

**PRELIMINARY LIMITED OFFERING MEMORANDUM DATED SEPTEMBER [22], 2022**

**THE BONDS ARE INITIALLY OFFERED ONLY TO PERSONS WHO MEET THE DEFINITION OF “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933) OR “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933). SEE “LIMITATIONS APPLICABLE TO INITIAL PURCHASERS.”**

*In the opinion of Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended, and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals. See “TAX MATTERS” herein, including information regarding potential alternative minimum tax consequences for corporations.*

**\$2,430,000\***

**CITY OF TOMBALL, TEXAS,  
(a municipal corporation of the State of Texas located in Harris and Montgomery Counties)  
SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2022  
(RABURN RESERVE PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #2)**

**Dated Date: November 1, 2022**

**Interest Accrual Date: Closing Date (defined below)**

**Due: September 15, as shown on the inside cover**

The City of Tomball, Texas, Special Assessment Revenue Bonds, Series 2022 (Raburn Reserve Public Improvement District Improvement Area #2) (the “Bonds”), are being issued by the City of Tomball, Texas (the “City”). The Bonds will be issued in fully registered form, without coupons. Beneficial ownership of the Bonds may be acquired in principal denominations of \$25,000 and in integral multiples of \$5,000 in excess thereof. The Bonds will bear interest at the rates set forth on the inside cover, calculated on the basis of a 360-day year of twelve 30-day months, payable on each March 15 and September 15, commencing March 15, 2023, until maturity or earlier redemption. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company, New York, New York (“DTC”). No physical delivery of the Bonds will be made to the beneficial owners thereof. For so long as the book-entry only system is maintained, the principal of and interest on the Bonds will be paid from the sources described herein by Wilmington Trust, N.A., as trustee (the “Trustee”), to DTC as the registered owner thereof. See “BOOK-ENTRY ONLY SYSTEM.”

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), an ordinance expected to be adopted by the City Council of the City (the “City Council”) on October 3, 2022, a Master Indenture of Trust dated as of October 1, 2022 (the “Master Indenture”), and the First Supplemental Indenture dated October 1, 2022 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), entered into by and between the City and the Trustee. The Bonds are the initial series of Improvement Area #2 Bonds (defined herein) issued under the Master Indenture. When and if issued, the Additional Parity Obligations (defined herein) will be on parity with the Bonds. Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Indenture.

Proceeds of the Bonds will be used for the purposes of (i) paying a portion of the Improvement Area #2 Costs, (ii) funding the Bond Reserve Account of the Reserve Fund, (iii) funding a portion of the Delinquency and Prepayment Reserve Account of the Reserve Fund, (iv) paying capitalized interest on the Bonds, (v) paying a portion of the costs incidental to the organization of the District, and (vi) paying the costs of issuance of the Bonds. See “PLAN OF FINANCE” and “APPENDIX B – Form of Indenture.” The Bonds, when issued and delivered, will constitute valid and binding special, limited obligations of the City payable solely from and secured by the Trust Estate, consisting primarily of revenue from the Assessments (defined herein) levied against assessable properties (the “Assessed Property”) in Improvement Area #2 (defined herein) of the Raburn Reserve Public Improvement District (the “District”), in accordance with a Service and Assessment Plan (defined herein), and other funds comprising the Trust Estate, all to the extent and upon the conditions described herein and in the Indenture. The Bonds are not payable from funds raised or to be raised from taxation. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS.” The Bonds are subject to redemption at the times, in the amounts, and at the redemption prices more fully described herein under the subcaption “DESCRIPTION OF THE BONDS – Redemption Provisions.”

**The Bonds involve a significant degree of risk and are not suitable for all investors. Prospective purchasers should carefully evaluate the risks and merits of an investment in the Bonds, should consult with their legal and financial advisors before considering a purchase of the Bonds, and should be willing to bear the risks of loss of their investment in the Bonds. The Bonds are not credit enhanced or rated and no application has been made for a rating on the Bonds. See “BONDHOLDERS’ RISKS” and “SUITABILITY FOR INVESTMENT.”**

THE IMPROVEMENT AREA #2 BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED REVENUES AND OTHER FUNDS AND ACCOUNTS COMPRISING THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. THE IMPROVEMENT AREA #2 BONDS DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE CITY AND ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED IN THE INDENTURE. THE OWNERS OF THE IMPROVEMENT AREA #2 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF MONEY RAISED OR TO BE RAISED BY TAXATION, OR OUT OF ANY FUNDS OF THE CITY OTHER THAN THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. NO OWNER OF THE IMPROVEMENT AREA #2 BONDS SHALL HAVE THE RIGHT TO DEMAND ANY EXERCISE OF THE CITY’S TAXING POWER TO PAY THE PRINCIPAL OF THE BONDS OR THE INTEREST OR REDEMPTION PREMIUM, IF ANY, THEREON. THE CITY SHALL HAVE NO LEGAL OR MORAL OBLIGATION TO PAY THE IMPROVEMENT AREA #2 BONDS OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE. SEE “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS.”

This cover page contains certain information for quick reference only. It is not a complete summary of the Bonds. Investors must read this entire Limited Offering Memorandum to obtain information essential to the making of an informed investment decision.

The Bonds are offered for delivery when, as, and if issued by the City and accepted by FMSbonds, Inc. (the “Underwriter”), subject to, among other things, the approval of the Bonds by the Attorney General of Texas and the receipt of the opinion of Bracewell LLP, Bond Counsel, as to the validity of the Bonds and the excludability of interest thereon from gross income for federal income tax purposes. See “APPENDIX D – Form of Opinion of Bond Counsel.” Certain legal matters will be passed upon for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, for the City by its counsel, Olson & Olson LLP, and for the Developer by Coats Rose, P.C., counsel to the Developer. It is expected that the Bonds will be delivered in book-entry form through the facilities of DTC on or about November 2, 2022 (the “Closing Date”).

**FMSbonds, Inc.**

\* Preliminary, subject to change.

**MATURITIES, PRINCIPAL AMOUNTS, INTEREST RATES, PRICES, YIELDS,  
AND CUSIP NUMBERS**

CUSIP Prefix: \_\_\_\_\_<sup>(a)</sup>

\$2,430,000\*

CITY OF TOMBALL, TEXAS,

(a municipal corporation of the State of Texas located in Harris and Montgomery Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2022

(RABURN RESERVE PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #2)

\$ \_\_\_\_\_ % Term Bonds, Due September 15, 20\_\_, Priced to Yield \_\_\_\_\_%; CUSIP No. \_\_\_\_\_<sup>(a)(b)(c)(d)</sup>

\$ \_\_\_\_\_ % Term Bonds, Due September 15, 20\_\_, Priced to Yield \_\_\_\_\_%; CUSIP No. \_\_\_\_\_<sup>(a)(b)(c)(d)</sup>

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\* Preliminary, subject to change.

- (a) CUSIP® numbers are included solely for the convenience of Owners of the Bonds. CUSIP® is a registered trademark of the American Bankers Association. CUSIP® data herein is provided by CUSIP Global Services (“CGS”) and managed on behalf of The American Bankers Association by FactSet Research Systems Inc. CUSIP® data herein is provided by CGS and is not intended to create a database and does not serve in any way as a substitute for the CGS database. CUSIP® numbers are provided for convenience of reference only. None of the City, the City’s Financial Advisor, or the Underwriter takes any responsibility for the accuracy of such numbers.
- (b) The Bonds are subject to extraordinary optional redemption as described herein under “DESCRIPTION OF THE BONDS – Redemption Provisions.”
- (c) The Bonds maturing on and after September 15, 20\_\_, are also subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any date on or after September 15, 20\_\_, at the redemption prices set forth herein under “DESCRIPTION OF THE BONDS – Redemption Provisions.”
- (d) The Bonds are also subject to mandatory sinking fund redemption as described herein under “DESCRIPTION OF THE BONDS – Redemption Provisions.”

**CITY OF TOMBALL, TEXAS  
CITY COUNCIL**

<u>Name</u>	<u>Position</u>	Term Expires <u>(May)</u>
Lori Klein Quinn	Mayor	2025
John F. Ford	Council Position 1/Mayor Pro Tem	2023
Mark Stoll	Council Position 2	2024
Dane Dunagin	Council Position 3	2025
Derek Townsend Sr	Council Position 4	2024
Randy Parr	Council Position 5	2023

**CITY MANAGER**  
David Esquivel

**ASSISTANT CITY MANAGER**  
Jessica Rogers

**DIRECTOR OF FINANCE**  
Katherine DuBose

**CITY SECRETARY**  
Doris Speer

**ADMINISTRATOR**  
P3Works, LLC

**FINANCIAL ADVISOR TO THE CITY**  
Hilltop Securities Inc.

**BOND COUNSEL**  
Bracewell LLP

**UNDERWRITER'S COUNSEL**  
Orrick, Herrington & Sutcliffe LLP

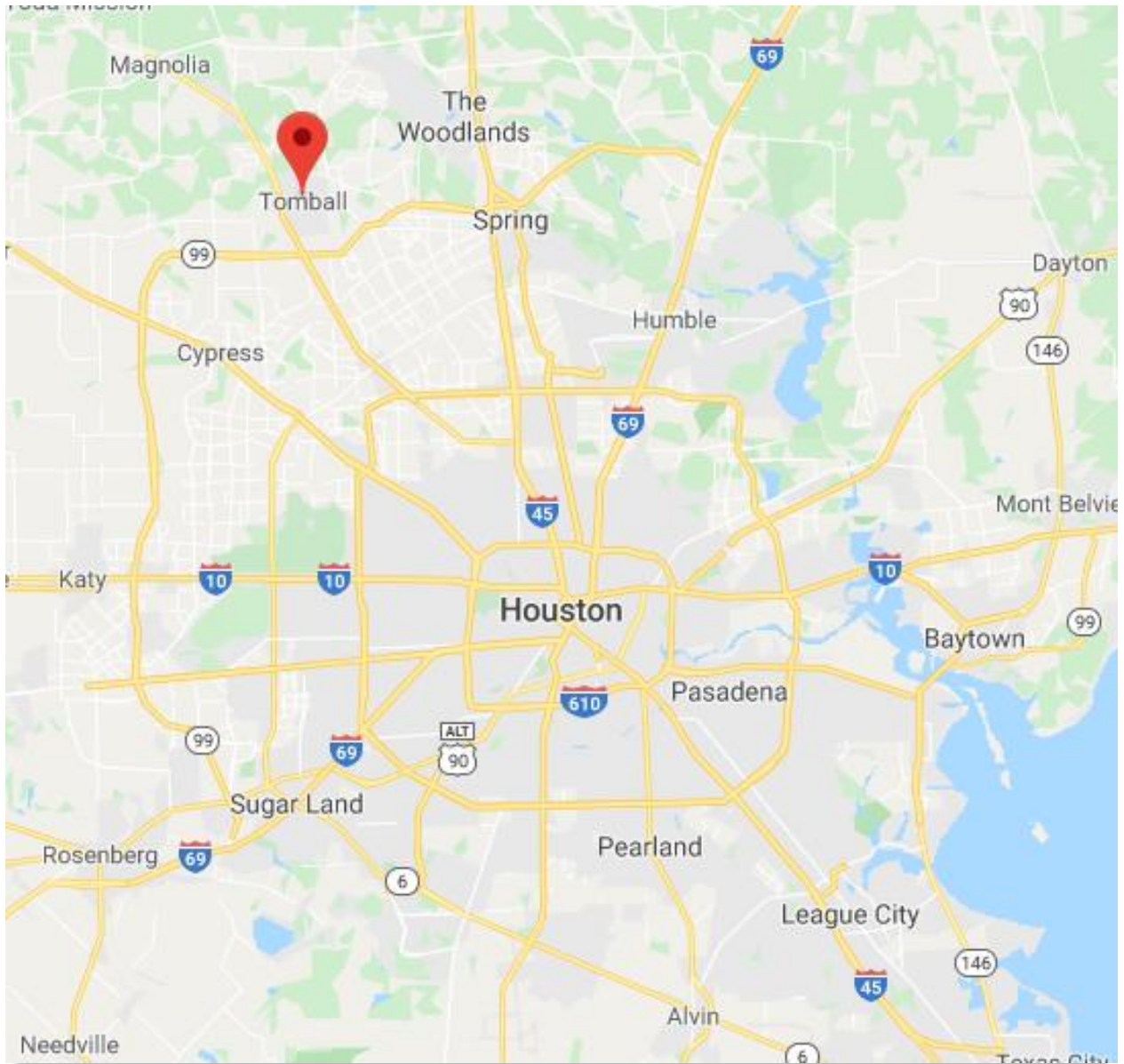
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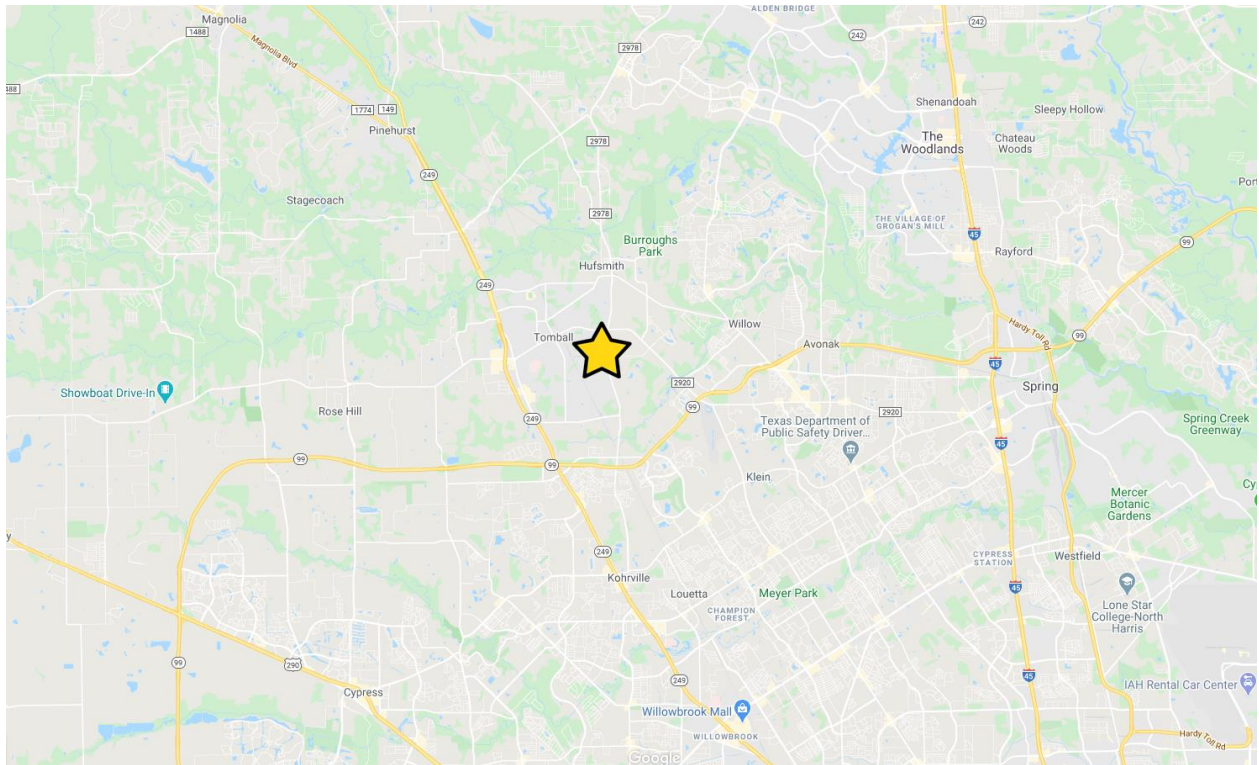
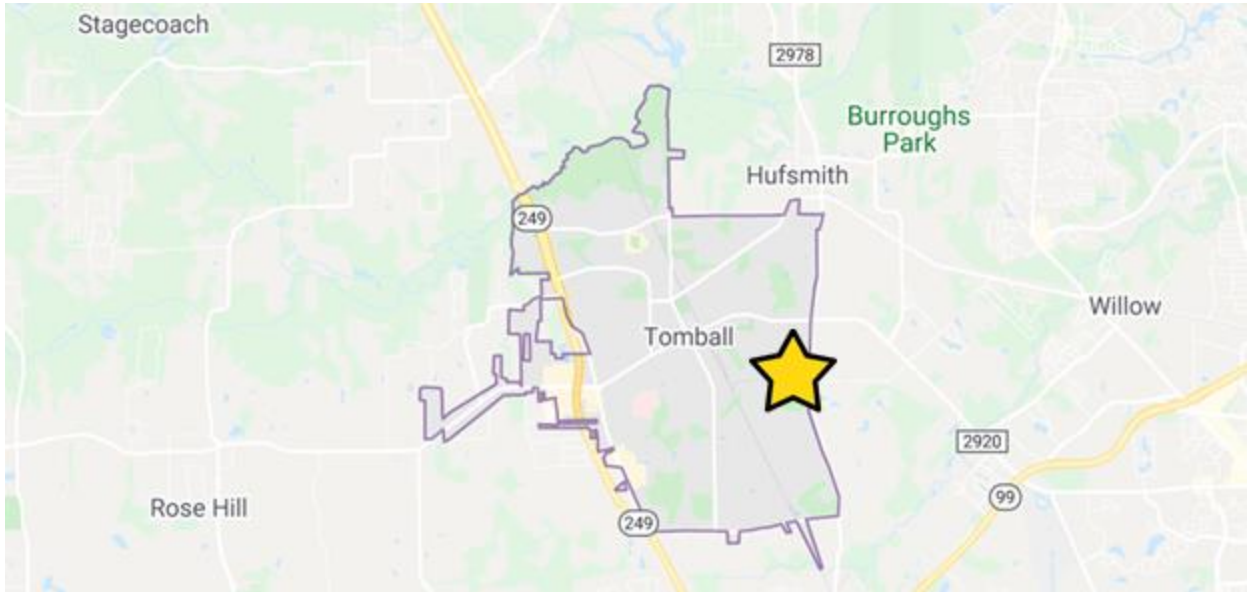
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**REGIONAL LOCATION MAP OF THE DISTRICT**

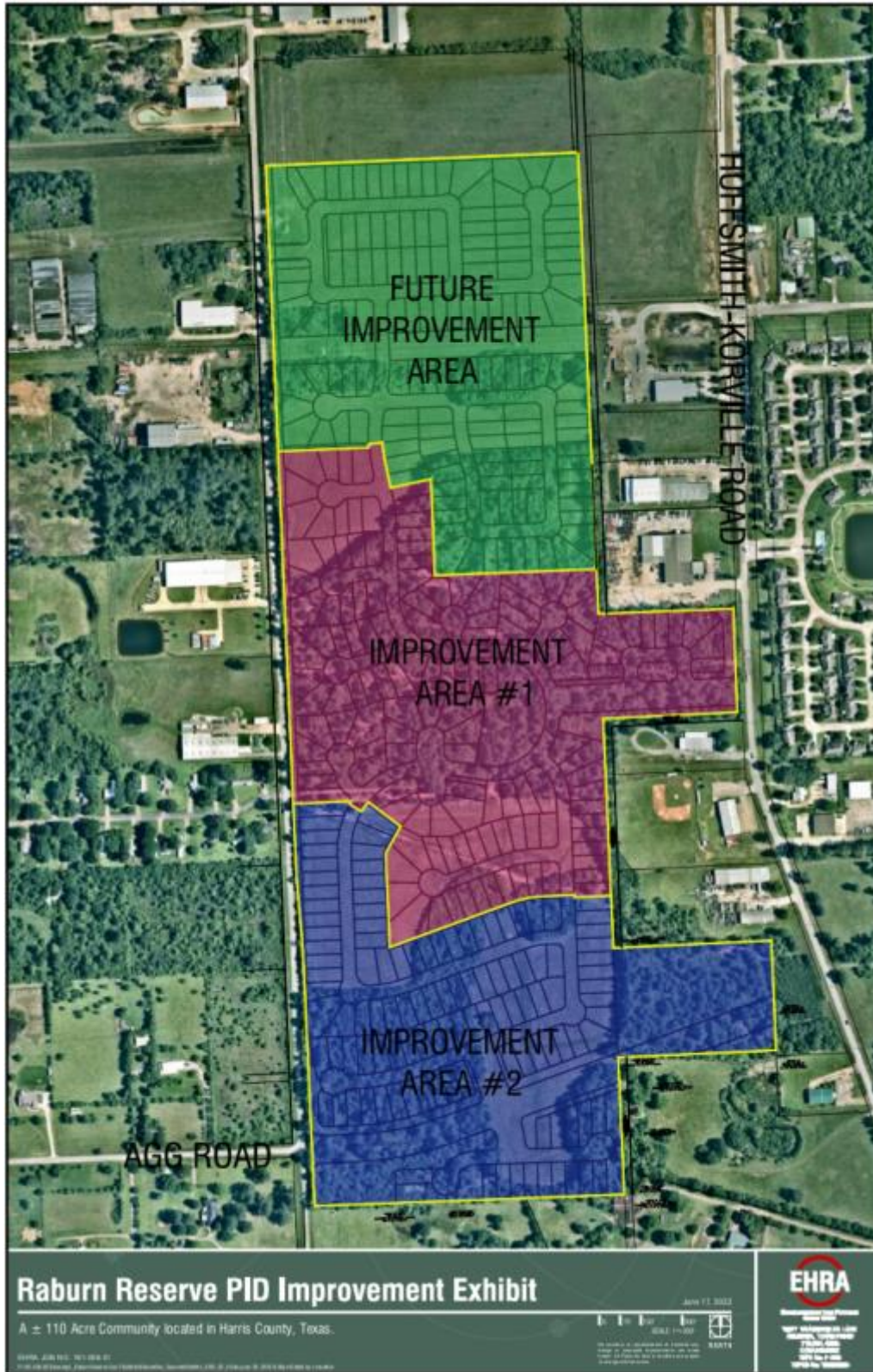




## AREA LOCATION MAPS OF THE DISTRICT



**MAP SHOWING BOUNDARIES OF IMPROVEMENT AREAS #1 AND #2 AND  
THE FUTURE IMPROVEMENT AREA OF THE DISTRICT**





## USE OF LIMITED OFFERING MEMORANDUM

*FOR PURPOSES OF COMPLIANCE WITH RULE 15C2-12 OF THE UNITED STATES SECURITIES AND EXCHANGE COMMISSION, AS AMENDED AND IN EFFECT ON THE DATE OF THIS PRELIMINARY LIMITED OFFERING MEMORANDUM (THE "RULE" OR "RULE 15C2-12"), THIS DOCUMENT CONSTITUTES AN "OFFICIAL STATEMENT" OF THE CITY WITH RESPECT TO THE BONDS THAT HAS BEEN "DEEMED FINAL" BY THE CITY AS OF ITS DATE EXCEPT FOR THE OMISSION OF NO MORE THAN THE INFORMATION PERMITTED BY RULE 15C2-12.*

NO DEALER, BROKER, SALESPERSON OR OTHER PERSON HAS BEEN AUTHORIZED BY THE CITY OR THE UNDERWRITER TO GIVE ANY INFORMATION OR MAKE ANY REPRESENTATIONS, OTHER THAN THOSE CONTAINED IN THIS LIMITED OFFERING MEMORANDUM, AND IF GIVEN OR MADE, SUCH OTHER INFORMATION OR REPRESENTATIONS MUST NOT BE RELIED UPON AS HAVING BEEN AUTHORIZED BY EITHER OF THE FOREGOING. THIS LIMITED OFFERING MEMORANDUM DOES NOT CONSTITUTE AN OFFER TO SELL OR THE SOLICITATION OF AN OFFER TO BUY AND THERE SHALL BE NO OFFER, SOLICITATION OR SALE OF THE BONDS BY ANY PERSON IN ANY JURISDICTION IN WHICH IT IS UNLAWFUL FOR SUCH PERSON TO MAKE SUCH OFFER, SOLICITATION OR SALE.

THE INITIAL PURCHASERS ARE ADVISED THAT THE BONDS BEING OFFERED PURSUANT TO THIS LIMITED OFFERING MEMORANDUM ARE BEING OFFERED AND SOLD ONLY TO "QUALIFIED INSTITUTIONAL BUYERS" AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE "SECURITIES ACT OF 1933") AND "ACCREDITED INVESTORS" AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933. SEE "LIMITATIONS APPLICABLE TO INITIAL PURCHASERS." EACH PROSPECTIVE INITIAL PURCHASER IS RESPONSIBLE FOR ASSESSING THE MERITS AND RISKS OF AN INVESTMENT IN THE BONDS, MUST BE ABLE TO BEAR THE ECONOMIC AND FINANCIAL RISK OF SUCH INVESTMENT IN THE BONDS, AND MUST BE ABLE TO AFFORD A COMPLETE LOSS OF SUCH INVESTMENT. CERTAIN RISKS ASSOCIATED WITH THE PURCHASE OF THE BONDS ARE SET FORTH UNDER "BONDHOLDERS' RISKS." EACH INITIAL PURCHASER, BY ACCEPTING THE BONDS, AGREES THAT IT WILL BE DEEMED TO HAVE MADE THE ACKNOWLEDGMENTS AND REPRESENTATIONS DESCRIBED UNDER THE HEADING "LIMITATIONS APPLICABLE TO INITIAL PURCHASERS."

THE UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS LIMITED OFFERING MEMORANDUM IN ACCORDANCE WITH, AND AS PART OF, ITS RESPONSIBILITIES TO INVESTORS UNDER THE UNITED STATES FEDERAL SECURITIES LAWS AS APPLIED TO THE FACTS AND CIRCUMSTANCES OF THIS TRANSACTION. THE INFORMATION SET FORTH HEREIN HAS BEEN FURNISHED BY THE CITY AND OBTAINED FROM SOURCES, INCLUDING THE DEVELOPER, WHICH ARE BELIEVED BY THE CITY AND THE UNDERWRITER TO BE RELIABLE, BUT IT IS NOT GUARANTEED AS TO ACCURACY OR COMPLETENESS, AND IS NOT TO BE CONSTRUED AS A REPRESENTATION OF THE UNDERWRITER. THE INFORMATION AND EXPRESSIONS OF OPINION HEREIN ARE SUBJECT TO CHANGE WITHOUT NOTICE, AND NEITHER THE DELIVERY OF THIS LIMITED OFFERING MEMORANDUM, NOR ANY SALE MADE HEREUNDER, SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY OR THE DEVELOPER SINCE THE DATE HEREOF.

NEITHER THE CITY NOR THE UNDERWRITER MAKE ANY REPRESENTATION AS TO THE ACCURACY, COMPLETENESS, OR ADEQUACY OF THE INFORMATION SUPPLIED BY THE DEPOSITORY TRUST COMPANY OR BY THE DEVELOPER FOR USE IN THIS LIMITED OFFERING MEMORANDUM.

THE BONDS HAVE NOT BEEN REGISTERED UNDER THE SECURITIES ACT OF 1933, NOR HAS THE INDENTURE BEEN QUALIFIED UNDER THE TRUST INDENTURE ACT OF 1939, IN RELIANCE UPON EXEMPTIONS CONTAINED IN SUCH LAWS. THE REGISTRATION OR QUALIFICATION OF THE BONDS UNDER THE SECURITIES LAWS OF ANY JURISDICTION IN WHICH THEY MAY HAVE BEEN REGISTERED OR QUALIFIED, IF ANY, SHALL NOT BE REGARDED AS A RECOMMENDATION THEREOF. NONE OF SUCH JURISDICTIONS, OR ANY OF THEIR AGENCIES, HAVE PASSED UPON THE MERITS OF THE BONDS OR THE ACCURACY OR COMPLETENESS OF THIS LIMITED OFFERING MEMORANDUM.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS LIMITED OFFERING MEMORANDUM CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE

UNITED STATES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE SECURITIES ACT. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS “PLAN,” “EXPECT,” “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “BUDGET” OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. NEITHER THE CITY NOR THE DEVELOPER PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF THEIR EXPECTATIONS (OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED) CHANGE, OTHER THAN AS DESCRIBED UNDER “CONTINUING DISCLOSURE – THE CITY” AND “– THE DEVELOPER,” RESPECTIVELY.

THE TRUSTEE HAS NOT PARTICIPATED IN THE PREPARATION OF THIS LIMITED OFFERING MEMORANDUM AND ASSUMES NO RESPONSIBILITY FOR THE ACCURACY OR COMPLETENESS OF ANY INFORMATION CONTAINED IN THIS LIMITED OFFERING MEMORANDUM OR THE RELATED TRANSACTIONS AND DOCUMENTS OR FOR ANY FAILURE BY ANY PARTY TO DISCLOSE EVENTS THAT MAY HAVE OCCURRED AND MAY AFFECT THE SIGNIFICANCE OR ACCURACY OF SUCH INFORMATION.

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## LIMITED OFFERING MEMORANDUM

**\$2,430,000\***

**CITY OF TOMBALL, TEXAS,  
(a municipal corporation of the State of Texas located in Harris and Montgomery Counties)  
SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2022  
(RABURN RESERVE PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #2)**

### INTRODUCTION

The purpose of this Limited Offering Memorandum, including the cover page, inside cover and appendices hereto, is to provide certain information in connection with the issuance and sale by the City of Tomball, Texas (the “City”), of its \$2,430,000\* aggregate principal amount of Special Assessment Revenue Bonds, Series 2022 (Raburn Reserve Public Improvement District Improvement Area #2) (the “Bonds”).

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), an ordinance expected to be adopted by the City Council of the City (the “City Council”) on October 3, 2022 (the “Bond Ordinance”), and a Master Indenture of Trust dated as of October 1, 2022 (the “Master Indenture”), and the First Supplemental Indenture, dated October 1, 2022 (the “First Supplemental Indenture” and together with the Master Indenture, the “Indenture”), entered into by and between the City and Wilmington Trust, N.A., as trustee (the “Trustee”). Payment of the Bonds and any additional bonds or other obligations issued by the City pursuant to the Master Indenture and on parity therewith (the “Additional Parity Obligations”) are secured by a pledge of and a lien upon the Trust Estate (defined herein), consisting primarily of revenue from special assessments (“Assessments”) levied on assessable property within Improvement Area #2 (defined herein) of the Raburn Reserve Public Improvement District (the “District”) (the “Assessed Property”) pursuant to a separate ordinance expected to be adopted by the City Council on October 3, 2022 (the “Assessment Ordinance”), all to the extent and upon the conditions described herein and in the Indenture. The Bonds and any Additional Parity Obligations are together referred to herein as the “Improvement Area #2 Bonds.” See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS” and “ASSESSMENT PROCEDURES.”

