3,686,924, related to pensions resulting from contributions subsequent to the measurement date will be recognized as a reduction of the net pension liability for the fiscal year ending September 30, 2022. Other amounts reported as deferred outflows and inflows of resources related to pensions will be recognized in pension expense as follows:

Year ended September 30,	Net deferred outflows(inflows) of resources:
2022	$ (2,096,972)
2023	(184,292)
2024	(3,089,100)
2025	(485,996)
2026	(209,711)
Thereafter	(23,672)
Total	$ (6,089,743)

(10) OTHER POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note 9, the Public Utilities Board provides post-retirement health care benefits and supplemental death benefits to its employees.

POST-RETIREMENT HEALTH CARE BENEFITS

Plan Description and Benefits Provided – The Public Utilities Board provides post-retirement health care benefits for employees retiring and receiving annuities from the Texas Municipal Retirement System, through a single-employer plan, who are (1) at least age 60 and have completed 10 consecutive years of active service with the Public Utilities Board immediately prior to retirement, (2) at least age 55 and have completed 25 consecutive years of active service with the Public Utilities Board immediately prior to retirement, or (3) at any age having completed 30 consecutive years of active service with the Public Utilities Board immediately prior to retirement. Prior to age 65, the Public Utilities Board will pay 100% of the cost of the Group Health Insurance Program for the retirees. Spouses and dependents are also eligible for coverage, but the retiree must pay the premiums. No coverage is available after the retiree reaches age 65, including coverage for spouses and dependents. The above eligibility and coverage requirements do not apply to retirees that retired under Retiree Package I (1999) and Retiree Package II (2005). The Retiree Package I plan results from a special offer made in fiscal year 1999 to all employees with 25 years or more of credited service or eligible for retirement under TMRS guidelines who elected to voluntarily resign or retire during the offer period. The plan provides coverage for the employees and the employees' dependent (spouse) under the Public Utilities Board's group medical plan until such time as the employee becomes 65 years of age, dies, or elects to receive coverage from another source. Under Retiree Package I, 34 retirees met these eligibility requirements. The Retiree Package II plan provides post-retirement benefits to all employees who retire from the Public Utilities Board after attaining 10 years of service and 60 years of age, 25 years of service and 55 years of age or 30 years of service regardless of age. Under the Retiree Package II plan, retirees may pay to provide spousal and dependent coverage.

Under Retiree Package II, 24 retirees met these eligibility requirements. The Public Utilities Board provides 100% of the cost of retirees to participate in this plan. Expenses for post-retirement health care benefits are recognized as retirees report claims and include a provision for estimated claims incurred but not yet reported. Expenses related to provision of these post-employment benefits cannot be reasonably estimated.

The following tables presents information about the participants covered by the benefit terms. Participants providing the basis of the actuarial valuations used to calculate the total OPEB liability, as of the measurement date for fiscal years ended September 30, 2021 and 2020, were:

	October 1,	
	2020	2019
Active participants	584	584
Retirees	48	48
Beneficiaries	0	0
Spouses of retirees	19	19
Total Participants	651	651

Contributions – The Public Utilities Board does not pre-fund benefits. The current funding policy is to pay benefits directly from general assets on a pay-as-you-go basis, and there is not a trust for accumulating plan assets. There have been no changes to the demographic assumptions from the last valuation report with the exception of mortality.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Actuarial Methods and Assumptions

Valuation Timing – For fiscal years 2021, the valuation was performed October 1, 2019, with measurement dates at September 30, 2021 and September 30, 2020.

Unless specifically noted in the categories below, all methods and assumptions were in effect as of September 30, 2021 and 2020.

Actuarial Cost Method – The actuarial cost method used for determining the benefit obligations is the Entry Age Normal Cost Method. Under this method a projected retirement benefit at assumed retirement age is computed for each participant using anticipated future pay increases. The normal cost for each participant is computed as the level percentage of pay which, if paid from each participant's date of employment by the employer or any predecessor employer (thus, entry age) to his assumed retirement date, would accumulate with interest at the rate assumed in the valuation to an amount sufficient to fund his projected retirement benefit. The normal cost for the plan is the total of the individually computed normal costs for all participants including the costs for any death or disability benefits under the plan.

The accrued liability at any point in time for an active participant is the theoretical fund that would have been accumulated on his behalf from his normal cost payments and the earnings thereon for all prior years if the plan had always been in effect. For persons receiving benefits or entitled to a deferred vested retirement income, the accrued liability cost is equal to the present value of their future benefit payments. The accrued liability for the plan is the total of the individually computed accrued liability for all participants. The unfunded accrued liability for the plan is the excess of the accrued liability over the assets which have been accumulated for the plan.

It should be noted that the accrued liability as of any date is not the actuarially computed present value of accrued or accumulated plan benefits as of that date. The accrued liability is the portion of the ultimate cost assigned to prior years by the cost method being used.

Inflation – Inflation is calculated as 2.20% per annum, compounded annually.

Salary Increases – Salary increases are calculated as 2.10% per annum, compounded annually.

Discount Rate – The discount rate is based on the Bond Buyer's 20-year General Obligation Index immediately prior to or coincident with the measurement date. At September 30, 2021, the discount rate was 2.26% per annum, compounded annually. As September 30, 2020, the discount rate was 2.21% per annum, compounded annually.

Administrative Expenses – Administrative expenses are included in claims cost.

Coverage Assumption – One hundred percent of members are assumed to elect coverage at retirement.

Spouses Coverage – For active participants it is assumed that husbands are three years older than their wives. Fifty percent of active employees are assumed to be married and elect spouse coverage.

Mortality – The Mortality table used was the Pub-2010 Mortality (headcount weighted) for Employees, Healthy Annuitants, and Contingent Annuitants projected forward (fully generational) with MP-2020.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Per Capita Medical Benefit Costs – The following tables show health costs for ages 45 to 65 at five year intervals. Claim costs are calculated using combined active and retiree premium equivalent rates. This was validated by reviewing the experience. Actual medical administrative expenses were not provided. Therefore, the assumption was made of a medical load of 10%. No stop-loss recoveries for retirees assumed.

	Retiree		Spouse	
Age	Male	Female	Male	Female
45	8,983.89	13,011.90	6,705.66	7,995.78
50	9,832.73	12,108.37	7,757.01	8,900.87
55	10,694.02	11,404.87	8,858.64	9,837.89
60	12,251.99	12,190.91	10,454.89	10,843.11
64	14,769.10	13,503.34	12,586.69	11,931.25
65+	0	0	0	0

Per Capita Dental Benefit Costs – Dental benefits are available to retirees and their dependents, but are paid for entirely by the retiree.

Medical Inflation (Trend Assumption) – The trend assumptions for medical, pharmacy, and dental costs and retiree premiums are summarized in the following tables:

Year	Trend
2019	4.80%
2020	4.80%
2021	4.80%
2022-2024	4.80%
2025-2026	4.80%
2027-2029	4.70%
2030-2038	4.80%
2039-2047	4.90%
2048	5.00%

Year	Trend
2049-2050	4.70%
2051-2057	4.60%
2058-2063	4.10%
2064-2066	4.00%
2067	4.40%
2068-2069	4.30%
2070	4.20%
2071-2072	4.10%
2073+	4.00%

Retirement Rates – The following tables are from the December 31, 2019 TMRS report.

12/31/2019

Ages	Male	Female
<50	5.0%	5.0%
50-51	7.0%	7.0%
52-54	8.0%	8.0%
55-59	13.0%	13.0%
60	16.0%	16.0%
61	17.0%	17.0%
62	25.0%	25.0%
63-64	20.0%	20.0%
65-74	30.0%	30.0%

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Termination Rates – The following tables are from the December 31, 2019 TMRS report. For the first 10 years of service, the base table rates vary by gender, entry age, and length of service.

Sample rates for 5 years of service (12/31/2019 report):		
Ages	Male	Female
25	14.29%	16.64%
30	10.82%	13.69%
35	8.52%	11.10%
40	8.49%	10.19%
45	8.05%	9.03%
50	7.91%	8.38%
55	7.57%	7.26%
60	7.38%	6.63%

Sample rates for 15 years of service (12/31/2019 report):		
Ages	Male	Female
25-40	4.83%	6.47%
45-50	4.09%	5.43%
55	3.06%	4.03%
60	1.57%	2.02%

Disability Rates – The following table is from the December 31, 2019 TMRS report:

Ages	Male	Female
35	0.0194%	0.0194%
40	0.0371%	0.0371%
45	0.0603%	0.0603%
50	0.0891%	0.0891%
55	0.1235%	0.1235%
60	0.1635%	0.1635%

Retiree Contributions – All retires are assumed to pay the following monthly premiums:

2019	Medical
Retiree Only	$ -
Retiree +1	$ 295.02
Retiree + Family	$ 534.70

Total OPEB Liability – The Public Utilities Board's total OPEB liability at September 30, 2021 and 2020, was determined by an actuarial valuation as of October 1, 2019. It was calculated based on the discount rate below and actuarial assumptions described previously in Note 10, and was then projected forward to the measurement date of September 30, 2021 and 2020, respectively. Any significant changes during this period have been reflected as prescribed by GASB 74 and 75.

The following presents a summary of the changes in total OPEB liability:

	September 30, 2021		September 30, 2020	
Total OPEB Liability - beginning of year		$ 21,609,895		$ 25,845,278
Changes for the year:				
Service Cost	985,022		1,025,733	
Interest on total OPEB Liability	492,616		706,142	
Effect of assumptions changes or inputs	119,780		(871,449)	
Effect of economic/demographic gains or losses	-		(4,442,918)	
Benefit payments	(612,621)		(652,891)	
Net changes		984,797		(4,235,383)
Total OPEB Liability - end of year		$ 22,594,692		$ 21,609,895

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Sensitivity Analysis – The following presents the total OPEB liability of the Public Utilities Board, calculated using the discount rate of 2.26% as of September 30, 2021, as well as what the Public Utilities Board's total liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.26%) or 1-percentage-point higher (3.26%) than the current rate:

Measurement Date	1% Decrease 1.26%	Discount Rate 2.26%	1% Increase 3.26%
9/30/2021	$ 24,947,274	$ 22,594,692	$ 20,480,627

The following presents the total OPEB liability of the Public Utilities Board, calculated using the discount rate of 2.21% as of September 30, 2020, as well as what the Public Utilities Board's total liability would be if it were calculated using a discount rate that is 1-percentage-point lower (1.21%) or 1-percentage-point higher (3.21%) than the current rate:

Measurement Date	1% Decrease 1.21%	Discount Rate 2.21%	1% Increase 3.21%
9/30/2020	$ 23,854,580	$ 21,609,895	$ 19,580,796

The following presents the total OPEB liability of the Public Utilities Board, calculated using the current healthcare cost trend rates, as well as what the Public Utilities Board's total liability would be if it were calculated using trend rates that are 1-percentage-point lower or 1-percentage-point higher than the current trend rates.

Measurement Date	1% Decrease	Current Trend Rate	1% Increase
9/30/2021	$ 19,603,479	$ 22,594,692	$ 26,210,418
9/30/2020	$ 18,872,116	$ 21,609,895	$ 24,907,084

OPEB Expense and Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The Public Utilities Board recorded $1,197,271 in OPEB expense for the year ended September 30, 2020 and $1,433,360 for the year ended September 30, 2020.

The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Public Utilities Board as of September 30, 2021 and 2020:

	September 30, 2021	September 30, 2020
Deferred outflows of resources		
Changes in assumptions	$ 2,426,246	$ 2,852,936
Total deferred outflows of resources	$ 2,426,246	$ 2,852,936
Deferred inflows of resources		
Differences in expected and actual experience	$ (3,258,140)	$ (3,850,529)
Changes in assumptions	(1,265,815)	(1,500,263)
Total deferred inflows of resources	$ (4,523,955)	$ (5,350,792)

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Amounts currently reported as deferred outflows of resources and deferred inflows of resources related to other postemployment benefits will be recognized in OPEB expense as follows:

Year ended September 30,	Net deferred outflows(inflows) of resources:
2022	$ (280,367)
2023	(280,367)
2024	(280,367)
2025	(280,367)
2026	(597,363)
Thereafter	(378,878)
Total	$ (2,097,709)

SUPPLEMENTAL DEATH BENEFIT PLAN

Plan Description – The Public Utilities Board also participates in a single-employer, defined benefit group-term life insurance plan known as the Supplemental Death Benefits Fund (SDBF) administered by the TMRS. This is a voluntary program in which the Public Utilities Board elected, by ordinance, to provide group-term life insurance coverage to both current and retired employees. The Public Utilities Board 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 employees' annual salary (calculated based on the employees' actual earnings, for the 12-month period preceding the month of death). The death benefit for retirees is considered an "other post-employment benefit," or OPEB, and is a fixed amount of $7,500. As the SDBF covers both active and retiree participants, with no segregation of assets, the SDBF is considered to be an unfunded OPEB plan (i.e. no assets are accumulated).

At the December 31 valuation and measurement date, the following employees were covered by the benefit terms:

	December 31, 2020	December 31, 2019
Active employees	575	579
Inactive employees or beneficiaries currently receiving benefits	245	230
Inactive employees entitled to but not yet receiving benefits	61	57
Total Plan Participants	881	866

Contributions – The Public Utilities Board contributes to the SDBF at a contractually required rate as determined by an annual actuarial valuation. The rate is based on the mortality and service experience of all employees covered by the SDBF and the demographics specific to the workforce of the city. 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. As such, contributions fund the covered active Member and retiree deaths on a pay-as-you-go basis.

Schedule of Contribution Rates
(RETIREE-only portion of the rate)

Plan/ Calendar Year	Total SDB Contribution (Rate)	Retiree Portion of Contribution (Rate)	Percentage of ARC Contributed
2021	0.27%	0.16%	100%
2020	0.21%	0.05%	100%

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Actuarial Cost Method and Assumptions – Actuarial information under this plan is as follows:

Valuation date	12/31/2020 and 12/31/2019
Inflation	2.5% (2020 and 2019)
Salary Increases	3.50% to 11.50%, including inflation (2020 and 2019)
Discount rate	2.00%* and 2.75%**
Retirees; share of benefit-related costs	$0
Administrative expenses	All administrative expenses are paid through the Pension Trust and accounted for under reporting requirements under GASB Statement No. 68.
Mortality rates - service retirees	(12/31/20 and 12/31/19) - Municipal Retirees of Texas Mortality Tables. The rates are projected on a fully generational basis with scale UMP.
Mortality rates - disables retirees	12/31/20 and (12/31/19) - Municipal Retirees of Texas Mortality Tables with a 4 year set-forward for males and a 3 year set-forward for females. In addition, a 3.5% and 3% minimum mortaility 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.

* The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2020.
** The discount rate was based on the Fidelity Index's "20-Year Municipal GO AA Index" rate as of December 31, 2019.

The actuarial assumptions used in the December 31, 2020 and 2019 valuation were based on the results of an actuarial experience study for the period of December 31, 2014 to December 31, 2018. They were adopted in 2019 and first used in the December 31, 2019 actuarial valuation.

Methods and Assumptions

The methods and assumptions described below were in effect as of September 30, 2021 and 2020.

<u>*Valuation of Assets*</u> – For purposes of calculating the Total OPEB Liability, the plan is considered to be unfunded and therefore no assets are accumulated for OPEB.

<u>*Actuarial Cost Method*</u> – The actuarial cost method being used is known as the Entry Age Normal Actuarial Cost Method. The Entry Age Normal Actuarial Cost Method develops the annual cost of the Plan in two parts: that attributable to benefits accruing in the current year, known as the normal cost, and that due to service earned prior to the current year, known as the amortization of the unfunded actuarial accrued liability. The normal cost and the actuarial accrued liability are calculated individually for each member. The normal cost rate for an employee is the contribution rate which, if applied to a member's compensation throughout their period of anticipated covered service with the municipality, would be sufficient to meet all benefits payable on their behalf. The normal cost is calculated using an entry age based on benefit service with the current city. If a member has additional time-only vesting service through service with other TMRS cities or other public agencies, they retain this for determination of benefit eligibility and decrement rates. The salary-weighted average of these rates is the total normal cost rate. The unfunded actuarial accrued liability reflects the difference between the portion of projected benefits attributable to service credited prior to the valuation date and assets already accumulated.

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

Supplemental Death Benefit – The contribution rate for the Supplemental Death Benefit (SDB) is equal to the expected benefit payments during the upcoming year divided by the annualized pay of current active members and is calculated separately for actives and retirees. Due to the significant reserve in the Supplemental Death Benefit Fund, the SDB rate for retiree coverage is currently only one-third of the total term cost. Beginning January 2021, the SDB rate for retirees will be based on the full term cost.

Total OPEB Liability – The Public Utilities Board's total OPEB liability as of September 30, 2021 was determined by actuarial valuation and measurement date as of December 31, 2020. The Public Utilities Board's total OPEB liability as of September 30, 2020 was determined by actuarial valuation and measurement date as of December 31, 2019.

The following presents a summary of the changes in total OPEB liability:

	September 30, 2021		September 30, 2020	
Total OPEB Liability - beginning of year		$ 1,852,025		$ 1,598,348
Changes for the year:				
Service Cost	79,323		53,701	
Interest on total OPEB Liability	51,803		60,018	
Differences between expected and actual experiene	(39,704)		(130,320)	
Changes in assumptions or other inputs	294,277		285,195	
Benefit payments*	(15,865)		(14,917)	
Net changes		369,834		253,677
Total OPEB Liability - end of year		$ 2,221,859		$ 1,852,025

* Due to the SDBF being considered an unfunded OPEB plan under GASB 75, benefit payments are treated as being equal to the employer's yearly contributions for retirees.

The Public Utilities Board recorded $197,809 in OPEB expense for the year ended September 30, 2021, and an expense of $143,720 for the year ended September 30, 2020.

Sensitivity of the total OPEB liability to Changes in the Discount Rate – The following presents the total OPEB liability of the Public Utilities Board Supplemental Death Benefit Fund, calculated using the applicable discount rate of 2.00% as of September 30, 2021, as well as what the Public Utilities Board's liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Date	1% Decrease 1.00%	Discount Rate 2.00%	1% Increase 3.00%
9/30/2021	$ 2,714,384	$ 2,221,859	$ 1,841,202

(10) OTHER POST-EMPLOYMENT BENEFITS – Continued

The following presents the total OPEB liability of the Public Utilities Board Supplemental Death Benefit Fund, calculated using the applicable discount rate of 2.75% as of September 30, 2020, as well as what the Public Utilities Board's liability would be if it were calculated using a discount rate that is 1-percentage-point lower or 1-percentage-point higher than the current rate:

Date	1% Decrease 1.75%	Discount Rate 2.75%	1% Increase 3.75%
9/30/2020	$ 2,228,864	$ 1,852,025	$ 1,555,795

Deferred Outflows of Resources and Deferred Inflows of Resources Related to OPEB – The following table presents information about the OPEB-related deferred outflows of resources and deferred inflows of resources for the Public Utilities Board:

	September 30, 2021	2020
Deferred outflows of resources		
Difference in expected and actual earnings	$ 24,871	$ 30,821
Changes in assumptions	448,536	239,094
Employer's contributions to the Plan subsequent to the measurement date	33,575	13,679
Total deferred outflows of resources	$ 506,982	$ 283,594
Deferred inflows of resources		
Difference in expected and actual earnings	$ (127,541)	$ (111,939)
Changes in assumptions	-	-
Total deferred outflows of resources	$ (127,541)	$ (111,939)

The following table presents the future amortization of OPEB-related deferred outflows of resources and deferred inflows of resources, excluding the balance attributable to the employer's contribution to the Supplemental Death Benefit Fund in the current fiscal year and subsequent to the total OPEB liability measurement date. The deferred outflows of resources balance for such contribution amounts at the end of a fiscal period are recognized fully as adjustments to the total OPEB liability in the subsequent year.

Year ended	Net deferred outflows(inflows) of resources:
2022	$ 66,683
2023	66,683
2024	66,683
2025	52,493
2026	56,876
Thereafter	36,448
Total	$ 345,866

The following is a summary of certain OPEB account balances as of September 30, 2021 and 2020:

	9/30/2021			9/30/2020		
	Healthcare	Supplemental	Total	Healthcare	Supplemental	Total
OPEB Liability	$22,594,692	$ 2,221,859	$24,816,551	$21,609,895	$ 1,852,025	$23,461,920
Deferred Outflows of Resources	2,426,246	506,982	2,933,228	2,852,936	283,594	3,136,530
Deferred Inflows of Resources	4,523,955	127,541	4,651,496	5,350,792	111,939	5,462,731
OPEB Expense	1,197,271	197,809	1,395,080	1,433,360	143,720	1,577,080

(11) RELATED PARTY TRANSACTION

The Public Utilities Board supplies electric, water, and wastewater services to the City in compliance with the provisions of the City's Revenue Bond Ordinance. These services are accounted for in accordance with the Public Utilities Board's municipal rate schedules. Utilities service provided to the City for the years ended September 30, 2021 and 2020 were $4,587,001 and $4,570,832, respectively.

The Public Utilities Board also bills and collects the City's fees for garbage collection services, garbage tax, EPA fees, and maintenance services, and receives a 3% administrative fee for these services except garbage tax. The Public Utilities Board charged $880,062 and $852,524 to the City for these collection services in 2021 and 2020, respectively.

(12) TRANSFERS TO THE CITY

The issuance of the 2005A and 2005B refunding bonds modified certain existing covenants which included the calculation of the transfers to the City. Beginning fiscal year 2006 the transfers to the City are being made on a quarterly basis calculated at ten percent (10%) of the gross revenues received for the preceding fiscal year quarter, as adjusted in accordance with the following: (1) prior to applying the percentage set forth above to determine the amount to be transferred to the City, the amount of gross revenues for a fiscal year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Public Utilities Board during such fiscal year quarter as well as funding requirements for the Southmost Regional Water Authority; and (2) the amount of funds to be transferred to the City shall be reduced by any amounts owed by the City to the Public Utilities Board for utility services. Prior to fiscal year 2006 Article VI of the Charter provided for the transfer to the City's general fund by the Public Utilities Board from "Surplus Funds" available at the close of each fiscal year (after retaining in the Plant Fund an amount deemed by the Public Utilities Board to be sufficient to pay system operation and maintenance expenses for the next 60 days), to the extent available, the greater of $400,000 or 50% of such surplus funds. Surplus funds, as defined in the Charter, are amounts remaining in the Plant Fund at the close of each fiscal year after all Charter requirements and after all payments have been fully and timely made into funds created by ordinances authorizing outstanding bonds secured by a pledge of the system's net revenues.

Required payments to the City for the years ended September 30, 2021 and 2020, totaled $20,524,044 and $11,170,348, respectively, of which $13,372,977 and $3,994,072 respectively, was payable at September 30, 2021 and 2020. The increase in the net cash transfer to the City is a result of unprecedented off-system energy sales during the Winter Storm Uri event in February 2021.

In fiscal year 2019, the Public Utilities Board transferred $2.25 million in other payments to the City related to the transaction of the Oklaunion Power Station closing. This expense was recognized in fiscal year 2020 upon an amended contract agreement.

(13) COMMITMENTS AND CONTINGENCIES

The Public Utilities Board is currently involved in various claims and litigation. It is the opinion of management and counsel that potential claims against the Public Utilities Board not covered by insurance resulting from litigation would not materially affect the financial position or operations of the Public Utilities Board.

At September 30, 2021, the Public Utilities Board had committed approximately $12,856,518 for utility plant expansion and improvements. Funding of these amounts will come from available revenues of the Public Utilities Board, restricted funds, and short-term debt.

(13) COMMITMENTS AND CONTINGENCIES - Continued

The Public Utilities Board has entered into Purchase Power Agreements with a third party for 50 megawatts that begin in October 2020 and January 2022 and will both terminate in 2029. All costs related to the Purchase Power Agreements will be subject to recovery through the Public Utilities Board's Fuel and Purchased Energy Charge (FPEC) on a monthly basis from electric customers.

(14) RATE STABILIZATION

The Public Utilities Board analyzes and adjusts the fuel and purchased energy charge (FPEC) on a monthly basis. Beginning in April 2016, the Public Utilities Board implemented a bill reduction plan which set the FPEC at a rate that maintains an average residential electric bill at $102.00 based on 1,000 kWh of electric consumption. The plan was implemented to maintain a competitive alignment with other local providers. The Public Utilities Board utilized rate stabilization funds of $143,387,231 and $20,400,000 in fiscal years ending September 30, 2021 and 2020 respectively, to supplement actual FPEC collections.

