

## OFFICIAL STATEMENT DATED NOVEMBER 3, 2011

*In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for purposes of federal income taxation under existing law, subject to the matters described under "TAX MATTERS" herein. See "LEGAL MATTERS" and "TAX MATTERS" herein for a discussion of Bond Counsel's opinion, including a description of certain alternative minimum tax consequences for corporations.*

**\$2,860,000**

**CITY OF AUSTIN, TEXAS,**

**(a municipal corporation of the State of Texas located in Travis County)**

**SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011**

**(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)**

**Dated: Date of Delivery**

**Due: September 1, as shown on the inside cover**

The City of Austin, Texas, Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District) (the "Bonds"), are being issued by the City of Austin, Texas (the "City"). The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$25,000 of principal and any integral multiple 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 1 and September 1, commencing March 1, 2012, until maturity or earlier redemption. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. 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 Deutsche Bank National Trust Company, 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 Act, Chapter 372, Texas Local Government Code, as amended (the "PID Act"), Ordinance No. 20111103-052 adopted by the City Council of the City (the "City Council") on November 3, 2011, and an Indenture of Trust, dated as of November 1, 2011 (the "Indenture"), entered into by and between the City and the Trustee.

Proceeds of the Bonds will be used to provide funds for (i) the payment of a portion of the costs of construction, acquisition or purchase of certain water and roadway public improvements for the benefit of the Indian Hills Public Improvement District, a public improvement district of the City (the "District"), (ii) the funding of the Reserve Fund in the amount of the Reserve Fund Requirement for the Bonds, (iii) the payment of a portion of the costs incidental to the organization of the District, (iv) the funding of capitalized interest on the Bonds, and (v) the payment of the costs of issuance of the Bonds. See "THE IMPROVEMENTS" and "APPENDIX A – Form of Indenture."

Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Indenture.

The Bonds, when issued and delivered, will constitute valid and binding special obligations of the City payable solely from and secured by Pledged Revenues, consisting primarily of monies collected from Assessments levied against properties in the District in accordance with a Service and Assessment Plan, all to the extent and upon the conditions described herein. See "SECURITY FOR THE BONDS."

The Bonds are subject to redemption at the times, in the amounts, and at the redemption prices more fully described herein under the caption "DESCRIPTION OF THE BONDS — Redemption Provisions."

**The Bonds involve a degree of risk and are not suitable for all investors. See "BONDHOLDERS' RISKS" and "SUITABILITY FOR INVESTMENT." 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 with respect to the Bonds.**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM PLEDGED REVENUES AND ANY OTHER FUNDS HELD UNDER THE INDENTURE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. THE BONDS DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY AND ARE NOT PAYABLE EXCEPT AS PROVIDED IN THE INDENTURE. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND ANY OTHER FUNDS HELD UNDER THE INDENTURE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. 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.

This cover page contains certain information for quick reference only. It is not a summary of the Bonds. Investors must read this entire Official Statement 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 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 Fulbright & Jaworski L.L.P., 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 C - Form of Opinion of Bond Counsel. Certain legal matters will be passed upon for the Underwriter by its counsel, Andrews Kurth LLP, for the Developer by its counsel, Metcalfe Williams LLP, and for the Trustee by its counsel, The Weist Law Firm. It is expected that the Bonds will be delivered in book-entry form through the facilities of DTC on or about November 16, 2011.

**PIPER JAFFRAY**

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

\$2,860,000  
CITY OF AUSTIN, TEXAS,  
(a municipal corporation of the State of Texas located in Travis County)  
SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011  
(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)

\$335,000 8.500% Term Bonds, Due September 1, 2018, Priced to Yield 8.875%; CUSIP 052466 AH2<sup>(a)(e)</sup>

\$345,000 8.375% Term Bonds, Due September 1, 2020, Priced to Yield 8.875%; CUSIP 052466 AJ8<sup>(b)(e)</sup>

\$505,000 8.375% Term Bonds, Due September 1, 2022, Priced to Yield 8.875%; CUSIP 052466 AK5<sup>(c)(e)</sup>