Reference is made to the Indenture for a full statement of the authority for, and the terms and provisions of, the Bonds. All capitalized terms used in this Limited Offering Memorandum that are not otherwise defined herein shall have the meanings set forth in the Indenture. See “APPENDIX B – Form of Indenture.”

Set forth herein are brief descriptions of the City, the District, the Bond Ordinance, the Assessment Ordinance, the Service and Assessment Plan (defined herein), the Development Agreement (defined herein), the Reimbursement Agreement (defined herein), HT Raburn Reserve Development L.P., a Texas limited partnership (together with its successors and assigns, the “Developer”), P3Works, LLC (the “Administrator”), and the Appraisal (defined herein), together with summaries of terms of the Bonds and the Indenture and certain provisions of the PID Act. All references herein to such documents and the PID Act are qualified in their entirety by reference to such documents or such PID Act and all references to the Bonds are qualified by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Copies of these documents may be obtained during the period of the offering of the Bonds from the Underwriter, FMSbonds, Inc., 5 Cowboys Way, Suite 300-25, Frisco, Texas 75034, telephone number 214-418-1588. The form of the Indenture appears in APPENDIX B and the Service and Assessment Plan appears in APPENDIX C. The information provided under this caption “INTRODUCTION” is intended to provide a brief overview of the information provided in the other captions herein and is not intended, and should not be considered, fully representative or complete as to the subjects discussed hereunder.

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\* Preliminary, subject to change.

## PLAN OF FINANCE

### Development Plan

On December 4, 2019, HT Raburn Reserve Development L.P., a Texas limited partnership (the “Developer”), acquired approximately 105 acres comprising the original boundaries of the District. On December 9, 2020, the Developer acquired an additional 5 acres which were subsequently added to the District. See “THE DEVELOPER – History and Financing of the District.” The Developer is an affiliate of Hines Interests Limited Partnership, a Delaware limited partnership (together with its subsidiaries and affiliates, “Hines”), a Houston, Texas-based privately owned global real estate investment firm founded in 1957 by Gerald D. Hines. See “THE DEVELOPER.”

The Developer plans to develop the District in three phases, as reflected on the map on page iv. The Developer has completed development of the specific public improvements (the “Improvement Area #1 Improvements”) to serve the first phase of the development (“Improvement Area #1”). The total costs of the Improvement Area #1 Improvements were approximately \$5,017,795, all of which has been paid.

The Developer commenced development of the second phase of the development (“Improvement Area #2”) and the internal phase specific public improvements to serve Improvement Area #2 (the “Improvement Area #2 Improvements”) in April 2022 and expects such improvements to be complete by December 2022. The total costs of the Improvement Area #2 Improvements are expected to be approximately \$4,141,950. As of August 2022, the Developer has spent approximately \$1,720,514 on costs of the Improvement Area #2 Improvements.

Following development of Improvement Area #2, the Developer intends to, over an approximately fifteen-month period, undertake the final phase of development of internal phase specific public improvements necessary to serve the third phase of the District (the “Future Improvement Area”). See “THE DEVELOPMENT – Overview.” The boundaries of the District, Improvement Areas #1 and #2, and the Future Improvement Area are shown on page iv.

The proceeds of the Bonds will be used for the purposes of (i) paying a portion of the Improvement Area #2 Costs, (ii) funding the Bond Reserve Account of the Reserve Fund, (iii) funding a portion of the Delinquency and Prepayment Reserve Account of the Reserve Fund, (iv) paying capitalized interest on the Bonds, (v) paying a portion of the costs incidental to the organization of the District, and (vi) paying the costs of issuance of the Bonds. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS” and “THE IMPROVEMENT AREA #2 IMPROVEMENTS.”

Concurrently with the issuance of the Bonds, the City will deliver its \$1,758,000\* Special Assessment Revenue Bonds, Series 2022 (Raburn Reserve Public Improvement District Improvement Area #1) (the “Improvement Area #1 Bonds”) to refinance its reimbursement obligation to the Developer with respect to certain costs of public improvements in Improvement Area #1. The Improvement Area #1 Bonds will be secured by and payable from assessment revenues collected in Improvement Area #1. The Bonds and the Improvement Area #1 Bonds are separate and distinct securities secured by separate assessments on assessable property in Improvement Area #2 and Improvement Area #1, respectively.

### Improvement Area #2 Reimbursement Obligation

The City entered into a reimbursement agreement with the Developer, effective as of April 18, 2022 (the “Reimbursement Agreement”), relating to the reimbursement of Improvement Area #2 Costs, and expects to amend and restate the Reimbursement Agreement on the date of sale of the Bonds to reflect a not to exceed reimbursement amount of \$2,744,000\* (the “Improvement Area #2 Reimbursement Obligation”) not paid with proceeds of the Bonds. To the extent that the proceeds of the Bonds deposited in the Improvement Area #2 Improvement Account of the Project Fund on the Closing Date are not sufficient to pay the Improvement Area #2 Costs, taking into consideration funds previously expended by the Developer to construct the Improvement Area #2 Improvements prior to the Closing Date and the amount of the Improvement Area #2 Reimbursement Obligation, the Developer will deposit funds to the Developer Improvement Account of the Project Fund in an amount sufficient to fund the deficiency. As of August

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\* Preliminary, subject to change.



2022, the Developer has spent approximately \$1,720,514 toward the costs of Improvement Area #2 Improvements and anticipates spending an additional \$2,383,363 prior to the Closing Date. [The Bonds and the Improvement Area #2 Reimbursement Obligation will be secured by the Assessments; however, the payment of debt service on the Bonds will be superior in right to payment of the Improvement Area #2 Reimbursement Obligation.]

The City, upon the satisfaction of certain financial covenants, may issue approximately \$2,744,000\* in principal amount of Additional Parity Obligations pursuant to the Master Indenture and a supplemental indenture to finance the Improvement Area #2 Reimbursement Obligation (the “Additional Parity Obligations”), as such obligation may be reduced by annual payments of Assessment revenues to the Developer for the reimbursement of Improvement Area #2 Costs. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Conditions Precedent to Issuance of Improvement Area #2 Bonds.” When issued, the Additional Parity Obligations will be on parity with the Bonds and any bonds issued to refund the Bonds or Additional Parity Obligations (the “Refunding Bonds”). Pursuant to the Service and Assessment Plan, the Development Agreement, and the Reimbursement Agreement, the Developer will be responsible for any Improvement Area #2 Costs in excess of the amounts funded by the Bonds, any Additional Parity Obligations (if issued), and the Improvement Area #2 Reimbursement Obligation, without reimbursement by the City. See “THE IMPROVEMENT AREA #2 IMPROVEMENTS – The Development Agreement” and “– The Reimbursement Agreement,” “APPENDIX F – Development Agreement,” and “APPENDIX G – Form of Reimbursement Agreement.”

### **Future Improvement Area Bonds**

The City expects to issue one or more series of bonds (“Future Improvement Area Bonds”) to finance the Actual Costs of Authorized Improvements to be developed to serve the Future Improvement Area. The estimated costs of such improvements benefiting the Future Improvement Area will be determined as the Future Improvement Area is developed, and the Service and Assessment Plan will be updated to identify the Authorized Improvements to be constructed within the Future Improvement Area to be financed by each series of Future Improvement Area Bonds. Such Future Improvement Area Bonds will be secured by separate assessments levied pursuant to the PID Act on assessable property within the Future Improvement Area that benefit from the Authorized Improvements. See “THE DEVELOPMENT – Future Improvement Areas and Future Improvement Area Bonds.”

### **The Bonds**

Proceeds of the Bonds will be used for the purposes of (i) paying a portion of the Improvement Area #2 Costs, (ii) funding the Bond Reserve Account of the Reserve Fund, (iii) funding a portion of the Delinquency and Prepayment Reserve Account of the Reserve Fund, (iv) paying capitalized interest on the Bonds, (v) paying a portion of the costs incidental to the organization of the District, and (vi) paying the costs of issuance of the Bonds. See “SOURCES AND USES OF FUNDS,” “THE IMPROVEMENT AREA #2 IMPROVEMENTS” and “APPENDIX B – Form of Indenture.”

Payment of the Improvement Area #2 Bonds (including the Bonds) is secured by a pledge of and a lien upon the Trust Estate, consisting primarily of revenue from the Assessments to be levied against the Assessed Property, all to the extent and upon the conditions described herein and in the Indenture. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS” and “ASSESSMENT PROCEDURES.” **The Bonds shall never constitute an indebtedness or general obligation of the City, the State, or any other political subdivision of the State, within the meaning of any constitutional provision or statutory limitation whatsoever, but the Bonds are limited and special obligations of the City payable solely from the Trust Estate as provided in the Indenture. Neither the faith and credit nor the taxing power of the City, the State, or any other political subdivision of the State is pledged to the payment of the Bonds.**

**The Improvement Area #2 Bonds, the Improvement Area #1 Bonds, and any Future Improvement Area Bonds, if issued by the City, will constitute separate and distinct issues of securities, and will be secured by separate assessments. The Bonds are separate and distinct issues of securities from any Additional Parity Obligations or Refunding Bonds issued by the City in the future, but the Additional Parity Obligations and the Refunding Bonds, if any, issued under the Master Indenture and a Supplemental Indenture (as defined in the Indenture) will be equally and ratably secured by the Trust Estate. No Improvement Area #1 Bonds,**

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\* Preliminary, subject to change.

**Additional Parity Obligations, or Refunding Bonds are offered pursuant to this Limited Offering Memorandum.**

**Status of Builder Contract**

Improvement Area #2 has been subdivided into 118 lots for single-family residential development (each, a “Lot”). The Developer began construction on the Improvement Area #2 Improvements in April 2022 and expects substantial completion to occur by December 2022.

The Developer is under contract to sell all 391 Lots in the District, including all 118 Lots in Improvement Area #2, to Taylor Morrison of Texas, Inc., a Texas corporation (the “Homebuilder” or “Taylor Morrison”). Pursuant to the purchase and sale contract with the Homebuilder, the Homebuilder began purchasing Lots upon substantial completion of the Improvement Area #1 Improvements and, as of July 2022, the Homebuilder had purchased 126 of the 133 Lots in Improvement Area #1. The Homebuilder will resume purchase of Lots upon substantial completion of the Improvement Area #2 Improvements. The Developer has received an earnest money deposit from the Homebuilder equal to \$3,054,688. See “THE DEVELOPMENT” for more information concerning the status of Lot sales and the status of development in the District.

**LIMITATIONS APPLICABLE TO INITIAL PURCHASERS**

Each initial purchaser is advised that the Bonds being offered pursuant to this Limited Offering Memorandum are being offered and sold only to “qualified institutional buyers” as defined in Rule 144A promulgated under the Securities Act of 1933, and “accredited investors” as defined in Rule 501 of Regulation D promulgated under the Securities Act of 1933. Each initial purchaser of the Bonds (each, an “Investor”) will be deemed to have acknowledged, represented, and warranted to the City as follows:

1. The Investor has authority and is duly authorized to purchase the Bonds and to execute any instruments and documents required to be executed by the Investor in connection with the purchase of the Bonds.
2. The Investor is an “accredited investor” under Rule 501 of Regulation D of the Securities Act of 1933 or a “qualified institutional buyer” under Rule 144A of the Securities Act of 1933, and therefore, has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Bonds.
3. The Bonds are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Bonds, and the Investor intends to hold the Bonds solely for its own account for investment purposes for an indefinite period of time and does not intend at this time to dispose of all or any part of the Bonds. However, the Investor may sell the Bonds at any time the Investor deems appropriate. The Investor understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.
4. The Investor understands that the Bonds are not registered under the Securities Act of 1933 and that such registration is not legally required as of the date hereof; and further understands that the Bonds (a) are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) will not carry a rating from any rating service.
5. The Investor acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, and the Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the City, the Improvement Area #2 Improvements, the Bonds, the security therefor, and such other information as the Investor has deemed necessary or desirable in connection with its decision to purchase the Bonds (collectively, the “Investor Information”). The Investor has received a copy of this Limited Offering Memorandum relating to the Bonds. The Investor acknowledges that it has assumed responsibility for its review of the Investor Information, and it has not relied upon any advice, counsel, representation or information from the City in connection with the Investor’s purchase of the Bonds. The Investor agrees that none of the City, its councilmembers, officers, or employees shall have any liability to the Investor whatsoever for or in connection with the Investor’s decision to purchase the Bonds except for gross negligence, fraud,

or willful misconduct. For the avoidance of doubt, it is acknowledged that the Underwriter is not deemed an officer or employee of the City.

6. The Investor acknowledges that the obligations of the City under the Indenture are special, limited obligations payable solely from amounts paid by the City to the Trustee pursuant to the terms of the Indenture and the City shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the City for amounts due under the Indenture. The Investor understands that the Bonds are not secured by any pledge of any moneys received or to be received from taxation by the City, the State or any political subdivision or taxing district thereof; that the Bonds will never represent or constitute a general obligation or a pledge of the full faith and credit of the City, the State or any political subdivision thereof; that no right will exist to have taxes levied by the State or any political subdivision thereof for the payment of principal and interest on the Bonds; and that the liability of the City and the State with respect to the Bonds is subject to further limitations as set forth in the Bonds and the Indenture.

7. The Investor has made its own inquiry and analysis with respect to the Bonds and the security therefor. The Investor is aware that the development of the District involves certain economic and regulatory variables and risks that could adversely affect the security for the Improvement Area #2 Bonds.

8. The Investor acknowledges that the sale of the Bonds to the Investor is made in reliance upon the certifications, representations and warranties described in items 1-7 above.

## **DESCRIPTION OF THE BONDS**

### **General Description**

Capitalized terms not otherwise defined in this caption have the meanings assigned to them in the Indenture. The Bonds will mature on the dates and in the amounts set forth in the inside cover page of this Limited Offering Memorandum. Interest on the Bonds will accrue from the Closing Date and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on each March 15 and September 15, commencing March 15, 2023 (each, an “Interest Payment Date”), until maturity or prior redemption. Wilmington Trust, N.A., is the initial Trustee and Paying Agent/Registrar for the Bonds.

The Bonds will be issued in fully registered form, without coupons. Beneficial ownership of the Bonds may be acquired in principal denominations of \$25,000 and in integral multiples of \$5,000 in excess thereof (“Authorized Denominations”). Upon initial issuance, the ownership of the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), and purchases of beneficial interests in the Bonds will be made in book-entry only form. See “BOOK-ENTRY ONLY SYSTEM” and “SUITABILITY FOR INVESTMENT.”

### **Redemption Provisions**

*Optional Redemption.* The City reserves the option to redeem Bonds maturing on or after September 15, 20\_\_, in whole or any part, before their respective scheduled maturity dates, on September 15, 20\_\_, or on any date thereafter such redemption date or dates to be fixed by the City, at a redemption price equal to the principal amount of the Bonds called for redemption plus accrued and unpaid interest to the date fixed for redemption (the “Redemption Price”).

The City, at least 45 days before the redemption date (unless a shorter period shall be satisfactory to the Paying Agent/Registrar), shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Bonds to be redeemed.

*Extraordinary Optional Redemption.* Notwithstanding any provision in the First Supplemental Indenture to the contrary, the City reserves the right and option to redeem Bonds before their respective scheduled maturity dates, in whole or in part, on any Business Day, at the Redemption Price from amounts on deposit in the Redemption Fund as a result of Prepayments (including related transfers to the Redemption Fund as provided in the Indenture, or any other transfers to the Redemption Fund under the terms of the Indenture, including from transfers of Foreclosure

Proceeds). The City direction for such redemption shall include details with regard to a corresponding reduction in the Bond Reserve Account Requirement, as contemplated by the definition thereof.

Notwithstanding the foregoing, the Trustee will not be required to make an extraordinary optional redemption pursuant to the Master Indenture unless it has at least \$5,000 available in the Redemption Fund with which to redeem the Bonds.

Mandatory Sinking Fund Redemption. The Bonds (referred to as “Term Bonds” below) are subject to mandatory sinking fund redemption prior to their respective maturities and will be redeemed by the City in part at a Redemption Price from moneys available for such purpose in the Principal and Interest Account of the Bond Fund, on the dates and in the Sinking Fund Installment amounts as set forth in the following schedule:

**\$ Term Bonds maturing September 15, 20**

<b><u>Redemption Date</u></b>	<b><u>Sinking Fund Installment Amount</u></b>
September 15, 20__	
September 15, 20__	
September 15, 20__†	

**\$ Term Bonds maturing September 15, 20**

<b><u>Redemption Date</u></b>	<b><u>Sinking Fund Installment Amount</u></b>
September 15, 20__	
September 15, 20__	
September 15, 20__	
September 15, 20__	
September 15, 20__†	

† Stated maturity.

At least forty-five (45) days prior to each scheduled mandatory redemption date and subject to any prior reduction authorized by the Indenture, the Paying Agent/Registrar shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Term Bonds equal to the aggregate principal amount of such Term Bonds to be redeemed, shall call such Term Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as required by the Indenture.

The principal amount of the Term Bonds required to be redeemed on any redemption date shall be reduced, at the option of the City, by the principal amount of any Term Bonds which, at least 45 days prior to the mandatory sinking fund redemption date (i) shall have been acquired by the City at a price not exceeding the principal amount of such Term Bonds plus accrued and unpaid interest to the date of purchase thereof, and delivered to the Paying Agent/Registrar for cancellation, or (ii) shall have been redeemed pursuant to the optional or extraordinary redemption provisions and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption to Owners. The Trustee shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the Owner of each Bond or portion thereof to be redeemed, at the address shown in the Register. The notice shall state the redemption date, the Redemption Price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds Outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed, any conditions to such redemption, and that on the redemption date, if all conditions, if any, to such redemption have been satisfied, such Bond shall become due and payable. Any notice given as provided in this paragraph shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.



The City reserves the right, in the case of an optional or extraordinary optional redemption, to give notice of its election or direction to redeem Bonds conditioned upon the occurrence of subsequent events. Such notice may state (i) that the redemption is conditioned upon the deposit of moneys and/or authorized securities, in an amount equal to the amount necessary to effect the redemption, with the Paying Agent/Registrar, or such other entity as may be authorized by law, no later than the redemption date, or (ii) that the City retains the right to rescind such notice at any time on or prior to the scheduled redemption date if the City delivers a certificate of the City to the Paying Agent/Registrar instructing the Paying Agent/Registrar to rescind the redemption notice and such notice and redemption shall be of no effect if such moneys and/or authorized securities are not so deposited or if the notice is rescinded. The Paying Agent/Registrar shall give prompt notice of any such rescission of a conditional notice of redemption to the affected Owners. Any Bonds subject to conditional redemption and for which such redemption has been rescinded shall remain Outstanding and the rescission of such redemption shall not constitute an event of default. Further, in the case of a conditional redemption, the failure of the City to make moneys and/or authorized securities available in part or in whole on or before the redemption date shall not constitute an event of default.

*Additional Provisions with Respect to Redemption.* If less than all of the Bonds are to be redeemed pursuant to the Indenture, Bonds shall be redeemed in minimum principal amounts of \$1,000 or any integral thereof. Each Bond shall be treated as representing the number of Bonds that is obtained by dividing the principal amount of such Bond by \$1,000. No redemption shall result in a Bond in a denomination of less than the Authorized Denomination in effect at that time; provided, however, if the amount of the Outstanding Bond is less than an Authorized Denomination after giving effect to such partial redemption, a Bond in the principal amount equal to the unredeemed portion, but not less than \$1,000, may be issued.

If less than all of the Bonds are to be redeemed pursuant to optional or extraordinary optional redemption, such redemption shall be effected by redeeming Bonds in such manner as may be specified by the City; provided, however that in the absence of such instruction from the City by the date required for the sending of notice of redemption pursuant to the Indenture, the Bonds shall be redeemed by any method selected by the Trustee that results in a pro rata reduction of the Outstanding maturities, treating each date on which a Sinking Fund Installment is due as a separate maturity for such purpose.

Upon surrender of any Bond for redemption in part, the Trustee shall authenticate and deliver an exchange Bond or Bonds in an aggregate principal amount equal to the unredeemed portion of the Bond so surrendered, such exchange being without charge.

### **BOOK-ENTRY ONLY SYSTEM**

*This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, 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 Limited Offering Memorandum. The information in this section concerning DTC and DTC's book-entry-only system has been obtained from sources that the City believes to be reliable, but none of the City, the City's Financial Advisor or the Underwriter takes any 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 Limited Offering Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC participants are on file with DTC.*

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

DTC, the world's largest securities depository, is a limited-purpose trust company organized under the New York Banking Law, a "banking organization" within the meaning of the New York Banking Law, a member of the Federal Reserve System, a "clearing corporation" within the meaning of the New York Uniform Commercial Code, and a "clearing agency" registered pursuant to the provisions of Section 17A of the Securities Exchange Act of 1934. DTC holds and provides asset servicing for over 3.5 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 registered subsidiaries. Access to the DTC system is also available to others such as both U.S. and non-U.S. securities brokers and dealers, banks, trust companies, and clearing corporations that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly ("Indirect Participants"). DTC has a Standard & Poor's rating of "AA+." The DTC Rules applicable to its Participants are on file with the Securities and Exchange Commission. More information about DTC can be found at [www.dtcc.com](http://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 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 registrar and request that copies of notices be provided directly to them.

Redemption notices for the Bonds shall be sent to DTC. If less than all Bonds of the same maturity are being redeemed, DTC's practice is to determine by lot the amount of the interest of each Direct Participant of such maturity to be redeemed.

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

All 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 Paying Agent/Registrar, on the 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, the Trustee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. All payments on the Bonds to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, the Paying Agent/Registrar or the City, 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 securities depository with respect to the Bonds at any time by giving reasonable notice to the City, the Trustee, or the Paying Agent/Registrar. Under such circumstances, in the event that a successor depository is not obtained, Bond certificates are required to be printed and delivered.

The 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.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but none of the City, the City's Financial Advisor, or the Underwriter take any responsibility for the accuracy thereof.

NONE OF THE CITY, THE TRUSTEE, THE PAYING AGENT/REGISTRAR, THE CITY'S FINANCIAL ADVISOR, OR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC DIRECT PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS. THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, THE PARTICIPANTS, OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE BONDS PAID TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNER, OR PROVIDE ANY NOTICES TO THE BENEFICIAL OWNERS OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM. THE CURRENT RULES APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT PROCEDURES OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

*Use of Certain Terms in Other Sections of this Limited Offering Memorandum.* In reading this Limited Offering Memorandum it should be understood that while the Bonds are in the Book-Entry-Only System, references in other sections of this Limited Offering Memorandum 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, notices that are to be given to registered owners under the Indenture will be given only to DTC.

## **SECURITY FOR THE IMPROVEMENT AREA #2 BONDS**

### **General**

THE IMPROVEMENT AREA #2 BONDS (INCLUDING THE BONDS) ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. THE IMPROVEMENT AREA #2 BONDS DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE CITY AND ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED IN THE INDENTURE. THE OWNERS OF THE IMPROVEMENT AREA #2 BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF MONEY RAISED OR TO BE RAISED BY TAXATION, OR OUT OF ANY FUNDS OF THE CITY OTHER THAN THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. NO OWNER OF THE IMPROVEMENT AREA #2 BONDS SHALL HAVE

THE RIGHT TO DEMAND ANY EXERCISE OF THE CITY’S TAXING POWER TO PAY THE PRINCIPAL OF THE IMPROVEMENT AREA #2 BONDS OR THE INTEREST OR REDEMPTION PREMIUM, IF ANY, THEREON. THE CITY SHALL HAVE NO LEGAL OR MORAL OBLIGATION TO PAY THE IMPROVEMENT AREA #2 BONDS OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE. SEE “APPENDIX B – FORM OF INDENTURE.”

The principal of, premium, if any, and interest on the Improvement Area #2 Bonds are secured by a pledge of and a lien upon the Pledged Revenues and other assets of the Trust Estate, consisting primarily of revenues from the Assessments levied against the assessable parcels or lots within Improvement Area #2 of the District, all to the extent and upon the conditions described herein and in the Indenture. Improvement Area #2 contains approximately 35.15 acres within the District. Other than Non-Benefited Property (defined in the Service and Assessment Plan), all of the property within Improvement Area #2 will be assessed. In accordance with the PID Act, the City has caused the preparation of a Service and Assessment Plan (as updated, amended and supplemented, the “Service and Assessment Plan”), which describes the special benefit received by the property within the District, including Improvement Area #2, provides the basis and justification for the determination of special benefit on such property, establishes the methodology for the levy of assessments (including the Assessments), and provides for the allocation of Pledged Revenues for payment of principal of, premium, if any, and interest on the Improvement Area #2 Bonds.

The Service and Assessment Plan is reviewed and updated annually for the purpose of determining the annual budget for improvements and the Annual Installments (defined below) of Assessments due in a given year. The determination by the City of the special assessment methodology set forth in the Service and Assessment Plan is the result of the discretionary exercise by the City Council of its legislative authority and governmental powers and is conclusive and binding on all current and future landowners within the District. See “APPENDIX C – Service and Assessment Plan.”

### **Pledged Revenues**

The City is authorized by the PID Act, the Assessment Ordinance and other provisions of law to finance the Improvement Area #2 Improvements by levying Assessments upon properties in Improvement Area #2 of the District benefitted thereby. For a description of the assessment methodology and the amounts of Assessments anticipated to be levied in each phase of the District, see “ASSESSMENT PROCEDURES” and “APPENDIX C – Service and Assessment Plan.” The City will covenant in the Indenture that it will take and pursue all actions permissible under the PID Act, and all other laws or statutes, rules, or regulations, and any amendments thereto, of the State of Texas or of the United States (collectively, the “Applicable Laws”) to cause the Assessments to be collected and the liens thereof to be enforced continuously. See “– Pledged Revenue Fund,” “APPENDIX B – Form of Indenture” and “APPENDIX C – Service and Assessment Plan.”

Pursuant to the Indenture, the following terms are assigned the following meanings:

“Annual Collection Costs” mean the actual or budgeted costs and expenses related to the creation and operation of the District, the issuance and sale of bonds, and the construction, operation, and maintenance of the Authorized Improvements, including, but not limited to, costs and expenses for: (1) the Administrator and City staff; (2) legal counsel, engineers, accountants, financial advisors, and other consultants engaged by the City; (3) calculating, collecting, and maintaining records with respect to Assessments and Annual Installments, including the costs of foreclosure; (4) preparing and maintaining records with respect to Assessment Rolls and Annual Service Plan Updates; (5) issuing, paying, and redeeming bonds; (6) investing or depositing Assessments and Annual Installments; (7) complying with the Service and Assessment Plan and the PID Act with respect to the issuance and sale of bonds, the administration of the Reimbursement Agreement, including continuing disclosure requirements; and (8) the paying agent/registrar and Trustee in connection with bonds, including their respective legal counsel. Annual Collection Costs collected but not expended in any year shall be carried forward and applied to reduce Annual Collection Costs for subsequent years.

“Annual Installment” means, with respect to each Assessed Property, each annual payment of (i) the Assessments as shown on the Assessment Roll attached to the Service and Assessment Plan and related to the Improvement Area #2 Bonds and the Improvement Area #2 Improvements, including (i) principal, (ii) interest, (iii)



Annual Collection Costs, and (iv) Additional Interest collected pursuant to Section V of the Service and Assessment Plan and deposited to the Delinquency and Prepayment Reserve Account as described in the Indenture.

“Assessed Property” means all property within the District and shown in the Assessment Roll against which an Assessment relating to the Improvement Area #2 Improvements is levied in accordance with the Service and Assessment Plan.

“Delinquent Collection Costs” means the costs related to the foreclosure on an Assessed Property and the costs of collection of a delinquent Assessment, including penalties and reasonable attorney’s fees actually paid, but excluding amounts representing Delinquent Penalties and Interest.

“Delinquent Penalties and Interest” means any delinquent interest and delinquent penalty interest collected on a delinquent Assessment.

“Pledged Funds and Accounts” means the following funds and the accounts therein: the Pledged Revenue Fund, the Bond Fund, the Project Fund (excluding the Developer Improvement Account), the Reserve Fund, and the Redemption Fund.

“Pledged Revenues” means the sum of (i) Annual Installments (excluding the portion of the Annual Installments collected for the payment of Annual Collection Costs and Delinquent Collection Costs), (ii) the moneys held in any of the Pledged Funds and Accounts, and (iii) any additional revenues that the City may pledge to the payment of Improvement Area #2 Bonds.

“Trust Estate” means (i) the Pledged Revenues and all moneys and investments held in the Pledged Funds and Accounts, including any contract or any evidence of indebtedness related thereto or other rights of the City to receive any of such moneys or investments, whether now existing or hereafter coming into existence, and whether now or hereafter acquired, and (ii) any and all other property or money of every name and nature which is, from time to time hereafter, by delivery or by writing of any kind, conveyed, pledged, assigned, or transferred to the Trustee as additional security under the Indenture by the City or by anyone on its behalf or with its written consent.

The PID Act provides that the Assessments (including any reassessment, with interest, the expense of collection and reasonable attorney’s fees, if incurred) are a first and prior lien (the “Assessment Lien”) against the property assessed, superior to all other liens or claims, except liens and claims for State of Texas (the “State”), county, school district, or municipality ad valorem taxes and are a personal liability of and charge against the owners of property, regardless of whether the owners are named. Pursuant to the PID Act, the Assessment Lien is effective from the date of the Assessment Ordinance until the Assessments are paid (or otherwise discharged) and is enforceable by the City Council in the same manner that an ad valorem property tax levied against real property may be enforced by the City Council. See “ASSESSMENT PROCEDURES.”