On October 18, 2021, the Public Utilities Board approved the gradual increase of the FPEC rate to the full recovery rate within four months and to continue adjusting the FPEC rate going forward.

(15) PENDING GASBs

As of September 30, 2021, the Governmental Accounting Standards Board (GASB) had issued statements not yet implemented by the Public Utilities Board. Management is evaluating these pending GASB statements to determine what, if any, impact will be to the Public Utilities Board. The statements are as follows:

- GASB Statement No. 87, *Leases*;
- GASB Statement No. 89, *Accounting for Interest Costs Insured before the end of a Construction Period;*
- GASB Statement No. 91, *Conduit Debt Obligations*
- GASB Statement No. 92, *Omnibus 2020*
- GASB Statement No. 93, *Replacement of Interbank Offered Rates*
- GASB Statement No. 94, *Public-Private and Public-Public Partnerships and Availability Payment Arrangements*
- GASB Statement No. 96, *Subscription-Based Information Technology Arrangements*
- GASB Statement No. 97, *Certain Component Unit Criteria, and Accounting and Financial Reporting for Internal Revenue Code Section 457 Deferred Compensation Plans – an amendment of GASB Statements No. 14 and No. 84, and a supersession of GASB Statement No. 32.*

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Appendix C

FORMS OF LEGAL OPINIONS OF BOND COUNSEL

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June 10, 2022

City of Brownsville, Texas
1001 E. Elizabeth Street
Brownsville, Texas 78520

CITY OF BROWNSVILLE, TEXAS
UTILITY SYSTEM REVENUE REFUNDING BONDS, SERIES 2022
(Final Opinion)

Ladies and Gentlemen:

We have acted as Bond Counsel for the City of Brownsville, Texas, a political subdivision and municipal corporation of the State of Texas (the "City") in connection with the authorization of its City of Brownsville, Texas, Utility System Revenue Refunding Bonds, Series 2022 (the "Series 2022 Bonds"), in accordance with the provisions of the Ordinance (the "Ordinance"), adopted by the City Council authorizing their issuance. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed the Ordinance; the tax certificate of the City dated the date hereof (the "Tax Certificate"); other certificates of the City; certificates of others; a transcript of certain certified proceedings pertaining to the issuance of the Series 2022 Bonds and a portion of the City's outstanding Utility System Commercial Paper Notes, Series A (the "Refunded Notes") that are being refunded with the proceeds of the Series 2022 Bonds; certified copies of certain proceedings of the City and U.S. Bank National Association (the "Refunded Notes Paying Agent"); and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2022 Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2022 Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2022 Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance and the Tax

Certificate, including (without limitation) covenants and agreements compliance with which is necessary to assure that future actions, omissions or events will not cause interest on the Series 2022 Bonds to be included in gross income for federal income tax purposes. We call attention to the fact that the rights and obligations under the Series 2022 Bonds, the Ordinance and the Tax Certificate and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities such as the City in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or to have the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Ordinance or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2022 Bonds and express no opinion or conclusion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2022 Bonds constitute the valid and binding special obligations of the City.

2. The deposit with the Refunded Notes Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Notes; in reliance upon the sufficiency certificate of the financial advisor of the City, the Refunded Notes, having been discharged and paid, are no longer outstanding and the lien on and pledge of Net Revenues as set forth in the ordinance authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Notes may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Notes only out of the funds provided therefor by the deposit with the Refunded Notes Paying Agent; and therefore the Refunded Notes are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from such deposit.

3. The Series 2022 Bonds are payable, both as to principal and interest, from and are equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City (both as defined in the Ordinance), by a first and prior lien on the Net Revenues received and collected by the City from the operation and ownership of the System.

4. Interest on the Series 2022 Bonds is excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. Interest on the Series 2022 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 Series 2022 Bonds.

ORRICK, HERRINGTON & SUTCLIFFE LLP

June 10, 2022

City of Brownsville, Texas
1001 E. Elizabeth Street
Brownsville, Texas 78520

CITY OF BROWNSVILLE, TEXAS
UTILITY SYSTEM REVENUE REFUNDING BONDS, TAXABLE SERIES 2022A
(Final Opinion)

Ladies and Gentlemen:

We have acted as Bond Counsel for the City of Brownsville, Texas, a political subdivision and municipal corporation of the State of Texas (the "City") in connection with the authorization of its City of Brownsville, Texas, Utility System Revenue Refunding Bonds, Taxable Series 2022A (the "Series 2022A Bonds"), in accordance with the provisions of the Ordinance (the "Ordinance"), adopted by the City Council authorizing their issuance. Capitalized terms not otherwise defined herein shall have the meanings ascribed thereto in the Ordinance.

In such connection, we have reviewed the Ordinance; other certificates of the City; certificates of others; a transcript of certain certified proceedings pertaining to the issuance of the Series 2022A Bonds and a portion of the City's outstanding Utility System Commercial Paper Notes, Series A (the "Refunded Notes") that are being refunded with the proceeds of the Series 2022A Bonds; certified copies of certain proceedings of the City and U.S. Bank National Association (the "Refunded Notes Paying Agent"); and such other documents, opinions and matters to the extent we deemed necessary to render the opinions set forth herein.

The opinions expressed herein are based on an analysis of existing laws, regulations, rulings and court decisions and cover certain matters not directly addressed by such authorities. Such opinions may be affected by actions taken or omitted or events occurring after original delivery of the Series 2022A Bonds on the date hereof. We have not undertaken to determine, or to inform any person, whether any such actions are taken or omitted or events do occur or any other matters come to our attention after original delivery of the Series 2022A Bonds on the date hereof. Accordingly, this letter speaks only as of its date and is not intended to, and may not, be relied upon or otherwise used in connection with any such actions, events or matters. Our engagement with respect to the Series 2022A Bonds has concluded with their issuance, and we disclaim any obligation to update this letter. We have assumed the genuineness of all documents and signatures provided to us and the due and legal execution and delivery thereof by, and validity against, any parties other than the City. We have assumed, without undertaking to verify, the accuracy of the factual matters represented, warranted or certified in the documents, and of the legal conclusions contained in the opinions, referred to in the second paragraph hereof. Furthermore, we have assumed compliance with all covenants and agreements contained in the Ordinance. We call attention to the fact that the rights and obligations under the Series 2022A Bonds and the Ordinance and their enforceability may be subject to bankruptcy, insolvency, receivership, reorganization, arrangement, fraudulent conveyance, moratorium and other laws relating to or affecting creditors' rights, to the application of equitable principles, to the exercise of judicial discretion in appropriate cases and to the limitations on legal remedies against governmental entities such as the City in the State of Texas. We express no opinion with respect to any indemnification, contribution, liquidated damages, penalty (including any remedy deemed to constitute or to have the effect of a penalty), right of set-off, arbitration, choice of law, choice of forum, choice of venue, non-exclusivity of remedies, waiver or severability provisions contained in the foregoing documents, nor do we express any opinion with respect to the state or quality of title to or interest in any of the real or personal property described in or as subject to the lien of the Ordinance or the accuracy or sufficiency of the description contained therein of, or the remedies available to enforce liens on, any such property. Our services did not include financial or other non-legal advice. Finally, we undertake no responsibility for the accuracy, completeness or fairness of the Official Statement or other offering material relating to the Series 2022A Bonds and express no opinion or conclusion with respect thereto.

Based on and subject to the foregoing, and in reliance thereon, as of the date hereof, we are of the following opinions:

1. The Series 2022A Bonds constitute the valid and binding obligations of the City.

2. The deposit with the Refunded Notes Paying Agent constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Notes; in reliance upon the sufficiency certificate of the financial advisor of the City, the Refunded Notes, having been discharged and paid, are no longer outstanding and the lien on and pledge of Net Revenues as set forth in the ordinance authorizing their issuance will be appropriately and legally defeased; the holders of the Refunded Notes may obtain payment of the principal of, redemption premium, if any, and interest in the Refunded Notes only out of the funds provided therefor by the deposit with the Refunded Notes Paying Agent; and therefore the Refunded Notes are deemed to be fully paid and no longer outstanding, except for the purpose of being paid from such deposit.

3. The Series 2022A Bonds are payable, both as to principal and interest, from and are equally and ratably secured, together with the currently outstanding Previously Issued Senior Lien Obligations and any Additional Senior Lien Obligations hereafter issued by the City (both as defined in the Ordinance), by a first and prior lien on the Net Revenues received and collected by the City from the operation and ownership of the System.

4. We observe that interest on the Series 2022A Bonds is not excluded from gross income for federal income tax purposes under Section 103 of the Internal Revenue Code of 1986. 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 Series 2022A Bonds.

ORRICK, HERRINGTON & SUTCLIFFE LLP

Appendix D

SELECTED PROVISIONS FROM THE BOND ORDINANCE

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APPENDIX D

SELECTED PROVISIONS FROM THE BOND ORDINANCE

The following constitutes a summary of certain selection provisions of the Ordinance. This summary should be qualified by reference to other provisions of the Ordinance refereed to elsewhere in this Official Statement, and all references and summaries pertaining to the Ordinance in this Official Statement are, separately and in whole, qualified by reference to the exact terms of the Ordinance, a copy of which may be obtained from the City.

*   *   *   *

Definitions. For all purposes of this Ordinance (as defined below), except as otherwise expressly provided herein or unless the context otherwise requires, in addition to other terms defined elsewhere herein, the terms defined in this Section have the meanings assigned to them in this Section, and certain terms used in Sections 45 and 60 of this Ordinance have the meanings assigned to them in such Sections, all as follows:

Accountant means a certified public accountant or accountants or a firm of certified public accountants, in either case, with demonstrated expertise and competence in public accountancy.

Additional Junior Lien Obligations means (i) any bonds, notes, warrants, certificates of obligations, or other Debt hereafter issued by the Issuer that are payable, in whole or in part, from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues, such pledge being junior and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the Senior Lien Obligations issued by the Issuer, but prior and superior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Commercial Paper Obligations or any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a junior and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

Additional Senior Lien Obligations means (i) bonds, notes, warrants, certificates of obligation, or other Debt which the Issuer reserves the right to issue or enter into, as the case may be, in the future under the terms and conditions provided in Section 25 of this Ordinance and which obligations are equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues, and (ii) obligations hereafter issued to refund any of the foregoing (as determined within the sole discretion of the Governing Body in accordance with applicable law) if issued in a manner so as to be payable from and equally and ratably secured by a first and prior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

Adjustable Rate Obligations means Obligations that initially bear interest at an adjustable or variable rate of interest, including Obligations which may be converted to bear a rate of interest fixed to maturity.

Average Annual Debt Service Requirements for any Debt means that average amount which, at the time of computation, will be required to pay the annual Debt Service Requirements when due (either at Stated Maturity or mandatory redemption) and derived by dividing the total of such annual Debt Service Requirements by the number of Fiscal Years then remaining before the last Stated Maturity of such Debt. For the purposes of this definition, a fractional period of a Fiscal Year shall be treated as an entire Fiscal Year. Capitalized interest payments provided from Debt proceeds, accrued interest received on the sale of any Debt, and interest earnings thereon may be credited in making such computation.

Balloon Debt means any series of Obligations 25% or more of the original principal amount of which is due on any date; provided that, in calculating the principal amount of such Obligations due or required to be redeemed, prepaid, or otherwise paid on any date, such principal amount shall be reduced to the extent that all or any portion of such amount is required to be redeemed or amortized on any date.

Board means the duly constituted Public Utilities Board of the City of Brownsville, Texas, acting on behalf of the Issuer appointed by the Governing Body of the Issuer pursuant to the authority contained in Article VI of the Issuer's Charter, Section 1502.070, Texas Government Code, as amended, and this Ordinance.

Bonds means the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2022," which may be issued in multiple or series or subseries.

Capital Improvement Fund means the special fund created and established by the provisions of Section 20 of this Ordinance.

Charter means the Issuer's home rule charter adopted pursuant to the provisions of Article XI, Section 5 of the Texas Constitution, as amended from time to time.

Closing Date means the date of physical delivery of the initial Bonds in exchange for the payment in full therefor by the Underwriters.

Commercial Paper or *Commercial Paper Obligations* means the "City of Brownsville, Texas Utilities System Commercial Paper Notes, Series A" which the Issuer has authorized in a maximum aggregate principal amount of $100,000,000.

Credit Agreement means any agreement between the Issuer and a third party pursuant to which such third party issues or enters into a letter of credit, municipal bond insurance policy, line of credit, standby purchase agreement, surety policy, surety bond or other guarantee for the purpose of enhancing the creditworthiness or liquidity of any of the Issuer's obligations pursuant to any Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations or Inferior Lien Obligations and in consideration for which the Issuer may agree to pay, but solely from Gross Revenues and/or Net Revenues, as provided herein, (i) periodic payments for the availability of such Credit Agreement and/or (ii) reimbursements or repayments of any amounts advanced under such Credit Agreement, together with interest and other stipulated costs and charges related to such amounts advanced. Obligations of the Issuer pursuant to a Credit Agreement shall be deemed to be, and shall be included within, the Debt Service Requirements for the series of Debt to which the Credit Agreement relates. Further, obligations of the Issuer to make payments under a Credit Agreement as reimbursement or repayment of any amounts paid or advanced under such Credit Agreement for interest on or principal of any Debt (including interest and other stipulated costs and charges related to such amounts advanced) shall be deemed to be a part of the Debt of the series to which it relates for the purpose of securing its payment or repayment by the pledge of Net Revenues as provided in this Ordinance unless otherwise provided therein or in the ordinance authorizing such Credit Agreement. Unless specifically provided for in an ordinance, issuers of Credit Agreements shall not be treated as the registered owners of Debt for purposes of any voting rights to approve amendments or to direct the exercise of any remedies under this Ordinance.

Credit Facility means a policy of insurance, a surety bond, letter or line of credit, a standby bond purchase agreement, or other guarantee issued or entered into by a third party to provide for or assure payment of any Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, or Inferior Lien Obligations. The Issuer acknowledges that Attorney General approval is required upon entering into any credit facility.

Credit Provider means any bank, financial institution, insurance company, surety bond provider, or other institution which provides, executes, issues, or otherwise is a party to or provider of a Credit Agreement or Credit Facility.

Crossover Refunding Bonds means any Debt the proceeds of which: (i) are deposited in an escrow account established for such crossover refunding purpose with a Paying Agent/Registrar, (ii) cannot be applied to the purpose for which such Crossover Refunding Bonds are to be issued until the Crossover Refunding Bonds Break Date, (iii) must be sufficient together with the investment income thereon, after the payment of bond issuance costs, if any, to pay the Debt Service Requirements on such Crossover Refunding Bonds on and prior to such Crossover Refunding Bonds Break Date, and (iv) other than paying or providing for the payment of bond insurance costs, if any, cannot be used for any purpose other than the payment of Debt Service Requirements on such Crossover Refunding Bonds on and after the Crossover Refunding Bonds Break Date.

Crossover Refunding Bonds Break Date means the date specified in the ordinance authorizing a series of Crossover Refunding Bonds as the date upon which the proceeds of such Crossover Refunding Bonds can be applied to the purpose of which such Crossover Refunding Bonds are to be issued upon the satisfaction of certain conditions, which conditions shall be set forth in such ordinance.

Debt or *Debts* means all (i) indebtedness payable from Net Revenues incurred or assumed by the Issuer for borrowed money (including indebtedness payable from Net Revenues arising under Credit Agreements or Qualified Hedge Agreements) and all other financing obligations of the System payable from Net Revenues that, in accordance with generally accepted accounting principles for governmental entities, are shown on the liability side of a balance sheet; and (ii) all other indebtedness payable from Net Revenues (other than indebtedness otherwise treated as Debt hereunder) for borrowed money or for the acquisition, construction, or improvement of property or capitalized lease obligations pertaining to the System that is guaranteed, directly or indirectly, in any manner by the Issuer, or that is in effect guaranteed, directly or indirectly, by the Issuer through an agreement, contingent or otherwise, to purchase any such indebtedness or to advance or supply funds for the payment or purchase of any such indebtedness or to purchase property or services primarily for the purpose of enabling the debtor or seller to make payment of such indebtedness, or to assure the owner of the indebtedness against loss, or to supply funds to or in any other manner invest in the debtor (including any agreement to pay for property or services irrespective of whether or not such property is delivered or such services are rendered), or otherwise.

For the purpose of determining *Debt*, there shall be excluded any particular Debt if, upon or prior to the Stated Maturity thereof, there shall have been deposited with the proper depository (a) in trust the necessary funds (or investments that will provide sufficient funds, if permitted by the instrument creating such Debt) for the payment, redemption, or satisfaction of such Debt or (b) evidence of such Debt deposited for cancellation; and thereafter it shall not be considered Debt. No item shall be considered Debt unless such item constitutes indebtedness under generally accepted accounting principles for governmental entities applied on a basis consistent with the financial statements of the System in the Fiscal Years prior to the enactment of this Ordinance.

Debt Service Fund means the special Fund confirmed by the provisions of Section 15 of this Ordinance.

Debt Service Requirements for any Debt means, for any period of time for which such calculation applies, an amount equal to the sum of the following for such period:

> Current interest scheduled to be paid during such period on such Debt, except to the extent that provision for the payment of such interest has been made by (i) appropriating for such purpose amounts sufficient to provide for the full and timely payment of such interest either from proceeds of Debts, from interest earned or to be earned thereon, from other System funds other than Net Revenues, or from any combination of such sources and (ii) depositing such amounts (except in the case of interest to be earned, which shall be deposited as received) into a fund or account for capitalized interest, the proceeds of which are required to be transferred as needed into the debt service fund, plus
>
> That portion of the principal of, or compounded interest on, such Debt scheduled to be payable during such period (either at maturity or by reason of scheduled mandatory redemptions, but after taking into account all prior optional and mandatory Debt redemptions);

provided, however, that the following rules shall apply to the computation of Debt Service Requirements on any series of Debts consisting of Short Term Obligations, Adjustable Rate Obligations or Balloon Debt:

> > For any series of Debts issued as Short Term Obligations under this Ordinance pursuant to a program designated by the Issuer as a commercial paper or similar program, Debt Service Requirements shall be computed on the assumption that the principal amount shall continuously be refinanced under such program and remain outstanding until the first Fiscal Year for which interest on such Short Term Obligations has not been capitalized or otherwise funded or provided for, at which time (which shall not be beyond the term of such program) it shall be assumed that the outstanding principal amount thereof shall be refinanced with a series of Debt of the same lien which shall be assumed to be amortized over a remaining period not to exceed 30 years from the original issue date of such Short

Term Obligations and shall be assumed to be amortized in such a manner that the Debt Service Requirements for any 12-month period are substantially equal to the Debt Service Requirements for any other 12-month period, and shall be assumed to bear interest at a fixed interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the interest rate such series of Debt would bear if issued on such terms on the date of such estimate;

For any series of Debt issued as Adjustable Rate Obligations, it shall be assumed that such Debt will bear interest at an interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the average rate of interest such Debt would bear if issued as long-term bonds, in the same principal amount and with the same Stated Maturity and priority of lien, bearing interest at fixed rates based on the average life of the Adjustable Rate Obligations;

For the purpose of calculating the Debt Service Requirements on any series of Debt issued as Balloon Debt, such Debt shall be assumed to be amortized in substantially equal annual amounts to be paid for principal and interest over an assumed amortization period not to exceed 30 years from the original issue date of such series of Debt at an interest rate estimated by the Board's financial advisor in a written certificate delivered to the Issuer at the time of such calculation to be the average rate of interest such series of Debt would bear if issued as long-term bonds in the same principal amount with the same priority of lien, bearing interest at fixed rates to be amortized within such 30-year period;

With respect to Crossover Refunding Bonds, the aggregate Debt Service Requirements thereon until the Crossover Refunding Bonds Break Date shall be disregarded; and

With respect to Debt to be redeemed with the proceeds of Crossover Refunding Bonds, Debt Service Requirements thereon after the Crossover Refunding Bonds Break Date shall be disregarded.

Debt Service Requirements shall be calculated on the assumption that no Debt outstanding at the time of calculation will cease to be outstanding except by reason of the payment of scheduled principal maturities or scheduled mandatory redemptions of such Debt, except as provided above for Short Term Obligations and Crossover Refunding Bonds (and the related Debt to be refunded thereby).

Credit Agreements shall cause Debt Service Requirements to be increased only to the extent of scheduled payments and charges for the availability of the Credit Agreement or related Credit Facility without regard to any repayment or reimbursement obligations or interest thereon or other stipulated costs or charges related thereto.

Qualified Hedge Agreements entered into in connection under Debt shall cause Debt Service Requirements for such Debt to be (i) decreased by the gross amount of any scheduled receipts by the Issuer under the Qualified Hedge Agreement and (ii) increased by the gross payments of the Issuer under the Qualified Hedge Agreement in each case without regard to netting; provided, however, that to the extent of the amount of Debt hedged by the Qualified Hedge Agreement: (i) if the Board's financial advisor certifies that there is a reasonably close historical correlation between floating interest payments on such, or similar Debt, and the floating rate index or formula used to calculate the Issuer's receipts under the Qualified Hedge Agreement, then the floating obligation shall be deemed to exceed the floating rate right for all future periods by the largest average annual spread between such rates over the preceding 10 years and (ii) otherwise all floating rate receipts and floating rate obligations on the Debt and Qualified Hedge Agreement shall be deemed to accrue at the average rates therefor (or for similar obligations) over the preceding 14 months for all future periods, notwithstanding anything in paragraph (i), (ii), or (iii) of this definition to the contrary, and provided further, that any obligation of the Issuer to make termination payments that are not payable in installments over the remaining term of that relevant transaction or to deliver collateral under a Qualified Hedge Agreement shall be paid as a Subordinate Lien Obligation or an obligation inferior and subordinate to any Subordinate Lien Obligations.

Depository means one or more official depository banks of the Board.

DTC means The Depository Trust Company, New York, New York and its successors and assigns.

Designated Financial Officers means the chief executive officer of the Board, the chief financial officer of the Board, or such other financial or accounting official of the Board so designated by the governing Body.

Eligible Refunded Bonds shall mean the currently outstanding Inferior Lien Obligations, Junior Lien Obligations and Previously Issued Senior Lien Obligations.

Fiscal Year means the twelve-month accounting period used by the Board in connection with the operation of the System, currently ending on September 30th of each year, which may be any twelve consecutive month period established by the Board, but in no event may the Fiscal Year be changed more than one time in any three calendar year period.

Government Securities means (i) direct noncallable obligations of the United States, including obligations that are unconditionally guaranteed by, the United States of America; (ii) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality and that, on the date the Governing Body of the Issuer adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; or (iii) any other similar obligations now or hereafter permitted to be utilized for such purposes under the laws of the State.

Gross Revenues means all revenues, income, and receipts of every nature derived or received by the Issuer or the Board from the operation and ownership of the System (other than grants, restricted gifts, water rights fees, contributions in aid of construction, impact fees charged by the Issuer or the Board pursuant to the provisions of Chapter 395, Texas Local Government

Code, as amended, or other similar law, and refundable meter deposits), including the interest income from the investment or deposit of money in any Fund maintained pursuant to this Ordinance (with the exception of the Senior Lien Reserve Fund until the Required Reserve Amount is accumulated, the Project Fund, and the Rebate Fund), or maintained by the Issuer in connection with the System.

Holder or *Holders* means the registered owner, whose name appears in the Security Register, for any Bond; provided that an ordinance may provide that, so long as an institution that issues a municipal bond insurance policy insuring a series of Debt is not in default of its payment obligations under such policy, such institution may, under the terms of the ordinance, at all times be deemed to be the exclusive Holder of such series of Debt for the purpose of all approvals, consents, waivers, or exercise of any action and the direction of all remedies.

Inferior Lien Obligations means (i) any bonds, notes, warrants, certificates of obligation, or other Debt, including the Commercial Paper hereafter issued by the Issuer (to the extent such Commercial Paper Obligations are payable from an inferior lien on and pledge of the Net Revenues), that are payable, in whole or in part, from and equally and ratably secured by a lien on and pledge of the Net Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Previously Issued Senior Lien Obligations, the Bonds, Junior Lien Obligations, and any Additional Senior Lien Obligations, Additional Junior Lien Obligations, or Subordinate Lien Obligations hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

Insurance Policy means each insurance policy, if any, issued by the Insurer guaranteeing the scheduled payment of principal and interest on the Bonds when due.