\$1,675,000 7.875% Term Bonds, Due September 1, 2026, Priced to Yield 8.750%; CUSIP 052466 AL3<sup>(d)(e)</sup>

- 
- (a) The Term Bonds maturing on September 1, 2018, are subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any Interest Payment Date on or after September 1, 2013, at a price of par plus accrued interest to the date of redemption.
- (b) The Term Bonds maturing on September 1, 2020, are subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any Interest Payment Date on or after September 1, 2015, at a price of par plus accrued interest to the date of redemption.
- (c) The Term Bonds maturing on September 1, 2022, are subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any Interest Payment Date on or after September 1, 2017, at a price of par plus accrued interest to the date of redemption.
- (d) The Term Bonds maturing on September 1, 2026, are subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any Interest Payment Date on or after September 1, 2021, at a price of par plus accrued interest to the date of redemption.
- (e) 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, managed by Standard & Poor's Financial Services LLC on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the City, the Financial Advisor or the Underwriter takes any responsibility for the accuracy of such numbers.

**CITY OF AUSTIN, TEXAS  
CITY COUNCIL**

Lee Leffingwell, Mayor  
Sheryl Cole, Mayor Pro-Tem  
Chris Riley, Member  
Kathie Tovo, Member  
Laura Morrison, Member  
Bill Spelman, Member  
Mike Martinez, Member

**CITY MANAGER**  
Marc A. Ott

**CHIEF FINANCIAL OFFICER**  
Leslie Browder

**CITY CLERK**  
Shirley Gentry

**CITY ATTORNEY**  
Karen Kennard

**SERVICE AND ASSESSMENT PLAN CONSULTANT**  
DPFG

**FINANCIAL ADVISOR TO CITY**  
Public Financial Management

**BOND COUNSEL**  
Fulbright & Jaworski L.L.P.

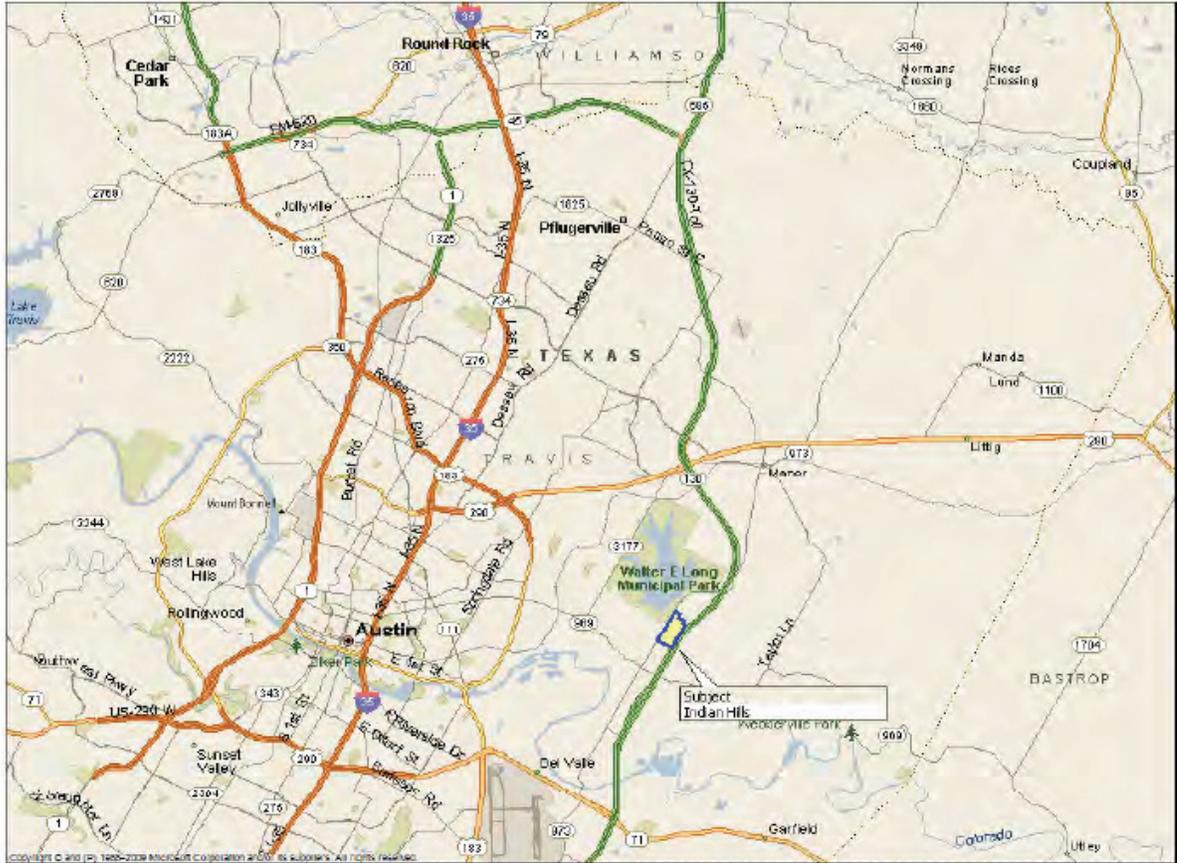
**UNDERWRITER'S COUNSEL**  
Andrews Kurth LLP