### **Collection and Deposit of Assessments**

The Assessments on each parcel, tract or lot which are to be collected in each year during the term of the Bonds are shown on the Assessment Roll. The Assessments, together with the interest thereon, will be deposited in the Pledged Revenue Fund for the payment of the principal of, premium, if any, and interest on the Bonds and[, on a subordinate basis,] the Improvement Area #2 Reimbursement Obligation as set forth in the Reimbursement Agreement and the Service and Assessment Plan, as and to the extent provided in the Service and Assessment Plan and the Indenture. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Pledged Revenue Fund” and “APPENDIX B – Form of Indenture.”

The Assessments, together with interest thereon, are payable in Annual Installments established by the Assessment Ordinance and the Service and Assessment Plan to correspond, as nearly as practicable, to the debt service requirements for the Bonds and the Improvement Area #2 Reimbursement Obligation. An Annual Installment of Assessments has been made payable in the Assessment Ordinance in each Fiscal Year preceding the date of final maturity of the Bonds which, if collected, will be sufficient to pay the portion of the debt service requirements

attributable to Assessments in the Service and Assessment Plan. Each Annual Installment is payable as provided in the Service and Assessment Plan and the Assessment Ordinance.

Any sums collected for the payment of Annual Collection Costs shall be deposited in the Administrative Fund and shall not constitute Pledged Revenues.

### **Unconditional Levy of Assessments**

The City will impose Assessments on the property within Improvement Area #2 of the District to pay the principal of and interest on the Improvement Area #2 Bonds scheduled for payment from Pledged Revenues as described in the Indenture and in the Service and Assessment Plan and coming due during each Fiscal Year. The Assessments are effective from the date, and strictly in accordance with the terms, of the Assessment Ordinance. Each Assessment may be paid in full or in part at any time or in periodic Annual Installments over a period of time equal to the term of the Improvement Area #2 Bonds, which installments shall include interest on the Assessments. Pursuant to the Assessment Ordinance, interest on the Assessments for each lot within Improvement Area #2 and allocated to the Bonds, begins to accrue on the date specified in the Service and Assessment Plan and, bears interest at the rate of interest on the Bonds plus the 0.50% additional interest charged on Assessments pursuant to Section 372.018 of the PID Act (the "Additional Interest Rate"). Interest on the Assessments allocated to the Improvement Area #2 Reimbursement Obligation pursuant to the Reimbursement Agreement begins to accrue on the date specified in the Service and Assessment Plan and interest on such portion of the Assessments shall bear interest at the rates set forth in the Service and Assessment Plan. Each Annual Installment, including the interest on the unpaid amount of Assessments, will be determined by September 30 of each year and billed on or around October 15 of each year. Each Annual Installment together with interest thereon shall be delinquent if not paid prior to February 1 of the following year.

As authorized by Section 372.003(b)(14) of the PID Act, the City will levy, assess, and collect each year while the Bonds are Outstanding and unpaid, an assessment to pay the Annual Collection Costs. The portion of each Annual Installment of an Assessment used to pay the Annual Collection Costs shall remain in effect from year to year until all Bonds are finally paid or until the City adjusts the levy after an annual review in any year pursuant to Section 372.015(d) of the PID Act. The amount collected to pay Annual Collection Costs shall be due in the manner set forth in the Assessment Ordinance and shall be billed as part of the Annual Installment on or about October 15 of each year and shall be delinquent if not paid by February 1 of the following year. Amounts collected for Annual Collection Costs do not secure repayment of the Bonds.

There will be no split payment of Assessments or discount for the early payment of Assessments.

The PID Act provides that the Assessments (including any reassessment, with interest, the expense of collection and reasonable attorney's fees, if incurred) are a first and prior lien (the "Assessment Lien") against the Assessed Property within Improvement Area #2, superior to all other liens and claims, except liens and claims for the State, county, school district, or municipality for ad valorem taxes and are a personal liability of and charge against the owners of property, regardless of whether the owners are named. Pursuant to the PID Act, the Assessment Lien is effective from the date of the Assessment Ordinance until the Assessments are paid (or otherwise discharged) and is enforceable by the City Council in the same manner that an ad valorem property tax levied against real property may be enforced by the City Council. See "ASSESSMENT PROCEDURES." The Assessment Lien is superior to any homestead rights of a property owner that were properly claimed after the adoption of the Assessment Ordinance. However, an Assessment Lien may not be foreclosed upon if any homestead rights of a property owner were properly claimed prior to the adoption of the Assessment Ordinance ("Pre-existing Homestead Rights") for as long as such rights are maintained on the property. See "BONDHOLDERS' RISKS – Assessment Limitations." There are currently no properties within Improvement Area #2 that have claimed a homestead exemption.

Failure to pay an Annual Installment when due shall not accelerate the payment of the remaining Annual Installments of the Assessments and such remaining Annual Installments (including interest) shall continue to be due and payable at the same time and in the same amount and manner as if such default had not occurred.

## Perfected Security Interest

The lien on and pledge of the Trust Estate shall be valid and binding and fully perfected from and after the Closing Date, and execution and delivery of the Indenture, without physical delivery or transfer of control of the Trust Estate, the filing of the Indenture or any other act; all as provided in Chapter 1208 of the Texas Government Code, as amended, which applies to the issuance of the Bonds and the pledge of the Trust Estate granted by the City under the Indenture, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds are Outstanding such that the pledge of the Trust Estate granted by the City under the Indenture is to be subject to the filing requirements of Chapter 9, Business and Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Chapter 9, Business and Commerce Code and enable a filing to perfect the security interest in said pledge to occur. See “APPENDIX B – Form of Indenture.”

## Pledged Revenue Fund

On or before February 1 of each year while the Improvement Area #2 Bonds are Outstanding, provided that Pledged Revenues have been received by the City, or if not, then as soon available, beginning February 1, 2023, the City shall deposit or cause to be deposited the Pledged Revenues (which excludes, for the avoidance of doubt that portion of the Annual Installments collected for the payment of Annual Collection Costs and Delinquent Collection Costs, which shall be deposited to the Administrative Fund and the Delinquency and Prepayment Account, respectively) into the Pledged Revenue Fund which deposit shall be directed by the City to the Trustee pursuant to a City Certificate. Specifically, the Pledged Revenues shall be deposited to the Pledged Revenue Fund to be used in the following order of priority:

- (i) *first*, unless otherwise directed by a Supplemental Indenture, to be retained in the Pledged Revenue Fund amounts sufficient to pay Annual Debt Service on the Improvement Area #2 Bonds coming due in the current Bond Year;
- (ii) *second*, unless otherwise directed by a Supplemental Indenture, to the Bond Reserve Account in an amount to cause the amount in the Bond Reserve Account to equal the Bond Reserve Account Requirement;
- (iii) *third*, unless otherwise directed by a Supplemental Indenture, amounts representing Additional Interest to the Delinquency and Prepayment Reserve Account of the Reserve Fund in an amount equal to the Delinquency and Prepayment Reserve Requirement;
- (iv) *fourth*, to the Improvement Area #2 Reimbursement Fund in amounts set forth in the Service and Assessment Plan and for the annual reimbursement of Improvement Area #2 Improvements pursuant to the Reimbursement Agreement; and
- (v) *fifth*, unless otherwise directed by a Supplemental Indenture, in accordance with the written direction of the City, to pay other costs permitted by the PID Act.

Notwithstanding the foregoing, if any funds remain on deposit in the Pledged Revenue Fund after the transfers required by clauses (i) through (iv) above are made, the City shall have the option, in its sole and absolute discretion, to transfer such excess funds into the Redemption Fund to redeem Improvement Area #2 Bonds as provided in the Indenture. The City or the Administrator on behalf of the City shall direct the Trustee in writing with respect to the portions of the Pledged Revenues to be deposited as Additional Interest, Prepayments or Foreclosure Proceeds as described below.

From time to time as needed to pay the obligations relating to the Improvement Area #2 Bonds, but no later than five (5) Business Days before each Interest Payment Date, the Trustee shall withdraw from the Pledged Revenue Fund and transfer to the Principal and Interest Account, an amount, taking into account any amounts then on deposit in such Principal and Interest Account and any expected transfers from the Capitalized Interest Account to the

Principal and Interest Account to be deposited, such that the amount on deposit in the Principal and Interest Account equals the principal (including any Sinking Fund Installments) and interest due on the Improvement Area #2 Bonds on the next Interest Payment Date.

If, after the foregoing transfers and any transfer from the Reserve Fund, there are insufficient funds to make the payments provided above, the Trustee shall apply the available funds in the Principal and Interest Account first to the payment of interest, then to the payment of principal (including any Sinking Fund Installments) on the Improvement Area #2 Bonds.

Notwithstanding the above described flow of funds, the Trustee shall deposit (a) Additional Interest to the Pledged Revenue Fund and shall transfer all or a portion of such Additional Interest to the Delinquency and Prepayment Reserve Account (up to the Delinquency and Prepayment Reserve Requirement); (b) the Trustee shall deposit Prepayments to the Pledged Revenue Fund and as soon as practicable after such deposit shall transfer such Prepayments to the Redemption Fund; and (c) the Trustee shall deposit Foreclosure Proceeds to the Pledged Revenue Fund and as soon as practicable after such deposit shall transfer Foreclosure Proceeds first to restore any transfers from the Bond Reserve Account of the Reserve Fund made with respect to the Assessed Property to which the Foreclosure Proceeds relate (up to the Bond Reserve Account Requirement); second, to restore any transfers from the Delinquency and Prepayment Reserve Account made with respect to the Assessed Property to which the Foreclosure Proceeds relate (up to the Delinquency and Prepayment Reserve Requirement); and third, to the Redemption Fund.

Notwithstanding the foregoing, any portion of Foreclosure Proceeds that are attributable to Annual Collection Costs shall be deposited to the Administrative Fund, and any portion of Foreclosure Proceeds attributable to Delinquent Penalties and Interest shall be deposited to the Delinquency and Prepayment Reserve Account of the Reserve Fund until the Delinquency and Prepayment Reserve Requirement is met and then to the Administrative Fund.

After satisfaction of the requirements to (i) provide for the payment of the principal and interest on the Improvement Area #2 Bonds, and (ii) to fund any deficiency that may exist in the Reserve Fund (including the funding of the Delinquency and Prepayment Reserve Account), the City may direct the Trustee by City Certificate to apply Assessments for any lawful purposes permitted by the PID Act for which Assessments may be paid, including the payment of any amount owed pursuant to the Reimbursement Agreement, as set forth in a Supplemental Indenture.

### **Bond Fund**

No later than on each Interest Payment Date, the Trustee shall withdraw from the Principal and Interest Account and transfer to the Paying Agent/Registrar the principal (including any Sinking Fund Installments) and interest then due and payable on the Improvement Area #2 Bonds.

If amounts in the Principal and Interest Account are insufficient for the purposes set forth above, the Trustee shall withdraw first from the Delinquency and Prepayment Reserve Account of the Reserve Fund and second from the Bond Reserve Account of the Reserve Fund amounts to cover the amount of such insufficiency. Amounts so withdrawn from the Reserve Fund shall be deposited in the Principal and Interest Account and transferred to the Paying Agent/Registrar.

Moneys in the Capitalized Interest Account shall be used for the payment of interest on the Bonds on March 15, 2023, and September 15, 2023. Not later than five (5) Business Days before each such date, the Trustee shall withdraw funds from the Capitalized Interest Account and transfer to the Principal and Interest Account for payment of interest on the Bonds.

Any amounts on deposit to the Capitalized Interest Account after the payment of interest shall be transferred, at the direction of the City, to the Improvement Account of the Project Fund, or to the Redemption Fund to be used to redeem Bonds and the Capitalized Interest Account shall be closed.

## **Project Fund**

Money on deposit in the Improvement Account, Developer Improvement Account and Cost of Issuance Account of the Project Fund shall be used for the purposes of (i) paying a portion of the Improvement Area #2 Costs, (ii) paying capitalized interest on the Improvement Area #2 Bonds, (iii) funding the Bond Reserve Account of the Reserve Fund, (iv) funding a portion of the Delinquency and Prepayment Reserve Account, (v) paying a portion of the costs incidental to the organization of the District, and (vi) paying the costs of issuance of the Bonds.

Disbursements from the Costs of Issuance Account of the Project Fund shall be made by the Trustee to pay costs of issuance of the Improvement Area #2 Bonds pursuant to one or more City Certificates or pursuant to a closing memo prepared by the City's financial advisor at closing of each series of Improvement Area #2 Bonds. Moneys disbursed to the Developer at closing to pay for the costs of creating the District shall be paid pursuant to a Closing Disbursement Request. Any funds in the Costs of Issuance Account not needed to pay costs of issuance shall be transferred to (i) the Improvement Account of the Project Fund and used to pay Actual Costs of the Improvement Area #2 Improvements or (ii) to the Principal and Interest Account of the Bond Fund and used to pay interest on the Improvement Area #2 Bonds, as directed by the City.

Except as otherwise provided in the Indenture, money on deposit in the Developer Improvement Account and the Improvement Account of the Project Fund, shall be used solely to pay the costs of the Improvement Area #2 Improvements. Upon receipt of a reviewed and approved Certificate for Payment, the Trustee shall make payment for the costs set forth therein, from the following accounts in the following priority, until monies are no longer available therein: (1) first, from the Improvement Account of the Project Fund and (2) second, from the Developer Improvement Account of the Project Fund. Except as provided in the Indenture, money on deposit in the Improvement Account shall be used solely to pay the costs set forth in the applicable Certificate for Payment. Except as provided in the Indenture, money on deposit in the Developer Improvement Account shall be used solely to pay costs set forth in the applicable Certificate for Payment.

If the City Representative determines in his or her sole discretion that amounts then on deposit in the Improvement Account of the Project Fund are not expected to be expended for purposes thereof due to the abandonment, or constructive abandonment, of the Improvement Area #2 Improvements, such that, in the opinion of the City Representative, it is unlikely that the amounts in the Improvement Account will ever be expended for the purposes thereof, the City Representative shall file a City Certificate with the Trustee which identifies the amounts then on deposit in the Improvement Account that are not expected to be used for purposes thereof. If such City Certificate is so filed, the amounts identified on the City Certificate currently on deposit in the Improvement Account shall be transferred to the Redemption Fund to redeem Improvement Area #2 Bonds on the earliest practicable date after notice of redemption has been provided in accordance with the Indenture and the Improvement Account shall be closed.

If the City Representative determines in his or her sole discretion that amounts then on deposit in the Developer Improvement Account of the Project Fund are not expected to be expended for purposes thereof due to the abandonment, or constructive abandonment, of the Improvement Area #2 Improvements, such that, in the opinion of the City Representative, it is unlikely that the amounts in the Developer Improvement Account will ever be expended for the purposes thereof, the City Representative shall file a City Certificate with the Trustee which identifies the amounts then on deposit in the Developer Improvement Account that are not expected to be used for purposes thereof. If such City Certificate is so filed, the amounts identified on the City Certificate to be on deposit in the Developer Improvement Account shall be transferred and released to the Developer pursuant to the Indenture, and (ii) shall close the Developer Improvement Account.

Upon the filing of a City Certificate stating that all Improvement Area #2 Improvements have been completed and that all costs thereof have been paid, or that any such costs are not required to be paid from the Developer Improvement Account pursuant to a Certificate for Payment, the Trustee (i) shall transfer and release the amounts remaining in the Developer Improvement Account; and (ii) shall close the Developer Improvement Account.

Any amounts in the Developer Improvement Account to be transferred and released shall be irrevocably and unconditionally transferred and released to the Developer, or to the Developer's successors and assigns or designees as identified in a written notice from the Developer to the Trustee and the City.

Upon the filing of a City Certificate stating that all Improvement Area #2 Improvements have been completed and that all Improvement Area #2 Costs have been paid, or that any such costs are not required to be paid from the Improvement Account pursuant to a Certificate for Payment, the Trustee shall transfer the amount, if any, remaining within the Improvement Account to the Principal and Interest Account or to the Redemption Fund as directed by the City Representative in a City Certificate filed with the Trustee, and shall close the Improvement Account of the Project Fund.

### **Redemption Fund**

Amounts on deposit in the Redemption Fund shall be used and withdrawn by the Trustee to redeem Bonds pursuant to optional redemption, extraordinary option redemption and mandatory sinking fund redemption as provided in the First Supplemental Indenture.

The Trustee shall cause to be deposited to the Redemption Fund from Prepayments and Foreclosure Proceeds received by the Trustee an amount sufficient to redeem Improvement Area #2 Bonds pursuant to the extraordinary optional redemption as set forth in a Supplemental Indenture. If after such transfer, there are insufficient funds to pay the principal amount plus accrued and unpaid interest on such Improvement Area #2 Bonds to the date fixed for redemption of the Improvement Area #2 Bonds to be redeemed as a result of such Prepayment, the Trustee shall, to the extent sufficient funds are available in the Delinquency and Prepayment Reserve Account, transfer an amount equal to the shortfall from the Delinquency and Prepayment Reserve Account to the Redemption Fund to be applied to the redemption of the Improvement Area #2 Bonds.

The Trustee shall, to the extent sufficient funds are available from the Pledged Revenues received by the Trustee and not otherwise disbursed in accordance with the provisions of the Master Indenture, cause to be deposited to the Redemption Fund from Pledged Revenues and pursuant to any transfers made pursuant to the Indenture, an amount sufficient to redeem Improvement Area #2 Bonds pursuant to optional redemption, extraordinary optional redemption or mandatory sinking fund redemption as provided in a Supplemental Indenture at the direction of the City.

### **Bond Reserve Account**

Pursuant to the Master Indenture, a Bond Reserve Account will be created within the Reserve Fund for the benefit of the Improvement Area #2 Bonds and will held by the Trustee and funded with proceeds of the Improvement Area #2 Bonds in the amount of the Bond Reserve Account Requirement. As of the Closing Date of the Bonds, the Bond Reserve Account Requirement is equal to \$\_\_\_\_\_.

The City agrees with the Owners of the Improvement Area #2 Bonds to accumulate, and when accumulated, maintain in the Bond Reserve Account, an amount equal to not less than the Bond Reserve Account Requirement. As noted below, all amounts deposited in the Bond Reserve Account of the Reserve Fund shall be used and withdrawn by the Trustee for the purpose of making transfers to the Principal and Interest Account of the Bond Fund in the event of any deficiency in such Principal and Interest Account on any Interest Payment Date or any date on which principal of the Improvement Area #2 Bonds is due.

Whenever a transfer is made from the Bond Reserve Account to the Principal and Interest Account of the Bond Fund due to a deficiency in the Principal and Interest Account, the Trustee shall provide written notice thereof to the City, specifying the amount withdrawn.

Whenever, on any Interest Payment Date, or on any other date at the request of a City Representative, the amount in the Bond Reserve Account exceeds the Bond Reserve Account Requirement, the Trustee shall provide written notice to the City Representative and the Administrator of the amount of the excess. Upon receipt of a City Certificate, the Trustee shall transfer such excess to the Principal and Interest Account, the Redemption Fund, or the Administrative Fund, as set forth in the City Certificate. The excess amounts transferred from the Bond Reserve Account to the Administrative Fund will be presumed to have been transferred, first, from sources other than Improvement Area #2 Bond Proceeds (including investment earnings on such proceeds) and, second, from amounts that are Improvement Area #2 Bond proceeds (including investment earnings on such proceeds).

At the final maturity of the Improvement Area #2 Bonds, the amount on deposit in the Bond Reserve Account shall be transferred to the Principal and Interest Account or the Redemption Fund, as applicable, and applied to the payment of the principal of the Improvement Area #2 Bonds.

If, after a Bond Reserve Account withdrawal, the amount on deposit in the Bond Reserve Account is less than the Bond Reserve Account Requirement, the Trustee shall transfer from the Pledged Revenue Fund to the Bond Reserve Account the amount of such deficiency, but only to the extent that such amount is not required for the timely payment of principal, interest, or Sinking Fund Installments.

At the final maturity of the Improvement Area #2 Bonds, the amount on deposit in the Bond Reserve Account and the Delinquency and Prepayment Reserve Account shall be transferred to the Principal and Interest Account and applied to the payment of the principal of the Improvement Area #2 Bonds.

If the amount held in the Bond Reserve Account, together with the amounts held in the Pledged Revenue Fund and the Principal and Interest Account and Redemption Fund, is sufficient to pay the principal amount of all Outstanding Improvement Area #2 Bonds on the next Interest Payment Date, together with the unpaid interest accrued on such Improvement Area #2 Bonds as of such Interest Payment Date, the moneys shall be transferred to the Redemption Fund and thereafter used to redeem all Improvement Area #2 Bonds as of such Interest Payment Date.

Whenever Improvement Area #2 Bonds are to be redeemed with the proceeds of Prepayments, a proportionate amount in the Bond Reserve Account shall be transferred on the Business Day prior to the redemption date by the Trustee to the Redemption Fund to be applied to the redemption of the Improvement Area #2 Bonds as detailed in a City Certificate. The amount so transferred from the Bond Reserve Account shall be equal to an amount representing the difference between (i) the lesser of (A) the Bond Reserve Account Requirement prior to redemption and (B) the amount actually on deposit in the Bond Reserve Account prior to redemption, and (ii) the Bond Reserve Account Requirement after such redemption; provided, however, no such transfer from the Bond Reserve Account shall cause the amount on deposit therein to be less than the Bond Reserve Account Requirement to be in effect after such redemption. If after such transfer, and after applying investment earnings on the Prepayment toward payment of accrued interest on the Improvement Area #2 Bonds, there are insufficient funds to pay the principal amount plus accrued and unpaid interest on such Bonds to the date fixed for redemption of the Improvement Area #2 Bonds to be redeemed as a result of such Prepayment, the Trustee shall, to the extent sufficient funds are available in the Delinquency and Prepayment Reserve Account, transfer an amount equal to the shortfall from the Delinquency and Prepayment Reserve Account to the Redemption Fund to be applied to the redemption of the Improvement Area #2 Bonds.

### **Delinquency and Prepayment Reserve Account**

In addition to the initial deposit to the Delinquency and Prepayment Reserve Account of the Reserve Fund, Additional Interest shall be deposited to the Delinquency and Prepayment Reserve Account of the Reserve Fund until such time that the amount on deposit in the Delinquency and Prepayment Reserve Account is at least equal to the Delinquency and Prepayment Reserve Requirement. Whenever, at the written request of the City Representative, on any Interest Payment Date or on any other date, the amount in the Delinquency and Prepayment Reserve Account exceeds the Delinquency and Prepayment Reserve Requirement, the Trustee shall provide written notice to the City of the amount of the excess. The City shall direct the Trustee in writing to transfer the amounts of such excess in the Delinquency and Prepayment Reserve Account to (i) the Bond Reserve Account to restore any deficiency in the Bond Reserve Account up to the Bond Reserve Account Requirement, (ii) the Administrative Fund for payment of Annual Collection Costs (in compliance with the Indenture), or (iii) to the Redemption Fund to be used to redeem Improvement Area #2 Bonds. The excess amounts transferred from the Delinquency and Prepayment Reserve Account of the Reserve Fund to the Administrative Fund will be presumed to have been transferred, first, from sources other than Improvement Area #2 Bond Proceeds (including investment earnings on such proceeds) and, second, from amounts that are Improvement Area #2 Bond proceeds (including investment earnings on such proceeds). In the event that the Trustee does not receive a City Certificate directing the transfer of the excess Delinquency and Prepayment Reserve funds within forty-five (45) days of providing notice to the City of such excess Delinquency and Prepayment Reserve amount, the Trustee shall transfer the excess Delinquency and Prepayment Reserve amount to the Redemption Fund and provide the City with written notification of the transfer.



Whenever Improvement Area #2 Bonds are to be redeemed with the proceeds of Prepayments, if there are insufficient funds in the Redemption Fund from such Prepayments to redeem the Bonds on their redemption date, the Trustee shall, to the extent sufficient funds are available in the Delinquency and Prepayment Reserve Account, transfer funds from the Delinquency and Prepayment Reserve Account to the Redemption Fund in the amount of the deficiency and such funds shall be used to redeem Improvement Area #2 Bonds.

### **Administrative Fund**

The City shall deposit or cause to be deposited to the Administrative Fund the amounts collected each year to pay Annual Collection Costs and Delinquent Collection Costs. The City or the Administrator, on behalf of the City, shall direct the Trustee pursuant to the City Certificate with respect to the portions of the Annual Installments collected for the payment of Annual Collection Costs and Delinquent Collection Costs to be deposited pursuant to this paragraph.

Moneys in the Administrative Fund shall be held by the Trustee separate and apart from the other Funds created and administered under the Master Indenture and used as directed by a City Certificate solely for the purposes set forth in the Service and Assessment Plan, including payment of Annual Collection Costs and Delinquent Collection Costs. **THE ADMINISTRATIVE FUND SHALL NOT BE PART OF THE TRUST ESTATE AND IS NOT SECURITY FOR THE IMPROVEMENT AREA #2 BONDS.**

The Trustee shall transfer its authorized fees and expenses from the Administrative Fund to pay the foregoing unless the Trustee receives written objection from the City within ten (10) Business Days of its delivery of notice of such costs to the City. No City Certificate is necessary for the Trustee to receive compensation for the services rendered Under the Master Indenture.

### **Improvement Area #2 Reimbursement Fund**

Money on deposit in the Improvement Area #2 Reimbursement Fund shall be used to reimburse the Developer for Actual Costs of the Improvement Area #2 Improvements pursuant to the Reimbursement Agreement and the Service and Assessment Plan. The payment of Assessments to reimburse the Developer for Actual Costs of the Improvement Area #2 Improvements is subordinate to the payment of debt service on the Improvement Area #2 Bonds.

### **Defeasance**

All Outstanding Improvement Area #2 Bonds shall, prior to the Stated Maturity or redemption date thereof, be deemed to have been paid and to no longer be deemed Outstanding if (i) in case any such Improvement Area #2 Bonds are to be redeemed on any date prior to their Stated Maturity, the Trustee shall have given notice of redemption of said date as provided in the Indenture, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance Securities the principal of and the interest on which when due will provide moneys which, together with any moneys deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest on of the Improvement Area #2 Bonds to become due on such Improvement Area #2 Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (iii) the Trustee shall have received a report by an independent certified public accountant selected by the City verifying the sufficiency of the moneys or Defeasance Securities deposited with the Trustee to pay when due the principal of and interest on the Improvement Area #2 Bonds to become due on such Improvement Area #2 Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iv) if the Improvement Area #2 Bonds are then rated, the Trustee shall have received written confirmation from each rating agency which is providing a rating on the Improvement Area #2 Bonds, that such deposit will not result in the reduction or withdrawal of the rating on the Improvement Area #2 Bonds. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the Master Indenture nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and interest on the Improvement Area #2 Bonds. Any cash received from such principal of and interest on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall, be reinvested in Defeasance Securities as directed in writing by the City maturing at times and in amounts sufficient to pay when due the principal of and interest on the Improvement Area #2 Bonds on and prior to such redemption date or maturity date thereof, as the case may be, only upon receipt by the Trustee of

(i) a report by an independent certified public accountant selected by the City, after giving effect to such request, verifying the sufficiency of the moneys or Defeasance Securities deposited with the Trustee to pay when due the principal of and interest on the Improvement Area #2 Bonds to become due on such Improvement Area #2 Bonds on and prior to the redemption date or maturity date thereof, as the case may be and (ii) an opinion of Bond Counsel stating that no adverse federal tax consequences will result from reinvesting such cash. Any payment for Defeasance Securities purchased for the purpose of reinvesting cash as aforesaid shall be made only against delivery of such Defeasance Securities.

“Defeasance Securities” means Investment Securities then authorized by applicable law for the investment of funds to defease public securities. “Investment Securities” means those authorized investments described in the City’s official investment policy as approved by the City Council from time to time, and eligible for the investment of public funds by the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended. Under current State law, Investment Securities that are authorized for the investment of funds to defease public securities are (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, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality, and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City 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.

There is no assurance that the current law will not be changed in a manner which would permit investments other than those described above to be made with amounts deposited to defease the Bonds. Because the Indenture does not contractually limit such investments, Owners may be deemed to have consented to defeasance with such other investments, notwithstanding the fact that such investments may not be of the same investment quality as those currently permitted under State law. There is no assurance that the ratings for U.S. Treasury securities used as Defeasance Securities or that for any other Defeasance Security will be maintained at any particular rating category.

### **Events of Default**

Each of the following occurrences or events constitutes an “Event of Default” under the Master Indenture:

- (i) the failure of the City to deposit the Pledged Revenues to the Pledged Revenue Fund;
- (ii) the failure of the City to enforce the collection of the Assessments, including the prosecution of foreclosure proceedings;
- (iii) the failure to make payment of the principal of or interest on any of the Improvement Area #2 Bonds when the same becomes due and payable and such failure is not remedied within thirty (30) days; and
- (iv) default in the performance or observance of any covenant, agreement or obligation of the City under the Master Indenture and the continuation thereof for a period of ninety (90) days after written notice to the City by the Trustee, or by the Owners of at least 25% of the aggregate outstanding principal of the Improvement Area #2 Bonds with a copy to the Trustee, specifying such default by the Owners of at least 25% of the aggregate outstanding principal amount of the Improvement Area #2 Bonds at the time Outstanding requesting that the failure be remedied.

An event described above will not be viewed as an Event of Default if it is in violation of any applicable state law or court order.

The City shall not be required to advance anything other than the Pledged Revenues that have been made available to the City or other assets that are part of the Trust Estate in order to avoid the Events of Default listed above.

## **Immediate Remedies for Default**

Subject to the terms and provisions of the Master Indenture, upon the happening and continuance of any of the Events of Default described above, the Owners of at least twenty-five percent (25%) of the aggregate outstanding principal of the Improvement Area #2 Bonds then Outstanding, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Master Indenture, by action seeking mandamus or by other suit, action, or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief to the extent permitted by Applicable Laws, including, but not limited to, the specific performance of any covenant or agreement contained in the Master Indenture, or injunction; provided, however, that no action for money damages against the City may be sought or shall be permitted.

THE PRINCIPAL OF THE IMPROVEMENT AREA #2 BONDS SHALL NOT BE SUBJECT TO ACCELERATION UNDER ANY CIRCUMSTANCES.