Insurer means the insurer designated in the Approval Certificate, if any.

Interest Payment Date means each date semiannual interest is payable on the Bonds, being September 1 and March 1 of each year, commencing September 1, 2022, or as otherwise designated in the Approval Certificate, while any of the Bonds remain Outstanding.

Issuer means the City of Brownsville, Texas, and where appropriate, the Governing Body.

Junior Lien Obligations means (i) the outstanding and unpaid obligations of the Issuer that are payable from and equally and ratably secured by a lien on and pledge of the Net Revenues of the System that is junior and inferior to the pledges and liens securing the Senior Lien Obligations, which junior lien obligations are identified as follows:

> "City of Brownsville, Texas Utility System Junior Lien Revenue Bonds, Series 2012", dated March 1, 2012, issued in the original principal amount of $840,000; and

All Additional Junior Lien Obligations hereafter issued or incurred, and (iii) all parity obligations of the Issuer under Credit Agreements and Qualified Hedge Agreements related to any of the obligations described in clauses (i) or (ii) above.

Maintenance and Operating Expenses means all current expenses of operating and maintaining the System not paid from the proceeds of any Debt, *including* (1) the cost of all salaries, labor, materials, repairs, and extensions necessary to render efficient service, *but only if*, in the case of repairs and extensions, that are, in the judgment of the Board (reasonably and fairly exercised), necessary to maintain operation of the System and render adequate service to the Issuer and the inhabitants thereof and other customers of the System, or are necessary to meet some physical accident or condition which would otherwise impair the payment of Debt, (2) payments to pension, retirement, health, hospitalization, and other employee benefit funds for employees of the Board engaged in the operation or maintenance of the System, (3) payments under contracts for the purchase of electricity, gas, water supply, treatment of sewage, and other utility services, or other materials, goods, or services for the System to the extent authorized by law and the provisions of such contract, (4) payments to auditors, attorneys, and other consultants incurred in complying with the obligations of the Issuer or the Board hereunder, and (5) any legal liability of the Issuer or the Board arising out of the operation, maintenance, or condition of the System, *but excluding* any allowance for depreciation, property retirement, depletion, and obsolescence, other items not requiring an outlay of cash, and any Debt Service Requirements of any Debt.

Maximum Annual Debt Service Requirements for any Debt means the greatest requirements of the combined Debt Service Requirements (taking into account all mandatory principal redemption requirements) scheduled to occur in any future Fiscal Year or in the then current Fiscal Year for such Debt. Capitalized interest payments provided from Debt proceeds, accrued interest received on the sale of any Debt, and interest earnings thereon may be credited in making such computation.

Net Earnings means the Gross Revenues after deducting the Maintenance and Operating Expenses, but not expenditures which, under standard accounting practice, should be charged to capital expenditures.

Net Revenues means Gross Revenues with respect to any period, after deducting the Maintenance and Operating Expenses during such period. For purposes of Section 13 of this Ordinance only, Net Revenues for any Fiscal Year shall be increased by the excess, if any, as of the last day of the preceding Fiscal Year, of (i) the accumulated Net Revenues of the System held as unencumbered cash and investments of the Issuer outside any debt service fund or reserve fund over (ii) 25% of the Maintenance and Operating Expenses in such preceding Fiscal Year.

Obligations means the Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, Inferior Lien Obligations, Balloon Debt, Credit Agreements, and Qualified Hedge Agreements.

Operating Reserve Fund means the special fund created by the provisions of Section 14 of this Ordinance.

Ordinance means this ordinance adopted by the Governing Body on April 5, 2022.

Outstanding when used in this Ordinance with respect to Bonds means, as of the date of determination, all Bonds issued and delivered under this Ordinance, except:

those Bonds canceled by the Paying Agent/Registrar or delivered to the Paying Agent/Registrar for cancellation;

those Bonds for which payment has been duly provided by the Issuer in accordance with the provisions of Section 47 of this Ordinance; and

those Bonds that have been mutilated, destroyed, lost, or stolen and replacement Bonds have been registered and delivered in lieu thereof as provided in Section 41 of this Ordinance.

Plant Fund means that special fund created and established by the provisions of Section 14 of this Ordinance.

Previously Issued Senior Lien Obligations means (i) "City of Brownsville, Texas Utilities System Revenue Improvement and Refunding Bonds, Series 2005A"; dated August 1, 2005, in the principal amount of $163,725,000, (ii) "City of Brownsville, Texas Utilities System Revenue Refunding Bonds, Series 2008", dated May 15, 2008, in the principal amount of $77,805,000, (iii) "City of Brownsville, Texas Utilities System Revenue Refunding Bonds, Series 2012", dated September 15, 2012, in the principal amount of $20,690,000, (iv) the "City of Brownsville, Texas, Utility System Revenue Refunding Bonds, Series 2013A", dated May 7, 2013, in the principal amount of $118,185,000, (v) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2015", dated August 1, 2015, in the principal amount of $94,770,000, (vi) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2016", dated May 15, 2016, in the principal amount of $39,410,000, (vii) the "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2018", dated July 1, 2018, in the principal amount of $14,000,000 and (viii) "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Series 2020," dated August 1, 2020, in the principal amount of $53,590,000, (ix) "City of Brownsville, Texas Utility System Revenue Refunding Bonds, Taxable Series 2020A," dated August 1, 2020, in the principal amount of $62,320,000 and (x) the Bonds.

Prudent Utility Practice means any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or previously approved by a significant portion of the public utility industry, known at the time the decision was made, that would have been reasonably expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method, or act to the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been reasonably expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. In the case of any facility included in the System which is operated in common with one or more other entities, the term *Prudent Utility Practice,* as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

Qualified Hedge Agreement means, without limitation, (i) any contract known as or referred to or which performs the function of an interest rate swap agreement, currency swap agreement, forward payment conversion agreement, or futures contract; (ii) any contract providing for payments based on levels of, or changes or differences in, interest rates, currency exchange rates, or stock or other indices; (iii) any contract to exchange cash flows or payments or series of payments; (iv) any type of contract called, or designed to perform the function of, interest rate floors, collars, or caps, options, puts, or calls, to hedge or minimize any type of financial risk, including, without limitation, payment, currency, rate, or other financial risk; and (v) any other type of contract or arrangement that the Issuer determines is to be used, or is intended to be used, to manage or reduce the cost of any Debt, to convert any element of any Debt from one form to another, to maximize or increase investment return, to minimize investment return risk, or to protect against any type of financial risk or uncertainty (in the case of clauses (i) through (v), whether from or initiated at the option of the Issuer or the counterparty). A Qualified Hedge Agreement may only be entered into with an institution that has long term credit ratings, or the obligations of which are unconditionally guaranteed by a financial institution with long term credit ratings, from each Rating Agency then rating the Debts at least equal to the rates assessed as indicated by such Rating Agency for such Debt (without regard to third-party credit enhancement). Any net obligations of the Issuer to make scheduled payments under the Qualified Hedge Agreement shall be included within the definition of Debt Service Requirements for the series of Debts to which the Qualified Hedge Agreement relates. Each Qualified Hedge Agreement shall be deemed to be a part of the Debt of the series to which it relates for the purpose of securing its payment by the pledge of Net Revenues as provided in this Ordinance except to the extent otherwise provided therein or in the ordinance authorizing such Qualified Hedge Agreement. However, issuers of and counterparties to Qualified Hedge Agreements shall not be treated as registered owners of Debts for purposes of any voting rights to approve amendments under this Ordinance.

Rating Agency means Fitch Ratings, Moody's Investors Services, Inc., Standard & Poor's Financial Services LLC, or any other nationally recognized rating agency and any successors thereto.

Refunded Bonds shall mean those Eligible Refunded Obligations as designated in the Approval Certificate, which are being refunded and defeased.

Required Reserve Amount means the amount required to be deposited and maintained in the Senior Lien Reserve Fund under the provisions of Section 16 of this Ordinance.

Required Reserve Fund Deposits means the monthly deposits, if any, required to be deposited and maintained in the Senior Lien Reserve Fund under the provisions of Section 16 of this Ordinance.

Senior Lien Obligations means the Previously Issued Senior Lien Obligations, the Bonds, any Additional Senior Lien Obligations, and parity obligations of the Issuer under any Credit Agreement or Qualified Hedge Agreement related to the Bonds or Additional Senior Lien Obligations.

Short Term Obligations means each series of bonds, notes and other obligations issued pursuant to a commercial paper, including the Commercial Paper Obligations, or other similar financing program under an ordinance adopted by the Governing Body, the payment of principal of which is due within one year from the date of issuance and is intended by the Governing Body to be refinanced through the issuance of additional Obligations.

Southmost Project, being a Special Project (with respect to wholesale rates and charges), means the facilities initially financed with certain proceeds of obligations designated as (i) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2006 (Desalination Plant Project)", dated December 1, 2006, in the original principal amount of $9,950,000, (ii) "Southmost Regional Water Authority Water Supply Contract Revenue Bonds, Series 2009A", dated November 1, 2009, in the original principal amount of $9,295,000, (iii) "Southmost Regional Water Authority Water Supply Contract Revenue Bonds, Series 2009B", dated November 1, 2009, in the original principal amount of $3,795,000, (iv) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2012", dated September 1, 2012, in the original principal amount of $13,530,000 and (v) "Southmost Regional Water Authority Water Supply Contract Revenue Refunding Bonds, Series 2017", dated April 1, 2017, in the original principal amount of $9,255,000 including such facilities as they may be expanded, modified, or improved in the future and the debt service requirements on which are payable as Maintenance and Operating Expenses of the System.

Special Project means, to the extent permitted by law, any electric, gas, water, wastewater, reuse water, resaca or municipal drainage system property, improvement, or facility declared by the Issuer, upon the recommendation of the Board, not to be part of the System, for which the costs of acquisition, construction, and installation are paid from proceeds of a financing transaction other than the issuance of Debt payable from a lien on and pledge of the Net Revenues and for which all maintenance and operation expenses are payable from sources other than Gross Revenues, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, reconstruction, and installation under such financing transaction.

State means the State of Texas.

Stated Maturity of the Bonds means the date on which the principal thereof is due and payable other than pursuant to mandatory redemption, as set forth in Section 4 of this Ordinance.

Subordinate Lien Obligations means (i) any bonds, notes, warrants, certificates of obligation, or other Debt hereafter issued by the Issuer that are payable, in whole or in part, from and equally and ratably secured by a subordinate and inferior lien on and pledge of the Net. Revenues, such pledge being subordinate and inferior to the lien on and pledge of the Net Revenues that are or will be pledged to the payment of the currently outstanding Previously Issued Senior Lien Obligations, the Bonds, and the currently outstanding Junior Lien Obligations and any Additional Senior Lien Obligations or Additional Junior Lien Obligations hereafter issued by the Issuer, but prior and superior to the lien on and pledge of the Net Revenues that may or will be pledged to the payment of any Inferior Lien Obligations (including the currently outstanding Commercial Paper Obligations) hereafter issued by the Issuer, and (ii) obligations hereafter issued to refund any of the foregoing if issued in a manner that provides that the refunding bonds are payable from and equally and ratably secured, in whole or in part, by a subordinate and inferior lien on and pledge of the Net Revenues as determined by the Governing Body in accordance with applicable law.

Surety Policy means and includes a surety bond, insurance policy, letter of credit, or other agreement or instrument whereby the issuer is obligated to provide funds up to and including the maximum amount specified therein and under the conditions specified in such agreement or instrument.

System means all properties, facilities, and plants currently owned, operated, and maintained by the Issuer and/or the Board for the generation, transmission, and distribution of electric power, the supply, treatment, and transmission and distribution of treated potable water, chilled water, and steam, for the collection and treatment of wastewater, for water reuse, and for resacas, together with all future extensions, improvements, purchases, repairs, replacements and additions thereto, whether situated within or without the limits of the Issuer, all water (in any form) owned by the Issuer, and any other projects and programs of the Board and the Issuer; provided however, that the Issuer expressly retains the right to incorporate or exclude (1) a stormwater system as provided by the provisions of Section 552.041 through 552.054, Local Government Code, as amended, or other similar law, and (2) any other natural gas, telecommunications, technology, or other similar enterprise system as provided by the laws of the State as a part of the System. The System shall not include any Special Project.

Tax-Exempt Bonds means the one or more series of the Bonds, as designated in the Officers' Pricing Certificate, whose interest is excluded from gross income of the owners thereof for federal income tax purposes.

Taxable Bonds means the one or more series of Bonds, as designated in the Officers' Pricing Certificate, whose interest is included in the gross invoice of the owners thereof for federal income tax purposes.

Underwriters means the initial purchaser or purchasers of Bonds as designated according to Section 42 of this Ordinance.

<u>Interpretations</u>. All terms defined herein and all pronouns used in this Ordinance shall be deemed to apply equally to singular and plural and to all genders. The Titles and headings of the articles and sections of this Ordinance have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Ordinance and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Net Revenues to secure the payment of the Bonds.

<u>Authorization of Bonds - Designation - Principal Amount - Purpose</u>. Revenue refunding bonds of the Issuer shall be and are hereby authorized to be issued in one or more subseries with an aggregate principal amount not to exceed $123,150,000 to be designated and bear the title of "CITY OF BROWNSVILLE, TEXAS UTILITIES SYSTEM REVENUE REFUNDING BONDS, SERIES 2022" (the *Bonds*), for the purpose of providing funds for (i) the discharge and final payment of certain Eligible Refunded Obligations, (ii) funding the Senior Lien Reserve Fund, if

necessary, and (iii) paying the costs and expenses of issuing the Bonds. The Bonds are being issued as Senior Lien Obligations and shall be payable from and equally and ratably secured, together with the Previously Issued Senior Lien Obligations, solely by a first and prior lien on and pledge of the Net Revenues. The Issuer is authorized to issue the Bonds pursuant to the authority conferred by and in conformity with the laws of the State, particularly Chapters 1207 and 1502, Texas Government Code, as amended, the Charter, and the Ordinance.

As authorized by Chapter 1207, Texas Government Code, as amended (*Chapter 1207*), the City Manager or the Designated Financial Officer (the *Authorized Representative*) are hereby authorized, appointed, and designated as the officers of the Issuer authorized to individually act on behalf of the Issuer in selling and delivering the Bonds authorized herein and carrying out the procedures specified in this Ordinance, including, but not limited to, the approval of the aggregate principal amount of each maturity of the Bonds, whether the Bonds will be issued in multiple subseries, the aggregate principal amount of the Bonds of each series or subseries, the redemption provisions therefor, the interest payment dates and the rate of interest to be borne on the principal amount of each such maturity, the price at which each series or subseries of the Bonds shall be sold, whether such series or subseries of Bonds will be Taxable Bonds or Tax-Exempt Bonds, and any additional designation or title by which the Bonds any series or subseries of the Bonds shall be known. Each Authorized Representative, acting for and on behalf of the Issuer, is authorized to execute the Approval Certificate attached hereto as Schedule A. The Bonds shall be issued in the principal amount not to exceed $123,150,000; the maximum maturity of the Bonds will not exceed May 1, 2052; the net effective per annum interest rate shall not exceed the maximum rate authorized per annum as calculated by the provisions of Chapter 1204, Texas Government Code, as amended. Additionally, each Authorized Representative is authorized to act on behalf of the Issuer to select or replace or consent to the selection or replacement of any Paying Agent/Registrar and Escrow Agent or any other party in connection with each series and subseries of the Bonds and to execute and enter into or consent to on behalf of the Issuer any Paying Agent/Registrar Agreement or Escrow Agreement and any agreement, certificate, or other instrument in connection therewith, and such officers are also hereby authorized to approve the Preliminary Official Statement and any insertions, additions and modifications as are necessary and appropriate to carry out the purposes of the financing as authorized by this Ordinance. Lastly, each Authorized Representative is authorized to select the bond insurer and/or debt service reserve fund surety provider, if any, with respect to the Bonds. If the Authorized Representative chooses to purchase a debt service reserve surety policy or similar credit facility relating to the Bonds, then the Authorized Representative shall be permitted to execute an insurance or similar reimbursement agreement in connection with such purchase. The execution of the Approval Certificate shall evidence the sale date of the Bonds by the Issuer to the Purchasers in accordance with the provisions of Chapter 1207.

<u>Fully Registered Bonds - Authorized Denominations - Stated Maturities Interest Rates - Date</u>. The Bonds are issuable in fully registered form only; shall be dated May 1, 2022, or as designated in the Approval Certificate, (the *Bond Date*) and shall be in denominations of $5,000 or any integral multiple thereof, shall be lettered "R-" and numbered consecutively from One (1) upward and the Bonds shall become due and payable on September 1 in each of the years and in principal amounts (the *Stated Maturities*) and bear interest on the unpaid principal amounts from the Closing Date, or from the most recent Interest Payment Date (hereinafter defined) to which

interest has been paid or duly provided for, to the earlier of redemption or Stated Maturity, while Outstanding, at the per annum rates, while Outstanding, as designated in the Approval Certificate.

Redemption of Bonds.

Optional Redemption. The Bonds shall be subject to optional redemption as provided in the Approval Certificate, in whole or in part thereof, in the principal amounts of $5,000 or an integral multiple thereof, at the par value thereof plus accrued interest to the date fixed for redemption, or as otherwise provided in the Approval Certificate.

Any Bonds called for optional redemption pursuant to the provisions of the preceding paragraph hereof shall be due and payable on the specified redemption date only if money sufficient to pay the applicable redemption price, plus accrued interest, shall be on deposit with the Paying Agent/Registrar.

Mandatory Redemption. The Bonds are subject to mandatory redemption in the manner provided in the Form of Bond in Section 11 of this Ordinance.

Exercise of Redemption Option. At least forty-five (45) days prior to a date set for the optional redemption of the Bonds (unless a shorter notification period shall be satisfactory to the Paying Agent/Registrar), the Issuer shall notify the Paying Agent/ Registrar of its decision to exercise the right to redeem Bonds, the principal amount of each Stated Maturity to be redeemed, and the date set for the redemption thereof. The decision of the Issuer to exercise the right to redeem Bonds shall be entered into the minutes of the Governing Body of the Issuer and may be conditioned on the sale and delivery of refunding bonds.

Selection of Bonds for Redemption. If less than all Outstanding Bonds of the same Stated Maturity are to be redeemed on a redemption date, the Paying Agent/Registrar shall select at random and by lot the Bonds to be redeemed, provided that if less than the entire principal amount of a Bond is to be redeemed, the Paying Agent/Registrar shall treat such Bond then subject to redemption as representing the number of Bonds Outstanding which is obtained by dividing the principal amount of such Bond by $5,000.

Notice of Redemption. Not less than thirty (30) days prior to an optional, make whole or mandatory redemption date for the Bonds, a notice of redemption shall be sent by United States mail, first-class postage prepaid, in the name of the Issuer and at the Board’s expense, by the Paying Agent/Registrar to each Holder of a Bond to be redeemed, in whole or in part, at the address of the Holder appearing on the Security Register (hereinafter defined) at the close of business on the business day next preceding the date of mailing such notice, and any notice of redemption so mailed shall be conclusively presumed to have been duly given irrespective of whether received by the Holder. This notice may also be published once in a financial publication, journal, or reporter of general circulations among securities dealers in the City of New York, New York (including, but not limited to, *The Bond Buyer* and *The Wall Street Journal*), or in the State (including, but not limited to, *The Texas Bond Reporter*). Additionally, this notice may also be sent by the Board to any registered securities depository and to any national information service that disseminates redemption notices.

All notices of redemption shall (i) specify the date of redemption for the Bonds, (ii) identify the Bonds to be redeemed and, in the case of a portion of the principal amount to be redeemed, the principal amount thereof to be redeemed, (iii) state the redemption price, (iv) state any condition to such redemption and that the Bonds, or the portion of the principal amount thereof to be redeemed, shall become due and payable on the redemption date specified upon satisfaction of such condition, if any, and that thereafter the interest thereon, or on the portion of the principal amount thereof to be redeemed, shall cease to accrue from and after the redemption date, and (v) specify that payment of the redemption price for the Bonds, or the principal amount thereof to be redeemed, shall be made at the designated corporate trust office of the Paying Agent/Registrar only upon presentation and surrender thereof by the Holder. If a Bond is subject by its terms to redemption and has been called for redemption and notice of redemption thereof has been duly given or waived as herein provided and any condition to such redemption has been satisfied, such Bond (or the principal amount thereof to be redeemed) so called for redemption shall become due and payable, and if money sufficient for the payment of such Bonds (or of the principal amount thereof to be redeemed) at the then applicable redemption price is held for the purpose of such payment by the Paying Agent/Registrar, then on the redemption date designated in such notice, interest on such Bonds (or the principal amount thereof to be redeemed) called for redemption shall cease to accrue, and such Bonds shall not be deemed to be Outstanding in accordance with the provisions of this Ordinance.

Payment of Bonds - Paying Agent/Registrar. The principal of, premium, if any, and interest on the Bonds, due and payable by reason of Stated Maturity, redemption or otherwise, shall be payable in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts, and such payment of principal of and interest on the Bonds shall be without exchange or collection charges to the Holder of the Bonds. The Bonds shall bear interest on the unpaid principal amount thereof at the per annum rates shown above in Section 4 computed on the basis of a 360-day year composed of twelve 30-day months, and interest thereon shall be payable semiannually as designated in the Approval Certificate.

The selection and appointment of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, to serve as the initial Paying Agent/Registrar for the Bonds is hereby approved and confirmed, and the Issuer agrees and covenants to cause to be kept and maintained at the corporate trust office of the Paying Agent/Registrar books and records (the *Security Register*) for the registration, payment, and transfer of the Bonds, all as provided herein, in accordance with the terms and provisions of a Paying Agent/Registrar Agreement, attached, in substantially final form, as Exhibit A hereto, and such reasonable rules and regulations as the Paying Agent/ Registrar and the Issuer may prescribe. The Issuer covenants to maintain and provide a Paying Agent/Registrar at all times while the Bonds are Outstanding, and any successor Paying Agent/Registrar shall be (i) a national or state banking institution or (ii) an association or a corporation organized and doing business under the laws of the United States of America or of any state, authorized under such laws to exercise trust powers. Such Paying Agent/Registrar shall be subject to supervision or examination by federal or state authority and authorized by law to serve as a Paying Agent/Registrar.

The Issuer reserves the right to appoint a successor Paying Agent/Registrar upon providing the previous Paying Agent/Registrar with a certified copy of a resolution or ordinance terminating such agency. Additionally, the Issuer agrees promptly to cause a written notice of this substitution to be sent to each Holder of the Bonds by United States mail, first-class postage prepaid, which notice shall also give the address of the new Paying Agent/Registrar.

Principal of, premium, if any, and interest on the Bonds, due and payable by reason of Stated Maturity, redemption, or otherwise, shall be payable only to the Holder appearing on the Security Register maintained on behalf of the Issuer by the Paying Agent/Registrar as hereinafter provided (i) on the Record Date (hereinafter defined) for purposes of payment of interest thereon, and (ii) on the date of surrender of the Bonds for purposes of receiving payment of principal thereof upon redemption of the Bonds or at the Bonds' Stated Maturity. The Issuer and the Paying Agent/Registrar, and any agent of either, shall treat the Holder as the owner of a Bond for purposes of receiving payment and all other purposes whatsoever, and neither the Issuer nor the Paying Agent/Registrar, or any agent of either, shall be affected by notice to the contrary.

Principal of and premium, if any, on the Bonds shall be payable only upon presentation and surrender of the Bonds to the Paying Agent/Registrar at its corporate trust office. Interest on the Bonds shall be paid to the Holder whose name appears in the Security Register at the close of business on the 15th day of the month preceding an Interest Payment Date for the Bonds (the *Record Date*) and shall be paid (i) by check sent by United States mail, first-class postage prepaid, by the Paying Agent/Registrar, to the address of the Holder appearing in the Security Register, (ii) by wire transfer to any Holder of at least $1,000,000 in aggregate principal amount of Bonds, or (iii) by such other method, acceptable to the Paying Agent/Registrar, requested in writing by the Holder at the Holder's risk and expense.