MAP SHOWING THE DEVELOPMENT IN  
CONTEXT OF THE SURROUNDING AREA



MAP SHOWING LOCATION OF THE DISTRICT  
WITHIN METROPOLITAN AUSTIN AREA

# Indian Hills Project Location



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 OFFICIAL STATEMENT, 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 OFFICIAL STATEMENT 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 UNDERWRITER HAS REVIEWED THE INFORMATION IN THIS OFFICIAL STATEMENT 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 OFFICIAL STATEMENT, NOR ANY SALE MADE HEREUNDER, SHALL, UNDER ANY CIRCUMSTANCES, CREATE ANY IMPLICATION THAT THERE HAS BEEN NO CHANGE IN THE AFFAIRS OF THE CITY 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 FOR USE IN THIS OFFICIAL STATEMENT.

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 OFFICIAL STATEMENT.

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS OFFICIAL STATEMENT 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. 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" HEREIN.

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## OFFICIAL STATEMENT

**\$2,860,000**  
**CITY OF AUSTIN, TEXAS,**  
**(a municipal corporation of the State of Texas located in Travis County)**  
**SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011**  
**(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)**

### INTRODUCTION

The purpose of this Official Statement, 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 Austin, Texas (the “City”), of its \$2,860,000 aggregate principal amount of Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District) (the “Bonds”).

PROSPECTIVE INVESTORS SHOULD BE AWARE OF CERTAIN RISK FACTORS, ANY OF WHICH, IF MATERIALIZED TO A SUFFICIENT DEGREE, COULD DELAY OR PREVENT PAYMENT OF PRINCIPAL OF AND/OR INTEREST ON THE BONDS. THE BONDS ARE NOT A SUITABLE INVESTMENT FOR ALL INVESTORS. See “SUITABILITY FOR INVESTMENT” and “BONDHOLDERS’ RISKS.”

The Bonds are being issued by the City pursuant to the Public Improvement District Act, Chapter 372, Texas Local Government Code, as amended (the “PID Act”), Ordinance No. 20111103-052, enacted by the City Council on November 3, 2011 (the “Bond Ordinance”), and an Indenture of Trust, dated as of November 1, 2011 (the “Indenture”), entered into by and between the City and the Trustee. The Bonds will be secured by assessments levied pursuant to Ordinance No. 20111103-011, enacted by the City Council on November 3, 2011 (the “Assessment Ordinance”).

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 Official Statement that are not otherwise defined herein shall have the meanings set forth in the Indenture. See “APPENDIX A — Form of Indenture.”

Set forth herein are brief descriptions of the City, the District, the Assessment Ordinance, the Bond Ordinance, the Service and Assessment Plan and the Developer, 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, Piper Jaffray & Co., 345 California Street, Suite 2400, San Francisco, California 94101, telephone number (415) 616-1616. The full text of the Indenture appears in APPENDIX A and the full text of the Service and Assessment Plan appears as APPENDIX B. 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.