If the assets of the Trust Estate are sufficient to pay all amounts due with respect to all Outstanding Improvement Area #2 Bonds, in the selection of Trust Estate assets to be used in the payment of Improvement Area #2 Bonds due in an Event of Default, the City shall determine, in its absolute discretion, and shall instruct the Trustee by City Certificate, which Trust Estate assets shall be applied to such payment and shall not be liable to any Owner or other Person by reason of such selection and application. In the event that the City shall fail to deliver to the Trustee such City Certificate, the Trustee shall select and liquidate or sell Trust Estate assets as provided in the following paragraph, and shall not be liable to any Owner, or other Person, or the City by reason of such selection, liquidation or sale.

Whenever moneys are to be applied pursuant to the Indenture following an Event of Default, irrespective of and whether other remedies authorized under the Master Indenture shall have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate, including Investment Securities, to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms, as the Trustee may deem appropriate, and as may be required by Applicable Laws and apply the proceeds thereof in accordance with the provisions of this paragraph. Upon such sale, the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale shall be a perpetual bar both at law and in equity against the City, and all other Persons claiming such properties. No purchaser at any sale shall be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency, or regularity of any such sale. Nevertheless, if so requested by the Trustee, the City shall ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such instruments as may be necessary or proper for the purpose which may be designated in such request.

## **Restriction on Owner's Actions**

No Owner shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the Master Indenture or for the execution of any trust thereof or any other remedy thereunder, unless (i) a default has occurred and is continuing of which the Trustee has been notified in writing, (ii) such default has become an Event of Default and the Owners of at least 25% of the aggregate principal amount of the Improvement Area #2 Bonds then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers hereinbefore granted or to institute such action, suit or proceeding in its own name, (iii) the Owners have furnished to the Trustee written evidence of indemnity as required by the Master Indenture, (iv) the Trustee has for ninety (90) days after such notice failed or refused to exercise the powers thereinbefore granted, or to institute such action, suit, or proceeding in its own name, (v) no direction inconsistent with such written request has been given to the Trustee during such 90-day period by the registered owners of a majority of the aggregate principal amount of the Improvement Area #2 Bonds then Outstanding, and (vi) notice of such action, suit, or proceeding is given to the Trustee; however, no one or more Owners of the Improvement Area #2 Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the Master Indenture by its, his or their action or to enforce any right thereunder except in the manner provided therein, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided therein and for the equal benefit of the registered owners of all Improvement Area #2 Bonds then Outstanding. The notification, request and furnishing of indemnity set forth above

shall be conditions precedent to the execution of the powers and trusts of the Master Indenture and to any action or cause of action for the enforcement of the Master Indenture or for any other remedy thereunder.

Subject to provisions of the Master Indenture with respect to certain liabilities of the City, nothing in the Master Indenture shall affect or impair the right of any Owner to enforce, by action at law, payment of any Improvement Area #2 Bond at and after the maturity thereof, or on the date fixed for redemption or the obligation of the City to pay each Improvement Area #2 Bond issued under the Indenture to the respective Owners thereof at the time and place, from the source and in the manner expressed therein and in the Improvement Area #2 Bonds.

In case the Trustee or any Owners shall have proceeded to enforce any right under the Master Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Owners, then and in every such case the City, the Trustee and the Owners shall be restored to their former positions and rights thereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

### **Application of Revenues and Other Moneys After Event of Default**

All moneys, securities, funds, and Pledged Revenues and the income therefrom received by the Trustee pursuant to any right given or action taken under the provisions of the Master Indenture shall, after payment of the cost and expenses of the proceedings resulting in the collection of such amounts, the expenses (including its counsel), liabilities, and advances incurred or made by the Trustee and the fees of the Trustee in carrying out the Master Indenture, during the continuance of an Event of Default, shall be applied by the Trustee, on behalf of the City, to the payment of interest and principal or Redemption Price then due on Improvement Area #2 Bonds, as follows:

- (i) *First:* To the payment to the registered owners entitled thereto all installments of interest then due in the direct order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the registered owners entitled thereto, without any discrimination or preference; and
- (ii) *Second:* To the payment to the registered owners entitled thereto of the unpaid principal of Outstanding Improvement Area #2 Bonds, or Redemption Price of any Improvement Area #2 Bonds which shall have become due, whether at maturity or by call for redemption, in the direct order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Improvement Area #2 Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal due and to the registered owners entitled thereto, without any discrimination or preference.

Within ten (10) days of receipt of such good and available funds, the Trustee may fix a record and payment date for any payment to be made to Owners pursuant to the Indenture.

In the event funds are not adequate to cure any of the Events of Default described above, the available funds shall be allocated to the Improvement Area #2 Bonds that are Outstanding in proportion to the quantity of Improvement Area #2 Bonds that are currently due and in default under the terms of the Master Indenture.

The restoration of the City to its prior position after any and all defaults have been cured, shall not extend to or affect any subsequent default under the Master Indenture or impair any right consequent thereon.

### **Investment of Funds**

Money in any Fund established pursuant to the Master Indenture shall be invested by the Trustee as directed by the City pursuant to a City Certificate filed with the Trustee at least two (2) Business Days in advance of the making of such investment in time deposits, other bank deposit products, or certificates of deposit 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 thereof, or in such other investments as are permitted under the Public Funds Investment Act Chapter

2256 Texas Government Code, as amended, or any successor 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 investment with any primary dealer of such agreements) that the money required to be expended from any Fund will be available at the proper time or times set forth in the Master Indenture. Such investments shall be valued each year in terms of current market value as of September 30 and on each Interest Payment Date (for the purpose of determining excess funds pursuant to the Master Indenture). For purposes of maximizing investment returns, to the extent permitted by law, money in such Funds may be invested in common investments of the kind described above, or in a common pool of such investments which shall be kept and held at an official depository bank, 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. In the absence of investment instructions from the City, the Trustee shall hold monies held by it uninvested. Any obligations purchased as an investment of moneys in any Fund shall be deemed to be part of such Fund or Account, subject, however, to the requirements of the Master Indenture for transfer of interest earnings and profits resulting from investment of amounts in Funds and Accounts.

The Trustee and its affiliates may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment and may receive compensation in connection with any investment if approved by the City in writing. The Trustee shall not incur any liability for losses arising from any investments made pursuant to the Master Indenture. The Trustee shall not be required to determine the suitability or legality of any investments and may conclusively rely on the City's written instructions of the directed investments.

Investments in any and all Funds and Accounts may be commingled in a separate fund or funds for purposes of making, holding and disposing of investments, notwithstanding provisions in the Master Indenture for transfer to or holding in or to the credit of particular Funds or Accounts of amounts received or held by the Trustee thereunder, provided that the Trustee shall at all times account for such investments strictly in accordance with the Funds and Accounts to which they are credited and otherwise as provided in the Master Indenture.

The Trustee will furnish the City monthly cash transaction statements which include detail for all investment transactions made by the Trustee under the Master Indenture; and the Trustee is not required to provide brokerage confirmations unless the Trustee receives a written request from the City. No monthly cash transaction statement will be provided if no activity occurred during such month, so long as the Trustee is providing online access. The Trustee may conclusively rely on City Certificates that such an investment will comply with the City's investment policy and with the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended.

### **Against Encumbrances**

Other than Improvement Area #2 Bonds issued pursuant to the terms of the Master Indenture, the City shall not create and, to the extent Pledged Revenues are received, shall not suffer to remain, any lien, encumbrance, or charge upon the Trust Estate, or upon any other property pledged under the Master Indenture, except the pledge created for the security of the Improvement Area #2 Bonds (which includes Additional Parity Obligations), and other than a lien or pledge subordinate to the lien and pledge of such property related to the Improvement Area #2 Bonds.

So long as Improvement Area #2 Bonds are Outstanding under the Master Indenture, the City shall not issue any bonds, notes or other evidences of indebtedness, other than Improvement Area #2 Bonds authorized as set forth in the Master Indenture (which includes Additional Parity Obligations) and bonds issued to refund all or a portion of the Improvement Area #2 Bonds, secured by any pledge of or other lien or charge on the Trust Estate or other property pledged under the Indenture, other than a lien or pledge subordinate to the lien and pledge of such property related to the Improvement Area #2 Bonds.

### **Conditions Precedent to Issuance of Improvement Area #2 Bonds**

Each series of Improvement Area #2 Bonds shall be issued and delivered only upon delivery to the Trustee of the following:

(i) Certified copy of a Supplemental Indenture authorizing the issuance thereof and specifying the terms and provisions of such Improvement Area #2 Bonds as required by the Master Indenture; and

(ii) Certificate of the City stating that (i) all conditions precedent to the issuance of the Improvement Area #2 Bonds specified in the Master Indenture and in any Supplemental Indenture have been satisfied, and (ii) the City is not in default in any covenant, representation, warranty or provisions of the Master Indenture or of any Supplemental Indenture unless such default will be cured by the issuance of the proposed Improvement Area #2 Bonds.

**Additional Parity Obligations; Other Obligations or Other Liens**

The City reserves the right, subject to the provisions of the Master Indenture, to issue Additional Parity Obligations pursuant to a Supplemental Indenture.

The City reserves the right, subject to the provisions of the Master Indenture, to issue Additional Obligations under other indentures, assessment ordinances, or similar agreements or other obligations which do not constitute or create a lien on the Trust Estate and are not payable from Pledged Revenues.

Other than Improvement Area #2 Bonds (including Additional Parity Obligations) issued pursuant to a Supplemental Indenture as provided in the Master Indenture, so long as Improvement Area #2 Bonds are Outstanding thereunder, the City shall not issue any bonds, notes or other evidences of indebtedness secured by any pledge of or other lien or charge on the Trust Estate pledged under the Master Indenture, other than (i) a lien or pledge subordinate to the lien and pledge of such property related to the Improvement Area #2 Bonds, or (ii) refunding bonds issued to refund all or a portion of the Improvement Area #2 Bonds.

Other than bonds issued to refund all or a portion of the Improvement Area #2 Bonds or Additional Parity Obligations, the City will not create or voluntarily permit to be created any debt, lien or charge on the Trust Estate, and will not do or omit to do or suffer to be or omitted to be done any matter or things whatsoever whereby the lien of the Master Indenture or the priority thereof might or could be lost or impaired; and further covenants that it will pay or cause to be paid or will make adequate provisions for the satisfaction and discharge of all lawful claims and demands which if unpaid might by law be given precedence over or any equality with the Master Indenture as a lien or charge upon the Pledged Revenues or Pledged Funds and Accounts; provided, however, that nothing in this paragraph shall require the City to apply, discharge, or make provision for any such lien, charge, claim, or demand so long as the validity thereof shall be contested by it in good faith, unless thereby, in the opinion of Bond Counsel or counsel to the Trustee, the same would adversely affect the ability of the City to timely pay the Annual Debt Service due and owing on the Improvement Area #2 Bonds.

The City may issue Additional Parity Obligations. No Additional Parity Obligations shall be issued pursuant to a Supplemental Indenture unless the value to lien ratio of the Assessments to the value of the Assessed Property for each series of Additional Parity Bonds equals at least 3:1, as determined by the City.

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**SOURCES AND USES OF FUNDS\***

The table that follows summarizes the expected sources and uses of proceeds of the Bonds:

Sources of Funds:	
Principal Amount	\$
TOTAL SOURCES	\$
Use of Funds:	
Deposit to Improvement Account of the Project Fund	\$
Deposit to Costs of Issuance Account of the Project Fund	
Deposit to Bond Reserve Account of the Reserve Fund	
Deposit to Delinquency and Prepayment Reserve Account of the Reserve Fund	
Underwriter's Discount <sup>(1)</sup>	
TOTAL USES	\$

<sup>(1)</sup> Includes the fee of Underwriter's Counsel.

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\* To be completed upon pricing.



**DEBT SERVICE REQUIREMENTS\***

The following table sets forth the debt service requirements for the Bonds:

<b>Year Ending (September 30)</b>	<b>Principal</b>	<b>Interest</b>	<b>Total</b>
2023	\$	\$	\$
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
2051			
2052			
<b>Total</b>			

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\* To be completed upon pricing.

## OVERLAPPING TAXES AND DEBT

The land within Improvement Area #2 of the District has been, and is expected to continue to be, subject to taxes and assessments imposed by taxing entities. Such taxes are payable in addition to the Assessments. In addition, the Developer anticipates that each Lot owner in Improvement Area #2 of the District will pay a maintenance and operation fee and/or a property owner's association fee to a homeowner's association of approximately \$1,000 per year.

The City, Harris County, Harris County Department of Education, Harris County Flood Control District, Harris County Hospital District, Lone Star College System, Port of Houston Authority, Tomball Independent School District ("Tomball ISD") and Harris County Emergency Service District #8 may each levy ad valorem taxes upon land in Improvement Area #2 of the District for payment of debt incurred by such governmental entities and/or for payment of maintenance and operations expenses. The City has no control over the level of ad valorem taxes or assessments levied by any other taxing authorities.

The following table reflects the overlapping ad valorem tax rates levied on property located in Improvement Area #2. Improvement Area #2 will be located entirely within the corporate limits of the City and within Harris County, Harris County Department of Education, Harris County Flood Control District, Harris County Hospital District, Lone Star College System, Port of Houston Authority, Tomball ISD and Harris County Emergency Service District #8.

Taxing Entity	Tax Year 2021 Ad Valorem Tax Rate <sup>(1)</sup>
The City	0.333339
Harris County	0.376930
Harris County Department of Education	0.004990
Harris County Flood Control District	0.033490
Harris County Hospital District	0.162210
Lone Star College System	0.107800
Port of Houston Authority	0.008720
Tomball ISD	1.250000
Harris County Emergency Service District #8	0.094245
Total Current Tax Rate	\$2.371724
Estimated Average Annual Assessment in Improvement Area #2 as a Tax Rate Equivalent	\$0.775283 <sup>(2)</sup>
<b>Estimated Total Tax Rate and Average Annual Assessment in Improvement Area #2 as a Tax Rate Equivalent</b>	<b>\$3.147007<sup>(2)</sup></b>

<sup>(1)</sup> As reported by the taxing entities. Per \$100 in assessed value.

<sup>(2)</sup> *Preliminary, subject to change.* Assumes completion of homes at values estimated by the Developer. Includes the Assessment for the Bonds and the Improvement Area #2 Reimbursement Obligation. Pursuant to the Development Agreement the maximum projected annual assessment for each phase shall be no greater than \$0.96 per \$100 valuation at the time of issuance of each series of PID Bonds; the tax rate limit applies on an aggregate basis for the entire property within each phase or future improvement area and on an individual assessed parcel basis (including projected average sales price of the homes to be constructed on the lots).

As noted above, Improvement Area #2 of the District includes territory located in other governmental entities that may issue or incur debt secured by the levy and collection of ad valorem taxes or assessments. Set forth below is an overlapping debt table showing the outstanding indebtedness payable from ad valorem taxes with respect to property within Improvement Area #2 of the District, and City debt to be secured by the Assessments:

Taxing or Assessing Entity	Gross Outstanding Debt as of 9/12/22	Estimated Percentage Applicable <sup>(1)</sup>	Direct and Estimated Overlapping Debt <sup>(1)</sup>
The City (the Bonds)	\$ 2,430,000 <sup>(2)</sup>	100.00%	\$2,430,000 <sup>(2)</sup>
The City (IA#2 Reimbursement Obligation)	2,744,000 <sup>(2)</sup>	100.00	2,744,000 <sup>(2)</sup>
The City (General Obligation)	28,790,000	0.31720	91,330
Harris County	1,515,787,125	0.00140	21,245
Harris County Department of Education	20,185,000	0.00140	283
Harris County Flood Control District	572,875,000	0.00143	8,168
Harris County Hospital District	76,385,000	0.00143	1,089
Lone Star College District	641,405,000	0.00306	19,642
Port of Houston Authority	469,434,397	0.00144	6,746
Tomball ISD	685,985,000	0.04829	331,276
	<b><u>\$4,016,020,522</u></b>		<b><u>\$5,653,779</u></b>

<sup>(1)</sup> Based on the Appraisal and on certified valuations for Tax Year 2021 for the taxing entities. The Appraisal assumes the completion of the Improvement Area #2 Improvements. See “APPRAISAL.”

<sup>(2)</sup> Preliminary, subject to change.

If land is devoted principally to agricultural use, a landowner can apply for an agricultural valuation on the property and pay ad valorem taxes based on the land’s agricultural use valuation with respect to its ad valorem taxes. None of the property in Improvement Area #2 is currently subject to an agricultural valuation. Agricultural use includes production of crops or livestock. It also can include leaving the land idle for a government program or for normal crop or livestock rotation. See “BONDHOLDERS’ RISKS – Agricultural Use Valuation and Redemption Rights.”

If land qualified for an agricultural valuation but the land use changes to a non-agricultural use, “rollback taxes” are assessed for each of the previous five years in which the land received the lower agricultural valuation. The rollback tax is the difference between taxes paid on land’s agricultural value and the taxes that the landowner would have paid if the land had been taxed on a higher market value plus interest charged for each year from the date on which taxes would have been due.

If the land use changes to a non-agricultural use on only a portion of a larger tract, the landowner can fence off the remaining land and maintain the agricultural valuation on the remaining land. In this scenario, the landowner would only be responsible for rollback taxes on that portion of the land where use changed and not the entire tract. The land within Improvement Area #2 is no longer subject to an agricultural valuation, and the Developer will pay any roll-back taxes due as they are assessed.

## ASSESSMENT PROCEDURES

### General

Capitalized terms under this caption and not otherwise defined in this Limited Offering Memorandum shall have the meaning given to such terms in the Service and Assessment Plan. As required by the PID Act, when the City determines to defray a portion of the costs of the Improvement Area #2 Improvements through Assessments, it must adopt a resolution generally describing the Improvement Area #2 Improvements and the land within Improvement Area #2 of the District to be subject to Assessments to pay the costs therefor. The City has caused an assessment roll to be prepared (the “Assessment Roll”), that shows the land within Improvement Area #2 to be assessed, the amount of the benefit to and the Assessment against each lot or parcel of land and the number of Annual Installments into which the Assessment is divided. The Assessment Roll was filed with the City Secretary and made available for

public inspection. Statutory notice was given to the owners of the property to be assessed and a public hearing was conducted to hear testimony from affected property owners as to the propriety and advisability of undertaking the Improvement Area #2 Improvements and funding the same with Assessments. The City Council intends to consider a levy of the Assessments and adoption of the Assessment Ordinance on October 3, 2022. After adoption of the Assessment Ordinance, the Assessments will become legal, valid, and binding liens upon the property against which the Assessments were made.

Under the PID Act, the costs of the Improvement Area #2 Improvements to be defrayed through Assessments may be assessed by the City against the assessable property in Improvement Area #2 of the District so long as the special benefit conferred upon the Assessed Property by the Improvement Area #2 Improvements equals or exceeds the Assessments. The costs of the Improvement Area #2 Improvements may be assessed using any methodology that results in the imposition of equal shares of cost on Assessed Property similarly benefited. The allocation of benefits and assessments to the benefitted land within Improvement Area #2 of the District is presented in the Service and Assessment Plan, which should be read in its entirety. See “APPENDIX C – Service and Assessment Plan.”

### **Assessment Methodology**

The Service and Assessment Plan describes the special benefit to be received by each parcel of assessable property within Improvement Area #2 as a result of the Improvement Area #2 Improvements, provides the basis and justification for the determination that such special benefit exceeds the Assessments being levied, and establishes the methodology by which the City allocates the special benefit of the Improvement Area #2 Improvements to parcels in a manner that results in equal shares of costs being apportioned to parcels similarly benefited. As described in the Service and Assessment Plan, a portion of the costs of the Improvement Area #2 Improvements are being funded with proceeds of the Bonds, which are payable from and secured by Pledged Revenues and other assets of the Trust Estate, including the Assessments.

*Method of Apportionment of Assessments.* As set forth in the Service and Assessment Plan, the City Council has determined to allocate the cost of the Improvement Area #2 Improvements entirely to the Assessed Property by spreading the entire Assessment across all Assessed Property based on the ratio of the Estimated Buildout Value of each Assessed Property within Improvement Area #2 to the Estimated Buildout Value for all Assessed Property within Improvement Area #2.

*Method of Allocation of Assessments.* As set forth in the Service and Assessment Plan, the City Council will initially allocate the Assessments to all Assessed Property by Lot Type. All Lots within Improvement Area #2 are determined to be Lot Type 2 Lots. As such, each Lot within Improvement Area #2 is allocated the same Assessment and all Lots within Improvement Area #2 are equally benefitted by the Improvement Area #2 Improvements. See “THE DEVELOPMENT – Overview” and Exhibit H, Improvement Area #2 Total Assessment Roll, to “APPENDIX C – Service and Assessment Plan.”

#### *Method of Reallocation of Assessments.*

##### *1. Upon Division Prior to Recording of Subdivision Plat*

Upon the division of any Assessed Property (without the recording of subdivision plat), the Administrator shall reallocate the Assessment for the Assessed Property prior to the division among the newly divided Assessed Properties according to the following formula:

$$A = B \times (C \div D)$$

Where the terms have the following meanings:

A = the Assessment for the newly divided Assessed Property

B = the Assessment for the Assessed Property prior to division

C = the Estimated Buildout Value of the newly divided Assessed Property

D = the sum of the Estimated Buildout Value for all the newly divided Assessed Property

The sum of the Assessments for all newly divided Assessed Properties shall equal the Assessment for the Assessed Property prior to subdivision. The calculation shall be made separately for each newly divided Assessed Property. The reallocation of an Assessment for an Assessed Property that is a homestead under Texas law may not exceed the Assessment prior to the reallocation. Any reallocation pursuant to this section shall be reflected in an update to the Service and Assessment Plan approved by the City Council.

### 2. *Upon Subdivision by a Recorded Subdivision Plat*

Upon the subdivision of any Assessed Property based on a recorded subdivision plat, the Administrator shall reallocate the Assessment for the Assessed Property prior to the subdivision among the new subdivided Parcel according to the following formula:

$$A = [B \times (C \div D)]/E$$

Where the terms have the following meanings:

A = the Assessment for the newly subdivided Lot

B = the Assessment for the Parcel prior to subdivision

C = the sum of the Estimated Buildout Value of all newly subdivided Lots with the same Lot Type

D = the sum of the Estimated Buildout Value for all the newly subdivided Lots excluding Non-Benefitted Property

E = the number of Lots with the same Lot Type

Prior to the recording of a subdivision plat, the Developer shall provide the City an Estimated Buildout Value as of the date of the recorded subdivision plat for each Lot created by the recorded subdivision plat.

The sum of the Assessments for all newly subdivided Parcels shall not exceed the Assessment for the portion of the Assessed Property subdivided prior to subdivision. The calculation shall be made separately for each newly subdivided Assessed Property. The reallocation of an Assessment for an Assessed Property that is a homestead under Texas law may not exceed the Assessment prior to the reallocation. Any reallocation pursuant to this section shall be reflected in an update to the Service and Assessment Plan approved by the City Council.

### 3. *Upon Consolidation*

If two or more Assessed Properties are consolidated, the Administrator shall allocate the Assessments against the Assessed Properties before the consolidation to the consolidated Assessed Property, which allocation shall be approved by the City Council in the next Annual Service Plan Update.

The Assessment for any resulting Lot will not exceed the Maximum Assessment, shown on Exhibit J to the Service and Assessment Plan for the applicable Lot Type, and compliance may require a mandatory Prepayment of Assessments pursuant to Section VI.B of the Service and Assessment Plan.

*True-up of Assessments if Maximum Assessment Exceeded.* Prior to the approval of a final subdivision plat, the Administrator shall certify that the final plat will not cause the Assessment for any Lot Type to exceed the Maximum Assessment. If the subdivision of any Assessed Property by a final subdivision plat causes the Assessment per Lot for any Lot Type to exceed the applicable Maximum Assessment for such Lot Type, the Owner must partially prepay the Assessment for each Assessed Property that exceeds the applicable Maximum Assessment for such Lot Type in an amount sufficient to reduce the Assessment to the applicable Maximum Assessment for such Lot Type. The City's approval of a final subdivision plat without payment of such amounts does not eliminate the obligation of the person or entity filing the plat to pay such Assessments.

**Mandatory Prepayment of Assessments.** If Assessed Property is transferred to a person or entity that is exempt from payment of the Assessment, the Owner transferring the Assessed Property shall pay to the City the full amount of the Assessment, plus Prepayment Costs and any Delinquent Collection Costs, prior to the transfer. If the Owner of the Assessed Property causes the Assessed Property to become Non-Benefited Property, the Owner causing the change in status shall pay to the City the full amount of the Assessment, plus Prepayment Costs and any Delinquent Collection Costs, prior to the change in status.

**Reduction of Assessments.** If, as a result of cost savings or an Improvement Area #2 Improvement not being constructed, the Actual Costs of completed Improvement Area #2 Improvements are less than the Assessments, the City shall direct the Trustee to apply amounts on deposit in the applicable account of the project fund, relating to the Improvement Area #2 Bonds, that are not expected to be used to pay costs of Improvement Area #2 Improvements to redeem outstanding Improvement Area #2 Bonds, in accordance with the applicable Indenture. Any such reduction in the costs of the Improvement Area #2 Improvements shall also reduce the Reimbursement Obligation under the related Reimbursement Agreement.

The City Council may reduce the Assessments and the Annual Installments for Assessed Property (1) in an amount that represents the Improvement Area #2 Improvements provided for each property; (2) by an equal percentage per Lot; or (3) in any other manner determined by the City Council to be the most fair and practical means of reducing the Assessments for Assessed Property, such that the sum of the resulting reduced Assessments equals the amount required to repay the PID Bonds, including interest on the PID Bonds, Additional Interest, the Annual Collection Costs portion of the Assessment, and any Reimbursement Obligation, as reduced pursuant to the Service and Assessment Plan.

The Administrator shall update (and submit to the City Council for review and approval as part of the next Annual Service Plan Update) the Assessment Roll and corresponding Annual Installments to reflect the reduced Assessments.

The following table provides the initial allocation of Assessments to Improvement Area #2 Parcels.

**Expected Allocation of Assessments <sup>(1)</sup>**

Planned Lot Type	Planned Number of Lots <sup>(2)</sup>	Est. Buildout Value per Lot <sup>(2)</sup>	Total Estimated Buildout Value <sup>(3)</sup>	Maximum Assessment per Lot <sup>(4)</sup>	Total Assessment per Lot Type <sup>(4)</sup>	Estimated Average Annual Installments per Lot <sup>(5)</sup>	Tax Rate Equivalent per \$100/AV (Completed Homes)
50' x 125'	118	\$442,000	\$52,156,000	\$43,381	\$5,119,000	\$3,427	\$.775283

<sup>(1)</sup> Preliminary, subject to change. Derived from information in the Service and Assessment Plan.

<sup>(2)</sup> Provided by the Developer.

<sup>(3)</sup> Obtained from the Service and Assessment Plan.

<sup>(4)</sup> Preliminary, subject to change. Pursuant to the Service and Assessment Plan, the Maximum Assessment that can be levied on a Lot within Improvement Area #2 is the amount calculated pursuant to the assessment methodology described in Section V.A of, and shown in Exhibit J to, the Service and Assessment Plan. See “OVERLAPPING TAXES AND DEBT – Overlapping Taxes” and “APPENDIX C – Service and Assessment Plan.”

<sup>(5)</sup> Derived from information in the Service and Assessment Plan. Based on Annual Installments due from 2023 to 2051 due to the anticipated release of the accounts within the Reserve Fund reducing the Annual Installment due January 31, 2052.

**Collection and Enforcement of Assessment Amounts**

Under the PID Act, the Annual Installments may be collected in the same manner and at the same time as ad valorem taxes of the City. The Assessments may be enforced by the City in the same manner that an ad valorem tax lien against real property is enforced. Delinquent installments of the Assessments incur interest, penalties and attorney’s fees in the same manner as delinquent ad valorem taxes. Under the PID Act, the Assessment Lien is a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for State, county, school district or municipality ad valorem taxes. See “BONDHOLDERS’ RISKS – Assessment Limitations.”

The City will covenant in the Indenture to collect, or cause to be collected, Assessments as provided in the Assessment Ordinance. No less frequently than annually, City staff or a designee of the City shall prepare, and the City Council shall approve, an Annual Service Plan Update to allow for the billing and collection of Annual Installments. Each Annual Service Plan Update shall include an updated Assessment Roll and a calculation of the Annual Installment for each Parcel. Annual Collection Costs shall be allocated among all Assessed Property in proportion to the amount of the Annual Installments for the Parcels.

The City will covenant, agree and warrant in the Indenture that, for so long as any Bonds are Outstanding, it will take and pursue all actions permissible under Applicable Laws to cause the Assessments to be collected and the liens thereof enforced continuously, in the manner and to the maximum extent permitted by Applicable Laws, and, to the extent permitted by Applicable Laws, to cause no reduction, abatement or exemption in the Assessments.

To the extent permitted by law and to the extent reasonably possible, notice of the Annual Installments will be sent by, or on behalf of, the City to the affected property owners on the same statement or such other mechanism that is used by the City, so that such Annual Installments are collected simultaneously with ad valorem taxes and shall be subject to the same penalties, procedures, and foreclosure sale in case of delinquencies as are provided for ad valorem taxes of the City.

The City will determine or cause to be determined, no later than February 15 of each year, whether or not any Annual Installment is delinquent and, if such delinquencies exist, the City will order and cause to be commenced as soon as practicable any and all appropriate and legally permissible actions to obtain such Annual Installment, and any delinquent charges and interest thereon, including diligently prosecuting an action in district court to foreclose the currently delinquent Annual Installment. Notwithstanding the foregoing, the City shall not be required under any circumstances to purchase or make payment for the purchase of the delinquent Assessment or the corresponding Assessed Property.

The City will generally implement the basic timeline and procedures for Assessment collections and pursuit of delinquencies set forth in Exhibit C of the Continuing Disclosure Agreement of the Issuer set forth in APPENDIX E-1 hereof and to comply therewith to the extent that the City reasonably determines that such compliance is the most appropriate timeline and procedures for enforcing the payment of delinquent Assessments.

The City shall not be required under any circumstances to expend any funds for Delinquent Collection Costs in connection with its covenants and agreements under the Indenture or otherwise other than funds on deposit in the Administrative Fund.