If the date for the payment of the principal of, premium, if any, or interest on the Bonds shall be a Saturday, a Sunday, a legal holiday, or a day on which banking institutions in the city where the Paying Agent/Registrar is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding day which is not such a day. The payment on such date shall have the same force and effect as if made on the original date any such payment on the Bonds was due.

In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a *Special Record Date*) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the *Special Payment Date* - which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

<u>Execution - Registration</u>. The Bonds shall be executed on behalf of the Issuer by its Mayor, and its seal shall be reproduced or impressed thereon and attested by its City Secretary. The signature of either officer on the Bonds may be manual or facsimile. Bonds bearing the manual or facsimile signatures of individuals who were, at the time of the Bond date, the proper officers of the Issuer shall bind the Issuer, notwithstanding that such individuals or either of them shall cease to hold such offices prior to the delivery of the Bonds to the Underwriters, all as authorized and provided in Chapter 1201, Texas Government Code, as amended.

No Holder of a Bond shall be entitled to any right or benefit under this Ordinance, or no Bond shall be valid or obligatory for any purpose, unless there appears on such Bond either a certificate of registration substantially in the form provided in Section 11C, executed by the Comptroller of Public Accounts of the State of Texas or her duly authorized agent by manual signature for the Initial Bond only, or a certificate of registration substantially in the form provided in Section 11, executed by the Paying Agent/Registrar by manual signature for Bonds other than the Initial Bond, and either such certificate upon any Bond shall be conclusive evidence, and the only evidence that such Bond has been duly certified or registered and delivered.

Registration - Transfer - Exchange of Bonds - Predecessor Bonds. The Paying Agent/Registrar shall obtain, record, and maintain in the Security Register the name and address of every Holder, or, if appropriate, the nominee thereof. Any Bond may, in accordance with its terms and the terms hereof, be transferred or exchanged for Bonds of other authorized denominations upon the Security Register by the Holder, in person or by his duly authorized agent, upon surrender of such Bond to the Paying Agent/Registrar for cancellation, accompanied by a written instrument of transfer or request for exchange duly executed by the Holder or by his duly authorized agent, in form satisfactory to the Paying Agent/Registrar.

Upon surrender for transfer of any Bond at the corporate trust office of the Paying Agent/Registrar, the Issuer shall execute and the Paying Agent/Registrar shall register and deliver, in the name of the designated transferee or transferees, one or more new Bonds of the same series and of authorized denomination and having the same Stated Maturity and of a like interest rate and aggregate principal amount as the Bond or Bonds surrendered for transfer.

At the option of the Holder, Bonds may be exchanged for other Bonds of the same series and of authorized denominations and having the same Stated Maturity, bearing the same rate of interest and of like aggregate principal amount as the Bonds surrendered for exchange upon surrender of the Bonds to be exchanged at the corporate trust office of the Paying Agent/Registrar. When any Bonds are so surrendered for exchange, the Issuer shall execute, and the Paying Agent/ Registrar shall register and deliver, the Bonds to the Holder requesting the exchange.

All Bonds issued upon any transfer or exchange of Bonds shall be delivered at the corporate trust office of the Paying Agent/Registrar, or be sent by registered mail to the Holder at his request, risk, and expense, and upon the delivery thereof the same shall be the valid and binding obligations of the Issuer, evidencing the same obligation to pay, and entitled to the same benefits under this Ordinance, as the Bonds surrendered upon such transfer or exchange.

All transfers or exchanges of Bonds pursuant to this Section shall be made without expense or service charge to the Holder, except as otherwise herein provided, and except that the Paying Agent/Registrar shall require payment by the Holder requesting such transfer or exchange of any fee, tax or other governmental charges required to be paid with respect to such transfer or exchange.

Neither the Issuer nor the Paying Agent/Registrar shall be required (1) to transfer or exchange any Bond during a period beginning forty-five (45) days prior to the date fixed for redemption of the Bonds of the same series and ending on the date of selection of such Bonds for redemption; (2) to transfer or exchange any Bond selected for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance of a Bond which is subject to redemption in part.

Bonds cancelled by reason of an exchange or transfer pursuant to the provisions hereof are hereby defined to be Predecessor Bonds, evidencing all or a portion, as the case may be, of the same debt evidenced by the new Bond or Bonds registered and delivered in the exchange or transfer therefor. Additionally, the term "*Predecessor Bonds*" shall include any Bond registered and delivered pursuant to Section 41 in lieu of a mutilated, lost, destroyed or stolen Bond which shall be deemed to evidence the same obligation as the mutilated, lost, destroyed or stolen Bond.

Book-Entry-Only System.

It is intended that the Bonds initially be registered so as to participate in a securities depository system (the *DTC System*) with DTC, as set forth herein. Each Stated Maturity of the Bonds of each series shall be issued (following cancellation of the initial Bonds described in Section 10) in the form of a separate single definitive Bond. Upon issuance, the ownership of each such Bond shall be registered in the name of Cede & Co., as the nominee of DTC, and all the Outstanding Bonds shall be registered in the name of Cede & Co., as the nominee of DTC. The Issuer and the Paying Agent/Registrar are authorized to execute, deliver, and take the actions set forth in such letters to or agreements with DTC as shall be necessary to effectuate the DTC System, including the Letter of Representation attached hereto as Exhibit B (the *Representations Letter*).

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation to any broker-dealer, bank, or other financial institution for which DTC holds the Bonds from time to time as securities depository (a *Depository Participant*) or to any person on behalf of whom such a Depository Participant holds an interest in the Bonds (an *Indirect Participant*), except as provided in this Ordinance. Without limiting the immediately preceding sentence, the Issuer and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other person, other than an Owner, as shown on the Register, of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Ordinance to the contrary, the Issuer and the Paying Agent/Registrar shall be entitled to treat and consider the person in whose name each Bond is registered in the Register as the absolute Owner of such Bond for the purpose of payment of principal of and interest on the Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfer with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners, as shown in the Register as provided in this Ordinance, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Issuer's obligations with respect to payments of principal, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No person other than an Owner, as shown in the Register, shall receive a Bond certificate evidencing the obligation of the Issuer to make payments of amounts due pursuant to this Ordinance. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions of this Ordinance with respect to interest checks being mailed to the Owner of record as of the Record Date, the phrase "Cede & Co." in this Ordinance shall refer to such new nominee of DTC.

In the event that (a) the Issuer determines that DTC is incapable of discharging its responsibilities described herein and in the Representation Letter, (b) the Representation Letter shall be terminated for any reason, or (c) DTC or the Issuer determines that it is in the best interest of the beneficial owners of the Bonds that they be able to obtain certificated Bonds, the Issuer shall notify the Paying Agent/Registrar, DTC, and DTC Participants of the availability within a reasonable period of time through DTC of Bond certificates, and the Bonds shall no longer be restricted to being registered in the name of Cede & Co., as nominee of DTC. At that time, the Issuer may determine that the Bonds shall be registered in the name of and deposited with a successor depository operating a securities depository system, as may be acceptable to the Issuer, or such depository's agent or designee, and if the Issuer and the Paying Agent/Registrar do not select such alternate securities depository system then the Bonds may be registered in whatever name or names the Holders of Bonds transferring or exchanging the Bonds shall designate, in accordance with the provisions hereof.

Notwithstanding any other provision of this Ordinance to the contrary, so long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bonds, and all notices with respect to such Bonds, shall be made and given, respectively, in the manner provided in the Representation Letter.

Initial Bond. (a) The Bonds herein authorized shall be issued initially either (i) as a single fully registered Bond with principal installments to become due and payable as provided in Section 4 and numbered T-1, or (ii) as one (1) fully-registered Bond for each year of Stated Maturity in the applicable principal amount and denomination and to be numbered consecutively from T-1 and upward (the *Initial Bond(s)*), and, in either case, the Initial Bond(s) shall be registered in the name of the Underwriters or the designee thereof. The Initial Bond(s) shall be the Bonds submitted to the Office of the Attorney General of the State of Texas for approval, certified and registered by the Office of the Comptroller of Public Accounts of the State of Texas and delivered to the Underwriters. Any time after the delivery of the Initial Bond(s), the Paying Agent/Registrar shall cancel the Initial Bond(s) delivered hereunder and exchange therefor definitive Bonds of authorized denominations, Stated Maturities, and principal amounts and bearing applicable interest rates for transfer and delivery to the Holders named at the addresses identified therefor; all pursuant to and in accordance with such written instructions from the Underwriters, or the designee thereof, and such other information and documentation as the Paying Agent/Registrar may reasonably require.

Form of Bonds.

Forms Generally. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Registration, and the form of Assignment to be printed on each of the Bonds shall be substantially in the forms set forth in this section with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Ordinance and may have such letters, numbers, or other marks of identification (including insurance legends in the event the Bonds, or any Stated Maturities thereof, are insured and identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may, consistent herewith, be established by the Issuer or determined by the officers executing the Bonds as evidenced by their execution thereof. Any portion of the text of any Bond may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds shall be typewritten, printed, lithographed, or engraved, produced by any combination of these methods, or produced in any other similar manner, all as determined by the officers executing the Bonds as evidenced by their execution thereof, but the Initial Bond(s) submitted to the Attorney General of Texas may be typewritten or photocopied or otherwise reproduced.

[*The remainder of this page intentionally left blank*.]

Form of Definitive Bond.

REGISTERED NO. ____________________	REGISTERED PRINCIPAL AMOUNT $______________________

United States of America
State of Texas
County of Cameron
CITY OF BROWNSVILLE, TEXAS
UTILITIES SYSTEM REVENUE REFUNDING BONDS,
SERIES 2022

Bond Date[1]:	Interest Rate[2]:	Stated Maturity:	CUSIP NO.[3]:
______, 2020		September 1, _____	

REGISTERED OWNER: ____

PRINCIPAL AMOUNT: ____DOLLARS

The City of Brownsville, Texas (the *Issuer*), a body corporate and municipal corporation in the State of Texas, County of Cameron, for value received, hereby promises to pay to the order of the Registered Owner specified above, or the registered assigns thereof, on the Stated Maturity specified above, the Principal Amount specified above (or so much thereof as shall not have been paid upon prior redemption), and to pay interest on the unpaid Principal Amount hereof from the Closing Date, or from the most recent interest payment date to which interest has been paid or duly provided for, until such principal sum has become due and payment thereof has been made or duly provided for, to the earlier of redemption or Stated Maturity, at the per annum Interest Rate specified above computed on the basis of a 360-day year composed of twelve 30-day months; such interest being payable on March 1 and September 1 of each year, commencing September 1, 2022.[4]

Principal and premium, if any, of this Bond shall be payable to the Registered Owner hereof (the *Holder*), upon presentation and surrender, at the corporate trust office of the Paying Agent/Registrar executing the registration certificate appearing hereon or a successor thereof. Interest shall be payable to the Holder of this Bond (or one or more Predecessor Bonds, as defined in the Ordinance hereinafter referenced) whose name appears on the Security Register maintained by the Paying Agent/Registrar at its offices located in Dallas, Texas at the close of business on the Record Date, which is the fifteenth day of the month next preceding each interest payment date. All payments of principal of, premium, if any, and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the

[1] Modify to conform to the Approval Certificate.

[2] Modify to conform to the Approval Certificate.

[3] Modify to conform to the Approval Certificate.

[4] Modify to conform to the Approval Certificate.

payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by (i) check sent on the appropriate date of payment by United States mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register, (ii) wire transfer to any Holder of at least $1,000,000 in aggregate principal amount of Bonds, or (iii) such other method, acceptable to the Paying Agent/Registrar, requested by the Holder hereof at the Holder's risk and expense.

This Bond is one of the series specified in its title issued in the aggregate principal amount of $_________ (the *Bonds*) pursuant to an ordinance adopted by the Governing Body of the Issuer (the *Ordinance*), for the purpose of providing funds for (i) the discharge and final payment of the Eligible Refunded Obligations, and (ii) to pay the costs of issuing the Bonds.[5] The Bonds are authorized to be issued pursuant to the authority conferred by and in conformity with the laws of the State of Texas, particularly Chapter 1207 and 1502, Texas Government Code, and the Ordinance.

The Bonds stated to mature on and after _______[6] may be redeemed prior to their Stated Maturities, at the option of the Issuer, on_____________[7], or on any date thereafter, in whole or in part in principal amounts of $5,000 or any integral multiple thereof (and if within a Stated Maturity selected at random and by lot by the Paying Agent/Registrar) at the redemption price of par, plus premium, if any, plus accrued interest to the date of redemption.[8]

Any Bonds called for optional redemption pursuant to the provisions of the preceding paragraph hereof shall be due and payable on the specified redemption date only if money sufficient to pay the applicable redemption price, plus accrued interest, shall be on deposit with the Paying Agent/Registrar.

The Bonds maturing on__________[9] in the years _________[10] and _______[11] (herein the "Term Bonds") are subject to mandatory redemption prior to maturity in the following amounts (subject to reduction as hereinafter provided), on the following dates, in each case at a redemption price equal to 100% of their principal amount plus accrued interest to the date fixed for redemption, if any, and subject to the following conditions:

$___________________ Term Bonds maturing on ________[12]

Mandatory Redemption	Principal

[5] Modify to conform to the Approval Certificate.

[6] Modify to conform to the Approval Certificate.

[7] Modify to conform to the Approval Certificate.

[8] Modify to conform the Approval Certificate.

[9] Modify to confirm to the Approval Certificate.

[10] Modify to conform to the Approval Certificate.

[11] Modify to conform to the Approval Certificate.

[12] Modify to conform to the Approval Certificate.

Dates (______15)	Requirements
	$
(Maturity)	

$__________________ Term Bonds maturing on _____[13]

Mandatory Redemption	Principal
Dates (______15)	Requirements
	$
(Maturity)	

On or before _________________[14] of every year in which there are mandatory redemption requirements as set forth above for Term Bonds, the Paying Agent/Registrar (i) shall determine the principal amount of Term Bonds of the particular coupon rate and maturity that must be mandatorily redeemed on _______[15] of such year after taking into account deliveries for cancellation and optional redemptions of Term Bonds of such coupon rate and maturity as more fully provided below, (ii) shall select pro-rata (if permitted) or otherwise by lot or other customary random method the Term Bonds of such coupon rate and maturity (or portions thereof) to be mandatorily redeemed on _______________[16] of such year, and (iii) shall give notice thereof in the manner herein below provided. The mandatory redemption requirements stated above for the Term Bonds shall be reduced by the principal amount of any Term Bonds of such coupon rate and maturity purchased and delivered or tendered to the Paying Agent/Registrar for cancellation by__________[17] of such year. In addition, in the exercise of its right of optional redemption contained herein the Issuer may elect to redeem less than all of the Term Bonds of a particular coupon rate and maturity then outstanding, and thereby reduce the mandatory redemption requirements in any year or years for the Term Bonds of such coupon rate and maturity by the principal amount of such Term Bonds optionally redeemed and which has not previously been made the basis for a credit against the mandatory redemption requirements for the Term Bonds.[18]

The Bonds may be redeemed in part only in integral multiples of $5,000 of principal amount or maturity amount, as applicable. If a Bond subject to redemption is in a denomination larger than $5,000, a portion of such Bond may be redeemed, but only in integral multiples of $5,000. In selecting portions of Bonds for redemption, the Paying Agent/Registrar shall treat each

[13] Modify to conform to the Approval Certificate.

[14] Modify to conform to the Approval Certificate.

[15] Modify to conform to the Approval Certificate.

[16] Modify to conform to the Approval Certificate.

[17] Modify to conform to the Approval Certificate.

[18] Modify to conform to the Approval Certificate.

Bond as representing that number of Bonds of $5,000 denomination which is obtained by dividing the principal amount (or maturity amount) of such Bond by $5,000. Upon surrender of any Bond for redemption in part, the Paying Agent/Registrar, in accordance with the provisions of the Ordinance, shall authenticate and deliver in exchange therefore a Bond or Bonds of like maturity and interest rate in an aggregate principal amount (or maturity amount) equal to the unredeemed portion of the Bond so surrendered.

In the event any of the Bonds are called for mandatory or optional redemption, the Paying Agent/Registrar shall give notice, in the name of the Issuer, of the redemption of such Bonds, which notice shall (i) specify the Bonds to be redeemed, the redemption date, the redemption price, and the place or places where amounts due upon such redemption will be payable (which shall be the designated principal corporate trust office of the Paying Agent/Registrar) and, if less than all of the Bonds are to be redeemed, the portions of the Bonds so to be redeemed, (ii) state any condition to such redemption, and (iii) state that on the redemption date, and upon the satisfaction of any such condition, the Bonds to be redeemed shall cease to bear interest. CUSIP number identification shall accompany all redemption notices. Such notice may set forth any additional information relating to such redemption. Such notice shall be given by mail, postage prepaid, at least 30 days but not more than 60 days prior to the date fixed for redemption to each Registered Owner of Bonds to be redeemed at its address shown on the registration books kept by the Paying Agent/Registrar; provided, however, that failure to give such notice to any Registered Owner or any defect in such notice shall not affect the validity of the proceedings for the redemption of any of the other Bonds. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the Registered Owner or Beneficial Owner receives such notice. When the Bonds have been called for redemption in whole or in part and due provision has been made to redeem the same as provided herein and in the Ordinance, the Bonds or portions thereof to be so redeemed shall no longer be regarded as Outstanding except for the purpose of receiving payment solely from the funds so provided for redemption, and the rights of the Registered Owners to collect interest which would otherwise accrue after the redemption date on any Bond or portion thereof called for redemption shall terminate on the date fixed for redemption.[19]

At least thirty (30) days prior to the date fixed for redemption, a written notice of redemption shall be given by United States mail, first-class postage prepaid, to any Holders of the Bonds to be redeemed, all subject to the terms and provisions relating thereto contained in the Ordinance. This notice may also be published as provided in the Ordinance and provided to any registered securities depository and to any national information service as provided in the Ordinance. If this Bond is subject to redemption prior to Stated Maturity and is in a denomination in excess of $5,000, portions of the principal sum hereof in installments of $5,000 or any integral multiple thereof may be redeemed, and, if less than all of the principal sum hereof is to be redeemed, there shall be issued, without charge therefor, to the Holder hereof, upon the surrender of this Bond to the Paying Agent/Registrar at its corporate trust office, a new Bond or Bonds of like Stated Maturity and interest rate in any authorized denominations provided in the Ordinance for the then unredeemed balance of the principal sum hereof.

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[19] Modify to conform to the Approval Certificate.

If this Bond (or any portion of the principal sum hereof) shall have been duly called for redemption and notice of such redemption duly given, then upon such redemption date this Bond (or the portion of the principal sum hereof to be redeemed) shall become due and payable, and, if money for the payment of the redemption price and the interest accrued on the principal amount to be redeemed to the date of redemption is held for the purpose of such payment by the Paying Agent/Registrar, interest shall cease to accrue and be payable hereon from and after the redemption date on the principal amount hereof to be redeemed. If this Bond is called for redemption, in whole or in part, the Issuer or the Paying Agent/Registrar shall not be required to issue, transfer, or exchange this Bond within forty-five (45) days of the date fixed for redemption; provided, however, such limitation of transfer shall not be applicable to an exchange by the Holder of the unredeemed balance hereof in the event of its redemption in part.

The Bonds of this series are special obligations of the Issuer payable from and equally and ratably secured, together with the Previously Issued Senior Lien Obligations, solely by a first and prior lien on and pledge of the net revenues (the *Net Revenues*) of the Issuer's combined utility systems (the *System*), on a parity with any Additional Senior Lien Obligations hereafter issued by the Issuer. In the Ordinance, the Issuer reserves and retains the right to issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations without limitation as to principal amount but subject to any terms, conditions, or restrictions set forth in the Ordinance or as may be applicable thereto under law or otherwise. The Bonds do not constitute a legal or equitable pledge, charge, lien, or encumbrance upon any property of the Issuer or the System, except with respect to the Net Revenues.

The Holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

Reference is hereby made to the Ordinance, copies of which are on file in the corporate trust office of the Paying Agent/Registrar, and to all of the provisions of which the Holder by his acceptance hereof hereby assents, for definitions of terms; the description and nature of the Net Revenues pledged for the payment of the Bonds; the terms and conditions under which the Issuer may issue Additional Senior Lien Obligations, Additional Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations; the terms and conditions relating to the transfer or exchange of the Bonds; the conditions upon which the Ordinance may be amended or supplemented with or without the consent of the Holders; the rights, duties, and obligations of the Issuer and the Paying Agent/Registrar; the terms and provisions upon which this Bond may be redeemed or discharged at or prior to the Stated Maturity thereof, and deemed to be no longer Outstanding thereunder; and for the other terms and provisions specified in the Ordinance. Capitalized terms used herein have the same meanings assigned in the Ordinance.

This Bond, subject to certain limitations contained in the Ordinance, may be transferred on the Security Register upon presentation and surrender at the corporate trust office of the Paying Agent/Registrar, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the Holder hereof, or his duly authorized agent, and thereupon one or more new fully registered Bonds of the same Stated Maturity, of authorized denominations, bearing the same rate of interest, and of the same aggregate principal amount will be issued to the designated transferee or transferees.

The Issuer and the Paying Agent/Registrar, and any agent of either, shall treat the Holder hereof whose name appears on the Security Register (i) on the Record Date as the owner hereof for purposes of receiving payment of interest hereon, (ii) on the date of surrender of this Bond as the owner hereof for purposes of receiving payment of principal hereof at its Stated Maturity, or its redemption, in whole or in part, and (iii) on any other date as the owner hereof for all other purposes, and neither the Issuer nor the Paying Agent/Registrar, or any such agent of either, shall be affected by notice to the contrary. In the event of a non-payment of interest on a scheduled payment date, and for thirty (30) days thereafter, a new record date for such interest payment (a *Special Record Date*) will be established by the Paying Agent/Registrar, if and when funds for the payment of such interest have been received from the Issuer. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the *Special Payment Date*, which shall be fifteen (15) days after the Special Record Date) shall be sent at least five (5) business days prior to the Special Record Date by United States mail, first-class postage prepaid, to the address of each Holder appearing on the Security Register at the close of business on the last business day next preceding the date of mailing of such notice.

It is hereby certified, covenanted, and represented that all acts, conditions, and things required to be performed, exist, and be done precedent to the issuance of this Bond in order to render the same a legal, valid, and binding special obligation of the Issuer have been performed, exist, and have been done, in regular and due time, form, and manner, as required by law, and that issuance of the Bonds does not exceed any constitutional or statutory limitation; and that due provision has been made for the payment of the principal of and interest on the Bonds by a pledge of and lien on the Net Revenues. In case any provision in this Bond or any application thereof shall be deemed invalid, illegal, or unenforceable, the validity, legality, and enforceability of the remaining provisions and applications shall not in any way be affected or impaired thereby. The terms and provisions of this Bond and the Ordinance shall be construed in accordance with and shall be governed by the laws of the State of Texas.

IN WITNESS WHEREOF, the Governing Body of the Issuer has caused this Bond to be duly executed under the official seal of the Issuer.

CITY OF BROWNSVILLE, TEXAS

By: ____
Mayor

ATTESTED:

____
City Secretary

(CITY SEAL)

[*The remainder of this page intentionally left blank.*]

*Form of Registration Certificate of Comptroller of Public Accounts to Appear on Initial Bond(s) Only.

REGISTRATION CERTIFICATE OF
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER OF	§	
PUBLIC ACCOUNTS	§	
	§	REGISTER NO. _________
THE STATE OF TEXAS	§	

I HEREBY CERTIFY that this Bond has been examined, certified as to validity and approved by the Attorney General of the State of Texas, and duly registered by the Comptroller of Public Accounts of the State of Texas.

WITNESS my signature and seal of office this ________________________________.

____
Comptroller of Public Accounts
of the State of Texas

[SEAL]

*NOTE TO PRINTER: Do Not Print on Definitive Bonds.

*Form of Certificate of Paying Agent/Registrar to Appear on Definitive Bonds Only.

CERTIFICATE OF REGISTRATION

This Bond has been duly issued under the provisions of the within-mentioned Ordinance; the Bond or Bonds of the above-entitled and designated series originally delivered having been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts, as shown by the records of the Paying Agent/Registrar.

Registered this date:	The Bank of New York Mellon Trust Company, N.A., as Paying Agent/Registrar
___________________________________	By: ________________________________ Authorized Signature

* NOTE TO PRINTER: Print on Definitive Bonds.

Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee):______________________________

____

(Social Security or other identifying number): ___________________________________ the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints ____ attorney to transfer said Bond on the books kept for registration thereof, with full power of substitution in the premises.

DATED: ______________________________

____

Registered Owner NOTICE: The signature above must correspond to the name of the registered owner as shown on the face of this Bond in every particular, without any alteration, enlargement or change whatsoever.

Signature Guaranteed:

____

NOTICE: Signatures(s) must be guaranteed by a member firm of the New York Stock Exchange or a commercial bank or trust company.

The following abbreviations, when used in the inscription on the face of the Bond or above Assignment, shall be construed as though they were written out in full according to applicable laws or regulations:

TEN COM - as tenants in common

TEN ENT - as tenants by the entireties

JT TEN - as joint tenants with right of survivorship and not as tenants in common

UNIF GIFT MIN ACT

_______________Custodian________________

(Cust.) (Minor)

under Uniform Gifts to Minors Act

____

State

Additional abbreviations may also be used though not in the above list.

The Initial Bond(s) shall be in the form set forth in paragraph B of this Section, except that the form of a single fully registered Initial Bond shall be modified as follows:

immediately under the name of the Bond(s) the headings "Interest Rate ______" and "Stated Maturity ______ " shall both be completed "as shown below";

the first two paragraphs shall read as follows:

Registered Owner:____

Principal Amount:____

The City of Brownsville, Texas, a body corporate and municipal corporation in the State of Texas, County of Cameron, for value received, hereby promises to pay to the order of the Registered Owner named above, or the registered assigns thereof, the Principal Amount specified above on the first day of September in each of the years and in principal amounts and bearing interest at per annum rates in accordance with the following schedule:

Years of Stated Maturity	Principal Amounts ($)	Interest Rates (%)

(Information to be inserted from Schedule I of the Approval Certificate).

(or so much thereof as shall not have been paid upon prior redemption) and to pay interest on the unpaid Principal Amount hereof from the Closing Date, or from the most recent interest payment date to which interest has been paid or duly provided for, to the earlier of redemption or Stated Maturity, while Outstanding, at the per annum rate of interest specified above computed on the basis of a 360-day year composed of twelve 30-day months; such interest being payable on September 1 and March 1 of each year, commencing September 1, 2020.

Principal of this Bond shall be payable to the Registered Owner hereof (the *Holder*), upon its presentation and surrender, at the corporate trust office of The Bank of New York Mellon Trust Company, N.A., Dallas, Texas (the *Paying Agent/Registrar*). Interest shall be payable to the Holder of this Bond whose name appears on the Security Register maintained by the Paying Agent/Registrar at the close of business on the Record Date, which is the fifteenth day of the month next preceding each interest payment date. All payments of principal of and interest on this Bond shall be in any coin or currency of the United States of America which at the time of payment is legal tender for the payment of public and private debts. Interest shall be paid by the Paying Agent/Registrar by check sent on or prior to the appropriate date of payment by United States mail, first-class postage prepaid, to the Holder hereof at the address appearing in the Security Register or by such other method, acceptable to the Paying Agent/Registrar requested by, and at the risk and expense of, the Holder hereof.

Insurance Legend. If bond insurance is obtained by the Underwriters or the Issuer for the Bonds, the appropriate definitive Bonds and the appropriate Initial Bond(s) shall bear an appropriate legend as provided by the bond insurer.

Pledge of Net Revenues.

The Issuer hereby irrevocably pledges and grants a first and prior lien on the Net Revenues as security for the payment of the Senior Lien Obligations and the establishment and maintenance of the special funds created and established for the payment and security thereof, all as hereinafter provided; and it is hereby ordained that the Senior Lien Obligations, and the interest thereon, shall constitute a first and prior lien on and pledge of the Net Revenues and that such pledge and lien shall be valid and binding without any physical delivery thereof or further act by the Issuer, and the pledge and lien created hereby on the Net Revenues for the security of the Senior Lien Obligations shall be superior to the lien on and pledge of the Net Revenues securing payment of the currently outstanding Junior Lien Obligations, Subordinate Lien Obligations, the Commercial Paper Obligations, Inferior Lien Obligations and any other Debt, whether now outstanding or hereafter issued.

Chapter 1208, Texas Government Code, as amended, applies to the issuance of the Bonds and the pledge of and lien on Net Revenues granted by the Issuer under subsection A of this Section, and such pledge is therefore valid, effective, and perfected as security for the Bonds upon issuance of the Bonds. If Texas law is amended at any time while the Bonds are outstanding and unpaid such that the validity, effectiveness, or perfection of the pledge of the Net Revenues granted by the Issuer is to be subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, as amended, then in order to preserve to the registered owners of the Bonds the perfection of the security interest created by such pledge and lien, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Texas Business & Commerce Code, as amended, and enable a filing to perfect the security interest created by such pledge and lien to occur.

Rates and Charges. For the benefit of the Holders of the Senior Lien Obligations and in addition to all provisions and covenants in the laws of the State and in this Ordinance, the Issuer hereby expressly stipulates and agrees, while any of the Senior Lien Obligations are outstanding, to establish and maintain rates and charges for facilities and services afforded by the System, together with any other lawfully available funds, that are reasonably expected, on the basis of available information and experience and with due allowance for contingencies, to produce Gross Revenues in each Fiscal Year sufficient:

to pay Maintenance and Operating Expenses for each Fiscal Year, including the funding or replenishment of the Operating Reserve Fund;

to produce Net Revenues sufficient to pay (1) no less than 1.25 times the annual Debt Service Requirements for such Fiscal Year on the Senior Lien Obligations then Outstanding and (2) no less than 1.00 the amounts required to be deposited to fund or to cure any deficiency in any reserve or contingency fund created for the payment and security of the Senior Lien Obligations and any other obligations or evidence of indebtedness issued or incurred that are payable from and equally and ratably secured solely by a first and prior lien on and pledge of the Net Revenues;

to produce Net Revenues, together with any other lawfully available funds (including the proceeds of Debt which the Issuer expects will be utilized to pay all or part of the principal of and/or interest on any obligations described in this subsection C), sufficient to pay (1) no less than

1.10 times the annual debt service requirements for such Fiscal Year on the Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer and the amounts required to be deposited to fund or cure any deficiency in any reserve or contingency fund created for the payment and security of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a junior lien on and pledge of the Net Revenues; (2) no less than 1.00 times the annual debt service requirements on the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer and the amounts required to be deposited in any reserve or contingency fund created for the payment and security of the currently outstanding Commercial Paper Obligations, and any Subordinate Lien Obligations or Inferior Lien Obligations hereafter issued by the Issuer and any other obligations or evidences of indebtedness issued or incurred that are payable from and equally and ratably secured, in whole or in part, by a subordinate lien on and pledge of the Net Revenues;

to produce Net Revenues, together with any other lawfully available funds, to fund the transfers as permitted by the provisions of Section 19 of this Ordinance; and

to pay any other Debt payable from the Net Revenues and/or secured by a lien on the System.

Should the annual audit report required by Section 32 hereof reflect that the Net Revenues for the Fiscal Year covered thereby were less than necessary to meet the requirements of this Section, the Board will, within thirty (30) days after receipt of such annual audit report, report such fact to the Governing Body (which report shall be in addition to other required reports to the Governing Body) and review the operations of the System and the rates and charges for services provided, and the Board (and the Governing Body, if required) will make the necessary adjustments or revisions, if any, in order that the Net Revenues for the succeeding year will be sufficient to satisfy the foregoing coverage requirements specified above.

<u>Plant Fund - Flow of Funds</u>. The Issuer hereby covenants, agrees, and establishes that the Gross Revenues shall be deposited by the Board, as collected and received, into a separate account (previously created, established, and to be maintained with the Depository) known as the "City of Brownsville, Texas Utilities System Plant Fund" (the *Plant Fund*) and that the Gross Revenues shall be kept separate and apart from all other funds of the Issuer. All Gross Revenues deposited into the Plant Fund shall be pledged and appropriated to the extent required for the following uses and in the order of priority shown:

SECTION 1. FIRST: to the payment of all necessary and reasonable Maintenance and Operating Expenses as defined herein or required by statute, including, but not limited to, Chapter 1502, Texas Government Code, as amended, to be a first charge on and claim against the Gross Revenues, including the establishment of a fuel adjustment subaccount or similar accounts. In addition, the Board shall retain in the Plant Fund a reserve amount to pay Maintenance and Operating Expenses of not less than two months of budgeted Maintenance and Operating Expenses for the current Fiscal Year (the *Operating Reserve Fund*), which amount shall be funded initially in the amount of

$12,500,000 with lawfully available funds of the Board and shall be replenished as provided in subparagraph ELEVENTH of this Section.

SECTION 2. SECOND: to the payment of the amounts required to be deposited into the Debt Service Fund created and established for the payment of the Senior Lien Obligations as the same become due and payable.

SECTION 3. THIRD: to the payment of the amounts required to be deposited into the Senior Lien Reserve Fund and other debt service reserves for Senior Lien Obligations created and established in accordance with Section 16 of this Ordinance to maintain the amounts required to be deposited in accordance with the provisions of this Ordinance or the ordinances relating to the issuance of any Additional Senior Lien Obligations.

SECTION 4. FOURTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer as the same become due and payable.

SECTION 5. FIFTH: to the payment of the amounts required to be deposited into the reserve fund created and established as referenced in Section 17 hereof, to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of the currently outstanding Junior Lien Obligations or any Additional Junior Lien Obligations hereafter issued by the Issuer.

SECTION 6. SIXTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the Issuer as the same become due and payable.

SECTION 7. SEVENTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the currently outstanding Commercial Paper Obligations (to the extent the Commercial Paper Obligations are payable from a subordinate lien on the Net Revenues), or any Subordinate Lien Obligations hereafter issued by the Issuer as the same become due and payable.

SECTION 8. EIGHTH: to the payment of the amounts required to be deposited into the debt service fund created and established for the payment of any Inferior Lien Obligations as the same become due and payable.

SECTION 9. NINTH: to the payment of the amounts required to be deposited into the reserve fund, if any, created and established to maintain the amounts required to be deposited in accordance with the provisions of the ordinances relating to the issuance of any Inferior Lien Obligations.

SECTION 10. TENTH: to the payment of the amounts to be deposited into the City Transfer Fund and to be transferred to the Issuer's General Fund as provided in Section 19 hereof.

SECTION 11. ELEVENTH: to the payment of the amount to replenish the Operating Reserve Fund to the amount required in subparagraph FIRST of this Section.

SECTION 12. TWELFTH: to the payment of the accrual to fund or to replenish the Capital Improvement Fund created and established by Section 20 hereof, along with the accumulation of any other surplus Net Revenues.

Debt Service Fund - Excess Bond Proceeds. For purposes of providing funds to pay the principal of, premium, if any, and interest on the Senior Lien Obligations as the same become due and payable, the Issuer agrees that the Board shall maintain, at the Depository, and there has been previously created and established a separate and special account or fund to be created and known as the "City of Brownsville, Texas Utilities System Senior Lien Revenue Bond Interest and Sinking Fund" (the *Debt Service Fund*). The Issuer covenants that the Board shall deposit into the Debt Service Fund prior to each principal and interest payment date from the available Net Revenues an amount equal to one hundred per cent (100%) of the amount required to fully pay the interest on and the principal of the Senior Lien Obligations then falling due and payable, such deposits to pay maturing principal and accrued interest on the Senior Lien Obligations to be made by the Board in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. If the Net Revenues in any month are insufficient to make the required payments into the Debt Service Fund, then the amount of any deficiency in such payment shall be added to the amount otherwise required to be paid into the Debt Service Fund in the next month.

The required monthly deposits into the Debt Service Fund for the payment of principal of and interest on the Senior Lien Obligations shall continue to be made as hereinabove provided until such time as (i) the total amount on deposit in the Debt Service Fund and the Senior Lien Reserve Fund is equal to the amount required to fully pay and discharge all outstanding Senior Lien Obligations (principal, premium, if any, and interest) or (ii) the Senior Lien Obligations are no longer outstanding.

Accrued interest and capitalized interest received from the purchaser of any Senior Lien Obligation, including the Underwriters with respect to the Bonds, shall be taken into consideration and reduce the amount of the monthly deposits hereinabove required to be deposited into the Debt Service Fund. Additionally, any proceeds of the Senior Lien Obligations not expended for the authorized purposes shall be deposited into the Debt Service Fund and shall be taken into consideration and reduce the amount of monthly deposits required to be deposited into the Debt Service Fund from the Net Revenues.

Senior Lien Reserve Fund. To accumulate and maintain a reserve for the payment of the Senior Lien Obligations equal to the least of (1) 100% of the Maximum Annual Debt Service Requirements for the Senior Lien Obligations, (2) 125% of the Average Annual Debt Service Requirements for the Senior Lien Obligations and (3) 10% of the initial principal amount of the

Outstanding Senior Lien Obligations, (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of the Bonds and each series of Additional Senior Lien Obligations) (the *Required Reserve Amount*), the Issuer agrees that the Board will create and establish, and shall maintain a separate and special fund or account known as the "City of Brownsville, Texas Utilities System Senior Lien Revenue Bond Reserve Fund" (the *Senior Lien Reserve Fund*), which Fund shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Senior Lien Reserve Fund shall be retained in the Senior Lien Reserve Fund until the Senior Lien Reserve Fund contains the Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the Debt Service Fund. All funds deposited into the Senior Lien Reserve Fund shall be used solely for the payment of the principal of and interest on the Senior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Senior Lien Obligations.

The Issuer may provide a Surety Policy or Policies issued in amounts equal to all or part of the Required Reserve Amount for the Senior Lien Obligations in lieu of depositing cash into the Senior Lien Reserve Fund; provided, however, that no such Surety Policy may be so substituted for cash on deposit in the Senior Lien Reserve Fund unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Senior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Required Reserve Amount for the Senior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the Issuer by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the Issuer at the time of the delivery of the Surety Policy. The Issuer reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Senior Lien Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Required Reserve Amount for the Senior Lien Obligations.

As and when Additional Senior Lien Obligations are delivered or incurred, the Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Senior Lien Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Senior Lien Reserve Fund immediately after the delivery of the then proposed Additional Senior Lien Obligations, or, at the option of the Issuer, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Senior Lien Obligations, of not less than 1/60th of the additional amounts to be maintained in the Senior Lien Reserve Fund by reason of the issuance of the Additional Senior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Required Reserve Amount.

When and for so long as the cash and investments in the Senior Lien Reserve Fund equal the Required Reserve Amount, no deposits need be made to the credit of the Senior Lien Reserve Fund; but, if and when the Senior Lien Reserve Fund at any time contains less than the Required Reserve Amount (other than as the result of the issuance of Additional Senior Lien Obligations as provided in the preceding paragraph), the Issuer covenants and agrees that the Board shall cure the deficiency in the Required Reserve Amount by resuming the Required Reserve Fund deposits to such Fund from the Net Revenues such monthly deposits to be in amounts equal to not less than 1/60th (or 1/12th in the case of the repayment of amounts pursuant to Section 65 hereof) of the Required Reserve Amount covenanted by the Issuer to be maintained in the Senior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Required Reserve Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Senior Lien Obligations.

During such time as the Senior Lien Reserve Fund contains the Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Senior Lien Reserve Fund in excess of the Required Reserve Amount and deposit such surplus in the Debt Service Fund.

In the event a Surety Policy issued to satisfy all or a part of the Issuer's obligation with respect to the Senior Lien Reserve Fund causes the amount then on deposit in the Senior Lien Reserve Fund to exceed the Required Reserve Amount for the Senior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Senior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207, or to the Capital Improvement Fund; provided, however, to the extent that such excess amount represents Senior Lien Obligation proceeds, then such amount must be transferred to the Debt Service Fund or the escrow fund referenced above.

Notwithstanding anything in this Section to the contrary, the Issuer (i) may elect to exclude Additional Senior Lien Obligations from the benefit of the Senior Lien Reserve Fund, in which case such Senior Lien Obligations shall not be taken into account in calculating the amount of the Required Reserve Account, nor shall money in the Senior Lien Reserve Fund be used to pay or provide for the payment of principal of or interest on such Senior Lien Obligations, and (2) may elect to fund a separate debt service reserve fund for one or more series of such Additional Senior Lien Obligations to the extent the balance of such fund does not exceed the amount by which the Required Reserve Amount is reduced by such exclusion in any Fiscal Year.

<u>Junior Lien Reserve Fund</u>. To accumulate and maintain a reserve for the payment of the Junior Lien Obligations equal to 100% of the Average Annual Debt Service Requirements (calculated by the Board at the beginning of each Fiscal Year and as of the date of issuance of each series of Additional Junior Lien Obligations) for the Junior Lien Obligations (the *Junior Lien Required Reserve Amount*), the Issuer agrees that the Board will create and establish, and shall maintain a separate and special fund or account known as the "City of Brownsville, Texas Utilities System Junior Lien Revenue Bond Reserve Fund" (the *Junior Lien Reserve Fund*), which Fund

shall be maintained at the Depository. Earnings and income derived from the investment of amounts held for the credit of the Junior Lien Reserve Fund shall be retained in the Junior Lien Reserve Fund until the Junior Lien Reserve Fund contains the Junior Lien Required Reserve Amount; thereafter, such earnings and income shall be deposited to the credit of the debt service fund for the Junior Lien Obligations. All funds deposited into the Junior Lien Reserve Fund shall be used solely for the payment of the principal of and interest on the Junior Lien Obligations, when and to the extent other funds available for such purposes are insufficient, and, in addition, may be used to retire the last Stated Maturity or Stated Maturities of or interest on the Junior Lien Obligations.

The Issuer may provide a Surety Policy or Policies issued in amounts equal to all or part of the Junior Lien Required Reserve Amount for the Junior Lien Obligations in lieu of depositing cash into the Junior Lien Reserve Fund; provided, however, that no such Surety Policy may be so substituted for cash in the Junior Lien Reserve Fund unless the substitution of the Surety Policy will not, in and of itself, cause any ratings then assigned to the Junior Lien Obligations by any Rating Agency to be lowered and the ordinance authorizing the substitution of the Surety Policy for all or part of the Junior Lien Required Reserve Amount for the Junior Lien Obligations contains (i) a finding that such substitution is cost effective and (ii) a provision that the interest due on any repayment obligation of the Issuer by reason of payments made under such Surety Policy does not exceed the highest lawful rate of interest which may be paid by the Issuer at the time of the delivery of the Surety Policy. The Issuer reserves the right to use Gross Revenues to fund the payment of (1) periodic premiums on the Surety Policy as a part of the payment of Maintenance and Operating Expenses, and (2) any repayment obligation incurred by the Issuer (including interest) to the issuer of the Surety Policy, the payment of which will result in the reinstatement of such Surety Policy, prior to making payments required to be made to the Junior Lien Reserve Fund pursuant to the provisions of this Section to restore the balance in such fund to the Junior Lien Required Reserve Amount for the Junior Lien Obligations.

As and when Additional Junior Lien Obligations are delivered or incurred, the Junior Lien Required Reserve Amount shall be increased, if required, to an amount calculated in the manner provided in the first paragraph of this Section. Any additional amount required to be maintained in the Junior Lien Reserve Fund shall be so accumulated by the deposit of all or a portion of the necessary amount from the proceeds of the issue or other lawfully available Net Revenues deposited into the Junior Lien Reserve Fund immediately after the delivery of the then proposed Additional Junior Lien Obligations, or, at the option of the Issuer, by the deposit of monthly installments, made on or before the business day before the 15th day of each month following the month of delivery of the then proposed Additional Junior Lien Obligations, of not less than 1/60th of the additional amount to be maintained in the Junior Lien Reserve Fund by reason of the issuance of the Additional Junior Lien Obligations then being issued (or 1/60th of the balance of the additional amount not deposited immediately in cash), thereby ensuring the accumulation of the appropriate Junior Lien Required Reserve Amount.

When and for so long as the cash and investments in the Junior Lien Reserve Fund equal the Junior Lien Required Reserve Amount, no deposits need be made to the credit of the Junior Lien Reserve Fund; but, if and when the Junior Lien Reserve Fund at any time contains less than the Junior Lien Required Reserve Amount (other than as the result of the issuance of Additional Junior Lien Obligations as provided in the preceding paragraph), the Issuer covenants and agrees that the Board shall cure the deficiency in the Junior Lien Required Reserve Amount by resuming the Junior Lien Reserve Fund deposits to such Fund from the Net Revenues such monthly deposits to be in amounts equal to not less than 1/60th of the Junior Lien Required Reserve Amount covenanted by the Issuer to be maintained in the Junior Lien Reserve Fund with any such deficiency payments being made on or before the business day before the 15th day of each month until the Junior Lien Required Reserve Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made to the Debt Service Fund, the Net Revenues shall be applied and appropriated and used to establish and maintain the Junior Lien Required Reserve Amount and to cure any deficiency in such amounts as required by the terms of this Ordinance and any other ordinance pertaining to the issuance of Additional Junior Lien Obligations.

During such time as the Junior Lien Reserve Fund contains the Junior Lien Required Reserve Amount, the Board may, at its option, withdraw all surplus funds in the Junior Lien Reserve Fund in excess of the Junior Lien Required Reserve Amount and deposit such surplus in the debt service fund relating to the Junior Lien Obligations.

In the event a Surety Policy issued to satisfy all or a part of the Issuer's obligation with respect to the Junior Lien Reserve Fund causes the amount then on deposit in the Junior Lien Reserve Fund to exceed the Junior Lien Required Reserve Amount for the Junior Lien Obligations, the Board may transfer such excess amount to any fund or funds established for the payment of or security for the Junior Lien Obligations (including any escrow established for the final payment of any such obligations pursuant to the provisions of Chapter 1207 or to the Capital Improvement Fund; provided, however, to the extent that such excess amount represents Junior Lien Obligation proceeds, then such amount must be transferred to the debt service fund relating to the Junior Lien Obligations or the escrow fund referenced above.

Reserve Fund for Subordinate Lien Obligations and Inferior Lien Obligations. The Issuer reserves the right, at its option, to establish and create a separate reserve fund for each issuance of Subordinate Lien Obligations and/or Inferior Lien Obligations.

Payments to Issuer's General Fund.

For purposes of providing funds to transfer to the Issuer's General Fund, the Issuer agrees that the Board shall maintain, at the Depository, and there has been previously created and established a separate and special account or fund to be created and known as the "City of Brownsville, Texas Utilities System City Transfer Fund" (the *City Transfer Fund*). The Issuer covenants that the Board shall deposit into the City Transfer Fund from the available Net Revenues an amount equal to one-third of the quarterly amount hereinafter described to be made by the Board to the Issuer in substantially equal monthly installments on or before the business day before the 15th day of each month, beginning on or before the business day before the 15th day of the month next following the delivery of the Bonds to the Underwriters. After making each of the payments required by the provisions of subparagraphs FIRST through NINTH of Section 14 hereof, the Designated Financial Officer of the Board shall transfer no later than the business day preceding the 15th day of the month following the end of each Fiscal Year quarter, an amount of money from the City Transfer Fund equal to ten percent (10%) (or such lesser amount as may be determined from time to time by the Governing Body) of the Gross Revenues received for the preceding Fiscal

Year quarter, as adjusted in accordance with the next two following sentences, to be utilized by the Issuer in the manner permitted by the provisions of Chapter 1502, Texas Government Code, as amended. Prior to applying the percentage set forth in the preceding sentence to determine the amount to be transferred to the Issuer, the amount of Gross Revenues for a Fiscal Year quarter shall be reduced by an amount equal to all costs for the purchase of power and fuel paid or incurred by the Board during such Fiscal Year quarter. Furthermore the amount of funds to be transferred to the Issuer in accordance with the provisions of this subsection shall be reduced by any amounts owed by the Issuer to the Board for the utility services described in Section 33E. hereof; provided, however, that the Board shall provide the Issuer with a sufficiently detailed statement of charges for such utility services to permit the Issuer to allocate the charges for such utility services to the appropriate office, division, or department of the Issuer and to determine the charges with respect to the Southmost Project.

To the extent that the available Net Revenues in any fiscal year quarter are insufficient for the Board to make all or part of the transfer required by the preceding paragraph, the Board shall make up such shortfall (i) in the next fiscal year quarter in which available Net Revenues exceed the amounts required to make the transfer to the Issuer pursuant to the preceding paragraph and the payment to the Operating Reserve Fund under Section 14 or (ii) to the extent such shortfall has not been made up by the last quarter of the Fiscal Year, solely from any surplus funds deposited into the Capital Improvement Fund for such Fiscal Year.