### PLAN OF FINANCE

#### General

A portion of the proceeds of the Bonds and the Subordinate Bonds (defined herein) will be used to provide funds for the payment of a portion of the costs of construction, acquisition or purchase of certain water and roadway public improvements for the benefit of the Indian Hills Public Improvement District, a public improvement district of the City (the “District”). See “THE IMPROVEMENTS,” “APPENDIX A – Form of Indenture” and “SOURCES AND USES OF FUNDS.”

Payment of the Bonds is secured by a pledge of and a lien upon the Pledged Revenues, consisting primarily of Assessments to be levied against the parcels or lots within the District, all to the extent and upon the conditions

described herein and in the Indenture. See “SECURITY FOR THE BONDS” and “ASSESSMENT PROCEDURES.”

Concurrently with the issuance of the Bonds, the City will deliver its \$2,332,349.75 Special Assessment Revenue Bonds, Subordinate Series 2011 (Indian Hills Public Improvement District) (the “Subordinate Bonds”). The Subordinate Bonds will be secured by and payable primarily from (i) revenues derived from certain contract payments received from the City pursuant to the Water CRA (defined below) entered into in connection with the installation and development of certain public improvements within the District and (ii) a pledge of the Pledged Revenues, subject to the prior payment from Pledged Revenues of debt service and other costs related to and the funding of the Reserve Fund for the Bonds.

In order to ensure that there are sufficient reimbursable project costs to generate reimbursement payments due from the City pursuant to the Water CRA in an amount sufficient to repay principal of and interest on the Subordinate Bonds (and thus obviate the need to levy Assessments to pay such debt service), a portion of the proceeds of the Bonds will be used to reimburse the Developer for eligible reimbursable project costs. Such proceeds of the Bonds will be deposited to the Reimbursement Account of the Project Fund and spent to pay eligible reimbursable project costs prior to any proceeds of the Subordinate Bonds being used for such purposes. See “SOURCES AND USES OF FUNDS.”

Also concurrently with the issuance of the Bonds and the Subordinate Bonds, the City will deliver its \$15,500,000 Special Assessment Revenue Bonds, Senior Series 2011 (Whisper Valley Public Improvement District) (the “Whisper Valley Senior Bonds”) and its \$18,485,168.10 Special Assessment Revenue Bonds, Subordinate Series 2011 (Whisper Valley Public Improvement District) (the “Whisper Valley Subordinate Bonds” and, together with the Whisper Valley Senior Bonds, the “Whisper Valley Bonds”). The Whisper Valley Bonds are being issued to finance certain public improvements, and will be secured by assessment revenues collected, in the Whisper Valley Public Improvement District (the “Whisper Valley District”). The Whisper Valley Bonds are not related to, or payable from or secured by the same sources as, the Bonds or the Subordinate Bonds. However, the developers of the District and the Whisper Valley District are related and certain reimbursements to such developers will be made pursuant to a common contract. See “— The Water CRA.”

THIS OFFICIAL STATEMENT DOES NOT DESCRIBE THE SUBORDINATE BONDS OR THE WHISPER VALLEY BONDS OR THE SECURITY THEREFOR. THE SUBORDINATE BONDS AND THE WHISPER VALLEY BONDS ARE BEING OFFERED PURSUANT TO SEPARATE OFFERING DOCUMENTS. THE BONDS, THE SUBORDINATE BONDS, AND THE WHISPER VALLEY BONDS ARE SEPARATE AND DISTINCT SECURITIES OFFERINGS BEING ISSUED AND SOLD INDEPENDENTLY, AND, WHILE THE OBLIGATIONS SHARE CERTAIN COMMON ATTRIBUTES, EACH ISSUE IS SEPARATE FROM THE OTHER AND SHOULD BE REVIEWED AND ANALYZED INDEPENDENTLY, INCLUDING THE TYPE OF OBLIGATION BEING OFFERED, ITS TERMS AND SECURITY FOR REPAYMENT, THE RIGHTS OF THE HOLDERS, THE FEDERAL INCOME TAX TREATMENT, AND OTHER FEATURES.