Annual Installments will be paid to the City or its agent. Annual Installments are billed in each year, and become delinquent on February 1 of the following year. In the event Assessments are not timely paid, there are penalties and interest as set forth below:

<u>Date Payment</u>	<u>Cumulative</u>	<u>Cumulative</u>	
<u>Received</u>	<u>Penalty</u>	<u>Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total penalty and interest charge. In general, property subject to lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. An automatic stay by creditors or other entities, including governmental units, could prevent governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In most cases, post-petition assessments are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.



## **Assessment Amounts**

Assessment Amounts. The maximum amounts of the Assessments have been established by the methodology described in the Service and Assessment Plan. The Assessment Roll sets forth for each year the Annual Installment for each parcel consisting of payment of (i) principal, (ii) interest, (iii) Annual Collection Costs, and (iv) Additional Interest (with respect to the portion of the Assessment allocated to the Bonds). The Annual Installments for Improvement Area #2 may not exceed the amounts shown on the Assessment Roll. The Assessments will be levied against the Parcels comprising the Assessed Property as indicated on the Assessment Roll. See “APPENDIX C – Service and Assessment Plan.”

The Annual Installments shown on the Assessment Roll will be reduced to equal the actual costs of repaying the Bonds, the Improvement Area #2 Reimbursement Obligation, the Additional Interest (with respect to the portion of the Assessment allocated to the Bonds) and actual Annual Collection Costs (as provided for in the definition of such term), taking into consideration any other available funds for these costs, such as interest income on account balances. See “– Assessment Methodology – Reduction of Assessments.”

The Bonds are secured by a first lien on and pledge of the Trust Estate, including revenue from the Assessments. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS” and “APPENDIX C – Service and Assessment Plan.”

## **Prepayment of Assessments**

Voluntary Prepayments. Pursuant to the PID Act and the Indenture, the owner of any property assessed may voluntarily prepay (a “Prepayment”) all or part of any Assessment levied against any lot or parcel, together with accrued interest to the date of payment, at any time. Upon receipt of such Prepayment, such amounts will be applied towards the redemption or payment of the Improvement Area #2 Bonds [and a reduction in the amount of the Reimbursement Obligation]. Amounts received at the time of a Prepayment which represent a payment of principal, interest, or penalties on a delinquent installment of an Assessment are not to be considered a Prepayment, but rather are to be treated as payment of regularly scheduled Assessments.

Mandatory Prepayments. If (i) Assessed Property is transferred to a person or entity that is exempt from the payment of the Assessment under applicable law, or (ii) an owner of Assessed Property causes the Assessed Property to become Non-Benefited Property, the Owner of such Assessed Property shall pay to the City the full amount of the Assessment, plus all Prepayment Costs and Delinquent Collection Costs, prior to any such transfer or act (a “Mandatory Prepayment”), in accordance with the Service and Assessment Plan.

## **Priority of Lien**

The Assessments or any reassessment, the expense of collection, and reasonable attorney’s fees, if incurred, constitute a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for the State, county, school district or municipality ad valorem taxes, and are a personal liability of and charge against the owners of the property regardless of whether the owners are named. The lien is effective from the date of the Assessment Ordinance until the Assessment is paid and may be enforced by the City in the same manner as an ad valorem tax levied against real property may be enforced by the City. The owner of any property assessed may pay the entire Assessment levied against any lot or parcel, together with accrued interest and any Prepayment Costs to the date of payment, at any time.

## **Foreclosure Proceedings**

In the event of delinquency in the payment of any Annual Installment, except for unpaid Assessments on homestead property (unless the lien associated with the assessment attached prior to the date the property became a homestead), the City is empowered to order institution of an action in state district court to foreclose the lien of such delinquent Annual Installment. In such action the real property subject to the delinquent Annual Installments may be sold at judicial foreclosure sale for the amount of such delinquent Annual Installments, plus penalties and interest.

Any sale of property for nonpayment of an installment or installments of an Assessment will be subject to the lien established for remaining unpaid installments of the Assessment against such property and such property may again be sold at a judicial foreclosure sale if the purchaser thereof fails to make timely payment of the non-delinquent installments of the Assessments against such property as they become due and payable. Judicial foreclosure proceedings are not mandatory. In the event a foreclosure is necessary, there could be a delay in payments to owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale. It is possible that no bid would be received at the foreclosure sale, and in such event, there could be an additional delay in payment of the principal of and interest on Bonds or such payment may not be made in full. The City is not required under any circumstance to purchase or make payment for the purchase of the delinquent Assessment on the corresponding Assessed Property.

The City will covenant in the Indenture to take and pursue all actions permissible under Applicable Laws to cause the Assessments to be collected and the liens thereof enforced continuously, in the manner and to the maximum extent permitted by Applicable Laws, and to cause no reduction, abatement or exemption in the Assessments, provided that the City is not required to expend any funds for collection and enforcement of Assessments other than funds on deposit in the Administrative Fund. Pursuant to the Indenture, Foreclosure Proceeds (excluding Delinquent Collection Costs) constitute Pledged Revenues to be deposited into the Pledged Revenue Fund upon receipt by the City and distributed in accordance with the Indenture. See “APPENDIX B – Form of Indenture. See also “APPENDIX E-1 – Form of Disclosure Agreement of the Issuer” for a description of the expected timing of certain events with respect to collection of the delinquent Assessments.

## **THE CITY**

### **Location and Size**

The City is located in Harris and Montgomery Counties and is approximately 32 miles northwest of the City of Houston on FM Road 2920. The City covers approximately 12.32 square miles.

### **Population**

The Federal Decennial Census information is provided below. The City estimates its 2022 population to be 12,341.

<u><b>Federal Decennial Census</b></u>					
<u><b>1970</b></u>	<u><b>1980</b></u>	<u><b>1990</b></u>	<u><b>2000</b></u>	<u><b>2010</b></u>	<u><b>2020</b></u>
2,734	3,996	6,370	9,089	10,753	12,341

### **City Government**

The City is a municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated in July of 1933 and first adopted its Home Rule Charter on January 17, 1987. The City operates under a Council-City Manager form of government with a City Council comprised of the Mayor and five Council members elected to serve three-year terms. The Mayor is the official head of City government, and the City Manager acts as the chief administrative officer. The City provides a number of services, including water, sanitary sewer collection and treatment, gas service, police, fire, maintenance of streets and drainage, municipal court, a community center, and parks.

The current members of the City Council and their respective expiration of terms of office, as well as the principal administrators of the City, are noted on page i. See “APPENDIX A – General Information Regarding the City” for more information.

### **Transportation and Utilities**

The City is served by a Burlington Northern system affiliate, with rail spur connections available, and is also served by an Arrow-Trailways bus line. Commercial air service is afforded by the George Bush Intercontinental

Airport, William P. Hobby Airport and David Wayne Hooks Memorial Airport, approximately 25 miles, 40 miles and 2 miles from the City, respectively. FM 2920, a four-lane highway, connects the City to Interstate 45 and State Highway 290.

Electricity is supplied by CenterPoint and natural gas by the City. The City supplies potable water from six water wells, five of which are currently in operation, and also provides two wastewater collection and treatment facilities.

### **Education and Health Care**

The City is served by the schools of Tomball Independent School District (“Tomball ISD”). According to its website, Tomball ISD spans 83 square miles in northwest Harris County and southwest Montgomery County, and over 18,000 students in grades pre-kindergarten through 12 across 20 campuses. The district operates two comprehensive high schools, an accelerated high school, six middle schools, 11 elementary schools, a special programs center and an early childcare center. According to the Texas Education Agency annual school report cards, Tomball ISD was rated as “A” for 2018-2019. (The categories for public school districts and public schools are A, B, C, D or F).

Higher education facilities in the area include Lone Star College – Tomball which is a 145-acre campus offering Associate of Applied Science and Associate of Arts Degrees. Other colleges and universities within commuting distance include Houston Baptist University, Prairie View A&M University, Rice University, St. Thomas University, Sam Houston State University, Texas A&M University, Texas Southern University, and the University of Houston.

The City is served by the non-profit acute general care hospital, Tomball Regional Hospital. Tomball Regional Hospital includes complete diagnostic facilities, a cardiac care unit, 24-hour emergency room, outpatient surgery center, a birthing center, a sports medicine center, home health care and the Texas Wound and Lymphedema Center. Also included with the hospital is The Heritage Retirement Community, which offers independent assisted living, comprehensive living and an Adult Daybreak Center. The City is also served by the for-profit long-term acute care hospital Kindred Hospital. The facility provides intensive care services, endoscopy suites, in-house radiology with CT, hyperbaric oxygen chambers, and 24-hour in-house physician coverage.

### **City Regulation of Oil and Gas Wells**

In 2008, the City enacted an ordinance prohibiting, without a permit, the drilling or deepening of any well, or the conducting of any seismic activity, within 1,000 feet of any residence, building, or other structure intended for human occupancy without a permit. This applies to wells drilled after September 2, 2008, and does not apply to any fully drilled wells in existence prior to September 2, 2008. Accordingly, there are several producing wells within the City limits; although, none in the District. See also “THE DEVELOPMENT – Existing Mineral and Groundwater Rights.”

## **THE DISTRICT**

### **General**

The PID Act authorizes municipalities, such as the City, to create public improvement districts within their boundaries or extraterritorial jurisdiction, and to impose assessments within the public improvement district to pay for certain improvements. The District was created by Resolution No. 2019-41 of the City adopted on October 7, 2019, as amended and restated on November 4, 2019 and December 20, 2020 (collectively, the “Creation Resolution”) in accordance with the PID Act for the purpose of undertaking and financing, in phases, the costs of certain public improvements within the District, including the Improvement Area #2 Improvements, authorized by the PID Act and approved by the City Council that confer a special benefit on the portion of the District property being developed. The District is not a separate political subdivision of the State and is governed by the City Council. Maps of the property within the District are included on pages iii-iv hereof.

## **Powers and Authority of the City**

Pursuant to the PID Act, the City may establish and create the District and undertake, or reimburse a developer for the costs of, improvement projects that confer a special benefit on property located within the District, whether located within the City limits or the City’s extraterritorial jurisdiction. The PID Act provides that the City may levy and collect assessments on property in the District, or portions thereof, payable in periodic installments based on the benefit conferred by an improvement project to pay all or part of its cost.

Pursuant to the PID Act and the Creation Resolution, the City has the power to undertake, or reimburse a developer for the costs of, the financing, acquisition, construction, or improvement of the Improvement Area #2 Improvements. See “THE IMPROVEMENT AREA #2 IMPROVEMENTS.” Pursuant to the authority granted by the PID Act and the Creation Resolution, the City has determined to undertake the construction, acquisition or purchase of certain improvements within the District, which include: (i) design, construction and other allowed costs related to street and roadway improvements, including related sidewalks, drainage, utility relocation, signalization, landscaping, lighting, signage, off-street parking and right-of-way; (ii) design, construction and other allowed costs related to improvement of parks and open space, together with any ancillary structures, features or amenities such as trails, playgrounds, walkways, lighting and any similar items located therein; (iii) design, construction and other allowed costs related to sidewalks and landscaping and hardscaping, fountains, lighting and signage; (iv) design, construction and other allowed costs related to gas, water, wastewater and drainage (including detention) improvements and facilities; (v) design, construction and other allowed costs related to projects similar to those listed in subsections (i) - (iv) above authorized by the PID Act, including similar off-site projects that provide a benefit to the property within the District; (vi) special supplemental services for improvement and promotion of the district; (vii) payment of costs associated with operating and maintaining the public improvements listed in subparagraphs (i) - (v) above; and (viii) payment of costs associated with developing and financing the public improvements listed in subparagraphs (i) - (v) above, and costs of establishing, administering and operating the District. The City has determined to finance a portion of the costs thereof through the issuance of the Bonds, and to provide for the payment of debt service on the Bonds from the Trust Estate. See “ASSESSMENT PROCEDURES” and “APPENDIX C – Service and Assessment Plan.”

## **THE IMPROVEMENT AREA #2 IMPROVEMENTS**

### **General**

The Developer plans to develop the District in three phases, as reflected on the map on page iv. The Developer has completed development of the Improvement Area #1 Improvements to serve Improvement Area #1. The Developer commenced development of the Improvement Area #2 Improvements in April 2022 and expects such improvements to be completed by December 2022. Following development of Improvement Area #2, the Developer intends to, over an approximately fifteen-month period, undertake the final phase of development of internal phase specific public improvements necessary to serve the third phase in the Future Improvement Area. The boundaries of the District, Improvement Areas #1 and #2, and the Future Improvement Area are shown on page iv.

### **The Improvement Area #2 Improvements**

The Developer or its designee will act as construction manager for the construction of the Improvement Area #2 Improvements. The Developer is responsible for the completion of the construction, acquisition, or purchase of the Improvement Area #2 Improvements. A portion of the costs of the Improvement Area #2 Improvements in the approximate amount of \$1,795,554\* will be funded with the proceeds of the Bonds, and the Developer will be responsible for funding the remainder of the costs of the Improvement Area #2 Improvements, a portion of which will be reimbursed by the City pursuant to the Reimbursement Agreement. From the proceeds of the Bonds, the City will either pay directly or will reimburse the Developer for Actual Costs of developing and constructing the Improvement Area #2 Improvements. See “– The Development Agreement” below and APPENDIX F – Development Agreement.”

The City entered into the Reimbursement Agreement with the Developer to reimburse the Developer for a portion of the costs of the Improvement Area #2 Improvements not funded with proceeds of the Improvement Area #2 Bonds effective April 2022. The City and Developer expect to enter into an Amended and Restated Reimbursement

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\* Preliminary, subject to change.

Agreement on the date of sale of the Bonds to reflect a revised reimbursement amount not to exceed \$2,744,000\*. See “– The Reimbursement Agreement” below and “APPENDIX G – Form of Reimbursement Agreement.”

The following table reflects the total expected costs of the Improvement Area #2 Improvements and their allocation between proceeds of the Bonds, the Improvement Area #2 Reimbursement Obligation, and the Developer contribution. See “APPENDIX C – Service and Assessment Plan.” As of August 2022, the Developer has spent approximately \$1,720,514 towards the costs of Improvement Area #2 Improvements and other improvements and soft costs related to Improvement Area #2 of the District. Also reflected are the costs of the Improvement Area #1 Improvements, a portion of which are being funded with the Improvement Area #1 Bonds. See “APPENDIX C – Service and Assessment Plan.”

Authorized Improvements	Total Costs [a]	Improvement Area #1		Improvement Area #2	
		%	Cost	%	Cost
<i>Improvement Area #1 Improvements</i>					
Streets [b]	\$ 1,882,152	100.00%	\$ 1,882,152	0.00%	\$ -
Water	212,679	100.00%	212,679	0.00%	-
Wastewater	499,294	100.00%	499,294	0.00%	-
Detention, Clearing and Grubbing [c]	1,362,175	100.00%	1,362,175	0.00%	-
Natural Gas	150,840	100.00%	150,840	0.00%	-
Soft Costs [d]	910,656	100.00%	910,656	0.00%	-
	\$ 5,017,795		\$ 5,017,795		\$ -
<i>Improvement Area #2 Improvements</i>					
Streets[b]	\$ 1,961,714	0.00%	\$ -	100.00%	\$ 1,961,714
Water	435,468	0.00%	-	100.00%	435,468
Wastewater	374,869	0.00%	-	100.00%	374,869
Detention, Clearing and Grubbing [c]	364,958	0.00%	-	100.00%	364,958
Natural Gas	235,000	0.00%	-	100.00%	235,000
Soft Costs [d]	769,942	0.00%	-	100.00%	769,942
	\$ 4,141,950		\$ -		\$ 4,141,950
<i>First Year Annual Collection Costs</i>					
	\$ 91,600		\$ 60,000		\$ 31,600
	\$ 91,600		\$ 60,000		\$ 31,600
<i>Series 2020 Bond Issuance Costs</i>					
Debt Service Reserve Fund	\$ 156,000		\$ 156,000		\$ -
Capitalized Interest	87,237		87,237		-
Deposit to Delinquency and Prepayment Reserve	12,450		12,450		-
Underwriter's Discount	100,000		100,000		-
Cost of Issuance	168,240		168,240		-
	\$ 523,927		\$ 523,927		\$ -
<i>Series 2022 Bond Issuance Costs</i>					
Debt Service Reserve Fund	\$ 257,365		\$ 69,745		\$ 187,620
Capitalized Interest	131,220		-		131,220
Deposit to Delinquency and Prepayment Reserve	20,940		8,790		12,150
Underwriter's Discount	200,000		100,000		100,000
Cost of Issuance	309,400		137,900		171,500
Rounding	356		-		356
	\$ 919,281		\$ 316,435		\$ 602,846
<i>Improvement Area #2 Additional Bond Issuance Costs [e]</i>					
Debt Service Reserve Fund	\$ 103,106		\$ -		\$ 103,106
Capitalized Interest	-		-		-
Deposit to Delinquency and Prepayment Reserve	13,720		-		13,720
Underwriter's Discount	101,042		-		101,042
Cost of Issuance	187,892		-		187,892
Rounding	-		-		-
	\$ 405,761		\$ -		\$ 405,761
<b>Total</b>	<b>\$ 11,100,314</b>		<b>\$ 5,918,157</b>		<b>\$ 5,182,157</b>

**Footnotes:**

- [a] Costs pursuant to EHRA Engineering's Preliminary Cost Estimate with estimates for IA#2 updated as of 8/2/2022.
- [b] Roadway includes excavation, paving, clearing, grubbing and site prep.
- [c] Includes on and off-site costs as well as storm water pollution prevention plan.
- [d] Soft Costs include engineering fees, geotech and construction materials testing fees and construction staking fees.
- [e] The Bond Issuance Costs associated with the Improvement Area #2 Additional Bonds are preliminary estimates.

The expected costs of the Improvement Area #2 Improvements are based on information provided by the Developer and its engineer and reviewed by the City staff and by third-party consultants retained by the City and were approved by the City Council as part of the Service and Assessment Plan. See “APPENDIX C – Service and Assessment Plan.”

The Improvement Area #2 Improvements consist of the following:

Street Improvements. Improvements include subgrade stabilization (including excavation and drainage), concrete and reinforcing steel for roadways, testing, handicapped ramps, and streetlights, and all related earthwork, excavation, erosion control, retaining walls, intersections, signage, lighting and re-vegetation of all disturbed areas within the right-of-way. These projects will provide access to community roadways and state highways. The street improvements will be designed and constructed in accordance with City standards and specifications and will be owned and operated by the City.

Water Improvements. Improvements include trench excavation and embedment, trench safety, PVC piping, service connections, water mains, valves, fire hydrants, testing, earthwork, excavation, and erosion control. These lines will include all necessary appurtenances to be fully operational transmission lines extending water service to the limits of Improvement Area #2. The water improvements will be designed and constructed in accordance with City standards and specifications and will be owned and operated by the City.

Wastewater Improvements. Improvements include trench excavation and embedment, trench safety, PVC piping, manholes, service connections, sewer mains, testing, related earthwork, excavation, and erosion control. These lines will include the necessary appurtenances to be fully operational extending wastewater service to the limits of Improvement Area #2. The wastewater improvements will be designed and constructed in accordance with City standards and specifications and will be owned and operated by the City.

Detention, Clearing, and Grubbing Improvements. Improvements include earthen channels, swales, curb and drop inlets, storm sewer mains, RCP piping and boxes, headwalls, concrete flumes, rock rip rap, concrete outfalls, and testing as well as all related earthwork, excavation, and erosion control necessary to provide storm water control and detention. Improvements also include clearing and grubbing, trench excavation and embedment, trench safety, reinforced concrete piping, manholes, inlets, channels/swales and ponds including spreading and compaction of excavated materials. These will include the necessary appurtenances to be fully operational to convey stormwater to the limits of Improvement Area #2. The storm water and drainage improvements will be designed and constructed in accordance with City standards and specifications and will be owned and operated by the City, except for detention ponds.

Natural Gas Improvements. Improvements include excavation and embedment, trench safety, plastic piping, manholes, service connections, gas mains, valves, testing, earthwork, excavation, and erosion control. These will include the necessary appurtenances to be fully operational to convey natural gas to the limits of Improvement Area #2. The natural gas improvements will be designed and constructed in accordance with City standards and specifications and will be owned and operated by the City.

Soft Costs. Include costs related to designing, constructing, and installing the Improvement Area #2 Improvements including land planning and design, City fees, engineering, soil testing, survey, construction management, District Formation Expenses, and contingency.

## **Ownership and Maintenance of Improvements**

All Improvement Area #2 Improvements will be designed and constructed in accordance with City standards and will be owned and operated by the City. A homeowners' association will maintain the amenities. See "THE DEVELOPMENT – Amenities."

## **The Development Agreement**

The Developer entered into a Raburn Reserve Development Agreement, dated effective October 7, 2019, with the City, as amended by the first amendment thereto effective June 15, 2020 (as amended, the "Development Agreement"), to establish provisions for the apportionment, levying, and collection of assessments on the property within the District, the construction of the Authorized Improvements (as defined in the PID Act), reimbursement, acquisition, ownership and maintenance of certain public improvements within the District, including the Improvement Area #2 Improvements, and the issuance of bonds secured by District assessments ("PID Bonds") for the financing of the Authorized Improvements benefitting the property within the District.

In the Development Agreement, the Developer has agreed to undertake or cause the undertaking of the design, development, construction, maintenance, management, use and operation of the Authorized Improvements and other improvements in the District (the “Development”). The Development Agreement provides that the Development will consist of the following elements: (i) up to 400 single family homes; (ii) 1.5-acre recreational reserve; (iii) swimming pool with dressing rooms, playground and picnic facilities; and (iv) 5% of the Development to be open space.

Under the Development Agreement, the issuance of PID Bonds is subject to the discretion of the City Council of the City and the following conditions must be satisfied prior to the City’s consideration of the sale of PID Bonds:

1. The maximum aggregate par amount of the PID Bonds to be issued by the City for benefit of the District shall not exceed \$15,000,000;
2. The maximum “tax rate” for the projected annual assessment for each phase shall be no greater than \$0.96 per \$100 valuation at the time of issuance of each series of PID Bonds; the tax rate limit applies on an aggregate basis for the entire property within each Phase and on an individual assessed parcel basis (including projected average sales price of the homes to be constructed on the lots);
3. Minimum value to lien ratio of at least 3:1 for each series of PID Bonds; such value shall be confirmed by an appraisal;
4. The Developer or its affiliates shall own all property within a phase of the District prior to the levy of assessments for such phase;
5. The Developer must provide evidence reasonably acceptable to the City of an executed loan document and/or private equity in an amount sufficient to complete the amenities required for the Development; and
6. The Developer shall not be in default under the Development Agreement.

Under the Development Agreement, at closing on any series of PID Bonds intended to fund construction of Authorized Improvements that have not already been constructed by the Developer, the Developer is required to deposit with the trustee under the applicable indenture of trust an amount equal to the difference between the costs of the Authorized Improvements and the net proceeds of the applicable series of PID Bonds.

The Development Agreement may be amended or modified in writing signed by the parties thereto. Any such amendment could affect the security for the Bonds.

This caption contains a brief summary of the Development Agreement. Potential purchasers of the Bonds should review the complete copy of the Development Agreement attached to this Limited Offering Memorandum. See “APPENDIX F – Development Agreement.”

### **The Reimbursement Agreement**

The City entered into the Reimbursement Agreement relating to the reimbursement of Improvement Area #2 Costs effective April 2022. The City and the Developer expect to enter into an Amended and Restated Reimbursement Agreement at the time of the sale of the Bonds to reflect a reimbursement amount not to exceed \$2,744,000\* (the “Improvement Area #2 Reimbursement Obligation”) not paid with proceeds of the Bonds. To the extent that the proceeds of the Bonds deposited in the Improvement Area #2 Improvement Account of the Project Fund on the Closing Date are not sufficient to pay the Improvement Area #2 Costs, taking into consideration funds previously expended by the Developer to construct the Improvement Area #2 Improvements prior to the Closing Date and the amount of the Improvement Area #2 Reimbursement Obligation, the Developer will deposit funds to the Developer Improvement Account of the Project Fund in an amount sufficient to fund the deficiency. As of August 2022, the Developer has spent approximately \$1,720,514 toward the costs of Improvement Area #2 Improvements and anticipates spending an

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\* Preliminary, subject to change.



additional \$2,383,363 prior to the Closing Date. The Bonds and the Improvement Area #2 Reimbursement Obligation will be secured by the Assessments[; however, the payment of debt service on the Bonds will be superior in right to payment of the Improvement Area #2 Reimbursement Obligation].

The City, upon the satisfaction of certain financial covenants, intends to issue approximately \$2,744,000\* in principal amount of Additional Parity Obligations pursuant to the Master Indenture and a supplemental indenture to finance the Improvement Area #2 Reimbursement Obligation, as such amount may be reduced by annual payments of Assessment revenues to the Developer pursuant to the Reimbursement Agreement and Service and Assessment Plan. See “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Conditions Precedent to Issuance of Improvement Area #2 Bonds.”

When issued, the Additional Parity Obligations will be on parity with the Bonds and any Refunding Bonds issued to refund the Bonds or Additional Parity Obligations. Pursuant to the Service and Assessment Plan, the Reimbursement Agreement, and the Development Agreement, the Developer will be responsible for any costs of the Improvement Area #2 Improvements in excess of the amounts funded by the Bonds, any Additional Parity Obligations (if issued), and the Reimbursement Agreement, without reimbursement by the City. See “APPENDIX G – Form of Reimbursement Agreement.”

## **THE DEVELOPMENT**

### **Overview**

The Development is an approximately 110-acre master planned project that is located within the corporate limits of the City, approximately 34 miles from George Bush Intercontinental Airport and approximately 27 miles from downtown Houston. The Development is located at the east side of South Persimmon Road from Lizzie Lane to Agg Road (renamed Medical Complex Drive). Plans for the Development currently include common areas, trails, open space areas and a community pool and playground center.

The Developer expects to complete the Development in three phases with full buildout of homes currently estimated to occur in Q1 2026. The entire Development is located within the corporate limits of the City.

In December 2019, Developer acquired approximately 103 acres, comprising all of the land in the District at the time. Subsequent to the District’s initial creation, the City abandoned approximately 2 acres of right-of way property within the boundaries of the District and increased the size of the District to approximately 105 acres. December 2020, the Developer acquired approximately 5 additional acres adjacent to the District. The City annexed the additional acreage into the District in December 2020. The Developer was created for the purpose of acting as the developer of the District. See “THE DEVELOPER – History and Financing of the District.”

The 5 acres added to the District in December 2020 are in the Future Improvement Area along Medical Complex Drive. The Developer is currently marketing such acreage for sale as a commercial pad.

The Developer plans to develop the District in three phases, as reflected on the map on page iv. The Developer has completed development of the Improvement Area #1 Improvements. The total costs of the Improvement Area #1 Improvements were approximately \$5,017,795, all of which have been paid.

The Developer has commenced development of the Improvement Area #2 Improvements and expects such improvements to be substantially complete by December 2022. Following development of Improvement Area #2, the Developer intends to, over an approximately fifteen-month period, undertake the final phase of development of internal phase specific public improvements necessary to serve the third phase of the District (the “Future Improvement Area”). The boundaries of the District, Improvement Areas #1 and #2, and the Future Improvement Area are shown on page iv.

The Developer’s current expectations regarding estimated home prices and value to lien ratios in Improvement Area #2 are as follows:

**Estimated Home Prices in Improvement Area #2 and Value to Lien Ratios**

Lot Size	Number of Lots <sup>(1)</sup>	Base Lot Price <sup>(2)</sup>	Estimated Home Buildout Value <sup>(3)</sup>	Estimated Improvement Area #2 Maximum Assessment per Lot <sup>(4)</sup>	Estimated Ratio of Value of Base Lot Price to Assessment	Estimated Ratio of Value of Home Price to Assessment
50’ x 125’	118	\$67,500	\$442,000	\$43,847	1.54 : 1	10.08 : 1

<sup>(1)</sup> Based on the concept plan for the District. Derived from information in the Service and Assessment Plan.

<sup>(2)</sup> Based on sales prices in the Developer’s purchase and sale agreements with Homebuilder.

<sup>(3)</sup> Provided by the Developer based on comparable home prices in the area.

<sup>(4)</sup> Preliminary, subject to change. The Service and Assessment Plan provides for a “Maximum Assessment” by Lot Type, which may not be exceeded. See “APPENDIX C – Service and Assessment Plan.”

**Status of Lot Purchase and Sale Agreements**

The Developer is under contract to sell all 391 Lots in the District, including all 118 Lots in Improvement Area #2, to Taylor Morrison of Texas, Inc., a Texas corporation (the “Homebuilder” or “Taylor Morrison”). Pursuant to the purchase and sale contract with the Homebuilder, the Homebuilder began purchasing Lots upon substantial completion of the Improvement Area #1 Improvements and, as of July 2022, the Homebuilder had purchased 126 of the 133 Lots in Improvement Area #1. The Homebuilder will resume purchase of Lots upon substantial completion of the Improvement Area #2 Improvements. The Developer has received an earnest money deposit from the Homebuilder equal to \$3,054,688 (the “Earnest Money”). The Earnest Money is nonrefundable and has been released to the Developer and is applied to the purchase price of Lots as they are taken down by the Homebuilder. Application of the Earnest Money to the purchase of the 118 Lots in Improvement Area #2 is secured by a second lien on the 118 Lots and a portion of the remaining land in the District. As of August 2022, the remaining balance of the Earnest Money deposit was \$2,453,980.

**Future Improvement Areas and Future Improvement Area Bonds**

The Developer anticipates developing the Future Improvement Area in one additional phase following the development of Improvement Area #2. The Developer projects the following characteristics and timeline for development of the District, but such projections are subject to change based on a variety of factors, many of which are outside of the control of the Developer:

**Expected Buildout of the District <sup>(1)</sup>**

Phase	Expected/Actual Lots <sup>(2)</sup>	Expected/Actual Lot Sizes	Expected Infrastructure Completion Date	Expected Final Sale Date of Lots to Builders
1	133	50’	Complete	December 2022
2	118	50’	December 2022	June 2024
3	140	50’	June 2024	June 2026

<sup>(1)</sup> Provided by the Developer.

<sup>(2)</sup> Developer expects that the Homebuilder will designate four (4) Lots for model homes.