Capital Improvement Fund. The Issuer has previously created and established and covenants to maintain a special fund or account to be known as the "City of Brownsville, Texas Utility System Capital Improvement Fund" (the *Capital Improvement Fund*) and the Capital Improvement Fund shall be maintained at a Depository to the extent not invested. Money on deposit in the Capital Improvement Fund shall be used for making any capital improvements to the System and for meeting contingencies of any nature in connection with the operations, maintenance, improvement, replacement, or relocation of properties constituting the System including, but not limited to, the replacement of any equipment relating to the System, as may be determined from time to time by the Board and to fund the costs of any rate stabilization subaccount or any other similar subaccounts.

The Issuer covenants that Net Revenues of the System, after making the payments as required by the provisions of Section 14 of the Ordinance, should be paid into a Capital Reserve Account of the Capital Improvement Fund in an annual sum equal to $3,000,000 ($15,000,000 divided by five years). The first annual payment was made on or before September 30, 2006 and shall be made on each annual anniversary thereof until the amount on deposit in the Capital Reserve Account of the Capital Improvement Fund equals or exceeds $15,000,000 (the *Capital Amount*). In the event that these annual payments are not made, the Board shall immediately request that the Issuer establish sufficient rates and charges for the System to cure any such deficiency with respect to the accumulation of the Capital Amount within one year.

When and so long as the cash and investments in the Capital Reserve Account of the Capital Improvement Fund equals the Capital Amount, no deposits will be required to be made to the credit of the Capital Reserve Account of the Capital Improvement Fund; but, if and when the Capital Reserve Account of the Capital Improvement Fund at any time contains less than the Capital Amount, the Issuer covenants and agrees to cure the deficiency in the Capital Amount by resuming monthly deposits to said Fund from Net Revenues of the System, or at the option of the Issuer from any other lawfully available funds, such monthly deposits to be in amounts equal to not less than 1/36th of the Capital Amount covenanted by the Issuer to be maintained in the Capital Improvement Fund with any such deficiency payments being made on or before the business day preceding the fifteenth day of each month until the Capital Amount has been fully restored. The Issuer further covenants and agrees that, subject only to the prior payments to be made pursuant to Section 14 hereof, Net Revenues shall be applied and appropriated and used to establish and maintain the Capital Amount, to cure any deficiency in such amounts as required by the terms of this Ordinance, or to retain any such surplus Net Revenues in the Capital Improvement Fund.

Deposits to the Capital Improvement Fund shall be made from Net Revenues after making each of the payments required by the provisions of subparagraphs FIRST through ELEVENTH of Section 14 hereof.

Project Fund. The prior creation of the special fund of the Issuer, known as the "City of Brownsville, Texas Utilities System Project Fund" (the *Project Fund*) in connection with any Previously Issued Senior Lien Obligations is hereby confirmed. The Project Fund shall be maintained as a separate account on the books of the Board at the Depository. The Project Fund shall be used only to account for (i) the proceeds of Senior Lien Obligations deposited therein to finance capital improvements to the System and (ii) except as hereinafter provided, investment earnings thereon. Funds on deposit in the Project Fund shall be used only for paying the costs of the extension, construction, improvement, or repair of the System, the costs of issuance of the Senior Lien Obligations, capitalized interest during such construction period, and for any other lawful purpose. Any amounts remaining in the Project Fund upon the completion of the projects funded therefrom shall be transferred by the Board to the Debt Service Fund.

Deficiencies - Excess Net Revenues.

If on any occasion there shall not be sufficient Net Revenues to make the required deposits as set forth in Section 14 of this Ordinance, then such deficiency shall be cured as soon as possible from the next available unallocated Net Revenues, or from any other sources available for such purpose, and such payments shall be in addition to the amounts required to be paid into these Funds during such month or months.

Subject to making the deposits required by this Ordinance, or any ordinances authorizing the issuance of other outstanding Senior Lien Obligations, or the payments required by the provisions of the ordinances authorizing the issuance of the Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or any Inferior Lien Obligations then outstanding, the excess Net Revenues shall be deposited into the Capital Improvement Fund.

Payment of the Senior Lien Obligations. While any of the Senior Lien Obligations are outstanding, the Designated Financial Officer shall cause to be transferred to the Paying Agent/Registrar therefor, if any, from funds on deposit in the Debt Service Fund, and, if necessary, in the Senior Lien Reserve Fund, amounts sufficient to fully pay and discharge promptly each installment of interest on and principal of such Senior Lien Obligations as such installment accrues or matures; such transfer of funds must be made in such manner as will cause immediately available funds to be deposited with the Paying Agent/Registrar for such Senior Lien Obligations not later than the business day next preceding the date a debt service payment is due on such Senior Lien Obligations.

Investment of Funds - Valuation - Transfer of Investment Income.

Money in the Plant Fund, the Debt Service Fund, the Senior Lien Reserve Fund, the Operating Reserve Fund, the Capital Improvement Fund, and the Project Fund may, at the option of the Board, be invested in time deposits or certificates of deposit, guaranteed investment contracts, or similar contractual agreements, secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities of the United States of America, or as otherwise permitted by Texas law including, but not limited to, the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended, or any successor provision of law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investments with any financial institution) that the money required to be expended from any Fund will be available at the proper time or times, and provided further that in no event shall such deposits or investments of money in the Senior Lien Reserve Fund mature later than the final maturity date of the Senior. Lien Obligations. All such investments shall be valued in terms of current market value no less frequently than the last business day of the Board's Fiscal Year, except that any direct obligations of the United States of America - State and Local Government Series shall be continuously valued at their par value or principal face amount. Any obligation in which money is so invested shall be kept and held at the Depository or as otherwise permitted by law, except as hereinafter provided. For purposes of maximizing investment returns, money in such Funds may be invested, together with money in other funds or with other money of the Board, in common investments of the kind described above, or in a common pool of such investment which shall be kept and held at the Depository, which shall not be deemed to be or constitute a commingling of such money or funds provided that safekeeping receipts or certificates of participation clearly evidencing the investment or investment pool in which such money is invested and the share thereof purchased with such money or owned by such Fund are held by or on behalf of each such Fund. If necessary, such investments shall be promptly sold to prevent any default.

All interest and income derived from such deposits and investments (other than the Rebate Fund, the Project Fund, and interest and income derived from deposits to the Senior Lien Reserve Fund if the Senior Lien Reserve Fund does not contain the Required Reserve Amount) shall be credited to the Plant Fund monthly and shall constitute Gross Revenues.

All interest and income derived from such deposits and investments in the Project Fund may be deposited in the Project Fund as permitted by the provisions of Chapter 1201, Texas Government Code, as amended, and shall not constitute Gross Revenues, except that, to the extent required by law, such interest and income may be applied to make such payments to the United States as shall be required to assure that interest on the Senior Lien Obligations is excludable from gross income for federal income tax purposes of the Holders as described in Section 45 of this Ordinance.

Issuance of Additional Senior Lien Obligations. In addition to the right to issue Additional Junior Lien Obligations, Subordinate Lien Obligations, and Inferior Lien Obligations as authorized by Sections 26, 27, and 28 hereof pursuant to any laws of the State, the Issuer reserves the right to issue Additional Senior Lien Obligations and to enter into one or more Credit Agreements and/or Qualified Hedge Agreements related thereto. The Additional Senior Lien Obligations, when issued in compliance with the terms and conditions hereinafter prescribed, shall be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues in the same manner and to the same extent as the Bonds. The Additional Senior Lien Obligations may be issued in such form and manner as is now or hereafter authorized by the laws of the State for the issuance of evidences of indebtedness or other instruments and should new methods or financing techniques be developed that differ from those now available, the Issuer and the Board reserve the right to employ the same in their financing arrangements; provided, however, that none shall be issued, nor shall parity obligations under related Credit Agreements or Qualified Hedge Agreements be entered into unless and until the following conditions, as appropriate, have been met:

Conditions Precedent - General. The Issuer covenants and agrees that Additional Senior Lien Obligations will not be issued and parity obligations under Credit Agreements and Qualified Hedge Agreements will not be executed and entered into unless and until:

the Designated Financial Officer executes a certificate stating that (a) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Senior Lien Obligations to satisfy the Issuer's or the Board's obligations under this Ordinance or any other ordinance authorizing the issuance of any then outstanding Senior Lien Obligations, the Issuer and the Board are not then in default as to any covenant, condition, or obligation prescribed in this Ordinance or in the ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, and (b) each of the special funds created for the payment, security, and benefit of the Senior Lien Obligations then outstanding contains the amount of money then required to be on deposit therein. This certificate shall be dated as of the date the ordinance is adopted authorizing the issuance of the Additional Senior Lien Obligations;

the laws of the State in force at such time provide for the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable;

the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable, provides for deposits (at the times established in Section 14 hereof) to be made to the Debt Service Fund in amounts sufficient to pay the principal of, premium, if any, and interest on such Additional Senior Lien Obligations as the same mature or any parity obligations payable under any Credit Agreements or Qualified Hedge Agreements when due, as applicable; and

the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of any Credit Agreement or Qualified Hedge Agreement, as applicable, (a) provides that the amount to be accumulated and maintained in the Senior Lien Reserve Fund shall be in an amount equal to not less than the Required Reserve Amount, after giving effect to the issuance of the proposed Additional Senior Lien Obligations and the execution of the proposed Credit Agreement or Qualified Hedge Agreement, and (b) provides that any additional amount required to be deposited in the Senior Lien Reserve Fund shall be so accumulated by the deposit in the Senior Lien Reserve Fund of all or any part of such required additional amount in cash immediately after the delivery of such Additional Senior Lien Obligations, or, at the option of the Issuer, by (i) the deposit of such required additional amount (or any balance of such required additional amount not deposited in cash as permitted above) in approximately equal monthly installments, made on or before the business day before the fifteenth day of each month following the delivery of such Additional Senior Lien Obligations (or 1/60 of the balance of such required additional amount not deposited in cash as permitted above) or (ii) the deposit of a Surety Policy which, in whole or in combination with deposits described in clause (i) above, is sufficient to satisfy the required additional amount to be on deposited in the Senior Lien Reserve Fund to accumulate and maintain the Required Reserve Amount.

Coverage. The Issuer covenants and agrees that Additional Senior Lien Obligations will not be issued and parity obligations under Credit Agreements or Qualified Hedge Agreements will not be entered into unless and until, in addition to satisfying the conditions precedent in subparagraph A above, the Designated Financial Officer executes and delivers a certificate representing that, according to the books and records of the Board, the Net Earnings, for the preceding Fiscal Year or for any 12 consecutive calendar month period out of the 18-month period ending not more than ninety (90) days preceding the month the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, are equal to at least 125% of the Maximum Annual Debt Service Requirements for all Senior Lien Obligations to be outstanding after giving effect to the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed. In making such a determination of the Net Earnings, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to adoption of the ordinance authorizing the issuance of the Additional Senior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and, for purposes of satisfying the Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by this representation based on such change in rates and charges being in effect for the entire period covered by the Designated Financial Officer's representation.

Parity. All such Additional Senior Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements provided for in this Section, when issued or entered into in accordance with the above, shall be payable from and equally and ratably secured by a first lien on and pledge of the Net Revenues on a parity with the pledge thereof securing the payment of the Bonds, and the provisions of this Ordinance relating to the use of Net Revenues shall be applicable to such Additional Senior Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements as though the same were a part of such original authorization.

Issuance of Additional Junior Lien Obligations. The Issuer hereby expressly reserves the right to hereafter issue Additional Junior Lien Obligations and enter into parity obligations under

Credit Agreements and Qualified Hedge Agreements payable from and equally and ratably secured by a junior and inferior lien on and pledge of the Net Revenues of the System junior and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, as may be authorized by the laws of the State, upon satisfying each of the following conditions precedent:

The Designated Financial Officer of the Board (or other official of the Board having primary responsibility for the fiscal affairs of the Board) shall have executed a certificate stating that (i) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Additional Junior Lien Obligations to satisfy the Issuer's or the Board's, as applicable, obligations under this Ordinance or any ordinances authorizing the issuance of any then outstanding Senior Lien Obligation or Junior Lien Obligations, the Issuer and the Board are not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceedings relating to any obligations of the Issuer payable from and secured by a lien on and pledge of Net Revenues of the System and (ii) all payments into all special funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of Net Revenues of the System have been duly made and that the amounts on deposit in such special funds or accounts are the amounts then required to be deposited therein;

The Issuer has secured from the Accountant a certificate or opinion to the effect that, according to the books and records of the Board, the Net Earnings of the System, for the preceding Fiscal Year or for any 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing the issuance of the Additional Junior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, is adopted, after making all required debt service and reserve fund payments relating to the Senior Lien Obligations, are at least equal to 125% of the Average Annual Debt Service Requirement for the payment of principal of and interest on all outstanding Junior Lien Obligations after giving effect to the Additional Junior Lien Obligations or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, then proposed and in making a determination of the Net Earnings, the Accountant may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least sixty (60) days prior to the last day of the period for which Net Revenues are to be determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings for the period of time covered by his certification or opinion based on such change in rates and charges being in effect for the entire period covered by the Accountant's certificate or opinion; provided, however, at such time as the currently outstanding Junior Lien Obligations as of the date of this Ordinance or any refunding bonds issued to refund such obligations are no longer outstanding or otherwise defeased, the certification required by this paragraph may be given by the Designated Financial Officer of the Board (or other official of the Board having primary responsibility for the financial affairs of the Board);

The ordinance authorizing the issuance of the Additional Junior Lien Obligations provides for deposits to be made to a debt service fund for the Junior Lien Obligations in amounts sufficient to pay the principal of and interest on such Additional Junior Lien Obligations as same mature and any parity obligations under any Credit Agreements and Qualified Hedge Agreements, as applicable; and

The ordinance authorizing the issuance of the Additional Junior Lien Obligations provides that the amount to be accumulated and maintained in the Junior Lien Reserve Fund shall be in an amount equal to not less than the Average Annual Debt Service Requirements for the Junior Lien Obligations then outstanding after giving effect to the issuance of the proposed Additional Junior Lien Obligations, or execution of the Credit Agreement or Qualified Hedge Agreement, as applicable, and provides that any additional amount to be maintained in the Junior Lien Reserve Fund shall be satisfied with a deposit of cash or accumulated within sixty (60) months from the date the Additional Junior Lien Obligations are delivered or the Credit Agreement or Qualified Hedge Agreement is entered into or shall be funded by a Surety Policy.

Issuance of Subordinate Lien Obligations.

The Issuer hereby reserves the right to hereafter issue Subordinate Lien Obligations and parity obligations under Credit Agreements and Qualified Hedge Agreements payable from and equally and ratably secured by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations and Junior Lien Obligations, as may be authorized by the laws of the State, upon satisfying each of the following conditions precedent:

The Designated Financial Officer (or other officer of the Board then having the primary responsibility for the financial affairs of the Board) shall have executed a certificate stating that (1) except for a refunding to cure a default, or the deposit of a portion of the proceeds of any Subordinate Lien Obligations to satisfy the Issuer's or the Board's, as applicable, obligations under this Ordinance or any ordinances authorizing the issuance of any then outstanding Senior Lien Obligations, Junior Lien Obligations, or Subordinate Lien Obligations, the Issuer and the Board are not then in default as to any covenant, obligation, or agreement contained in any ordinance or other proceeding relating to any obligations of the Issuer or the Board payable from and secured by a lien on and pledge of the Net Revenues and (2) all payments into all funds or accounts created and established for the payment and security of all outstanding obligations payable from and secured by a lien on and pledge of the Net Revenues have been made in full and that the amounts on deposit in such funds or accounts are the amounts then required to be deposited therein. Such certificate shall be dated as of the date of such Subordinate Lien Obligations, Credit Agreement, or Qualified Hedge Agreement, as applicable.

The Issuer has secured a certificate of the Designated Financial Officer to the effect that, according to the books and records of the Board, the Net Earnings for the preceding Fiscal Year or for 12 consecutive months out of the 18 months immediately preceding the month the ordinance authorizing such Subordinate Lien Obligations or parity obligations under any Credit Agreement or Qualified Hedge Agreement is adopted, after making all debt service and reserve fund payments relating to the Senior Lien Obligations and Junior Lien Obligations, are at least equal to 1.00 times the Average Annual Debt Service Requirements for the Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations outstanding, including in each case the Subordinate Lien Obligations and any Credit Agreements or Qualified Hedge Agreements then proposed to be issued or entered into. In making a determination of the Net Earnings for purposes of this Subsection, the Designated Financial Officer may take into consideration a change in the rates and charges for services and facilities afforded by the System that became effective at least 60 days prior to the last day of the period for which Net Earnings are determined and, for purposes of satisfying the above Net Earnings test, make a pro forma determination of the Net Earnings of the System for the period of time covered by his certification based on such changes, in rates and charges being in effect for the entire period covered by the Designated Financial Officer's certificate.

Issuance of Inferior Lien Obligations. The Issuer hereby reserves the right to issue, at any time, Inferior Lien Obligations payable from and equally and ratably secured, in whole or in part, by a lien on and pledge of the Net Revenues, subordinate and inferior in rank and dignity to the lien on and pledge of such Net Revenues securing the payment of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations, as may be authorized by the laws of the State upon satisfying each of the conditions precedent contained in the ordinances authorizing the issuance of the currently outstanding Senior Lien Obligations, Junior Lien Obligations, Subordinate Lien Obligations, and Commercial Paper Obligations.

Refunding Bonds. The Issuer reserves the right to issue refunding bonds to refund all or any part of the outstanding Senior Lien Obligations, pursuant to any law then available, upon such terms and conditions as the Governing Body may deem to be in the best interest of the Issuer, its inhabitants, and other customers of the System, and if less than all such outstanding Senior Lien Obligations are refunded, the conditions precedent prescribed for the issuance of Additional Senior Lien Obligations set forth in Section 25 of this Ordinance shall be satisfied and the representations and certifications required in Section 25B shall give effect to the Maximum Annual Debt Service Requirements of the proposed refunding bonds (but shall not give effect to the Maximum Annual Debt Service Requirements of the obligations being refunded following their cancellation or provision being made for their payment); provided, however, if as a result of such refunding the Maximum Annual Debt Service Requirements are not increased in any Fiscal Year, the Issuer shall not be required to satisfy the requirements of Section 25B as a requirement for the issuance of such refunding bonds.

Issuance of Special Project Obligations. Nothing in this Ordinance shall be construed to deny the Issuer the right and it shall retain the right to issue Special Project obligations, provided, however, the Issuer will not issue Special Project obligations unless the Issuer concludes and specifically finds, upon recommendation of the Board, that (i) the plan for developing the Special Project is consistent with sound planning, (ii) the Special Project would not materially and adversely interfere with the operation of the System, (iii) the Special Project can be economically and efficiently operated and maintained, and (iv) the Special Project can be economically and efficiently utilized by the Board to meet the electric power, water, wastewater, water reuse, stormwater drainage, or any other utility service requirements and the cost of such will be reasonable.

Maintenance of System - Insurance. The Issuer covenants and agrees that while any Senior Lien Obligations remain outstanding the Board will maintain and operate the System in accordance with Prudent Utility Practice and will maintain casualty and other insurance on the properties of the System and its operations of a kind and in such amounts customarily carried by municipal corporations in the State engaged in a similar type of business (which may include an adequate program of self-insurance as set forth in more detail in Section 33M hereof); and that it will faithfully and punctually perform all duties with reference to the System required by the laws of the State. The payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses. Nothing in this Ordinance shall be construed as requiring the Issuer or the Board to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the Issuer or the Board from doing so.

Records and Accounts - Annual Audit. The Issuer covenants and agrees that so long as any of the Senior Lien Obligations remain outstanding, the Board will keep and maintain separate and complete records and accounts pertaining to the operations of the System in which complete and correct entries shall be made of all transactions relating thereto, as provided by generally accepted accounting principles, consistently applied, and by Chapter 1502, Texas Government Code, as amended, or other applicable law. The Holders of the Bonds or any duly authorized agent or agents of such Holders shall have the right to inspect the System and all properties comprising the same. The Issuer further agrees that, following the close of each Fiscal Year, the Board will cause an audit of such records and accounts to be made by an Accountant. Copies of each annual audit shall be made available for public inspection during normal business hours at the Board's principal office and the City Secretary's office and may be furnished to, upon written request, any Holder upon payment of the reasonable copying and mailing charges. Expenses incurred in making the annual audit of the operations of the System shall be considered as Maintenance and Operating Expenses.

Special Covenants. The Issuer hereby further covenants that:

it has the lawful power to pledge the Net Revenues to secure payment of the Bonds and has lawfully exercised this power under the laws of the State, including the power existing under Chapters 1207 and 1502, Texas Government Code, as amended;

the Senior Lien Obligations shall be equally and ratably secured by a lien on and pledge of the Net Revenues in a manner that one obligation shall have no preference over any other obligation;

other than for the payment of the currently outstanding Previously Issued Senior Lien Obligations, Junior Lien Obligations, Commercial Paper Obligations, and the Bonds, the Net Revenues have not in any manner been pledged to the payment of any debt or obligation of the Issuer or of the System;

as long as any Bonds, or any interest thereon, remain Outstanding, neither the Issuer nor the Board will sell, lease, or encumber the System or any substantial part thereof (except as provided in Sections 25, 26, 27 and 28 of this Ordinance) provided that this covenant shall not be construed to prohibit the sale of such machinery, or other properties or equipment which has become obsolete or otherwise unsuited to the efficient operation of the System;

no free service (except water provided to the Issuer for municipal fire-fighting purposes) of the System shall be allowed, and, should the Issuer or any of its agencies or instrumentalities make use of the services and facilities of the System, payment of the reasonable value thereof shall be made to the Board or shall be deducted from the amount of funds that would otherwise be transferred to the Issuer's General Fund pursuant to this Ordinance;

to the extent that it legally may, the Issuer further covenants and agrees that, so long as any Senior Lien Obligations, or any interest thereon, are Outstanding, no franchise shall be granted for the installation or operation of any competing utility systems, and the operation of any such systems by anyone is hereby prohibited, to the extent permitted by law;

through the Board as an agent of the Issuer, it will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in this Ordinance; through the Board as an agent of the Issuer, it will promptly pay or cause to be paid all Senior Lien Obligations, on the dates and in the places and manner prescribed in this Ordinance; and through the Board as an agent of the Issuer, it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Funds and accounts as provided in accordance with this Ordinance; and any Holder of any Bond or payee of any other Senior Lien Obligations may require the Issuer and the Board, their officials, and employees to carry out, respect or enforce the covenants and obligations of this Ordinance by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the Issuer or the Board, their officials, and employees;

through the Board as an agent of the Issuer, it shall at all times operate or cause to be operated the System consistent with Prudent Utility Practice;

it has or will obtain, directly or through the Board as an agent of the Issuer, lawful title, whether such title is in fee or lesser interest, to the land, buildings, structures, facilities, and other property constituting the System; it will, directly or through the Board as an agent of the Issuer, defend the title to all such land, buildings, structures, facilities, and other property and every part thereof, for the benefit of the Holders of the Bonds and the payees of the other Senior Lien Obligations, against the claims and demands of all persons whomsoever; it is lawfully qualified to pledge the Net Revenues to the payment of the Senior Lien Obligations in the manner prescribed herein, and it has lawfully exercised such rights;

through the Board as an agent of the Issuer, it will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon it, the Board, or the System; through the Board as an agent of the Issuer, it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the liens granted hereunder shall be fully preserved in the manner provided herein, and it will not create or suffer to be created any mechanic's, laborer's, materialman' s, or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the liens hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Issuer or the Board;

the Issuer and the Board will comply with all of the terms and conditions of any and all laws, franchises, permits, and authorizations applicable to or necessary with respect to the System; and the Issuer and the Board have obtained or will obtain and keep in full force and effect all franchises, permits, authorization, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the System;

while the Senior Lien Obligations are outstanding and unpaid and to the extent permitted by law, subject to the provisions hereof, it will not sell, convey, mortgage, encumber, lease or in any manner transfer title to, or otherwise dispose of the System, or any significant or substantial part thereof; provided that whenever the Issuer deems it necessary to dispose of any other property, machinery, fixtures or equipment comprising part of the System, it may sell or otherwise dispose of such property, machinery, fixtures or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined that no such replacement or substitute is necessary; and, provided further, to the extent permitted by law, that the Issuer retains the right to sell, convey, mortgage, encumber, lease or otherwise dispose of any significant or substantial part of the System if (i) the Designated Financial Officer executes and delivers a certificate to the Governing Body to the effect that, following such action by the Board, the System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while any of the Senior Lien Obligations are to be outstanding to comply with the obligations of the Issuer contained in this Ordinance and in the ordinances authorizing the issuance of Additional Senior Lien Obligations; (ii) the Governing Body makes a finding and determination to the same effect as the certificate of the Designated Financial Officer set forth in (i) above, (iii) the Board recommends the action to the Issuer by resolution based upon a written certification of a nationally recognized consulting engineering firm retained by the Board stating that the action would not impair the reliability, efficiency or availability of utility service required to be delivered to the customers of the System; and (iv) each Rating Agency then maintaining a rating on any Senior Lien Obligation delivers a letter to the Issuer to the effect that such sale, conveyance, mortgage, encumbrance, lease or other disposition will not cause the Rating Agency to withdraw or lower the rating then in effect; and proceeds from any sale of property hereunder not used to replace or provide for substitution of such property sold shall be used for improvements to the System or to purchase or redeem Senior Lien Obligations;