### **The Water CRA**

Club Deal 116 Indian Hills TX, Limited Partnership (the “Developer”) is responsible for the construction of certain water improvements in the District pursuant to the Restated Cost Reimbursement Agreement (Water) and Second Amendment to the Cost Reimbursement Agreement (Wastewater) – Indian Hills and Whisper Valley Subdivisions, dated as of November 1, 2010, (as amended, the “Water CRA”) by and among the City, the Developer and Club Deal 120 Whisper Valley, Limited Partnership (the “Whisper Valley Developer”).

In the Water CRA, the City has agreed to reimburse the Developer for certain eligible costs with respect to the water improvements designated as Line 1 (but only that portion of Line 1 allocable to the District). Pursuant to the Security, Assignment and Pledge Agreement dated as of November 1, 2011 (the “Pledge Agreement”) among the Developer, the City and the Trustee, the Developer and the City will assign to the Trustee each such payment received as reimbursement for such lines in the District pursuant to the Water CRA to secure the payment of debt service on the Subordinate Bonds.

REIMBURSEMENT PAYMENTS TO THE DEVELOPER UNDER THE WATER CRA DO NOT SECURE THE REPAYMENT OF PRINCIPAL OF AND INTEREST ON THE BONDS. See “SECURITY FOR THE BONDS.”

## DESCRIPTION OF THE BONDS

### General Description

The Bonds will mature on the dates and in the amounts set forth in the inside cover page of this Official Statement. Interest on the Bonds will accrue from their date of delivery to the Underwriter and will be computed on the basis of a 360-day year of twelve 30-day months payable on each March 1 and September 1, commencing March 1, 2012 (each an “Interest Payment Date”), until maturity or prior redemption. Deutsche Bank National Trust Company is the initial Trustee, Paying Agent and Registrar for the Bonds.

The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$25,000 of principal and any integral multiple 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 right and option to redeem Bonds before their scheduled maturity dates, in whole or in part on any Interest Payment Date beginning on the dates shown below, such redemption date or dates to be fixed by the City, at a price of 100% of the principal amount thereof, plus accrued interest to the redemption date.

<u>Maturity</u>	<u>Redemption Date</u>
\$ 335,000 Term Bonds due September 1, 2018	On or after September 1, 2013
\$ 345,000 Term Bonds due September 1, 2020	On or after September 1, 2015
\$ 505,000 Term Bonds due September 1, 2022	On or after September 1, 2017
\$1,675,000 Term Bonds due September 1, 2026	On or after September 1, 2021

Extraordinary Optional Redemption. The Bonds are subject to extraordinary optional redemption prior to their scheduled maturity on the first day of any month after the required notice of redemption at a redemption price equal to 100% of the principal amount of the Bonds, or portions thereof, to be redeemed plus accrued interest to the redemption date from property owner Prepayments, including related transfers to the Redemption Fund. See “ASSESSMENT PROCEDURES — Prepayment of Assessments” for the definition and description of “Prepayments.”

Notwithstanding the foregoing, the Trustee will not be required to make an extraordinary optional redemption of Bonds unless it has at least \$25,000 available in the Redemption Fund with which to redeem Bonds. No redemption shall be made which results in a Bond remaining outstanding in a principal amount less than an Authorized Denomination. See “APPENDIX A — Form of Indenture.”

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption prior to their respective maturities and will be redeemed by the City in part at a price of 100% of the principal amount thereof, plus accrued interest to the redemption date, from moneys available for such purpose in the Principal and Interest Account of the Bond Fund pursuant to the Indenture, on the dates and in the respective principal amounts as set forth in the following schedules:

**\$335,000 Term Bonds due September 1, 2018**

<b><u>Redemption Date</u></b>	<b><u>Principal Amount</u></b>
September 1, 2015	\$45,000
September 1, 2016	70,000
September 1, 2017	95,000
September 1, 2018†	125,000