The City expects to issue Future Improvement Area Bonds to finance the Actual Costs of Authorized Improvements within the Future Improvement Area of the District as the development proceeds. The Future Improvement Area Bonds, if any, will be secured by separate assessments that are separate and distinct from the Assessments levied pursuant to the PID Act on assessable property within the applicable Future Improvement Area of the District that benefit from the Authorized Improvements being financed.

The Bonds, the Improvement Area #1 Bonds, and the Future Improvement Area Bonds, if any, are separate and distinct securities. The City has reserved the right to issue other obligations for any purpose permitted by the PID Act, including those described above, subject to the conditions discussed in “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Additional Obligations; Other Obligations or Other Liens.”

### **Zoning/Permitting**

Pursuant to the Development Agreement, the Developer has agreed that development of the District will be governed by the provisions of the City’s Code of Ordinances, ordinances not codified, design standards, uniform and international building and construction codes, and other policies duly adopted by the City, including, but not limited to, zoning ordinance No. 2019-13, a planned development ordinance created for the District (“PD 12”). In the Development Agreement, the Developer consented and agreed to the zoning of the District consistent with PD 12.

### **Amenities**

Plans for the Development currently include the following amenities: clubhouse, park, pool, playground, roads lined with trees, and cul-de-sacs. Construction of the amenities was completed in June 2022. The cost of such amenities in the approximate amount of \$2,518,134 was financed by the Developer with equity contributions and private financing. The HOA owns and maintains all amenities.

### **Schools**

The District is located entirely within Tomball Independent School District. Students in the District are expected to attend Tomball Elementary School (EE – 4) (approximately 3.5 miles from the District), Tomball Intermediate School (5 – 6) (approximately \_ miles from the District), Tomball Junior High School (7 – 8) (approximately 2.9 miles from the District) and Tomball High School (9 – 12) (approximately 3.9 miles from the District).

GreatSchools.org rated Tomball Elementary School a 5-out-of-10, Tomball Intermediate School a 7-out-of-10, Tomball Junior High School a 7-out-of-10, and Tomball High School a 6-out-of-10. According to the Texas Education Agency annual school report cards, Tomball Elementary School was rated “C,” Tomball Intermediate School was rated “B,” Tomball Junior High School was rated “A” and Tomball High School was rated as “B” for 2018-2019 (the last year accountability ratings were issued, due to COVID-19). (The categories for public school districts and public schools are A, B, C, D or F).

### **Environmental**

A Phase I Environmental Site Assessment (the “Phase I ESA”) of the District was completed by InControl Technologies in August 2022. The Phase I ESA revealed no evidence of (i) recognized environmental conditions, (ii) historical recognized environmental conditions (with the exception of historical oil/gas activity), or (iii) controlled recognized environmental conditions. The Phase I ESA concluded that the property in the District is suitable for residential use and no further soil sampling was recommended.

The Developer’s field inspection reflected there were only four (4) historical oil and gas wells, all of which have been capped.

### **Utilities**

Water and Wastewater Service. The City will provide both water and wastewater service to end users within the District. In the Development Agreement, the City, at its sole cost (but subject to the payment of any impact fees as provided in the City’s regulations), has agreed to have available water and sewer capacity sufficient to serve the completed Lots and those lots then under development.

Other Utilities. Developer expects additional utilities to be provided by: (1) Electric – CenterPoint Energy; and (2) Natural Gas – the City.

## **Existing Mineral and Groundwater Rights**

Mineral rights within the District are owned by persons other than the Developer. However, the Developer has obtained surface waivers for all but 5 acres within the Future Improvement Area of the District. In addition, the City has adopted a drilling ordinance which restricts the drilling of wells within 1,000 feet of a home. The Developer believes that such ordinance prevents drilling within the District, including the 5 acres for which surface waivers have not been obtained. The Developer has the groundwater rights relative to the land within the District.

Although there is no exploration or production of oil, gas or other mineral or groundwater rights on the property within the District, exploration and/or production may be possible on adjacent properties. While adjacent properties may have developable mineral and groundwater rights, the City's drilling ordinance regulates the drilling, production, and operation of oil and gas wells, the exploration associated with such operations, and the transport of hydrocarbons or wastes associated with these operations, within the regulated area of the City. Such ordinance may make it difficult for owners of such rights to develop same.

Although the Developer does not expect the above-described mineral rights, or the exercise of such rights or any other mineral rights or related real property rights in or around the District, to have a material adverse effect on the Development, the property within the District, or the ability of landowners within the District to pay Assessments, the Developer makes no guarantee as to such expectation. See "BONDHOLDERS' RISKS – Exercise of Mineral Rights."

## **THE DEVELOPER**

### **General**

In general, the activities of a developer in a development such as the District include purchasing the land, designing the subdivision, including the utilities and streets to be installed and any community facilities to be built, defining a marketing program and building schedule, securing necessary governmental approvals and permits for development, arranging for the construction of roads and the installation of utilities (including, in some cases, water, sewer, and drainage facilities, as well as telephone and electric service) and selling improved lots and commercial reserves to builders, developers, or other third parties. The relative success or failure of a developer to perform such activities within a development may have a material effect on the security of the revenue bonds, such as the Bonds, issued by a municipality for a public improvement district. A developer is generally under no obligation to develop the property which it owns in a development. Furthermore, there is no restriction on the developer's right to sell any or all of the land which the developer owns within a development. In addition, a developer is ordinarily the major tax and assessment payer within a district during its development. See "BONDHOLDERS' RISKS – Dependence Upon Developer."

### **Description of the Developer**

Hines is a privately owned global real estate investment, development and management firm, founded in 1957, with a presence in 255 cities in 27 countries and \$83.6 billion of investment assets under management and more than 138.3 million square feet of assets for which Hines provides third-party property-level services. Currently, Hines has 171 developments underway around the world, and historically, has developed, redeveloped, or acquired 1,486 properties, totaling over 492 million square feet. The firm's current property and asset management portfolio includes 539 properties, representing over 232 million square feet. With extensive experience in investments across the risk spectrum and all property types, and a foundational commitment to environmental, social and governance (ESG) standards, Hines is one of the largest and most respected real estate organizations in the world.

Hines has developed single-family communities since 2005, beginning with the purchase of over 600 acres in Las Colinas. Since then, 12 communities have been completed with 7 currently underway, totaling over 4,500 single-family lots in the Dallas Area. Four of Hines' Dallas/Fort-Worth developments have used public improvement district financing, including developments in Irving, Las Colinas, and Royse City. Hines has been developing lots in the Houston area since 2014, and currently has 3 active communities in Katy, Spring, and the Heights, representing over 1,000 lots and over 10 builders. See "BONDHOLDERS' RISKS – Dependence Upon Developer" herein.

## History and Financing of the District

The Property Acquisition. The Developer was formed for the purpose, among other things, of acquiring and developing property within the District. The Developer acquired approximately 105 acres of real property comprising the initial boundaries of the District in December 2019 for \$6,459,003. In December 2020, the Developer purchased an additional approximately 5 acres (the “5-acre Purchase”) for \$250,000. Except for the liens securing the Development Loan (defined below) and a second lien securing the Homebuilder’s Earnest Money deposits, the Developer owns the Assessed Property free and clear of any liens.

The Development Financing. The Developer obtained an approximately \$13,500,000 construction/development loan (the “Development Loan”) from Texas Capital Bank (the “Development Lender”) for the purpose, among other things, of paying taxes, insurance and certain of the costs associated with the development of Improvement Area #1 and the Future Improvement Areas (including, at that time, Improvement Area #2). The rate of interest on the Development Loan is equal to the prime interest rate, plus 0.5 basis points (0.50%) and is subject to a floor rate of 6.00%. As part of the 5-acre Purchase, the Developer converted the Development Loan to a revolving facility with a capacity of \$10,000,000.

The Development Loan matures on December 4, 2022. As of August 2022, the Development Loan had a balance of approximately \$4,870,611.

The Developer intends to repay the Development Loan from, among other things, the revenue generated from sales of the Lots developed in the District and sold to the Homebuilder. The Development Loan is secured by a first lien Deed of Trust covering substantially all of the land in the District in favor of the Development Lender. In the event of a default under the Development Loan and/or related documents, the Development Lender will have the right to various remedies, including foreclosure of the Deed of Trust.

The PID Act provides that the Assessment Lien is a first and prior lien against the Assessed Property and is superior to all other liens and claims except liens or claims for State, county, school district, or municipality ad valorem taxes. Additionally, at or prior to delivery of the Bonds, the Development Lender will acknowledge the creation of the District, the levy of the Improvement Area #2 and the subordination of the liens securing its loan to the Assessment Lien. The Assessment Lien will have priority over the liens on the property within Improvement Area #2 securing the Development Loan, Earnest Money and any other loans that may be obtained by the Developer or its affiliates.

Sufficiency of Developer’s Financing. The Improvement Area #1 Improvements are complete. The total costs of the Improvement Area #1 Improvements were approximately \$5,017,795, all of which has been paid.

The total expected costs of the Improvement Area #2 Improvements equal approximately \$4,141,950. According to the Developer, the Developer’s available financing sources are sufficient to fund all of the costs of the Improvement Area #2 Improvements. The Developer’s financing sources include the Development Loan, the net proceeds of the Improvement Area #2 Bonds in the approximate amount of \$1,795,554\*, an earnest money deposit from the Homebuilder in the amount of \$3,054,688, and a Developer equity contribution for the balance. As of August 2022, the balance of the earnest money deposit is \$2,453,980.

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*Summary of At-Risk Entities and Investments in the District Subordinate to the Assessment Lien.* In order to finance the acquisition and development of the District, the Developer and certain third parties, including the Homebuilder, have expended equity or extended promissory notes that are secured by a lien on some or all of the real property within the District that are subordinate to the lien associated with the assessments securing the Improvement Area #2 Bonds. A list of the entities with at-risk capital whose position or lien is subordinate to that of the assessments securing the Improvement Area #2 Bonds is listed in the following table and more fully described in the subheadings below.

**Summary of Entities with At-Risk Capital Subordinate to the Lien Securing the Bonds**

<u>At Risk Entity</u>	<u>Funding Type</u>	<u>Funding Purpose</u>	<u>Security</u>	<u>Position to Assessment Lien</u>	<u>Initial Amount</u>	<u>Outstanding Balance <sup>(1)</sup></u>
Developer	Developer Equity	Land Purchase	None	Subordinate	\$4,208,754	\$2,348,754
Taylor Morrison	Earnest Money Deposit	Purchase of Lots	Lien on real property within the District	Subordinate	\$3,054,688	\$2,453,980
Texas Capital Bank	Development Loan	Land Development	Lien on real property within the District	Subordinate	\$10,000,000	\$4,870,611

<sup>(1)</sup> As of August 2022.

**THE PID ADMINISTRATOR**

*The following information has been provided by P3Works, LLC, as the Administrator. Certain of the following information is beyond the direct knowledge of the City and the Underwriter, and neither the City nor the Underwriter have any way of guaranteeing the accuracy of such information.*

The City has selected P3Works, LLC as the initial Administrator. The City has entered into an agreement for administration of the District with the Administrator to provide specialized services related to the administration of the District needed to support the issuance of the Bonds. The Administrator will primarily be responsible for preparing the annual update to the Service and Assessment Plan. The Administrator is a consulting firm focused on providing special taxing district services relating to the formation and administration of public improvement districts, and is based in Austin, Houston, and North Richland Hills, Texas.

The Administrator’s duties will include:

- Preparation of the annual update to the Service and Assessment Plan
- Preparation of assessment rolls for County billing and collection
- Establishing and maintaining a database of all County parcel IDs within the District
- Trust account analysis and reconciliation
- Property owner inquires
- Determination of prepayment amounts
- Preparation and review of disclosure notices with the dissemination agent
- Review of developer draw requests for reimbursement of authorized improvement costs.

## APPRAISAL

Barletta & Associates, Inc. (the “Appraiser”), prepared an appraisal report for the City dated July 29, 2022, based upon a physical inspection of the District conducted on July 23, 2022 (the “Appraisal”). The Appraisal was prepared at the request of the City and is addressed solely to the Underwriter for use in preparing an estimated value of property in connection with the issuance of the Bonds. The estimates of value presented in the Appraisal are no indication of the appraised property’s actual market value and do not address the value or benefit of the Improvement Area #2 Improvements. Investors should not assume that the disposition of the lots in Improvement Area #2 in the event of default would provide sufficient funds to pay the principal of Bonds outstanding at that time. The Appraisal does not constitute a recommendation to any person to purchase or sell the Bonds. The description herein of the Appraisal is intended to be a brief summary only of the Appraisal as it relates to Improvement Area #2 of the District. An executive summary of the Appraisal is attached hereto as APPENDIX F and should be read in its entirety. The conclusions reached in the Appraisal are subject to certain assumptions, hypothetical conditions, and qualifications, which are set forth therein. See “APPENDIX F – Appraisal.” For a copy of the full Appraisal report, contact the Underwriter using the contact information provided on page 1.

The Appraiser estimated the bulk market value of the fee simple interest in the land comprising Improvement Area #2 (described as “Section 2” in the Appraisal) of the District by gathering comparable market data and conducting a study of the market area for the purpose of providing the Appraiser’s opinion of the “Upon Completion” bulk market value of the 118 proposed lots in Improvement Area #2.

The sales comparison approach was used to conclude the market values of the bulk and retail revenue of the existing and proposed residential lots. An income approach retail sell-out technique was then employed to derive the indicated “upon completion” bulk market values of the proposed lots in Improvement Area #2. See “APPENDIX F – Appraisal.”

The value estimate for the assessable property within Improvement Area #2 of the District using the methodologies described in the Appraisal and subject to the limiting conditions and assumptions set forth in the Appraisal, is \$7,300,000, based on an effective date of November 1, 2022. The prospective date of completion in the Appraisal is November 1, 2022; however, due to circumstances beyond the Developer’s control, the Developer currently expects the Improvement Area #2 Improvements to be completed by December 2022. This delay could impact the prospective bulk market value at completion.

None of the City, the Developer, nor the Underwriter makes any representation as to the accuracy, completeness, assumptions, or information contained in the Appraisal. The assumptions or qualifications with respect to the Appraisal are contained therein. There can be no assurance that any such assumptions will be realized, and the City, the Developer, and the Underwriter make no representation as to the reasonableness of such assumptions.

In connection with the preparation of the Appraisal, the Appraiser may have reviewed the information supplied or otherwise made available to it by the City for reasonableness, has assumed and relied upon the accuracy and completeness of all such information and of all information supplied or otherwise made available to it by any other party, and did not undertake any duty or responsibility to verify independently any of such information. The Appraiser has not made or obtained, nor will it make or obtain, an independent valuation or appraisal of any other assets or liabilities (contingent or otherwise) other than the property in Improvement Area #2. With respect to operating or financial forecasts and other information and data provided to or otherwise reviewed by or discussed with the Appraiser, the Appraiser has assumed that such forecasts and other information and data were reasonably prepared in good faith on bases reflecting the best currently available estimates and judgments of the City’s employees, representatives, and advisors, as well as any corrections or updates to such forecasts and other information and data.

In performing its analyses, the Appraiser has made numerous other assumptions with respect to general business, economic and regulatory conditions and other matters, many of which are beyond the Appraiser’s control and the City’s control, as well as certain factual matters. For example, the Appraiser assumed that the Developer has clear and marketable title to the property in the District, that no title defects exist unless the Appraiser was specifically informed to the contrary, that improvements were made in accordance with law, that no hazardous materials are present or were present previously, that no deed restrictions exist, and that no changes to zoning ordinances or regulations governing use, density or shape are pending or being considered. Furthermore, the Appraiser’s analysis,

opinions and conclusions are necessarily based upon market, economic, financial, and other circumstances and conditions existing prior to the valuation. The foregoing is a summary of the standard assumptions, qualifications and limitations that generally apply to the Appraiser's appraisal reports.

The Appraiser confirms that the valuations included in the Appraisal were prepared in conformity with the Uniform Standards of Professional Appraisal Practice (USPAP) and the requirements of the Code of Professional Ethics and Standards of Professional Appraisal Practice of the Appraisal Institute.

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value as of a specified date based upon assumptions and limiting conditions and any extraordinary assumptions specific to the relevant valuation. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The valuation set forth in the Appraisal is based on various assumptions of future expectations and while the Appraiser's internal forecasts of net operating income for the properties in Improvement Area #1 is considered by the Appraiser to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future.

The Bonds will not necessarily trade at values determined solely by reference to the underlying value of the properties in the District.

The intended use and user of the Appraisal are specifically identified in the Appraisal as agreed upon in the contract for services and/or reliance language found in the Appraisal. Barletta & Associates, Inc. has consented to the use of the Appraisal in this Limited Offering Memorandum in connection with the issuance of the Bonds. No other use or user of the Appraisal is permitted by any other party for any other purpose.

#### **BONDHOLDERS' RISKS**

*Before purchasing any of the Bonds, prospective investors and their professional advisors should carefully consider all of the risk factors described below which may create possibilities wherein interest may not be paid when due or that the Bonds may not be paid at maturity or otherwise as scheduled, or, if paid, without premium, if applicable. The following risk factors (which are not intended to be an exhaustive listing of all possible risks associated with an investment in the Bonds) should be carefully considered prior to purchasing any of the Bonds. Moreover, the order of presentation of the risks summarized below does not necessarily reflect the significance of such investment risks.*

**THE BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. THE BONDS DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWER OF THE CITY AND ARE PAYABLE SOLELY FROM THE SOURCES IDENTIFIED IN THE INDENTURE. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF MONEY RAISED OR TO BE RAISED BY TAXATION, OR OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. NO OWNER OF THE BONDS SHALL HAVE THE RIGHT TO DEMAND ANY EXERCISE OF THE CITY'S TAXING POWER TO PAY THE PRINCIPAL OF THE BONDS OR THE INTEREST OR REDEMPTION PREMIUM, IF ANY, THEREON. THE CITY SHALL HAVE NO LEGAL OR MORAL OBLIGATION TO PAY THE BONDS OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND OTHER FUNDS COMPRISING THE TRUST ESTATE.**

#### **General**

The ability of the City to pay debt service on the Bonds as due is subject to various factors that are beyond the City's control. These factors include, among others, (a) the ability or willingness of property owners within Improvement Area #2 to pay Assessments levied by the City, (b) cash flow delays associated with the institution of foreclosure and enforcement proceedings against property within Improvement Area #2, (c) general and local



economic conditions that may impact real property values, the ability to liquidate real property holdings and the overall value of real property development projects, and (d) general economic conditions which may impact the general ability to market and sell the lots within Improvement Area #2, it being understood that poor economic conditions within the City, State and region may slow the assumed pace of sales of such lots.

The rate of development of the property in Improvement Area #2 is directly related to the vitality of the residential housing industry. In the event that the sale of the lands within Improvement Area #2 should proceed more slowly than expected and the Developer or Homebuilder is unable to pay the Assessments, only the value of the lands, with improvements, will be available for payment of the debt service on the Bonds, and such value can only be realized through the foreclosure or expeditious liquidation of the lands within Improvement Area #2. There is no assurance that the value of such lands will be sufficient for that purpose and the expeditious liquidation of real property through foreclosure or similar means is generally considered to yield sales proceeds in a lesser sum than might otherwise be received through the orderly marketing of such real property.

The Underwriter is not obligated to make a market in or repurchase any of the Bonds, and no representation is made by the Underwriter, the City or the City's Financial Advisor that a market for the Bonds will develop and be maintained in the future. If a market does develop, no assurance can be given regarding future price maintenance of the Bonds.

The City has not applied for or received a rating on the Bonds. The absence of a rating could affect the future marketability of the Bonds. There is no assurance that a secondary market for the Bonds will develop or that holders who desire to sell their Bonds prior to the stated maturity will be able to do so.

#### **Deemed Representations and Acknowledgment by Purchasers**

Each purchaser of Bonds ("Investor") will be deemed to have acknowledged and represented to the City the matters set forth under the heading "LIMITATIONS APPLICABLE TO INITIAL PURCHASERS" which include, among others, a representation and acknowledgment that the purchase of the Bonds involves investment risks, certain of which are set forth under this heading "BONDHOLDERS' RISKS" and elsewhere herein, and each Investor, either alone or with its purchaser representative(s) (as defined in Rule 501(h) of Regulation D under the Securities Act), has sophisticated knowledge and experience in financial and business matters and the capacity to evaluate such risks in making an informed investment decision to purchase the Bonds, and the Investor can afford a complete loss of its investment in the Bonds.

#### **Infectious Disease Outbreak**

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 because of the effects of COVID-19. Subsequently, in response to a rise in COVID-19 infections in the State of Texas ("Texas") and pursuant to Chapter 418 of the Texas Government Code, the Governor issued a number of executive orders intended to help limit the spread of COVID-19 and mitigate injury and the loss of life, including limitations imposed on business operations, social gatherings, and other activities. 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 Texas) 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, either expressly or by implication, into this Report.

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

The Bonds are secured primarily by Assessments levied on benefitted property within the District. If Lot or home sales are negatively impacted by the continuation or escalation of the Pandemic, the Developer will continue to be responsible for the payment of the Assessments as long as it owns such Lots.

The City continues to monitor the spread of COVID-19 and is working with local, State, and national agencies to address the potential impact of the Pandemic upon the City. While the City has experienced growth in its assessed valuation during the Pandemic, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. None of the City, the Financial Advisor, the Underwriter, or the Developer can predict the impact the Pandemic may have on the City, the financial and operating condition of the Developer, the projected buildout schedule, home prices and buildout values, or an investment in the Bonds.

### **Failure or Inability to Complete Proposed Development**

Proposed development within the District may be affected by changes in general economic conditions, fluctuations in the real estate market and interest rates, changes in the income tax treatment of real property ownership, unexpected increases in development costs and other similar factors as well as availability of utilities and the development or existence of environmental concerns with such land. See “– Availability of Utilities” and “– Hazardous Substances” below. Land development within the District could also be affected adversely by changes in governmental policies, including, but not limited to, governmental policies to restrict or control development. (Any approvals needed in the future for the Development must come from the City.) There can be no assurances that other similar projects will not be developed in the future or that existing projects will not be upgraded or otherwise able to compete with the Development. A slowdown of the development process and the related absorption rate within the Development because of any or all of the foregoing could affect adversely land values. THE TIMELY PAYMENT OF THE BONDS DEPENDS UPON THE WILLINGNESS AND ABILITY OF THE DEVELOPER AND ANY SUBSEQUENT OWNERS, INCLUDING THE HOMEBUILDER, TO PAY THE ASSESSMENTS WHEN DUE. ANY OR ALL OF THE FOREGOING COULD REDUCE THE WILLINGNESS AND THE ABILITY OF SUCH OWNERS TO PAY THE ASSESSMENTS AND COULD GREATLY REDUCE THE VALUE OF PROPERTY WITHIN IMPROVEMENT AREA #2 IN THE EVENT SUCH PROPERTY HAS TO BE FORECLOSED UPON. In that event, there could be a default in the payment of the Bonds.

### **Completion of the Improvement Area #2 Improvements**

The construction of some of the Improvement Area #2 Improvements that are necessary for the successful development of Improvement Area #2 are not yet complete. The Developer has, however, begun construction of the Improvement Area #2 Improvements, including clearing, basic grading, construction of Stage 1 utilities, and excavation of lots and roadways. The cost and time for completion of all of such improvements is uncertain and may be affected by changes in national, regional, and local economic conditions; changes in long and short term interest rates; changes in the climate for real estate purchases; changes in demand for or supply of competing properties; changes in local, regional and national market and economic conditions; unanticipated development costs, market preferences and architectural trends; unforeseen environmental risks and controls; the adverse use of adjacent and neighboring real estate; changes in interest rates and the availability of mortgage funds to buyers of the homes to be built in Improvement Area #2, which may render the sale of such homes difficult or unattractive; acts of war, terrorism or other political instability; delays or inability to obtain governmental approvals; changes in laws; moratorium; force majeure (which may result in uninsured losses); strikes; labor shortages; energy shortages; material shortages; inflation; adverse weather conditions; subcontractor defaults; and other unknown contingencies and factors beyond the control of the Developer or its affiliates. If cost overruns result in delay of construction, or if other delays are experienced, the Developer may be unable to complete timely all of such necessary improvements.

## **Absorption Rate**

There can be no assurance that the Developer or the Homebuilder will be able to achieve their anticipated absorption rates. Failure to achieve the absorption rate estimates will adversely affect the estimated value of the lots being assessed, could impair the economic viability of the Development and could reduce the ability or desire of property owners to pay the Assessments.

The Developer is not a homebuilder and will not be involved in the construction of homes within the District. Consequently, aside from the Developer's completion of the Improvement Area #2 Improvements, the Developer will not be able to affect or control the absorption rate of homes within the District.

## **Assessment Limitations**

Annual Installments of the Assessments are billed to property owners in Improvement Area #2 of the District. Annual Installments are due and payable, and bear the same penalties and interest for non-payment, as for ad valorem taxes as set forth under "ASSESSMENT PROCEDURES." Additionally, Annual Installments established by the Service and Assessment Plan correspond in number and proportionate amount to the number of installments and principal amounts of Bonds maturing in each year, Annual Collection Costs, the Additional Interest and amounts due pursuant to the Reimbursement Agreement. See "ASSESSMENT PROCEDURES." The unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Annual Installments of Assessments in the future.

In order to pay debt service on the Bonds, it is necessary that Annual Installments are paid in a timely manner. Due to the lack of predictability in the collection of Annual Installments in Improvement Area #2, the City has established a Bond Reserve Account in the Reserve Fund, to be funded from the proceeds of the Bonds, to cover delinquencies. The Annual Installments are secured by the Assessment Lien. However, there can be no assurance that foreclosure proceedings will occur in a timely manner so as to avoid depletion of the Bond Reserve Account and delay in payments of debt service on the Bonds. See "BONDHOLDERS' RISKS – Bondholders' Remedies and Bankruptcy."

Upon an ad valorem tax lien foreclosure event of a property within Improvement Area #2, any Assessment that is also delinquent will be foreclosed upon in the same manner as the ad valorem tax lien (assuming all necessary conditions and procedures for foreclosure are duly satisfied). To the extent that a foreclosure sale results in insufficient funds to pay in full both the delinquent ad valorem taxes and the delinquent Assessments, the liens securing such delinquent ad valorem taxes and delinquent Assessments would likely be extinguished. Any remaining unpaid balance of the delinquent Assessments would then be an unsecured personal liability of the original property owner.

Based upon the language of Texas Local Government Code, § 372.017(b), case law relating to other types of assessment liens and opinions of the Texas Attorney General, the Assessment Lien as it relates to installment payments that are not yet due should remain in effect following an ad valorem tax lien foreclosure, with future installment payments not being accelerated. Texas Local Government Code § 372.018(d) supports this position, stating that an Assessment Lien runs with the land and the portion of an assessment payment that has not yet come due is not eliminated by foreclosure of an ad valorem tax lien.

The Assessment Lien is superior to any homestead rights of a property owner that were properly claimed after the adoption of the Assessment Ordinance. However, an Assessment Lien may not be foreclosed upon if any homestead rights of a property owner were properly claimed prior to the adoption of the Assessment Ordinance ("Pre-existing Homestead Rights") for as long as such rights are maintained on the property. It is unclear under Texas law whether or not Pre-existing Homestead Rights would prevent the Assessment Lien from attaching to such homestead property or instead cause the Assessment Lien to attach, but remain subject to, the Pre-existing Homestead Rights.

Under Texas law, in order to establish homestead rights, the claimant must show a combination of both overt acts of homestead usage and intention on the part of the owner to claim the land as a homestead. Mere ownership of the property alone is insufficient and the intent to use the property as a homestead must be a present one, not an intention to make the property a homestead at some indefinite time in the future. As of the date of adoption of the

Assessment Ordinance, no such homestead rights had been claimed. Furthermore, the Developer is not eligible to claim homestead rights and the Developer represents that it owns all property within the District as of the date of the Assessment Ordinance. Consequently, there are and can be no homestead rights on the Assessed Property superior to the Assessment Lien and, therefore, the Assessment Liens may be foreclosed upon by the City.

Failure by owners of the parcels to pay Annual Installments when due, depletion of the Bond Reserve Account and Delinquency and Prepayment Reserve Account, delay in foreclosure proceedings, or the inability of the City to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Assessments levied against such parcels may result in the inability of the City to make full or punctual payments of debt service on the Bonds.

THE ASSESSMENTS CONSTITUTE A FIRST AND PRIOR LIEN AGAINST THE PROPERTY ASSESSED, SUPERIOR TO ALL OTHER LIENS AND CLAIMS EXCEPT LIENS AND CLAIMS FOR STATE, COUNTY, SCHOOL DISTRICT OR MUNICIPALITY AD VALOREM TAXES AND IS A PERSONAL OBLIGATION OF AND CHARGE AGAINST THE OWNERS OF PROPERTY LOCATED WITHIN IMPROVEMENT AREA #2.

**Competition**

The housing industry in the Houston MSA area is very competitive, and none of the Developer, the City, the City’s Financial Advisor or the Underwriter can give any assurance that the building programs that are planned will ever commence. The competitive position of the Developer in the sale of developed lots or of any homebuilder in the construction and sale of single-family residential units is affected by most of the factors discussed in this section, and such competitive position is directly related to maintenance of market values in the District.

<b>Project Name</b>	<b>Number of Units</b>	<b>Units Remaining</b>	<b>Proximity</b>	<b>Developer</b>	<b>Date Started</b>	<b>Prices</b>
Cherry Pines	295	104	3 Miles	Meritage	3 <sup>rd</sup> Quarter 2020	From \$350-\$400s
Alexander Estate	251	100	~1.1 miles	Doug Eisben	4 <sup>th</sup> Quarter 2020	From \$350-\$450s
Willowpoint	154	154	~1.6 miles	K. Hovnanian	4 <sup>th</sup> Quarter 2016	From \$350-\$450s

<sup>(1)</sup> Provided by the Developer. All of such projects are located either in a public improvement district or municipal utility district.