(1) it shall cause to be insured such parts of the System as would usually be insured by municipal corporations operating like properties, with a responsible insurance company or companies, against risks, accidents or casualties against which and to the extent insurance is usually carried by municipal corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance, and public liability and property damage insurance shall also be carried unless the City Attorney of the Issuer gives a written opinion to the effect that the Issuer is not liable for claims which would be protected by such insurance; provided that, at any time while any contractor engaged in construction work shall be fully responsible therefor, the Issuer shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance; all such policies shall be open to the inspection of the Holders and their representatives at all reasonable times; upon the happening of any loss or damage covered by insurance from one or more of said causes, the Issuer shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the Issuer; the proceeds of insurance covering such property are hereby pledged as security for the Senior Lien Obligations, first, Junior Lien Obligations, second, and Subordinate Lien Obligations, third, and, together with any other funds necessary and available for such purpose, shall be used forthwith by the Issuer for repairing the property damaged or replacing the property destroyed;

provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then the insurance proceeds pertaining to the System shall be used promptly as follows, except to the effect that the Board finds and determines that the failure to use such proceeds in such manner will not adversely affect the ability of the Issuer to pay principal of and interest on the Senior Lien Obligations in full when due:

for the redemption prior to maturity of the Senior Lien Obligations, ratably in the proportion that the outstanding principal of each series of Senior Lien Obligations bears to the total outstanding principal of all Senior Lien Obligations, Junior Lien Obligations, and Subordinate Lien Obligations, provided that if on any such occasion the principal of any such series is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or

if none of the outstanding Senior Lien Obligations is subject to redemption, then for the purchase on the open market and retirement of said Senior Lien Obligations in the same proportion as prescribed in the foregoing clause (i), to the extent practicable; provided that the purchase price for any Senior Lien Obligation shall not exceed the redemption price of such Senior Lien Obligation on the first date upon which it becomes subject to redemption; or

to the extent that the foregoing clauses (i) and (ii) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the Issuer, to be designated the "Insurance Account", and shall be held until such time as the foregoing clauses (i) and/or (ii) can be complied with, or until other funds become available which, together with the balance of the Insurance Account, will be sufficient to make the repairs or replacements originally required, whichever of said events occurs first;

the foregoing provisions of (1) above notwithstanding, the Issuer shall have authority to enter into coinsurance or similar plans where risk of loss is shared in whole or in part by the Issuer;

the annual audit hereinafter required shall contain a section commenting on whether or not the Issuer has complied with the requirements of this Section with respect to the maintenance of insurance, and listing all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid; and

the payment of premiums for all insurance policies required under the provisions hereof and the costs associated with the maintenance of any self-insurance program shall be considered Maintenance and Operating Expenses.

In lieu of obtaining insurance, the Board as the agent of the Issuer, and/or the Issuer, may satisfy the requirements above by establishing and maintaining an adequate program of self-insurance.

the Issuer retains the right to disaggregate the System into one or more independent resulting systems and in connection therewith, to exclude any part of the System from the Issuer's pledge and covenants hereunder if (i) the Designated Financial Officer executes and delivers a certificate to the Governing Body to the effect that, following such action by the Issuer, the remaining System is expected to produce Gross Revenues in amounts sufficient in each Fiscal Year while any of the Senior Lien Obligations are to be outstanding to comply with the obligations of the Issuer contained in this Ordinance and in the ordinances authorizing the issuance of Additional Senior Lien Obligations or any related Credit Agreements or Qualified Hedge Agreements; (ii) the Governing Body makes a finding and determination to the same effect as the certificate of the Designated Financial Officer set forth in (i) above; (iii) the Board recommends the action to the Issuer by resolution based upon a written certification from a nationally recognized independent engineering firm retained by the Board that the action would benefit the System without adverse consequences thereto; and (iv) each Rating Agency then maintaining a rating on any Senior Lien Obligation delivers a letter to the Issuer to the effect that such disaggregation will not cause the Rating Agency to withdraw or lower the rating then in effect on the Outstanding Senior Lien Obligations.

<u>Limited Obligations of the Issuer</u>. The Senior Lien Obligations are limited, special obligations of the Issuer payable solely from and to the extent of and equally and ratably secured by a first lien on and pledge of the Net Revenues, and the Holders and payees thereof shall never have the right to demand payment of the Senior Lien Obligations from any funds raised or to be raised through taxation by the Issuer. Nothing in this Ordinance shall be construed as requiring the Issuer to expend any funds which are derived from sources other than the operation of the System, but nothing herein shall be construed as preventing the Issuer from doing so.

<u>Security for Funds</u>. All money on deposit in the Funds for which this Ordinance makes provision (except any portion thereof as may be at any time properly invested as provided herein) shall be secured in the manner and to the fullest extent required by the laws of Texas for the security of public funds, and money on deposit in such Funds shall be used only for the purposes permitted by this Ordinance.

<u>Management of System</u>. As provided in Article VI of the Charter, the Board shall have absolute and complete authority and power with reference to the control, management and operation of the System, and the expenditure and application of the Gross Revenues of the System, subject to the provisions contained in this Ordinance and the laws of the State, and, while any of the Senior Lien Obligations authorized by this Ordinance are outstanding, the Board shall have full power, within the limitations prescribed in said Article VI of the Charter, unless or until the Charter is amended to provide otherwise, to operate the System and make rules and regulations governing the furnishing of service to patrons, for the payment of same and to discontinue service for failure to pay therefor when due. The Board shall exercise the powers and perform the duties and functions conferred upon and agreed to by the Issuer to the extent provided for in this Ordinance and unless the context clearly implies otherwise, the Board shall be authorized and required to carry out and perform on behalf of the Issuer all covenants, agreements and obligations undertaken by or imposed upon the Issuer by the terms and provisions of this Ordinance to the extent permitted by law. It is specifically provided that in the event the Charter is amended to transfer management and control of the System to the Governing Body or if for any lawful reason the Board cannot assume and discharge the duties and obligations thus imposed, the management,

control and operation of the System, upon the effective date of such Charter amendment or upon the receipt by the Board and the Issuer of an final order by a court of competent jurisdiction determining that the Board has not discharged its duties and obligations pursuant to the provisions of this Ordinance, then, based upon such Charter amendment or this final court order, the management, control, and operation of the System shall be assumed and discharged by the Governing Body of the Issuer, and it shall be authorized and required to carry out and perform on behalf of the Issuer all covenants, agreements and obligations undertaken by or imposed upon the Issuer or the Board by the terms and provisions of this Ordinance.

Remedies in Event of Default. In addition to all the rights and remedies provided by the laws of the State, the Issuer covenants and agrees particularly that in the event the Issuer (a) defaults in the payments to be made to the Debt Service Fund or Senior Lien Reserve Fund, or (b) defaults in the observance or performance of any other of the covenants, conditions, or obligations set forth in this Ordinance, the Holders of any of the Bonds shall be entitled to seek a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Governing Body of the Issuer and/or the Board and other officers of the Issuer and/or the Board to observe and perform any covenant, condition, or obligation prescribed in this Ordinance.

No delay or omission to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient. The specific remedy herein provided shall be cumulative of all other existing remedies, and the specification of such remedy shall not be deemed to be exclusive.

Notices to Holders - Waiver. Wherever this Ordinance provides for notice to Holders of any event, such notice shall be sufficiently given (unless otherwise herein expressly provided) if in writing and sent by United States mail, first-class postage prepaid, to the address of each Holder as it appears in the Security Register.

In any case where notice to Holders is given by mail, neither the failure to mail such notice to any particular Holders, nor any defect in any notice so mailed, shall affect the sufficiency of such notice with respect to all other Holders. Where this Ordinance provides for notice in any manner, such notice may be waived in writing by the Holder entitled to receive such notice, either before or after the event with respect to which such notice is given, and such waiver shall be the equivalent of such notice. Waivers of notice by Holders shall be filed with the Paying Agent/Registrar, but such filing shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Negotiable Instruments. Each of the Bonds authorized herein shall be deemed and construed to be a security and as such a negotiable instrument with the meaning of Chapter 8 of the Texas Uniform Commercial Code.

Cancellation. All Bonds surrendered for payment, transfer, exchange, redemption, or replacement, if surrendered to the Paying Agent/Registrar, shall be promptly cancelled by it and, if surrendered to the Issuer, shall be delivered to the Paying Agent/Registrar and, if not already cancelled, shall be promptly cancelled by the Paying Agent/Registrar. The Issuer may at any time deliver to the Paying Agent/Registrar for cancellation any Bonds previously certified or registered and delivered which the Issuer may have acquired in any manner whatsoever, and all Bonds so delivered shall be promptly cancelled by the Paying Agent/Registrar. All cancelled Bonds held by the Paying Agent/Registrar shall be destroyed as directed by the Issuer and a certificate of destruction will be provided to the Issuer by the Paying Agent/Registrar.

Mutilated, Destroyed, Lost, and Stolen Bonds. If (1) any mutilated Bond is surrendered to the Paying Agent/Registrar, or the Issuer and the Paying Agent/Registrar receive evidence to their satisfaction of the destruction, loss, or theft of any Bond, and (2) there is delivered to the Issuer and the Paying Agent/Registrar such security or indemnity as may be required to save each of them harmless, then, in the absence of notice to the Issuer or the Paying Agent/Registrar that such Bond has been acquired by a bona fide purchaser, the Issuer shall execute and, upon its request, the Paying Agent/Registrar shall register and deliver, in exchange for or in lieu of any such mutilated, destroyed, lost, or stolen Bond, a new Bond of the same series, Stated Maturity, and interest rate and of like tenor and principal amount, bearing a number not contemporaneously outstanding.

In case any such mutilated, destroyed, lost, or stolen Bond has become or is about to become due and payable, the Issuer in its discretion may, instead of issuing a new Bond, pay such Bond. Upon the issuance of any new Bond or payment in lieu thereof, under this Section, the Issuer may require payment by the Holder of a sum sufficient to cover any tax or other governmental charge imposed in relation thereto and any other expenses (including attorney’s fees and the fees and expenses of the Paying Agent/Registrar) connected therewith. Every new Bond issued pursuant to this Section in lieu of any mutilated, destroyed, lost, or stolen Bond shall constitute a replacement of the prior obligation of the Issuer, whether or not the mutilated, destroyed, lost, or stolen Bond shall be at any time enforceable by anyone, and shall be entitled to all the benefits of this Ordinance equally and ratably with all other Outstanding Bonds. The provisions of this Section are exclusive and shall preclude (to the extent lawful) all other rights and remedies with respect to the replacement and payment of mutilated, destroyed, lost, or stolen Bonds.

Sale of Bonds -Approval of Purchase Contract - Official Statement Approval. The Bonds authorized by this Ordinance are hereby awarded to the Underwriters more particularly described in, and in accordance with, the Purchase Contract substantially in the form attached hereto as Exhibit C and incorporated herein by reference as a part of this Ordinance for all purposes (the *Underwriters*). The Mayor or the Designated Financial Officer is hereby authorized and directed to execute the Purchase Contract for and on behalf of the Issuer and as the act and deed of this Governing Body, and in regard to the approval and execution of the Purchase Contract, the Governing Body hereby finds, determines and declares that the representations, warranties, and agreements of the Issuer contained in the Purchase Contract are true and correct in all material respects and shall be honored and performed by the Issuer. Delivery of the Bonds to the Underwriters shall occur as soon as practicable after the adoption of this Ordinance, upon payment therefor in accordance with the terms of the Purchase Contract.

Furthermore, Issuer hereby ratifies, confirms, and approves in all respects (i) the Issuer’s prior determination that the Preliminary Official Statement was, as of its date, “deemed final” in accordance with the Rule (hereinafter defined) and (ii) the use and distribution of the Preliminary Official Statement related to the Bonds by the Underwriters in connection with the public offering and sale of the Bonds is hereby ratified, confirmed and approved in all respects. The final Official Statement, being a modification and amendment of the Preliminary Official Statement to reflect the terms of sale, referenced in the Purchase Contract (together with such changes approved by the Mayor, City Manager, City Secretary, and Designated Financial Officer, any one or more of said officials) shall be and is hereby in all respects approved, and the Underwriters are hereby authorized to use and distribute the final Official Statement, to be dated as of the date of execution of the Purchase Contract, in the reoffering, sale and delivery of the Bonds to the public. The Mayor and City Secretary are further authorized and directed to manually execute and deliver for and on behalf of the Issuer copies of the Official Statement in final form as may be required by the Underwriters, and such final Official Statement in the form and content manually executed by said officials shall be deemed to be approved by the Governing Body and constitute the Official Statement authorized for distribution and use by the Underwriters.

Proceeds from the sale of the Bonds shall be applied as follows:

Accrued interest, if any, on the Bonds received from the Underwriters shall be deposited into the Debt Service Fund.

The balance of the proceeds derived from the sale of the Bonds (after paying costs of issuance, including the costs of any Credit Facilities or Credit Agreements) shall be deposited into the Escrow Fund described in Section 43 hereof to the extent required by the Escrow Agreement referred to in such Section and, to the extent of any surplus, be deposited into the Debt Service Fund. Interest earned on the proceeds of the Bonds pending payment of costs of issuance with such proceeds shall be accounted for, maintained, deposited, and expended as permitted by the provisions of Chapter 1201, Texas Government Code, as amended, or as required by any other applicable law. Thereafter, such amounts shall be expended in accordance with Section 15.

Escrow Agreement Approval and Execution - Proceeds of Sale. The Escrow Agreement (the *Escrow Agreement*) by and between the Issuer and [The Bank of New York Mellon Trust Company, N.A., Dallas, Texas] (the *Escrow Agent*), attached hereto as Exhibit D and incorporated herein by reference as a part of this Ordinance for all purposes, is hereby approved as to form and content, and such Escrow Agreement in substantially the form and substance attached hereto, together with such changes or revisions as may be necessary to accomplish the refunding or benefit the Issuer, is hereby authorized to be executed by the Mayor and City Secretary and on behalf of the Issuer and as the act and deed of the Governing Body; and the Escrow Agreement as executed by said officials shall be deemed approved by the Governing Body and constitute the Escrow Agreement herein approved.

Furthermore, the Mayor, City Secretary, City Manager, or Designated Financial Officer, any one or more of said officials, and the Escrow Agent are hereby authorized and directed to make the necessary arrangements for the purchase of the Federal Securities referenced in the Escrow Agreement and the delivery thereof to the Escrow Agent on the Closing Date for deposit to the credit of the Escrow Fund established in the Escrow Agreement, including the execution of subscription forms for the purchase and issuance of the "United States Treasury Securities - State and Local Government Series" for deposit to the Escrow Fund, all as contemplated and provided by the provisions of the Acts, this Ordinance, and the Escrow Agreement.

Redemption of Refunded Bonds. Certain of the Refunded Bonds as defined herein, and as designated in the Approval Certificate, are or will be subject to being redeemed prior to their stated maturity on various dates at the price of par, premium, if any, and accrued interest to the date of redemption. The Mayor or Designated Financial Officer shall give written notice to the Escrow Agent that these Refunded Bonds have been called for redemption, and the Governing Body ordains that such obligations are called for redemption, on the dates designated as Schedule I to the Approval Certificate, and such order to redeem the Refunded Bonds on the date or dates therein specified shall be irrevocable upon the delivery of the Bonds.

Covenants to Maintain Tax-Exempt Status.

Covenants to Maintain Tax Exempt Status. For any Bonds for which the Issuer intends that the interest on the Bonds shall be excludable from gross income of the owners thereof for federal income tax purposes pursuant to Sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the *Code*), and all applicable temporary, proposed and final regulations (the *Regulations*) and procedures promulgated thereunder and applicable to the Bonds: For this purpose, the Issuer covenants that it will monitor and control the receipt, investment, expenditure and use of all gross proceeds of the Bonds (including all property the acquisition, construction or improvement of which is to be financed directly or indirectly with the proceeds of the Bonds) and take or omit to take such other and further actions as may be required by Sections 103 and 141 through 150 of the Code and the Regulations to cause interest on the Bonds to be and remain excludable from the gross income, as defined in Section 61 of the Code, of the owners of the Bonds for federal income tax purposes. Without limiting the generality of the foregoing, the Issuer shall comply with each of the following covenants:

The Issuer will use all of the proceeds of the Bonds to provide funds for the purposes described in Section 3 hereof. The Issuer will not use any portion of the proceeds of the Bonds to pay the principal of or interest or redemption premium on, any obligation of the Issuer or a related person other than the Refunded Bonds.

All property financed and refinanced with the proceeds of the Bonds will be owned and operated by the Issuer

The Issuer will not directly or indirectly take any action, or omit to take any action, which action or omission would cause the Bonds to constitute "private activity bonds" within the meaning of Section 141(a) of the Code.

Principal of and interest on the Bonds will be paid solely from a lien on the Net Revenues of the System received and collected by the Issuer.

Based upon all facts and estimates now known or reasonably expected to be in existence on the date the Bonds are delivered, the Issuer reasonably expects that the proceeds of the Bonds will not be used in a manner that would cause the Bonds or any portion thereof to be an "arbitrage bond" within the meaning of Section 148 of the Code.

At all times while the Bonds are outstanding, the Issuer will identify and properly account for all amounts constituting gross proceeds of the Bonds in accordance with the Regulations. The Issuer will monitor the yield on the investments of the proceeds of the

Bonds and, to the extent required by the Code and the Regulations, will restrict the yield on such investments to a yield which is not materially higher than the yield on the Bonds. To the extent necessary to prevent the Bonds from constituting “arbitrage bonds,” the Issuer will make such payments as are necessary to cause the yield on all yield restricted nonpurpose investments allocable to the Bonds to be less than the yield that is materially higher than the yield on the Bonds.

The Issuer will not take any action or knowingly omit to take any action that, if taken or omitted, would cause the Bonds to be treated as “federally guaranteed” obligations for purposes of Section 149(b) of the Code.

The Issuer represents that not more than fifty percent (50%) of the proceeds of the Bonds will be invested in nonpurpose investments (as defined in Section 148(f)(6)(A) of the Code) having a substantially guaranteed yield for four years or more within the meaning of Section 149(g)(3)(A)(ii) of the Code, and the Issuer reasonably expects that at least eighty-five percent (85%) of the spendable proceeds of the Bonds will be used to carry out the governmental purpose of the Bonds within the three-year period beginning on the date of issue of the Bonds.

The Issuer will take all necessary steps to comply with the requirement that certain amounts earned by the Issuer on the investment of the gross proceeds of the Bonds, if any, be rebated to the federal government. Specifically, the Issuer will (i) maintain records regarding the receipt, investment, and expenditure of the gross proceeds of the Bonds as may be required to calculate such excess arbitrage profits separately from records of amounts on deposit in the funds and accounts of the Issuer allocable to other obligations of the Issuer or moneys which do not represent gross proceeds of any obligations of the Issuer and retain such records for at least six years after the day on which the last outstanding Bond is discharged, (ii) account for all gross proceeds under a reasonable, consistently applied method of accounting, not employed as an artifice or device to avoid in whole or in part, the requirements of Section 148 of the Code, including any specified method of accounting required by applicable Regulations to be used for all or a portion of any gross proceeds, (iii) calculate, at such times as are required by applicable Regulations, the amount of excess arbitrage profits, if any, earned from the investment of the gross proceeds of the Bonds and (iv) timely pay, as required by applicable Regulations, all amounts required to be rebated to the federal government. In addition, the Issuer will exercise reasonable diligence to assure that no errors are made in the calculations required by the preceding sentence and, if such an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter, including payment to the federal government of any delinquent amounts owed to it, interest thereon and any penalty.

The Issuer will not directly or indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if such arrangement had been at arm's length and had the yield on the Bonds not been relevant to either party.

The Issuer will timely file or cause to be filed with the Secretary of the Treasury of the United States the information required by Section 149(e) of the Code with respect to the Bonds on such form and in such place as the Secretary may prescribe.

The Issuer will not issue or use the Bonds as part of an “abusive arbitrage device” (as defined in Section 1.148-10(a) of the Regulations). Without limiting the foregoing, the Bonds are not and will not be a part of a transaction or series of transactions that attempts to circumvent the provisions of Section 148 of the Code and the Regulations, by (i) enabling the Issuer to exploit the difference between tax-exempt and taxable interest rates to gain a material financial advantage, or (ii) increasing the burden on the market for tax-exempt obligations.

Proper officers of the Issuer charged with the responsibility for issuing the Bonds are hereby directed to make, execute and deliver certifications as to facts, estimates or circumstances in existence as of the date of issuance of the Bonds and stating whether there are facts, estimates or circumstances that would materially change the Issuer's expectations. On or after the date of issuance of the Bonds, the Issuer will take such actions as are necessary and appropriate to assure the continuous accuracy of the representations contained in such certificates.

The covenants and representations made or required by this Section are for the benefit of the Bond holders and any subsequent Bond holder, and may be relied upon by the Bond holders and any subsequent Bond holder and bond counsel to the Issuer.

In complying with the foregoing covenants, the Issuer may rely upon an unqualified opinion issued to the Issuer by nationally recognized bond counsel that any action by the Issuer or reliance upon any interpretation of the Code or Regulations contained in such opinion will not cause interest on the Bonds to be includable in gross income for federal income tax purposes under existing law.

Notwithstanding any other provision of this Ordinance, the Issuer's representations and obligations under the covenants and provisions of this Section shall survive the defeasance and discharge of the Bonds for as long as such matters are relevant to the exclusion of interest on the Bonds from the gross income of the owners for federal income tax purposes.

Current Refunding of the Refunded Bonds. A portion of the Bonds are issued to refund the Refunded Bonds which are subject to redemption within 90 days after the Closing Date, and the proceeds of the Tax-Exempt Bonds will be used within 90 days after the Closing Date for the redemption of such Refunded Bonds. In the issuance of the Bonds, the Issuer has employed no “device” to obtain a material financial advantage (based on arbitrage), within the meaning of section 149(d)(4) of the Code, apart from savings attributable to lower interest rates. The Issuer has complied with the covenants, representations, and warranties contained in the documents executed in connection with the issuance of the Refunded Bonds.

Temporary Periods. The Issuer will or will not waive temporary periods with respect to the Tax-Exempt Bonds as provided in the Issuer’s Tax Exemption Certificate.

Elections. The Issuer hereby directs and authorizes the Mayor, Mayor Pro Tern, City Secretary, City Manager, City Attorney, Designated Financial Officer, or Director of Finance, either or any combination of the foregoing, to make such elections in the Certificate as to Tax Exemption or similar or other appropriate certificate, form, or document permitted or required pursuant to the provisions of the Code, Regulations, or Temporary Regulations as they deem necessary or appropriate in connection with the Tax-Exempt Bonds. Such elections shall be deemed to be made on the Closing Date.

Control and Custody of Bonds. The Mayor shall be and is hereby authorized to take and have charge of all necessary orders and records pending investigation by the Attorney General of the State of Texas and shall take and have charge and control of the Bonds pending their approval by the Attorney General, the registration thereof by the Comptroller of Public Accounts and the delivery of the initial Bond(s) to the Underwriters.

