Joe Morrow
Managing Director
Public Finance

August 11, 2022

Chris Whittaker
City Manager
City of Angleton, Texas
Via Email

Dear Chris:

As we discussed on our call a week ago, market conditions have changed over the last year significantly. The supply chain issues and increase in rates has had an impact on all projects and issuers. The impact on Riverwood Ranch PID will need to be determined as we move forward towards a sale date. The issue impacting Riverwood Ranch PID includes the assumptions and assessment structure in the original service and assessment plan ("SAP"), the rising interest rate environment and the disclosure to existing homeowners.

The original SAP had an increasing annual debt service structure. This would dictate an increase in the assessment overtime with the goal that an increase in home value would be enough to keep the ratio of a tax equivalent rate approximately the same. As you are aware, I have asked Jason Hughes out of our Dallas office to review and help structure our PID transaction. From the experience Jason has gained out of his PID practice in North Texas his recommendation is to use a level debt structure so that payment amounts do not go up annually and the ratio for a tax equivalent rate will improve over time rather than be constant. This change has some impact to the assessments by increasing them over the initial levy of the existing SAP.

Interest rates changes have had a larger impact on reimbursement and assessment picture. The current interest rate environment for PID transactions is close to 2% higher than when the original SAP was adopted about a year ago. There are two ways to accommodate the increase in rates. One is to keep the assessments approximately the same. This will mean a decrease to the developer in expected reimbursement funds. The other is an increase in assessments to the homeowner in an amount to keep the reimbursement either the same or at some lower level than anticipated by the developer.

When existing homeowners purchased homes, part of the closing process included disclosure to the new homebuyer that the assessment existed, the total amount of the assessment and a schedule of amortization if the buyer opted to fund the assessment over time. There was also a disclosure that this amount could change based on future events. The next SAP will change. The question is the magnitude of change. We recommend structuring the assessments as level payments and not escalating over time. This will cause a marginal increase in the initial assessment but be approximately equivalent to what the average payment would have been under the original plan. The potential for a larger change in assessment is dependent upon Council decision on how to treat the

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increase in interest rates; either pass it on to the residents, reduce the amount of reimbursement of some combination of the two. Consider the chart below which summarizes the estimated impact to a homeowner based on certain annual assessment levels.

						Average Annual Installment per Unit		
Scenario	Estimated Bond Par	Interest Rate	Estimated % of Project Costs Reimbursed	Estimated Average Annual Assessment	Calculated Assessment TRE	45' Lots	50' Lots	60' Lots
Original SAP	$5,180,000	4.00%	96.1%	$337,200	$0.6691	$1,585	$1,729	$1,879
(Numbers above are for the anticipated initial year of assessment collections)								
1	$5,180,000	5.83%	95.5%	$427,034	$0.8473	$2,042	$2,152	$2,231
2	$4,006,000	5.83%	73.2%	$340,223	$0.6751	$1,627	$1,715	$1,778
3	$4,413,000	5.83%	80.9%	$370,307	$0.7348	$1,771	$1,866	$1,935

Scenario 1 keeps the reimbursement the same and passes the additional cost on to the homeowner in the form of a higher annual assessment.

Scenario 2 keeps the assessment approximately the same and reduces the reimbursement to the developer.

Scenario 3 both reduces reimbursement to the developer and increases the assessment to the homeowner.

The decision on how the increase in interest rates is to be treated will provide us the direction we need to move forward with the bond sale.

Sincerely yours,

/s/ *Joe Morrow*
Joe Morrow
Managing Director

/s/ *Jason Hughes*
Jason Hughes
Managing Director