**Bankruptcy**

The payment of Assessments and the ability of the City to foreclose on the lien of a delinquent unpaid Assessment may be limited by bankruptcy, insolvency or other laws generally affecting creditors’ rights or by the laws of the State relating to judicial foreclosure. Although bankruptcy proceedings would not cause the Assessments to become extinguished, bankruptcy of a property owner in all likelihood would result in a delay in prosecuting foreclosure proceedings. Such a delay would increase the likelihood of a delay or default in payment of the principal of and interest on the Bonds, and the possibility that delinquent Assessments might not be paid in full.

**Direct and Overlapping Indebtedness, Assessments and Taxes**

The ability of an owner of property within Improvement Area #2 to pay the Assessments could be affected by the existence of other taxes and assessments imposed upon the property. Public entities whose boundaries overlap those of Improvement Area #2 currently impose ad valorem taxes on the property within Improvement Area #2 and will likely do so in the future. Such entities could also impose assessment liens on the property within Improvement Area #2. The imposition of additional liens, whether from taxes, assessments or private financing, may reduce the ability or willingness of the landowners to pay the Assessments. See “OVERLAPPING TAXES AND DEBT.”

## **Depletion of Reserve Fund; No Prefunding of Delinquency and Prepayment Reserve Account**

Failure of the owners of property within Improvement Area #2 to pay the Assessments when due could result in the rapid, total depletion of the accounts in the Reserve Fund prior to replenishment from the resale of property upon a foreclosure or otherwise or delinquency redemptions after a foreclosure sale, if any. There could be a default in payments of the principal of and interest on the Bonds if sufficient amounts are not available in the Reserve Fund. The Delinquency and Prepayment Reserve Account of the Reserve Fund is not fully funded from the proceeds of the Bonds. After the initial deposit of bond proceeds in the Delinquency and Prepayment Reserve Account at closing, the remaining portion of the Delinquency and Prepayment Reserve Requirement will be accumulated over the course of approximately 10 years by the mechanism described in “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Delinquency and Prepayment Reserve Account of the Reserve Fund.” The Indenture provides that if, after a withdrawal from the Bond Reserve Account of the Reserve Fund, the amount in the Bond Reserve Account of the Reserve Fund is less than the Bond Reserve Account Requirement or the Delinquency and Prepayment Reserve Requirement, as applicable, the Trustee shall transfer an amount from the Pledged Revenue Fund to the Bond Reserve Account of the Reserve Fund sufficient to cure such deficiency, as described under “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS – Bond Reserve Account” and “– Delinquency and Prepayment Reserve Account.”

## **Hazardous Substances**

While governmental taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to the assessment is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or the “Superfund Act,” is the most well-known and widely applicable of these laws. It is likely that, should any of the parcels of land located in the District be affected by a hazardous substance, the marketability and value of parcels would be reduced by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the land within the District does not take into account the possible liability of the owner for the remedy of a hazardous substance condition of the parcel. The City has not independently verified, and is not aware, that the Developer has such a current liability with respect to such parcel; however, it is possible that such liabilities do currently exist and that the City is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened or may arise in the future resulting from the existence, currently, on a parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

See “THE DEVELOPMENT – Environmental” for discussion of the ESAs performed on property within the District.

## **Regulation**

Development within the District may be subject to future federal, State and local regulations. Approval may be required from various agencies from time to time in connection with the layout and design of development in the District, the nature and extent of public improvements, land use, zoning and other matters. Failure to meet any such regulations or obtain any such approvals in a timely manner could delay or adversely affect development in the District and property values.

## **Recent Changes in State Law Regarding Public Improvement Districts**

The 87th Legislature passed HB 1543, which became effective September 1, 2021, and requires a person who proposes to sell or otherwise convey real property within a public improvement district to provide to the purchaser of the property, before the execution of a binding contract of purchase and sale, written notice of the obligation to pay public improvement district assessments, in accordance with Section 5.014, Texas Property Code, as amended. In the event a contract of purchase and sale is entered into without the seller providing the notice, the intended purchaser is entitled to terminate the contract or purchase and sale. If the Developer or homebuilders within Improvement Area #2 do not provide the required notice and prospective purchasers of property within Improvement Area #2 terminate a purchase and sale contract, the anticipated absorption schedule may be affected. In addition to the right to terminate the purchase contract, a property owner who did not receive the required notice is entitled, after sale, to sue for damages for (i) all costs relative to the purchase, plus interest and reasonable attorney's fees, or (ii) an amount not to exceed \$5,000, plus reasonable attorney's fees. In a suit filed pursuant to clause (i), any damages awarded must go first to pay any outstanding liens on the property. In such an event, the outstanding Assessments on such property should be paid. On payment of all damages respectively to the lienholders and purchaser pursuant to clause (i), the purchaser is required to reconvey the property to the seller. Further, if the Developer or homebuilders within Improvement Area #2 do not provide the required notice and become liable for monetary damages, the anticipated buildout and absorption schedule may be affected. No assurances can be given that the projected buildout and absorption schedules presented in this Limited Offering Memorandum will be realized. The form of notice to be provided to homebuyers is attached as Exhibit Q-2 to the Service and Assessment Plan. See "Appendix C – Service and Assessment Plan."

## **Potential Future Changes in State Law Regarding Public Improvement Districts**

During Texas legislative sessions and interim business of the Texas legislature, various proposals and reports have been presented by committees of Texas Senate and Texas House of Representative which suggest or recommend changes to the PID Act relating to oversight of bonds secured by special assessments, including adopting requirements relating to levels of build out or adding State level oversight in connection with the issuance of bonds secured by special assessments under the PID Act. The 87th Legislative Session of the State ended on May 31, 2021, without any legislation being passed by either chamber of the Texas legislature recommending oversight of bonds secured by assessments. The Governor called three special legislative sessions, which all concluded without any legislation being introduced or passed related to the oversight of bonds secured by assessments. It is impossible to predict what bills may be introduced during upcoming legislative sessions and, if passed, the impact that any future legislation will or may have on the security for the Bonds.

## **100-Year Flood Plain and Severe Weather Events**

According to the Federal Emergency Management Agency's flood map 48201C0230L, effective on June 18, 2007, none of the District is located within the 100-year flood plain.

The District is located near the Texas Gulf Coast. Land located in this area is susceptible to high winds, heavy rain and flooding caused by hurricanes, tropical storms, and other tropical disturbances. The greater Houston area has experienced four storms exceeding a 0.2% probability (i.e., "500-year flood" event) since 2015. Several of these storms, including Hurricane Harvey and Tropical Storm Imelda, resulted in widespread damages to residential and commercial properties in the greater Houston area. If a future weather event significantly damaged all or part of the properties comprising the tax base within the City, the assessed value of property within the City could be substantially reduced, which could result in a decrease in tax revenues and/or necessitate an increase the City's tax rate. There can be no assurance that a casualty loss to taxable property within the City or the District will be covered by insurance (or that property owners will even carry flood or other casualty insurance), that any insurance company will fulfill its obligation to provide insurance proceeds, or that insurance proceeds will be used to rebuild or repair any damaged improvements within the City or the District. Even if insurance proceeds are available and improvements are rebuilt, there could be a lengthy period in which assessed values within the City or the value of property within the District could be adversely affected.

In February 2021, much of Texas, including the City, was impacted by Winter Storm Uri, which resulted in disruptions in the Electric Reliability Council of Texas power grid and prolonged blackouts throughout the State. It

is impossible to predict whether similar events will occur in the future and the impact they may have on the City, including land within the District.

### **Exercise of Mineral Rights**

As described herein under “THE DEVELOPMENT – Existing Mineral and Groundwater Rights,” there are certain mineral rights reservations located within the District and not owned by the Developer. There may also be additional mineral rights and related real property rights reflected in the chain of title for the real property within the District recorded in the real property records of Harris County.

The Developer does not expect the existence or exercise of any mineral rights or related real property rights in or around the District to have a material adverse effect on the Development, the property within the District, or the ability of landowners within the District to pay Assessments. However, none of the City, the Financial Advisor or the Underwriter provide any assurances as to such Developer expectations.

### **Bondholders’ Remedies and Bankruptcy**

In the event of default in the payment of principal of or interest on the Bonds or the occurrence of any other Event of Default under the Indenture, the Trustee may, and at the written direction of the Owners of at least twenty-five percent (25%) of the Bonds then Outstanding and its receipt of indemnity satisfactory to it shall, proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Indenture, by action seeking mandamus or by other suit, action, or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief to the extent permitted by the Indenture or Applicable Laws, including, but not limited to, the specific performance of any covenant or agreement contained therein, or injunction; provided, however, that no action for money damages against the City may be sought or shall be permitted.

The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the City’s obligations under the Bonds or the Indenture and such obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so its use rests within the discretion of the court but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The owners of the Bonds cannot themselves foreclose on property within Improvement Area #2 or sell property within Improvement Area #2 in order to pay the principal of and interest on the Bonds. The enforceability of the rights and remedies of the owners of the Bonds further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. In this regard, should the City file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the City to seek judicial foreclosure of its Assessment Lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See “BONDHOLDERS’ RISKS – Bankruptcy Limitation to Bondholders’ Rights.”

Any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a property owner within the District pursuant to the Federal Bankruptcy Code could, subject to its discretion, delay or limit any attempt by the City to collect delinquent Assessments, or delinquent ad valorem taxes, against such property owner.

In addition, in 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“*Tooke*”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued,” in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“*Wasson*”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale

behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.” While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018, clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory and common law guidance at the time of inception of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgment, is justiciable against a municipality.

The City is not aware of any Texas court construing the Local Government Immunity Waiver Act in the context of whether contractual undertakings of local governments that relate to their borrowing powers are contracts covered by such act. Because it is unclear whether the Texas legislature has effectively waived the City’s sovereign immunity from a suit for money damages in the absence of City action, the Trustee or the owners of the Bonds may not be able to bring such a suit against the City for breach of the Bonds or the Indenture covenants. As noted above, the Indenture provides that owners of the Bonds may exercise the remedy of mandamus to enforce the obligations of the City under the Indenture. Neither the remedy of mandamus nor any other type of injunctive relief was at issue in *Tooke*, and it is unclear whether *Tooke* will be construed to have any effect with respect to the exercise of mandamus, as such remedy has been interpreted by Texas courts. In general, Texas courts have held that a writ of mandamus may be issued to require public officials to perform ministerial acts that clearly pertain to their duties. Texas courts have held that a ministerial act is defined as a legal duty that is prescribed and defined with a precision and certainty that leaves nothing to the exercise of discretion or judgment, though mandamus is not available to enforce purely contractual duties. However, mandamus may be used to require a public officer to perform legally imposed ministerial duties necessary for the performance of a valid contract to which the State or a political subdivision of the State is a party (including the payment of moneys due under a contract).

### **Judicial Foreclosures**

Judicial foreclosure proceedings are not mandatory; however, the City has covenanted to order and cause such actions to be commenced. In the event a foreclosure is necessary, there could be a delay in payments to owners of the Bonds pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale. It is possible that no bid would be received at the foreclosure sale, and, in such event, there could be an additional delay in payment of the principal of and interest on the Bonds or such payment may not be made in full. Moreover, in filing a suit to foreclose, the City must join other taxing units that have claims for delinquent taxes against all or part of the same property; the proceeds of any sale of property within Improvement Area #2 available to pay debt service on the Bonds may be limited by the existence of other tax liens on the property. See “OVERLAPPING TAXES AND DEBT.” Collection of delinquent taxes, assessments and the Assessments may be adversely affected by the effects of market conditions on the foreclose sale price, and by other factors, including taxpayers’ right to redeem property within two years of foreclosure for residential and agricultural use property and six months for other property, and by a time-consuming and expensive collection procedure.

### **No Acceleration**

The Indenture expressly denies the right of acceleration in the event of a payment default or other default under the terms of the Bonds or the Indenture.



### **Limited Secondary Market for the Bonds**

The Bonds may not constitute a liquid investment, and there is no assurance that a liquid secondary market will exist for the Bonds in the event an Owner thereof determines to solicit purchasers for the Bonds. Even if a liquid secondary market exists, there can be no assurance as to the price for which the Bonds may be sold. Such price may be lower than that paid by the current Owners of the Bonds, depending on the progress of development of the District subject to the Assessments, existing real estate and financial market conditions and other factors.

### **No Credit Rating**

The City has not applied for or received a rating on the Bonds. Even if a credit rating had been sought for the Bonds, it is not anticipated that such a rating would have been investment grade. The absence of a rating could affect the future marketability of the Bonds. There is no assurance that a secondary market for the Bonds will develop or that holders who desire to sell their Bonds prior to the stated maturity will be able to do so. Occasionally, because of general market conditions or because of adverse history or economic prospects connected with a particular issue, secondary market trading in connection with a particular issue is suspended or terminated. Additionally, prices of issues for which a market is being made will depend upon then generally prevailing circumstances. Such prices could be substantially different from the original purchase price.

### **Bankruptcy Limitation to Bondholders' Rights**

The enforceability of the rights and remedies of the owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. The City is authorized under Texas law to voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946 ("Chapter 9"). The City may proceed under Chapter 9 if it (1) is generally not paying its debts, or unable to meet its debts, as they become due, (2) desires to effect a plan to adjust such debts, and (3) has either obtained the agreement of or negotiated in good faith with its creditors, is unable to negotiate with its creditors because negotiation is impracticable, or reasonably believes that a creditor may attempt to obtain a preferential transfer.

If the City decides in the future to proceed voluntarily under the Chapter 9, the City would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the plan if (1) the plan complies with the applicable provisions of the Chapter 9, (2) all payments to be made in connection with the plan are fully disclosed and reasonable, (3) the City is not prohibited by law from taking any action necessary to carry out the plan, (4) administrative expenses are paid in full, (5) all regulatory or electoral approvals required under Texas law are obtained and (6) the plan is in the best interests of creditors and is feasible. The rights and remedies of the owners of the Bonds would be adjusted in accordance with the confirmed plan of adjustment of the City's debt.

### **Management and Ownership**

The management and ownership of the Developer and related or affiliated property owners could change in the future. Purchasers of the Bonds should not rely on the management experience of such entities. There are no assurances that such entities will not sell the subject property or that officers will not resign or be replaced. In such circumstances, a new developer or new officers in management positions may not have comparable experience in projects comparable to the Development.

### **Tax-Exempt Status of the Bonds**

The Indenture contains covenants by the City intended to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes. As discussed under the caption "TAX MATTERS," interest on the Bonds could become includable in gross income for purposes of federal income taxation retroactive to the date the Bonds were issued as a result of future acts or omissions of the City in violation of its covenants in the Indenture.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or State level, may adversely affect the tax-exempt status of interest on the Bonds under federal or State law and could

affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

As further described in “TAX MATTERS” below, failure of the City to comply with the requirements of the Internal Revenue Code of 1986 (the “Code”) and the related legal authorities, or changes in the federal tax law or its application, could cause interest on the Bonds to be included in the gross income of owners of the Bonds for federal income tax purposes, possibly from the date of original issuance of the Bonds. Further, 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 interest on the Bonds for federal income tax purposes. It is not binding on the Internal Revenue Service (“IRS”) or the courts. The IRS has an ongoing program of auditing obligations that are issued and sold as bearing tax-exempt interest to determine whether, in the view of the IRS, interest on such obligations is included in the gross income of the owners thereof for federal income tax purposes. It cannot be predicted if this IRS focus could lead to an audit of the Bonds or what the result would be of any such audit. If an audit of the Bonds is commenced, under current procedures parties other than the City would have little, if any, right to participate in the audit process. Moreover, because achieving judicial review in connection with an audit of tax-exempt obligations is difficult, obtaining an independent review of IRS positions with which the City legitimately disagrees may not be practicable. Any action of the IRS, regardless of the outcome, including but not limited to selection of the Bonds for audit, or the course or result of such audit, or an audit of obligations presenting similar tax issues, may affect the market price for, or the marketability of, the Bonds. Finally, if the IRS ultimately determines that the interest on the Bonds is not excluded from the gross income of Bondholders for federal income tax purposes, the City may not have the resources to settle with the IRS, the Bonds are not required to be redeemed, and the interest rate on the Bonds will not increase.

### **General Risks of Real Estate Investment and Development**

The Developer may, in certain circumstances, have the right to modify or change its plan for development of the District, from time to time, including, without limitation, land use changes, changes in the overall land and phasing plans, and changes to the type, mix, size and number of units to be developed. No defined “true-up” agreement has been entered into between the City and the Developer, nor is there a requirement that future developers enter into such an agreement. There can be no assurance, in the event the Developer or a subsequent developer modifies or changes its plan for development that the necessary revisions to the Service and Assessment Plan will be made. Nor can there be an assurance that the eventual assessment burden on the property will be marketable.

The ability of the Developer and homebuilders to develop lots and sell single-family residential homes within the District may be affected by unforeseen changes in general economic conditions, fluctuations in the real estate market and other factors beyond the control of the owner of the single-family residential lots. In the event that a large number of single-family projects are constructed outside of the District and compete with the Development, the demand for residential housing within the District could be reduced, thereby adversely affecting the continued development of the Development, or its attraction to and residents.

Investments in undeveloped or developing real estate are generally considered to be speculative in nature and to involve a high degree of risk. The Development will be subject to the risks generally incident to real estate investments and development. Many factors that may affect the Development, as well as the operating revenues of the Developer, including those derived from the Development, are not within the control of the Developer. Such factors include changes in national, regional and local economic conditions; changes in long and short term interest rates; changes in the climate for real estate purchases; changes in demand for or supply of competing properties; changes in local, regional and national market and economic conditions; unanticipated development costs, market preferences and architectural trends; unforeseen environmental risks and controls; the adverse use of adjacent and neighboring real estate; changes in interest rates and the availability of mortgage funds to buyers of the homes to be built in the Development, which may render the sale of such homes difficult or unattractive; acts of war, terrorism or other political instability; delays or inability to obtain governmental approvals; changes in laws; moratorium; acts of God (which may result in uninsured losses); strikes; labor shortages; energy shortages; material shortages; inflation; adverse weather conditions; contractor or subcontractor defaults; and other unknown contingencies and factors beyond the control of the Developer.

The Development cannot be completed without the Developer obtaining a variety of governmental approvals and permits, some of which have already been obtained. Certain permits are necessary to initiate construction of the Development and to allow the occupancy of residences and to satisfy conditions included in the approvals and permits. There can be no assurance that all of these permits and approvals can be obtained or that the conditions to the approvals and permits can be fulfilled. The failure to obtain any of the required approvals or fulfill any one of the conditions could cause materially adverse financial results for the Developer.

A slowdown of the development process and the related absorption rate within the Development because of any or all of the foregoing could affect adversely land values. The timely payment of the Bonds depends on the willingness and ability of the Developer, the Homebuilder, and any subsequent owners to pay the Assessments when due. Any or all of the foregoing could reduce the willingness and ability of such owners to pay the Assessments and could greatly reduce the value of the property within the District in the event such property has to be foreclosed. If Annual Installments of Assessments are not timely paid and there are insufficient funds in the accounts of the Reserve Fund, a nonpayment could result in a payment default under the Indenture.

### **Risks Related to the Current Residential Real Estate Market**

In the past, the real estate market has experienced significant slowing of new home sales and new home closings due in part to the subprime mortgage crisis involving adjustable-rate mortgages and other creative mortgage financing tools that allowed persons with higher credit risk to buy homes. The economic crisis that resulted from higher interest rates, at a time when many subprime mortgages were due to reset their interest rates, has served to reduce the availability of mortgages to many potential home buyers, making entry into the real estate market difficult. Downturns in the real estate market and other factors beyond the control of the Developer, including general economic conditions, may impact the timing of lot and home sales within the District. Currently rising inflation and interest rates could result in a slowing of new home sales and closings. No assurances can be given that projected home prices and buildout values presented in this Limited Offering Memorandum will be realized.

### **Risks Related to Exposure to the Oil and Gas Industry**

The economy of the greater Houston area has, in the past, been particularly affected by adverse conditions in the oil and gas industry, and such conditions and their spillover effects into other industries could result in declines in the demand of residential and commercial property in the area and could reduce or negatively affect property values or homebuilding activity within the District.

### **Risks Related to Current Increase in Costs of Building Materials**

As a result of the Pandemic, low supply and demand and the ongoing trade war, there have been substantial increases in the cost of lumber and other materials, causing many homebuilders and general contractors to experience budget overruns. The Developer is responsible for the construction of the Improvement Area #2 Improvements. The Developer expects to finance a portion of the costs of the Improvement Area #2 Improvements from proceeds of the Bonds. If the Actual Costs of the Improvement Area #2 Improvements are substantially greater than the estimated costs or if the Developer is unable to access building materials in a timely manner, it may affect the ability of the Developer to complete the Improvement Area #2 Improvements or pay the Assessments when due. If the costs of material continue to increase, it may affect the ability of the Developer and the Homebuilder to construct homes within the District. There is no way to predict whether such cost increases or low supply of building materials will continue or if such continuance will affect the development of the District.

### **Availability of Utilities**

The progress of development within the District is also dependent upon the City providing an adequate water and wastewater service to the Development. If the City fails to provide water and wastewater services to the property in the District, the Development cannot be substantially completed, and the builders will not purchase lots to construct homes. See “THE DEVELOPMENT – Utilities.”

## **Dependence Upon Developer**

Initial Liability for Assessments. The Developer, as the sole owner of assessable property within Improvement Area #2, has the obligation for the payment of all of the Assessments. The Developer is under contract to sell all of the Lots within Improvement Area #2 to the Homebuilder, but until the Developer closes on the sale of the Lots to Homebuilder or other third parties, the ability of the Developer to make full and timely payment of the Assessments will directly affect the ability of the City to meet its debt service obligations with respect to the Bonds. The assets of the Developer are generally limited to land within the District, the proceeds from the sale of prior Lots within the District, related permits and development rights and the Development Loan.

The City will pay the Developer, or the Developer's designee, from proceeds of the Bonds for the Actual Costs of developing and constructing the Improvement Area #2 Improvements within the District. See "THE IMPROVEMENT AREA #2 IMPROVEMENTS – General" and "– The Improvement Area #2 Improvements." There can be no assurances given as to the financial ability of the Developer to complete such improvements.

The source of funding for future land development activities and infrastructure construction to develop the lots proposed for the District also consists of proceeds from Future Improvement Area Bonds, if issued by the City as anticipated, and proceeds from Lot sales, as well as the Development Loan (and other possible bank financings) and equity contributions by the Developer and its equity holders and affiliates. There can be no assurances given as to the financial ability of the Developer to advance any funds to the City to supplement revenues from the Assessments if necessary, or as to whether the Developer will advance such funds.

## **Defaults of Affiliates of Hines**

During the past ten years, affiliates of Hines have failed to make payments due on loans related to three (3) U.S. office properties. These properties were transferred to the lender via a negotiated transfer by non-judicial foreclosure.

The Sheraton Georgetown Texas Hotel and Conference Center (2020). Hines and a partner developed a 222-room hotel including a 35,000-square-foot conference center and three-level parking garage which opened in 2016. Woodforest National Bank provided senior financing for the hotel and mezzanine financing was provided by Hospitality Fund of Central Texas, LLC. The senior note was later purchased by an affiliate of Black Forest Ventures. The onset of the COVID-19 pandemic resulted in a dramatic decrease in room bookings and revenue from the hotel to the point debt service obligations could no longer be met. Hines and its partner successfully negotiated the terms of a debt-to-equity conversion with the mezzanine lender but were unable to negotiate an acceptable loan restructuring with the senior lender, Black Forest Ventures, who took title to the property through a non-judicial foreclosure in November 2020.

Greenspoint Place (2016). Hines and a partner purchased the 2.1 million square foot office campus in north Houston in 1994 and 1996. From the time the property was acquired, the major tenant was Exxon who occupied 67% of the office space in addition to owning a 200,000 square foot office building adjacent to the campus. In 2011, Exxon announced that it was building a new campus and elected to phase out of its occupancy at Greenspoint Place. Leasing the space vacated by Exxon proved to be very challenging, particularly given the economic environment in Houston. Hines and its partner were unable to either refinance the loan on the property or agree on a loan restructuring with the lender, Northwestern Mutual, prior to maturity. Title was transferred through a non-judicial foreclosure on July 5, 2016. Northwestern Mutual retained Hines to manage the property following the foreclosure.

Douglas Corporate Center (2013). This property in Roseville (Sacramento), California, was purchased by the Hines US Core Office Fund in 2007 as part of an office portfolio acquisition. This suburban Sacramento office market was severely impacted by the economic downturn due to its high concentration of smaller tenants such as home builders and mortgage companies. Occupancy at this building significantly declined and cash flow was insufficient to service the debt on the loan provided by Key Bank. Although continuing to fund TIs and operating expenses, the fund team was unable to negotiate an acceptable restructuring with the special servicer. Title was transferred in January 2013 through a non-judicial foreclosure. Hines was retained to manage the property.

## **Chapter 11 Bankruptcy of a Hines-Affiliated General Contractor**

In February 2018, Urban Oaks Builders (“UOB”), a Hines-affiliated general contractor, along with other Hines-affiliated entities (“Hines Affiliates”) were sued by affiliates of Southstar Capital Group (“Southstar”), the purchaser of a multifamily project developed by Hines in Celebration, Florida, alleging the existence of certain construction defects and the concealment of those defects prior to the sale of the project (the “Southstar Litigation”). None of UOB nor the Hines Affiliates, or any persons employed by those entities, had any knowledge of the alleged defects. Consequently, UOB and the Hines Affiliates vigorously defended themselves against these claims. The Southstar Litigation, as it relates to UOB, was consolidated with UOB’s Chapter 11 bankruptcy proceedings and a related coverage action filed by UOB against its insurance carriers, both of which were a result of the Southstar Litigation. The bankruptcy court found no evidence of fraud on the part of UOB but ruled that Southstar’s claim for damages for repairs relating to the alleged construction defects was valued at \$26.1 million plus interest.

UOB immediately demanded that the carriers pay this judgment on its behalf, a covered loss well within policy limits. Thus far, the carriers have refused. In response, they have raised multiple legal arguments, the resolution of which would have a fundamental impact on how the loss would be spread among the carriers in the insurance tower. However, none of these arguments have any bearing on coverage of the UOB judgment, which the carriers have never disputed. Accordingly, UOB has made repeated demands that the carriers settle with Southstar on UOB’s behalf and continue their intramural dispute separately since the carriers’ infighting has caused multiple mediations to be unsuccessful. Recognizing the insurance dispute as the primary hurdle to recovery, Southstar agreed to abate the Southstar Litigation as it relates to UOB until the conclusion of the insurance coverage litigation. In late 2021, UOB and the Hines Affiliates filed motions for summary judgment against the carriers to force the legal questions at issue to a decision. In Q1 2022, the Court ruled on several of these issues, adopting UOB and the Hines Affiliates’ view of the insurance policies. As expected, this ruling has caused discussion among some of the upper-tier carriers about another global mediation. The Developer expects a mediation to be scheduled by the end of the year.

At the same time, Southstar continued its pursuit of a lawsuit in Florida state court solely against the Hines Affiliates primarily relating to Southstar’s allegation that Hines was aware of defects at the project but concealed them from Southstar prior to the sale. The trial court dismissed Southstar’s claims against the Hines Affiliates twice, the second time after being given opportunity to amend its pleadings. An appellate court affirmed the trial court’s dismissal and granted the Hines Affiliates their attorney’s fees.

While the Developer, UOB, and the Hines Affiliates are under common control of Hines, UOB and the Hines Affiliates do not own property in the District and are not associated with the development or with the Bonds. The Developer does not expect the Southstar Litigation to have any material adverse effect on the ability of the Developer to develop and sell the Lots in the District.

### **Agricultural Use Valuation and Redemption Rights**

None of the property in the District is currently entitled to valuation for ad valorem tax purposes based upon its agricultural use. Under Texas law, an owner of land that is entitled to an agricultural valuation has the right to redeem such property after a tax sale for a period of two years after the tax sale by paying to the tax sale purchaser a twenty-five percent (25%) premium, if redeemed during the first year, or a 50% premium, if redeemed during the second year, over the purchase price paid at the tax sale and certain qualifying costs incurred by the purchaser. Although the Assessments are not considered a tax under Texas law, the PID Act provides that the lien for Assessments may be enforced in the same manner as a lien for ad valorem taxes. This shared enforcement mechanism raises a possibility that the right to redeem agricultural valuation property may be available following a foreclosure of a lien for Assessments, though there is no indication in Texas law that such redemption rights would be available in such a case.

## **TAX MATTERS**

**The following discussion of certain federal income tax considerations is for general information only and is not tax advice. Each prospective purchaser of the Bonds should consult its own tax advisor as to the tax consequences of the acquisition, ownership and disposition of the Bonds.**

## **Tax Exemption**

In the opinion of Bond Counsel, under existing law, interest on the Bonds (i) is excludable from gross income for federal income tax purposes under section 103 of the Internal Revenue Code of 1986, as amended (the “Code”), and (ii) is not an item of tax preference for purposes of the alternative minimum tax on individuals.

The Code imposes a number of requirements that must be satisfied for interest on state or local obligations, such as the Bonds, to be excludable from gross income for federal income tax purposes. These requirements include limitations on the use of bond proceeds and the source of repayment of bonds, limitations on the investment of bond proceeds prior to expenditure, a requirement that excess arbitrage earned on the investment of bond proceeds be paid periodically to the United States and a requirement that the issuer file an information report with the Internal Revenue Service (the “Service”). The City has covenanted in the Indenture that it will comply with these requirements.

Bond Counsel’s opinion will assume continuing compliance with the covenants of the Indenture pertaining to those sections of the Code that affect the excludability of interest on the Bonds from gross income for federal income tax purposes and, in addition, will rely on representations by the City and other parties involved with the issuance of the Bonds with respect to matters solely within the knowledge of the City and such parties, which Bond Counsel has not independently verified. If the City fails to comply with the covenants in the Indenture or if the foregoing representations are determined to be inaccurate or incomplete, interest on the Bonds could become includable in gross income from the date of delivery of the Bonds, regardless of the date on which the event causing such inclusion occurs.