Furthermore, the Mayor, City Secretary, City Manager, Director of Finance, Designated Financial Officer, and City Attorney, any or all, are hereby authorized and directed to furnish and execute such documents relating to the Issuer and its financial affairs as may be necessary for the issuance of the Bonds, the approval of the Attorney General and their registration by the Comptroller of Public Accounts and, together with the Board's financial advisor, bond counsel, and the Paying Agent/Registrar, to make the necessary arrangements for the delivery of the Initial Bond(s) to the Underwriters.

Satisfaction of Obligation of Issuer. If the Issuer shall pay or cause to be paid, or there shall otherwise be paid to the Holders, the principal of, premium, if any, and interest on the Bonds, at the times and in the manner stipulated in this Ordinance, then the lien on and pledge of Net Revenues under this Ordinance and all covenants, agreements, and other obligations of the Issuer to the Holders shall thereupon cease, terminate, and be discharged and satisfied.

Principal of, premium, if any, or interest on any Bond shall be deemed to have been paid within the meaning and with the effect expressed above in this Section when (i) money sufficient to pay in full such principal, premium, if any, or interest at Stated Maturity or to the redemption date therefor shall have been irrevocably deposited with and held in trust by the Paying Agent/Registrar, or an authorized escrow agent, or (ii) Government Securities shall have been irrevocably deposited in trust with the Paying Agent/Registrar, or an authorized escrow agent, which Government Securities have been certified by an independent accounting firm, or such other persons as permitted by the laws of the State, to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money, together with any money deposited therewith, if any, to pay when due the principal of, premium, if any, or interest on such Bonds on and prior to the Stated Maturity thereof or (if notice of redemption has been duly given or waived or if irrevocable arrangements therefor acceptable to the Paying Agent/Registrar have been made) the redemption date thereof. The Issuer covenants that no deposit of money or Government Securities will be made under this Section and no use made of any such deposit which would cause the Bonds to be treated as arbitrage bonds within the meaning of section 148 of the Code (as defined in Section 45 hereof).

Any money so deposited with the Paying Agent/Registrar, and all income from Government Securities held in trust by the Paying Agent/Registrar, or an authorized escrow agent, pursuant to this Section which is not required for the payment of the Bonds, or any principal amount(s) thereof, or interest thereon with respect to which such money has been so deposited shall be remitted to the Issuer or deposited as directed by the Issuer. Furthermore, any money held by the Paying Agent/Registrar for the payment of the principal of, premium, if any, or interest on the Bonds and remaining unclaimed for a period of four (4) years after the Stated Maturity, or applicable redemption date, of the Bonds such money was deposited and is held in trust to pay shall upon the request of the Board be remitted to the Board against a written receipt therefor, subject to the unclaimed property laws of the State.

Notwithstanding any other provision of this Ordinance to the contrary, it is hereby provided that any determination not to redeem defeased Bonds that is made in conjunction with the payment arrangements specified in (i) or (ii) above shall not be irrevocable, provided that: (1) in the proceedings providing for such defeasance, the Issuer expressly reserves the right to call the defeased Bonds for redemption; (2) gives notice of the reservation of that right to the owners of the defeased Bonds immediately following the defeasance; (3) directs that notice of the reservation be included in any redemption notices that it authorizes; and (4) at the time of the redemption, satisfies the conditions of (i) or (ii) above with respect to such defeased debt as though it was being defeased at the time of the exercise of the option to redeem the defeased Bonds, after taking the redemption into account in determining the sufficiency of the provisions made for the payment of the defeased Bonds.

<u>Printed Opinion</u>. The Underwriters' obligation to accept delivery of the Bonds is subject to its being furnished a final opinion of Orrick, Herrington & Sutcliffe LLP, as Bond Counsel, approving certain legal matters as to the Bonds, such opinion to be dated and delivered as of the date of initial delivery and payment for such Bonds by the Underwriters. Printing of a true and correct copy of such opinion on the reverse side of each definitive Bond, with an appropriate certificate pertaining thereto executed by facsimile signature of the City Secretary of the Issuer, is hereby approved and authorized.

<u>CUSIP Numbers</u>. CUSIP numbers may be printed or typed on the definitive Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the definitive Bonds shall be of no significance or effect as regards the legality thereof, and neither the Issuer nor attorneys approving said Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed or typed on the definitive Bonds.

<u>Effect of Headings</u>. The Section headings herein are for convenience only and shall not affect the construction hereof.

<u>Ordinance a Contract - Amendments - Outstanding Senior Lien Obligations</u>. The Issuer acknowledges that the covenants and obligations of the Issuer herein contained are a material inducement to the purchase of the Bonds. This Ordinance shall constitute a contract with the Holders from time to time, shall be binding on the Issuer and the Board and their successors and assigns, and shall not be amended or repealed by the Issuer so long as any Bond remains Outstanding except as permitted in this Section.

The registered owners of a majority in Outstanding principal amount of the Senior Lien Obligations shall have the right from time to time to approve any amendment to this Ordinance which may be deemed necessary or desirable by the Issuer; provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in this Ordinance or in the Senior Lien Obligations so as to: (1) make any change in the maturity of any of the outstanding Senior Lien Obligations; (2) reduce the rate of interest borne by any of the outstanding Senior Lien Obligations; (3) reduce the amount of the principal payable on the outstanding Senior Lien Obligations; (4) modify the terms of payment of principal of, premium, if any, or interest on the outstanding Senior Lien Obligations or impose any conditions with respect to such payment; (5) affect the rights of the registered owners of less than all of the Senior Lien Obligations then outstanding; (6) amend clause A of this Section; (7) amend the provisions of Section 14 that would alter the priority of payments to the registered owners of any Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or Inferior Lien Obligations; or (8) change the minimum percentage of the principal amount of Senior Lien Obligations necessary for consent to any amendment; unless such amendment or amendments shall be approved by the registered owners of all of the Senior Lien Obligations then outstanding.

If at any time the Issuer shall desire to amend this Ordinance under this Section, the Issuer shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, and a newspaper of general circulation in the Issuer, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal corporate trust office of the Paying Agent/Registrar for inspection by all registered owners of the Senior Lien Obligations. Such publication is not required, however, if notice in writing is given to each registered owner of any Senior Lien Obligations.

Whenever at any time not less than 30 days, and within one year, from the date of the first publication of such notice, or other service of written notice, the Issuer shall receive an instrument or instruments executed by the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations then outstanding, which instrument or instruments shall refer to the proposed amendment described in such notice and which specifically consent to and approve such amendment in substantially the form of the copy thereof on file with the Paying Agent/Registrar, the Governing Body may pass such amendment in substantially the same form.

Upon the passage of any such amendment pursuant to the provisions of this Section, this Ordinance shall be deemed to be amended in accordance with such amendment, and the respective rights, duties and obligations under this Ordinance of the Issuer, the Board, and all the registered owners of then outstanding Senior Lien Obligations shall thereafter be determined, exercised and enforced hereunder, subject in all respects to such amendment.

Any consent given by the registered owners of a Bond pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future registered owners of the same Senior Lien Obligations during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the registered owners who gave such consent (as long as such person remains a registered owner), or by a successor in title, by filing written notice thereof with the Paying Agent/Registrar and the Issuer, but such revocation shall not be effective if the registered owners of at least a majority in outstanding principal amount of the Senior Lien Obligations have, prior to the attempted revocation, consented to and approved the amendment.

The foregoing provisions of this Section notwithstanding, the Governing Body may amend this Ordinance without the consent of any registered owners of the Senior Lien Obligations, solely for any one or more of the following purposes: (1) to add to the covenants and agreements of the Issuer or the Board contained in this Ordinance, other covenants and agreements thereafter to be observed, grant additional rights or remedies to the registered owners of the Senior Lien Obligations or to surrender, restrict or limit any right or power herein reserved to or conferred upon the Issuer or the Board; (2) to make such provisions for the purpose of curing any ambiguity, or curing, correcting or supplementing any defective provision contained in this Ordinance, or in regard to clarifying matters or questions arising under this Ordinance, as are necessary or desirable and not contrary to or inconsistent with this Ordinance and which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations then outstanding; (3) to modify any of the provisions of this Ordinance in any other respect whatever, provided that such modification shall be, and be expressed to be, effective only after the Senior Lien Obligations outstanding at the date of the adoption of such modification shall cease to be outstanding; (4) to make such amendments to this Ordinance as may be required, in the opinion of bond counsel, to ensure compliance with sections 103 and 141 through 150 of the Code and the regulations promulgated thereunder and applicable thereto; (5) to make such changes, modifications, or amendments as may be necessary or desirable in order to allow the registered owners of the Senior Lien Obligations to thereafter avail themselves of a book-entry system for payments, transfers, and other matters relating to the Senior Lien Obligations, which changes, modifications or amendments are not contrary to or inconsistent with other provisions of this Ordinance and which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations; (6) to make such changes, modifications, or amendments as may be necessary or desirable in order to obtain or maintain the granting of a rating on the Senior Lien Obligations by a Rating Agency or to obtain or maintain a Credit Agreement or a Credit Facility issued in support of Senior Lien Obligations if such changes do not adversely affect the registered owners of any Senior Lien Obligations; or (7) to make such changes, modifications, or amendments as may be necessary or desirable, which shall not adversely affect the interests of the registered owners of the Senior Lien Obligations in order, to the extent permitted by law, to facilitate the economic and practical utilization of interest rate swap agreements, foreign currency exchange agreements, or similar type of agreements with respect to the Senior Lien Obligations. Notice of any such amendment may be published by the Issuer in the manner described in clause B of this Section; provided, however, that the publication of such notice shall not constitute a condition precedent to the adoption of such amendatory ordinance and the failure to publish such notice shall not adversely affect the implementation of such amendment as adopted pursuant to such amendatory ordinance.

<u>Legal Holidays</u>. In any case where the date of maturity of interest on or principal of the Bonds or the date fixed for redemption of any Bonds shall be a Saturday, Sunday, or legal holiday in the Issuer or a day on which the Paying Agent/Registrar for the Bonds is authorized by law or executive order to close, then payment of interest or principal need not be made on such date but may be made on the next succeeding day which is not such a day with the same force and effect as if made on the date of maturity or the date fixed for redemption and no interest shall accrue for the period from the date of maturity or redemption to the date of actual payment.

Unavailability of Authorized Publication. If, because of the temporary or permanent suspension of any newspaper, journal, or other publication, or, for any reason, publication of notice cannot be made meeting any requirements herein established, any notice required to be published by the provisions of this Ordinance shall be given in such other manner and at such time or times as in the judgment of the Issuer or of the Paying Agent/Registrar shall most effectively approximate such required publication and the giving of such notice in such manner shall for all purposes of this Ordinance be deemed to be in compliance with the requirements for publication thereof.

No Recourse against Issuer or Board Officials. No recourse shall be had for the payment of principal of, premium, if any, or interest on any Bonds or of any other Junior Lien Obligations, Subordinate Lien Obligations, Commercial Paper Obligations, or Inferior Lien Obligations or for any claim based thereon or on this Ordinance against any official of the Issuer, the Board, or any person executing any Bonds.

Benefits of Ordinance. Nothing in this Ordinance, expressed or implied, is intended or shall be construed to confer upon any person other than the Issuer, the Board, bond counsel, the Paying Agent/Registrar, the Underwriters, and the Holders, any right, remedy, or claim, legal or equitable, under or by reason of this Ordinance or any provision hereof, this Ordinance and all its provisions being intended to be and being for the sole and exclusive benefit of the Issuer, the Board, bond counsel, the Paying Agent/Registrar, the Underwriters, and the Holders.

Inconsistent Provisions. All ordinances and resolutions, or parts thereof, which are in conflict or inconsistent with any provision of this Ordinance are hereby repealed to the extent of such conflict, and the provisions of this Ordinance shall be and remain controlling as to the matters ordained herein.

Governing Law. This Ordinance shall be construed and enforced in accordance with the laws of the State and the United States of America.

Severability. If any provision of this Ordinance or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Ordinance and the application of such provision to other persons and circumstances shall nevertheless be valid, and the Governing Body hereby declares that this Ordinance would have been enacted without such invalid provision.

Incorporation of Preamble Recitals. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Ordinance for all purposes and are adopted as a part of the judgment and findings of the Governing Body.

Continuing Disclosure Undertaking.

Annual Reports. The Board, on behalf of the Issuer, shall provide annually to the MSRB, within six months after the end of each fiscal year ending in or after 2020, financial information and operating data with respect to the System of the general type included in the final Official Statement authorized by Section 6.3 of this Ordinance, being the information described in Exhibit H hereto. Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles described in Exhibit H hereto and (2) audited, if the Board, on behalf of the Issuer, commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the Board, on behalf of the Issuer, shall provide audited financial statements for the applicable fiscal year to the MSRB, when and if audited financial statements become available but if such audited financial statements are unavailable the Issuer will provide such financial statements on an unaudited basis within the above-described six-month period.

If the Board changes its fiscal year, it will notify the MSRB of the change (and of the date of the new fiscal year end) prior to the next date by which the Board otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document available from the MSRB or filed with the SEC, or may be provided in any other manner consistent with the Rule.

Certain Event Notices. The Board shall notify the MSRB, in a timely manner, not in excess of 10 business days after the occurrence of the event, notice of any of the following events with respect to the Bonds:

Principal and interest payment delinquencies;

Non-payment related defaults, if material;

Unscheduled draws on debt service reserves reflecting financial difficulties;

Unscheduled draws on credit enhancements reflecting financial difficulties;

Substitution of credit or liquidity providers, or their failure to perform;

Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds or other material events affecting the tax status of the Bonds;

Modifications to rights of holders of the Bonds, if material;

Bond calls, if material, and tender offers;

Defeasances;

Release, substitution, or sale of property securing repayment of the Bonds, if material;

Rating changes;

Bankruptcy, insolvency, receivership or similar event of the Issuer;

The consummation of a merger, consolidation, or acquisition involving the Issuer or the sale of all or substantially all of the assets of the Issuer, 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;

Appointment of a successor or additional trustee, or the change of name of a trustee, if material;

Incurrence of a Financial Obligation of the City, if material, or agreement to covenants, events of default, remedies, priority rights, or other similar terms of a Financial Obligation of the City, any of which affect security holders, if material; and

Default, event of acceleration, termination event, modification of terms, or other similar events under the terms of a Financial Obligation of the City, any of which reflect financial difficulties.

For these purposes, the City intends the words used in the immediately preceding paragraphs (o) and (p) and the definition of Financial Obligation in this Section to have the same meanings as when they are used in the Rule, as evidenced by SEC Release No. 34-83885, dated August 20, 2018.

The Board will notify the MSRB in an electronic form prescribed by the MSRB, in a timely manner, of any failure by the Board to provide financial information or operating data in accordance with Section 7.1 of this Ordinance by the time required by such Section.

Limitations, Disclaimers, and Amendments. The Board and the Issuer shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the Issuer remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Issuer in any event will give the notice required by Section 7.2 of any Bond calls and defeasance that cause the Issuer to be no longer such an "obligated person."

The notices and information required to be provided by the Board on behalf of the Issuer pursuant to Sections 7.1 or 7.2 will be provided in an electronic format or in such other format as required by the MSRB or the SEC, and shall be accompanied by such identifying information as required by the MSRB or the SEC.

The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Board undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Issuer's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The Issuer does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE ISSUER BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR *MANDAMUS* OR SPECIFIC PERFORMANCE.

No default by the Issuer in observing or performing its obligations under this Article shall constitute a breach of or default under this Ordinance for purposes of any other provision of this Ordinance.

Nothing in this Section is intended or shall act to disclaim, waive, or otherwise limit the duties of the Issuer under federal and state securities laws.

The provisions of this Section may be amended by the Issuer 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 Issuer, but only if (1) the provisions of this Section, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (2) either (a) the Owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Ordinance that authorizes such an amendment) of the Outstanding Bonds consent to such amendment or (b) a person or entity that is unaffiliated with the Issuer (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Owners and beneficial owners of the Bonds. If the Issuer so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 7.1 an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. The Issuer may also amend or repeal the provisions of this Section if the SEC amends or repeals the applicable provisions of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, and the Issuer also may amend the provisions of this Article 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.

<u>Definitions</u>.

As used in this Section, the following terms have the meanings ascribed to such terms below:

"Issuer" shall also mean "the *Board",* if such information necessary to comply with the covenants in this section is within the control and disposition of the Board.

"MSRB" means the Municipal Securities Rulemaking Board.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

Authorization of Paying Agent/Registrar Agreement. The Governing Body hereby finds and determines that it is in the best interest of the Issuer to authorize the execution of a Paying Agent/Registrar Agreement in order to comply with the provisions of this Ordinance. A copy of the Paying Agent/Registrar Agreement is attached hereto, in substantially final form, as Exhibit A and is incorporated by reference to the provisions of this Ordinance.

Public Meeting. It is officially found, determined, and declared that the meeting at which this Ordinance is adopted was open to the public and public notice of the time, place, and subject matter of the public business to be considered at such meeting, including this Ordinance, was given, all as required by Chapter 551, Texas Government Code, as amended.

Further Procedures. The officers and employees of the Issuer are hereby authorized, empowered and directed from time to time and at any time to do and perform all such acts and things and to execute, acknowledge and deliver in the name and under the corporate seal and on behalf of the Issuer all such instruments, whether or not herein mentioned, as may be necessary or desirable in order to carry out the terms and provisions of this Ordinance, the initial sale and delivery of the Bonds, and the execution and delivery of the Paying Agent/Registrar Agreement, the Escrow Agreement, the Purchase Contract, and the Official Statement. In addition, prior to the initial delivery of the Bonds, the Mayor, the City Manager or Assistant City Manager, the City Attorney, the Designated Financial Officer, and Bond Counsel, any or all, are hereby authorized and directed to approve any technical changes or corrections to this Ordinance or to any of the instruments authorized and approved by this Ordinance necessary in order to correct any ambiguity or mistake or properly or more completely document the transactions contemplated and approved by this Ordinance and as described in the Official Statement, obtain a rating from any of the national bond rating agencies, or (iii) obtain the approval of the Bonds by the Texas Attorney General's office. In case any officer of the Issuer whose signature shall appear on any certificate shall cease to be such officer before the delivery of such certificate, such signature shall nevertheless be valid and sufficient for all purposes the same as if such officer had remained in office until such delivery.

Preliminary Official Statement. The Preliminary Official Statement relating to the Bonds is hereby delegated to be approved and deemed final for the purposes of the United States Securities and Exchange Commission's Rule 15c2-12 and the General Manager and Chief Executive Officer and Chief Financial Officer of the Board are each hereby authorized to prepare or approve the preparation of the Preliminary Official Statement in the form approved by the Board in 2020 or such other form as may be presented to the Board for approval, together with any changes or additions to such disclosure document which shall be deemed appropriate or necessary, and the Chairman or Vice Chairman of the Board and the General Manager and Chief Executive Officer, or any of them, is authorized to execute and/or approve the final Official Statement on behalf of the Board, a copy of which shall be attached to the Approval Certificate.

Effective Date. Pursuant to the provisions of Section 1201.028, Texas Government Code, as amended, this Ordinance shall be effective immediately upon adoption, notwithstanding any provision in the Issuer's Charter to the contrary concerning a multiple reading requirement for the adoption of ordinances.

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Appendix E

SPECIMEN MUNICIPAL BOND INSURANCE POLICY

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MUNICIPAL BOND INSURANCE POLICY

ISSUER: [NAME OF ISSUER] Policy No: _____

MEMBER: [NAME OF MEMBER]

BONDS: $__________ in aggregate principal amount of [NAME OF TRANSACTION] [and maturing on] Effective Date: _________

Risk Premium: $_________
Member Surplus Contribution: $_________
Total Insurance Payment: $_________

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

On the later of the day on which such principal and interest becomes Due for Payment or the first Business Day following the Business Day on which BAM shall have received Notice of Nonpayment, BAM will disburse (but without duplication in the case of duplicate claims for the same Nonpayment) to or for the benefit of each Owner of the Bonds, the face amount of principal of and interest on the Bonds that is then Due for Payment but is then unpaid by reason of Nonpayment by the Issuer, but only upon receipt by BAM, in a form reasonably satisfactory to it, of (a) evidence of the Owner's right to receive payment of such principal or interest then Due for Payment and (b) evidence, including any appropriate instruments of assignment, that all of the Owner's rights with respect to payment of such principal or interest that is Due for Payment shall thereupon vest in BAM. A Notice of Nonpayment will be deemed received on a given Business Day if it is received prior to 1:00 p.m. (New York time) on such Business Day; otherwise, it will be deemed received on the next Business Day. If any Notice of Nonpayment received by BAM is incomplete, it shall be deemed not to have been received by BAM for purposes of the preceding sentence, and BAM shall promptly so advise the Trustee, Paying Agent or Owner, as appropriate, any of whom may submit an amended Notice of Nonpayment. Upon disbursement under this Policy in respect of a Bond and to the extent of such payment, BAM shall become the owner of such Bond, any appurtenant coupon to such Bond and right to receipt of payment of principal of or interest on such Bond and shall be fully subrogated to the rights of the Owner, including the Owner's right to receive payments under such Bond. Payment by BAM either to the Trustee or Paying Agent for the benefit of the Owners, or directly to the Owners, on account of any Nonpayment shall discharge the obligation of BAM under this Policy with respect to said Nonpayment.

Except to the extent expressly modified by an endorsement hereto, the following terms shall have the meanings specified for all purposes of this Policy. "Business Day" means any day other than (a) a Saturday or Sunday or (b) a day on which banking institutions in the State of New York or the Insurer's Fiscal Agent (as defined herein) are authorized or required by law or executive order to remain closed. "Due for Payment" means (a) when referring to the principal of a Bond, payable on the stated maturity date thereof or the date on which the same shall have been duly called for mandatory sinking fund redemption and does not refer to any earlier date on which payment is due by reason of call for redemption (other than by mandatory sinking fund redemption), acceleration or other advancement of maturity (unless BAM shall elect, in its sole discretion, to pay such principal due upon such acceleration together with any accrued interest to the date of acceleration) and (b) when referring to interest on a Bond, payable on the stated date for payment of interest. "Nonpayment" means, in respect of a Bond, the failure of the Issuer to have provided sufficient funds to the Trustee or, if there is no Trustee, to the Paying Agent for payment in full of all principal and interest that is Due for Payment on such Bond. "Nonpayment" shall also include, in respect of a Bond, any payment made to an Owner by or on behalf of the Issuer of principal or interest that is Due for Payment, which payment has been recovered from such Owner pursuant to the United States Bankruptcy Code in accordance with a final, nonappealable order of a court having competent jurisdiction. "Notice" means delivery to BAM of a notice of claim and certificate, by certified mail, email or telecopy as set forth on the attached Schedule or other acceptable electronic delivery, in a form satisfactory to BAM, from and signed by an Owner, the Trustee or the Paying Agent, which notice shall specify (a) the person or entity making the claim, (b) the Policy Number, (c) the claimed amount, (d) payment instructions and (e) the date such claimed amount becomes or became Due for Payment. "Owner" means, in respect of a Bond, the person or entity who, at the time of Nonpayment, is entitled under the terms of such Bond to payment thereof, except that "Owner" shall not include the Issuer, the Member or any other person or entity whose direct or indirect obligation constitutes the underlying security for the Bonds.

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

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

This Policy sets forth in full the undertaking of BAM and shall not be modified, altered or affected by any other agreement or instrument, including any modification or amendment thereto. Except to the extent expressly modified by an endorsement hereto, any premium paid in respect of this Policy is nonrefundable for any reason whatsoever, including payment, or provision being made for payment, of the Bonds prior to maturity. THIS POLICY IS NOT COVERED BY THE PROPERTY/CASUALTY INSURANCE SECURITY FUND SPECIFIED IN ARTICLE 76 OF THE NEW YORK INSURANCE LAW. THIS POLICY IS ISSUED WITHOUT CONTINGENT MUTUAL LIABILITY FOR ASSESSMENT.

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

BUILD AMERICA MUTUAL ASSURANCE COMPANY

By: ____

Authorized Officer

Notices (Unless Otherwise Specified by BAM)

Email:
claims@buildamerica.com
Address:
1 World Financial Center, 27th floor
200 Liberty Street
New York, New York 10281
Telecopy:
212-962-1524 (attention: Claims)

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