**\$345,000 Term Bonds due September 1, 2020**

<b><u>Redemption Date</u></b>	<b><u>Principal Amount</u></b>
September 1, 2019	\$ 155,000
September 1, 2020†	190,000

**\$505,000 Term Bonds due September 1, 2022**

<b><u>Redemption Date</u></b>	<b><u>Principal Amount</u></b>
September 1, 2021	\$230,000
September 1, 2022†	275,000

**\$1,675,000 Term Bonds due September 1, 2026**

<b><u>Redemption Date</u></b>	<b><u>Principal Amount</u></b>
September 1, 2023	\$330,000
September 1, 2024	385,000
September 1, 2025	445,000
September 1, 2026†	515,000

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† Stated maturity.

At least forty-five (45) days prior to each sinking fund redemption date, the Trustee will select a principal amount of Bonds equal to the sinking fund installment amount of such Bonds to be redeemed, will call such Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in the Indenture.

The principal amount of Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the City, by the principal amount of any Bonds of such maturity which, at least 45 days prior to the sinking fund redemption date shall have been acquired by the City at a price not exceeding the principal amount of such Bonds plus accrued unpaid interest to the date of purchase thereof, and delivered to the Trustee for cancellation.

The principal amount of Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced on a pro rata basis among sinking fund installments by the principal amount of any Bonds which, at least 45 days prior to the mandatory sinking fund redemption date, shall have been redeemed pursuant to the optional redemption or extraordinary optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

*Notice of Redemption.* Notice of any redemption shall be given by the Trustee at least thirty (30) days prior to the redemption date by giving written notice to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register by first-class mail, postage prepaid. Any such notice shall be conclusively

presumed to have been duly given, whether or not the Owner receives such notice. Notice of redemption having been given as provided in the Indenture, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption provided that funds for the payment of the redemption price of such Bonds to the date fixed for redemption are on deposit with the Trustee; thereafter, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.

With respect to any optional redemption of the Bonds, unless the Trustee has received funds sufficient to pay the redemption price of the Bonds to be redeemed before giving of a notice of redemption, the notice may state the City may condition redemption on the receipt of such funds by the Trustee on or before the date fixed for the redemption, or on the satisfaction of any other prerequisites set forth in the notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient funds are not received, the notice shall be of no force and effect, the City shall not redeem the Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, that the Bonds have not been redeemed.

The City has the right to rescind any optional redemption or extraordinary optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Additional Provisions with Respect to Redemption. Bonds may be redeemed in part only in Authorized Denominations. If less than all of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by any method selected by the Trustee that results in a random selection, and treating each minimum Authorized Denomination of the Bonds as a single Bond for such purposes.

Upon surrender of any Bond in part, the Trustee, in accordance with the provisions of the Indenture, shall authenticate and deliver in exchange thereof a Bond or Bonds of like tenor, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond or Bonds so surrendered.

### **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 Official Statement. The City and the Underwriter believe the source of such information to be reliable, but neither the City nor the Underwriter takes responsibility for the accuracy or completeness thereof.*

*The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or (3) DTC will serve and act in the manner described in this Official Statement. The current rules applicable to DTC are on file with the 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 companies that clear through or maintain a custodial relationship with a Direct Participant, either directly or indirectly (“*Indirect Participants*”). DTC has a Standard & Poor’s rating of AA+. The DTC Rules applicable to its Participants are on file with the 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 effect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC’s records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct 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 shall be sent to DTC. If less than all Bonds of the same series and maturity are being redeemed, DTC’s practice is to determine by lot the amount of the interest of each Direct Participant of such series and 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 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).

Redemption proceeds, distributions, and dividend payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Agent, on payable date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of redemption proceeds, distributions, and dividend payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the 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 or the Trustee. Under such circumstances, in the event that a successor securities 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 transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. Thereafter, Bond certificates may be transferred and exchanged as described in the Indenture.

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 the City takes no responsibility for the accuracy thereof.

NEITHER THE CITY NOR THE TRUSTEE 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 PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS. THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, THE DTC 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 OFFICIAL STATEMENT. 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.