Except as stated above, Bond Counsel will express no opinion as to the amount of interest on the Bonds or any federal, state or local tax consequences resulting from the receipt or accrual of interest on, or acquisition, ownership or disposition of, the Bonds. Certain actions may be taken or omitted subject to the terms and conditions set forth in the Indenture upon the advice or with the approving opinion of Bond Counsel. Bond Counsel will express no opinion with respect to Bond Counsel’s ability to render an opinion that such actions, if taken or omitted, will not adversely affect the excludability of interest of the Bonds from gross income for federal income tax purposes.

Bond Counsel’s opinions are based on existing law, which is subject to change. Such opinions are further based on Bond Counsel’s knowledge of facts as of the date thereof. Bond Counsel assumes no duty to update or supplement its opinions to reflect any facts or circumstances that may thereafter come to Bond Counsel’s attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, Bond Counsel’s opinions are not a guarantee of result and are not binding on the Service; rather, such opinions represent Bond Counsel’s legal judgment based upon its review of existing law and in reliance upon the representations and covenants referenced above that it deems relevant to such opinions. The Service has an ongoing audit program to determine compliance with rules that relate to whether interest on state or local obligations is includable in gross income for federal income tax purposes. No assurance can be given as to whether or not the Service will commence an audit of the Bonds. If an audit is commenced, in accordance with its current published procedures the Service is likely to treat the City as the taxpayer, and the Owners may not have a right to participate in such audit. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds regardless of the ultimate outcome of the audit.

## **Collateral Tax Consequences**

Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations may result in collateral federal income tax consequences, including but not limited to those noted below. Therefore, prospective purchasers of the Bonds should consult their own tax advisors as to the tax consequences of the acquisition, ownership and disposition of the Bonds.

For tax years beginning after December 31, 2022, an “applicable corporation” (as defined in section 59(k) of the Code) may be subject to a 15% alternative minimum tax imposed under section 55 of the Code on its “adjusted financial statement income” (as defined in section 56A of the Code) for such taxable year. Because interest on tax-exempt obligations, such as the Bonds, is included in a corporation’s “adjusted financial statement income,” ownership of the Bonds could subject certain corporations to alternative minimum tax consequences.

Ownership of tax-exempt obligations also may result in collateral federal income tax consequences to financial institutions, life insurance and property and casualty insurance companies, certain S corporations with Subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry tax-exempt obligations, low and middle income taxpayers otherwise qualifying for the health insurance premium assistance credit and individuals otherwise qualifying for the earned income tax credit. In addition, certain foreign corporations doing business in the United States may be subject to the “branch profits tax” on their effectively connected earnings and profits, including tax-exempt interest such as interest on the Bonds.

Prospective purchasers of the Bonds should also be aware that, under the Code, taxpayers are required to report on their returns the amount of tax-exempt interest, such as interest on the Bonds, received or accrued during the year.

### **Tax Accounting Treatment of Original Issue Premium**

The issue price of all or a portion of the Bonds may exceed the stated redemption price payable at maturity of such Bonds. Such Bonds (the “Premium Bonds”) are considered for federal income tax purposes to have “bond premium” equal to the amount of such excess. The basis of a Premium Bond in the hands of an initial owner is reduced by the amount of such excess that is amortized during the period such initial owner holds such Premium Bond in determining gain or loss for federal income tax purposes. This reduction in basis will increase the amount of any gain or decrease the amount of any loss recognized for federal income tax purposes on the sale or other taxable disposition of a Premium Bond by the initial owner. No corresponding deduction is allowed for federal income tax purposes for the reduction in basis resulting from amortizable bond premium. The amount of bond premium on a Premium Bond that is amortizable each year (or shorter period in the event of a sale or disposition of a Premium Bond) is determined using the yield to maturity on the Premium Bond based on the initial offering price of such Premium Bond.

The federal income tax consequences of the purchase, ownership and redemption, sale or other disposition of Premium Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Premium Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of amortized bond premium upon the redemption, sale or other disposition of a Premium Bond and with respect to the federal, state, local, and foreign tax consequences of the purchase, ownership, and sale, redemption or other disposition of such Premium Bonds.

### **Tax Accounting Treatment of Original Issue Discount**

The issue price of all or a portion of the Bonds may be less than the stated redemption price payable at maturity of such Bonds (the “Original Issue Discount Bonds”). In such case, the difference between (i) the amount payable at the maturity of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond constitutes original issue discount with respect to such Original Issue Discount Bond in the hands of any owner who has purchased such Original Issue Discount Bond in the initial public offering of the Bonds. Generally, such initial owner is entitled to exclude from gross income (as defined in Section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the period that such Original Issue Discount Bond continues to be owned by such owner. Because original issue discount is treated as interest for federal income tax purposes, the discussions regarding interest on the Bonds under the captions “TAX MATTERS – Tax Exemption,” “– Collateral Tax Consequences” and “– Tax Legislative Changes” generally apply and should be considered in connection with the discussion in this portion of the Limited Offering Memorandum.

In the event of the redemption, sale or other taxable disposition of such Original Issue Discount Bond prior to stated maturity, however, the amount realized by such owner in excess of the basis of such Original Issue Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Original Issue Discount Bond was held by such initial owner) is includable in gross income.

The foregoing discussion assumes that (i) the Underwriter has purchased the Bonds for contemporaneous sale to the public and (ii) all of the Original Issue Discount Bonds have been initially offered, and a substantial amount

of each maturity thereof has been sold, to the general public in arm's-length transactions for a price (and with no other consideration being included) not more than the initial offering prices thereof stated on the inside cover page of this Limited Offering Memorandum. Neither the City nor Bond Counsel has made any investigation or offers any comfort that the Original Issue Discount Bonds will be offered and sold in accordance with such assumptions.

Under existing law, the original issue discount on each Original Issue Discount Bond accrues daily to the stated maturity thereof (in amounts calculated as described below for each six-month period ending on the date before the semiannual anniversary dates of the date of the Bonds and ratably within each such six-month period) and the accrued amount is added to an initial owner's basis for such Original Issue Discount Bond for purposes of determining the amount of gain or loss recognized by such owner upon the redemption, sale or other disposition thereof. The amount to be added to basis for each accrual period is equal to (i) the sum of the issue price and the amount of original issue discount accrued in prior periods multiplied by the yield to stated maturity (determined on the basis of compounding at the close of each accrual period and properly adjusted for the length of the accrual period) less (ii) the amounts payable as current interest during such accrual period on such Original Issue Discount Bond.

The federal income tax consequences of the purchase, ownership, and redemption, sale or other disposition of Original Issue Discount Bonds that are not purchased in the initial offering at the initial offering price may be determined according to rules that differ from those described above. All owners of Original Issue Discount Bonds should consult their own tax advisors with respect to the determination for federal, state, and local income tax purposes of interest accrued upon redemption, sale or other disposition of such Original Issue Discount Bonds and with respect to the federal, state, local and foreign tax consequences of the purchase, ownership, redemption, sale or other disposition of such Original Issue Discount Bonds.

### **Tax Legislative Changes**

Current law may change so as to directly or indirectly reduce or eliminate the benefit of the excludability of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation, whether or not enacted, could also affect the value and liquidity of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any recently enacted, proposed, pending or future legislation.

## **LEGAL MATTERS**

### **Legal Proceedings**

Delivery of the Bonds will be accompanied by the unqualified approving legal opinion of the Attorney General to the effect that the Bonds are valid and legally binding obligations of the City under the Constitution and laws of the State, payable from the Trust Estate and, based upon their examination of a transcript of certified proceedings relating to the issuance and sale of the Bonds, the legal opinion of Bond Counsel, to a like effect.

Bracewell LLP serves as Bond Counsel to the City. Orrick, Herrington & Sutcliffe LLP serves as Underwriter's Counsel. The legal fees paid to Bond Counsel and Underwriter's Counsel are contingent upon the sale and delivery of the Bonds.

### **Legal Opinions**

The City will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and binding special, limited obligations of the City. The City will also furnish the legal opinion of Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special, limited obligations of the City under the Constitution and laws of the State. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from and secured by a pledge of and lien on the Trust Estate. Bond Counsel will also provide a legal opinion to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of



the Code, subject to the matters described above under the caption “TAX MATTERS.” A copy of the form of the opinion of Bond Counsel is attached hereto as “APPENDIX D – Form of Opinion of Bond Counsel.”

Except as noted below, Bond Counsel did not take part in the preparation of the Limited Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Limited Offering Memorandum under the captions or subcaptions “PLAN OF FINANCE – The Bonds,” “DESCRIPTION OF THE BONDS,” “SECURITY FOR THE IMPROVEMENT AREA #2 BONDS,” “ASSESSMENT PROCEDURES” (except for the subcaptions “Assessment Methodology” and “Assessment Amounts”), “THE DISTRICT,” “TAX MATTERS,” “LEGAL MATTERS – Legal Proceedings,” “– Legal Opinions,” “CONTINUING DISCLOSURE – The City,” “REGISTRATION AND QUALIFICATION OF BONDS FOR SALE,” “LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS” and APPENDIX B and such firm is of the opinion that the information relating to the Bonds, the Bond Ordinance, the Assessment Ordinance and the Indenture contained therein fairly and accurately describes the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Ordinance, the Assessment Ordinance and the Indenture.

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 that expression of professional judgment, of the transaction opined upon, or of the future performance of the parties to the transaction. Nor does the rendering of an opinion guarantee the outcome of any legal dispute that may arise out of the transaction.

#### **Litigation – The City**

At the time of delivery and payment for the Bonds, the City will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to its knowledge, overtly threatened against the City affecting the existence of the District, or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof, in accordance with the Indenture, or the collection or application of the Assessments securing the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Assessment Ordinance, the Indenture, any action of the City contemplated by any of the said documents, or the collection or application of the Trust Estate, or in any way contesting the completeness or accuracy of this Limited Offering Memorandum or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Bonds or any action of the City contemplated by any documents relating to the Bonds.

#### **Litigation – The Developer**

At the time of delivery and payment for the Bonds, Developer will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory body, public board or body pending, or, to the best knowledge of Developer, threatened against or affecting Developer wherein an unfavorable decision, ruling or finding would have a material adverse effect on the financial condition or operations of Developer or its officers or would adversely affect (1) the transactions contemplated by, or the validity or enforceability of, the Bonds, the Indenture, the Bond Ordinance, the Service and Assessment Plan, the Reimbursement Agreement, the Development Agreement, or the Bond Purchase Agreement, or otherwise described in this Limited Offering Memorandum, or (2) the tax-exempt status of interest on the Bonds (individually or in the aggregate, a “Material Adverse Effect”). The Developer and its affiliates have been and are parties to pending and threatened litigation related to their commercial and real estate development activities. According to the Developer, such litigation occurs in the ordinary course of business and is not expected to have a Material Adverse Effect.

### **SUITABILITY FOR INVESTMENT**

Investment in the Bonds poses certain economic risks. See “BONDHOLDERS’ RISKS.” The Bonds are not, at this time, rated by any nationally recognized municipal securities rating service. No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or make any representations, other than those contained in this Limited Offering Memorandum, and, if given or made, such other

information or representations must not be relied upon as having been authorized by either of the foregoing. Additional information will be made available to each prospective investor, including the benefit of a site visit to the City and the opportunity to ask questions of the Developer, as such prospective investor deems necessary in order to make an informed decision with respect to the purchase of the Bonds.

### **ENFORCEABILITY OF REMEDIES**

The remedies available to the owners of the Bonds upon an event of default under the Indenture are in many respects dependent upon judicial actions, which are often subject to discretion and delay. See “BONDHOLDERS’ RISKS – Remedies and Bankruptcy.” Under existing constitutional and statutory law and judicial decisions, including the federal bankruptcy code, the remedies specified by the Indenture and the Bonds may not be readily available or may be limited. The various legal opinions to be delivered concurrently with the delivery of the Bonds will be qualified as to the enforceability of the remedies provided in the various legal instruments, by limitations imposed by bankruptcy, reorganization, insolvency or other similar laws affecting the rights of creditors and enacted before or after such delivery.

### **NO RATING**

No application for a rating on the Bonds has been made to any rating agency, nor is there any reason to believe that the City would have been successful in obtaining an investment grade rating for the Bonds had application been made.

### **CONTINUING DISCLOSURE**

#### **The City**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the City, the Administrator and HTS Continuing Disclosure Services, a Division of Hilltop Securities Inc. (the “Dissemination Agent”) have entered into a Continuing Disclosure Agreement (the “Disclosure Agreement of the Issuer”) for the benefit of the Owners of the Bonds (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement of the Issuer, certain financial information and operating data relating to the City (collectively, the “City Reports”). The specific nature of the information to be contained in the City Reports is set forth in “APPENDIX E-1 – Form of Disclosure Agreement of the Issuer.” Under certain circumstances, the failure of the City to comply with its obligations under the Disclosure Agreement of the Issuer constitutes an event of default thereunder. Such a default will not constitute an event of default under the Indenture, but such event of default under the Disclosure Agreement of the Issuer would allow the Owners of the Bonds (including owners of beneficial interests in the Bonds) to bring an action for specific performance.

The City has agreed to update information and to provide notices of certain specified events only as provided in the Disclosure Agreement of the Issuer. 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 in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of the Issuer. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the 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 the Disclosure Agreement of the Issuer or from any statement made pursuant to the Disclosure Agreement of the Issuer.

#### **The City’s Compliance with Prior Undertakings**

In the last five years, the City has not failed to comply in any material respect with any material provisions of the continuing disclosure agreements made by the City in accordance with the Rule.

## **The Developer**

The Developer, the Administrator, and the Dissemination Agent, will, in connection with the issuance of the Bonds, enter into a Continuing Disclosure Agreement (the “Disclosure Agreement of the Developer”) for the benefit of the Owners of the Bonds (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement of the Developer, certain information regarding Improvement Area #2 and the Improvement Area #2 Improvements (collectively, the “Developer Reports”). The specific nature of the information to be contained in the Developer Reports is set forth in “APPENDIX E-2 – Form of Disclosure Agreement of the Developer.” Under certain circumstances, the failure of the Developer or the Administrator to comply with its obligations under the Disclosure Agreement of the Developer constitutes an event of default thereunder. Such a default will not constitute an event of default under the Indenture, but such event of default under the Disclosure Agreement of the Developer would allow the Owners of the Bonds (including owners of beneficial interests in the Bonds) to bring an action for specific performance.

The Developer has agreed to provide (i) certain updated information to the Administrator, which consultant will prepare and provide such updated information in report form and (ii) notices of certain specified events, only as provided in the Disclosure Agreement of the Developer. The Developer 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 in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of the Developer. The Developer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The Developer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of the Developer or from any statement made pursuant to the Disclosure Agreement of the Developer.

## **The Developer’s Compliance with Prior Undertakings**

In the last five years, the Developer has not failed to comply in any material respect with any material provisions of the continuing disclosure agreements made by the Developer in accordance with the Rule.

## **UNDERWRITING**

FMSbonds, Inc. (the “Underwriter”) has agreed to purchase the Bonds from the City at a purchase price of \$\_\_\_\_\_ (representing the par amount of the Bonds, less an underwriting discount of \$\_\_\_\_\_) and no accrued interest. The Underwriter’s obligations are subject to certain conditions precedent and if obligated to purchase any of the Bonds the Underwriter will be obligated to purchase all of the Bonds. Subject to certain restrictions contained in the bond purchase agreement, the Bonds may be offered and sold by the Underwriter at prices lower than the initial offering prices stated on the inside cover page hereof, and such initial offering prices may be changed from time to time by the Underwriter.

Additionally, there are no assurances that if a secondary market for the Bonds were to develop, that it will not be disrupted by events including, but not limited to, the current Pandemic associated with the COVID-19 virus. Consequently, investors may not be able to resell the Bonds purchased should they need or wish to do so for emergency or other purposes. See “BONDHOLDERS’ RISKS – Infectious Disease Outbreak.”

## **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 other 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

The PID Act and Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provide that the Bonds are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, or 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 Texas Public Funds Investment Act (the "PFIA") 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 "NO RATING." In addition, the PID Act and 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 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. No representation is made that the Bonds will be acceptable to public entities to secure their deposits or acceptable to such institutions for investment purposes.

The City 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.

### INVESTMENTS

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

#### Legal Investments

Under State law, the City is authorized to invest in obligations meeting the requirements of the PFIA, which may include: (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which are unconditionally guaranteed or insured by, or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation (the "FDIC") 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 FDIC or the National Credit Union Share Insurance Fund (the "NCUSIF") or their respective successors; (8) interest-bearing banking deposits, other than those described in clause (7), that (i) are invested through a broker or institution with a main office or branch office in this state and selected by the City in compliance with the PFIA, (ii) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the City's account, (iii) 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 (iv) the City appoints as its custodian of the banking deposits, in compliance with the PFIA, the institution in clause (8)(i) above, a bank, or a broker-dealer; (9) certificates of deposit and share certificates meeting the requirements of the PFIA (i) that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the FDIC or the NCUSIF, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8), above, or secured in accordance with Chapter 2257, Texas Government Code, or in any other manner and amount provided by law for City deposits, or (ii) where (a) the funds are invested by the City through a broker or institution that has a main office or branch office in the State and selected by the City in compliance with the PFIA, (b) the broker or institution arranges for the deposit of the funds in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States; and (d) the City appoints, in compliance with the PFIA, the institution in clause (9)(ii)(a) above, a bank, or broker-dealer as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase

agreements that have a defined termination date, are secured by a combination of cash and obligations described by clause (1) which are pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, 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) certain bankers' acceptances with a stated maturity of 270 days or less, if the short-term obligations of the accepting bank, or of the holding company of which the bank is the largest subsidiary, are rated not less than "A-1" or "P-1" or the equivalent by at least one nationally recognized credit rating agency; (12) commercial paper with a stated maturity of 270 days or less that is rated at least "A-1" or "P-1" or an equivalent by either (i) two nationally recognized credit rating agencies, or (ii) one nationally recognized credit rating agency if the commercial paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (13) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission and complies with Securities and Exchange Commission Rule 2a-7; (14) no-load money market mutual funds that are registered and regulated by the Securities and Exchange Commission that have a weighted maturity of less than two years and either (i) have a duration of one year or more and are invested exclusively in obligations approved in this paragraph, or (ii) have a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset backed securities; (15) guaranteed investment contracts that have a defined termination date and are secured by obligations described in clause (1), excluding obligations which the City is explicitly prohibited from investing in, and in an amount at least equal to the amount of bond proceeds invested under such contract; and (16) securities lending programs if (i) the securities loaned under the program are 100% collateralized, including accrued income, (ii) a loan made under the program allows for termination at any time, (iii) a loan made under the program is either secured by (a) obligations 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 (12) through (14) above, or an authorized investment pool, (iv) the terms of a loan made under the program require that the securities being held as collateral be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party designated by the City, (v) a loan made under the program is government securities dealer or a financial institution doing business in the State, and (vi) the agreement to lend securities has a term of one year or less.

The City 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 "AAA-m" or an equivalent by at least one nationally recognized rating service or no lower than investment grade by at least one nationally recognized rating service with a weighted average maturity no greater than 90 days. The City 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 City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution.

The City 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 City 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 that include a list of authorized investments for City funds, maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted "Investment Strategy Statement" that specifically addresses 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, City 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 City shall submit an investment report detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, any additions and changes to market value and the ending value of each pooled fund group, (4) the book value and market value of each separately listed asset at the beginning and end of the reporting period, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

### **Additional Provisions**

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) require any investment officers with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (3) require the registered principal of firms seeking to sell securities to the City to: (a) receive and review the City’s investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude imprudent investment activities, and (c) deliver a written statement attesting to these requirements; (4) perform an annual audit of the management controls on investments and adherence to the City’s investment policy; (5) provide specific investment training for the Treasurer, Chief Financial Officer and investment officers; (6) 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 repurchase agreement; (7) restrict its investment in mutual funds in the aggregate to no more than 15 percent of its monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service, and to invest no portion of bond proceeds, reserves and funds held for debt service, in mutual funds; (8) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; (9) adopt an order or resolution stating that it has reviewed its investment policy and investment strategies and record any changes made to either its investment policy or investment strategy in the said order or resolution, and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in the investment transactions with the City.

### **INFORMATION RELATING TO THE TRUSTEE**

The City has appointed Wilmington Trust, N.A., a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Limited Offering Memorandum and assumes no responsibility for the contents, accuracy, fairness, or completeness of the information set forth in this Limited Offering Memorandum or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

Furthermore, the Trustee has no oversight responsibility, and is not accountable, for the use or application by the City of any of the Bonds authenticated or delivered pursuant to the Indenture or for the use or application of the proceeds of such Bonds by the City. The Trustee has not evaluated the risks, benefits, or propriety of any investment in the Bonds and makes no representation, and has reached no conclusions, regarding the value or condition of any assets or revenues pledged or assigned as security for the Bonds, the technical or financial feasibility of the project, or the investment quality of the Bonds, about all of which the Trustee expresses no opinion and expressly disclaims the expertise to evaluate.

Additional information about the Trustee may be found at its website at [www.wilmingtontrust.com](http://www.wilmingtontrust.com). Neither the information on the Trustee’s website, nor any links from that website, is a part of this Limited Offering Memorandum, nor should any such information be relied upon to make investment decisions regarding the Bonds.

## **SOURCES OF INFORMATION**

### **General**

The information contained in this Limited Offering Memorandum has been obtained primarily from the City's records, the Developer and its representatives and other sources believed to be reliable. In accordance with its responsibilities under the federal securities law, the Underwriter has reviewed the information in this Limited Offering Memorandum in accordance with, and as part of, its responsibilities to investors under the federal securities laws as applied to the facts and circumstances of the transaction, but the Underwriter does not guarantee the accuracy or completeness of such information. The information and expressions of opinion herein are subject to change without notice, and neither the delivery of this Limited Offering Memorandum or any sale hereunder will create any implication that there has been no change in the financial condition or operations of the City or the Developer described herein since the date hereof. This Limited Offering Memorandum contains, in part, estimates and matters of opinion that are not intended as statements of fact, and no representation or warranty is made as to the correctness of such estimates and opinions or that they will be realized. The summaries of the statutes, resolutions, ordinances, indentures and engineering and other related reports set forth herein are included subject to all of the provisions of such documents. These summaries do not purport to be complete statements of such provisions and reference is made to such documents for further information.

### **Source of Certain Information**

The information contained in this Limited Offering Memorandum relating to the description of the Improvement Area #2 Improvements generally and, in particular, the information included in the sections captioned "PLAN OF FINANCE – Development Plan" and "– Status of Builder Contract," "THE IMPROVEMENT AREA #2 IMPROVEMENTS," "THE DEVELOPMENT," "THE DEVELOPER," "BONDHOLDERS' RISKS" (only as it pertains to the Developer, the Improvement Area #2 Improvements and the Development), "LEGAL MATTERS – Litigation – The Developer," and "CONTINUING DISCLOSURE – The Developer" and "– The Developer's Compliance with Prior Undertakings" has been provided by the Developer, and the Developer warrants and represents that the information contained herein is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made herein, in light of the circumstances under which they were made, not misleading. At the time of delivery of the Bonds to the Underwriter, the Developer will deliver a certificate to this effect to the City and the Underwriter.

### **Experts**

The information regarding the Service and Assessment Plan in this Limited Offering Memorandum has been provided by the Administrator and has been included in reliance upon the authority of such firm as experts in the field of development planning and finance.

### **Updating of Limited Offering Memorandum**

If, subsequent to the date of the Limited Offering Memorandum, the City learns, through the ordinary course of business and without undertaking any investigation or examination for such purposes, or is notified by the Underwriter, of any adverse event which causes the Limited Offering Memorandum to be materially misleading, and unless the Underwriter elects to terminate its obligation to purchase the Bonds, the City will promptly prepare and supply to the Underwriter an appropriate amendment or supplement to the Limited Offering Memorandum satisfactory to the Underwriter; provided, however, that the obligation of the City to so amend or supplement the Limited Offering Memorandum will terminate when the City delivers the Bonds to the Underwriter, unless the Underwriter notifies the City on or before such date that less than all of the Bonds have been sold to ultimate customers; in which case the City's obligations hereunder will extend for an additional period of time (but not more than 90 days after the date the City delivers the Bonds) until all of the Bonds have been sold to ultimate customers.

## **FORWARD-LOOKING STATEMENTS**

Certain statements included or incorporated by reference in this Limited Offering Memorandum constitute “forward-looking statements” within the meaning of the United States Private Securities Litigation Reform Act of 1995, Section 21e of the United States Securities Exchange Act of 1934, as amended, and Section 27A of the Securities Act. Such statements are generally identifiable by the terminology used such as “plan,” “expect,” “estimate,” “project,” “anticipate,” “budget” or other similar words.

THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. THE CITY DOES NOT PLAN TO ISSUE ANY UPDATES OR REVISIONS TO THOSE FORWARD-LOOKING STATEMENTS IF OR WHEN ANY OF ITS EXPECTATIONS, OR EVENTS, CONDITIONS OR CIRCUMSTANCES ON WHICH SUCH STATEMENTS ARE BASED OCCUR, OTHER THAN AS DESCRIBED UNDER “CONTINUING DISCLOSURE.”

## **AUTHORIZATION AND APPROVAL**

The City has approved of the form and content of this Preliminary Limited Offering Memorandum and authorized this Preliminary Limited Offering Memorandum to be used by the Underwriter in connection with the marketing and sale of the Bonds.

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**APPENDIX A**

**GENERAL INFORMATION REGARDING THE CITY**

The City is located in Harris County and is approximately 32 miles northwest of the City of Houston on FM Road 2920. The City covers approximately 12.32 square miles. The City’s 2020 population was 12,341. The City estimates its 2022 population is 12,341.

The City is a municipal corporation of the State, duly organized and existing under the laws of the State, including the City’s Home Rule Charter. The City was incorporated on July 18, 1933, and first adopted its Home Rule Charter on January 17, 1987. The City operates under a Council-City Manager form of government with a City Council comprised of the Mayor and five Council members elected to serve three-year terms. The Mayor is the official head of City government, and the City Manager acts as the chief administrative officer. The City provides a number of services, including water, sanitary sewer collection and treatment, gas service, police, fire, maintaining streets and drainage, municipal court, a community center, and parks.

**Historical Employment in Houston – The Woodlands – Sugar Land Metropolitan Statistical Area**

The following information has been provided for informational purposes only.

	2022 <sup>(1)</sup>	Dec. 2021	Dec. 2020	Dec. 2019	Dec. 2018
Civilian Labor Force	3,524,608	3,460,832	3,408,383	3,408,827	3,372,996
Total Employed	3,356,166	3,294,015	3,147,212	3,287,849	3,238,419
Total Unemployed	168,442	166,817	261,171	120,978	134,577
Unemployment Rate	4.8%	4.8%	7.7%	3.5%	4.0%

\* Preliminary as of July 2022.

Source: U.S. Bureau of Labor Statistics

**Major Employers in the City**

The major employers in the City for 2021 are set forth in the table below.

<u>Employer</u>	<u>Employees</u>
Tomball ISD	2,235
HCA (prev. Tomball Regional Medical Center)	940
Lone Star College – Tomball	715
H-E-B	320
Wal-Mart	275
City of Tomball	204
Lowes	200
Kroger	157
Target	90
Baker Hughes (BJ Services)	70

Source: The City’s Annual Comprehensive Financial Report Fiscal Year Ended September 30, 2021

**REGIONAL EMPLOYMENT**

The major employers of municipalities surrounding the City are set forth in the table below.

City of Magnolia, TX		City of Conroe, TX		City of Houston, TX		Township of the Woodlands	
Approximately 12 Miles from the City		Approximately 28 Miles from the City		Approximately 32 Miles from the City		Approximately 18 Miles from the City	
Employer	Employees	Employer	Employees	Employer	Employees	Employer	Employees
Magnolia ISD	1,600	Conroe ISD	8,503	Memorial Hermann Healthcare System	35,360	Conroe ISD	4,487
Canrig Drilling Technology Inc.	380	Montgomery County	2,415	Wal-Mart	29,797	Memorial Hermann The Woodlands Hosp.	2,927
US Post Office	62	Conroe Regional Medical Center	1,700	H-E-B	29,657	Wildcat PPE	2,415
Magnolia Volunteer Fire Department	61	City of Conroe	763	Houston Methodist	26,098	Houston Methodist, The Woodlands Hosp.	1,647
Arlan's Market	45	Cantel	400	Univ. of TX MD Anderson Cancer Center	21,576	CHI St. Luke's Health	1,600
Montgomery County Precinct 2	42	NOV Wellbore Technologies	400	HCA Houston Healthcare	15,000	ExxonMobil	1,527
Hapco Inc.	30	NOV Fluid Control	375	Kroger Company	14,868	Lone Star College - Montgomery	1,431
Hyvair Corporation	30	Professional Directional	300	ExxonMobil	13,000	Alight Solutions	1,200
City of Magnolia	28	Borden	225	United Airlines	11,900	TX Children's Hospital	1,188
Rancho Grande Restaurant	26	NOV Texas Oil Tools	220	Schlumberger Limited	11,700	McKesson Specialty Health	1,040

City of Katy, TX	
Approximately 20 Miles from the City	
Employer	Employees
Katy Mills	2,900
Katy ISD	1,827
Amazon	1,300
Igloo	1,061
Typhoon Texas	755
Wal-Mart	388
HEB Grocery/Gas	340
Costco	292
City of Katy	265
American Furniture Warehouse	252

City of Humble, TX	
Approximately 27 Miles from the City	
Employer	Employees
Memorial Hermann	1,000
Humble ISD	593
Lawler Food	402
Wal-Mart	370
CDI Seals	331
Harris County Annex	272
Macy's	265
City of Humble	194
Target	150
Kroger	130

Sources: Municipal Advisory Council of Texas (employment data).  
 Note: Map is not to scale and has been edited for ease of use.

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APPENDIX B  
FORM OF INDENTURE

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APPENDIX C  
SERVICE AND ASSESSMENT PLAN

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APPENDIX D  
FORM OF OPINION OF BOND COUNSEL

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APPENDIX E-1

FORM OF DISCLOSURE AGREEMENT OF THE ISSUER

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APPENDIX E-2

FORM OF DISCLOSURE AGREEMENT OF THE DEVELOPER

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APPENDIX F

DEVELOPMENT AGREEMENT

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APPENDIX G

FORM OF REIMBURSEMENT AGREEMENT

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APPENDIX H

APPRAISAL