## **SECURITY FOR THE BONDS**

### **General**

THE BONDS ARE SPECIAL OBLIGATIONS OF THE CITY PAYABLE SOLELY FROM PLEDGED REVENUES AND ANY OTHER FUNDS HELD UNDER THE INDENTURE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. THE BONDS DO NOT GIVE RISE TO A CHARGE AGAINST THE GENERAL CREDIT OR TAXING POWERS OF THE CITY AND ARE NOT PAYABLE EXCEPT AS PROVIDED IN THE INDENTURE. THE OWNERS OF THE BONDS SHALL NEVER HAVE THE RIGHT TO DEMAND PAYMENT THEREOF OUT OF ANY FUNDS OF THE CITY OTHER THAN THE PLEDGED REVENUES AND ANY OTHER FUNDS HELD UNDER THE INDENTURE, AS AND TO THE EXTENT PROVIDED IN THE INDENTURE. 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.

The principal of, premium, if any, and interest on the Bonds are secured by a pledge of and a lien upon the Pledged Revenues, consisting primarily of Assessments levied against the parcels or lots within the District, all to the extent and upon the conditions described herein and in the Indenture. The District contains approximately 240 acres, all of which is expected to constitute Assessed Parcels. In accordance with the PID Act, the City has caused the preparation of a Service and Assessment Plan (as amended and supplemented, the "Service and Assessment Plan"), which describes the special benefit received by the property within the District, provides the basis and

justification for the determination of special benefit on such property, establishes the methodology for the levy of Assessments and provides for the allocation of Pledged Revenues for payment of principal of, premium, if any, and interest on the 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 (hereinafter described) of Assessments due in a given year. The determination by the City of the 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 owners and landowners within the District. See “APPENDIX B — 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 Improvements by levying Assessments upon properties in the District benefitted thereby. For a description of the assessment methodology and the amounts of Assessments anticipated to be levied in the District, see “ASSESSMENT PROCEDURES” and “APPENDIX B — Service and Assessment Plan.”

Pursuant to the Indenture, Pledged Revenues consist of (i) the Annual Installments, less the Annual Collection Costs, (ii) any Prepayments received by the City, (iii) any Foreclosure Proceeds received by the City, and (iv) moneys held in the Pledged Funds. Annual Installments mean, with respect to each Assessed Parcel, each annual payment of the Assessment as shown on the Assessment Roll attached to the Service and Assessment Plan. Assessments also include any supplemental assessments levied in accordance with Sections 372.019 and 372.020 of the PID Act. The City will covenant in the Indenture that it will take and pursue all actions permissible under Applicable Laws to cause the Assessments to be collected and the liens thereof to be enforced continuously. See “—Pledged Revenue Fund,” “APPENDIX A — Form of Indenture” and “APPENDIX B — Service and Assessment Plan.”

As described in “THE DEVELOPMENT — Development Plans,” the City expects to periodically levy additional assessments in certain subsections of the District and to issue Phased Bonds secured by such additional assessments to finance micro-improvements benefitting such subsections and to refund a pro-rata portion of the Bonds based upon the proportion that the area of such subsection bears to the total area of the District. As each series of refunding bonds is issued and pro-rata portions of the Bonds are redeemed, the Assessments levied in such subsection to secure repayment of the Bonds will be released from the Trust Estate for the Bonds and will no longer constitute Pledged Revenues securing repayment of the Bonds. The lien of the additional assessments will have no affect on the lien position of the Owners of the Bonds with respect to the remaining Trust Estate.

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 by State of Texas, city, county, school districts, or other political subdivisions 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, 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” herein.

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

The Assessments shown on the Assessment Roll, together with the interest thereon, shall be applied to the payment of the principal of and interest on the Bonds and to pay Administrative Expenses as and to the extent provided in the Service and Assessment Plan and the Indenture.

The Assessments assessed to pay debt service on the Bonds, 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. An Assessment 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.

A record of the Assessments on each parcel, tract or lot which are to be collected in each year during the term of the Bonds is shown on the Assessment Roll. Sums received from the collection of the Assessments to pay the debt service requirements (including delinquent installments, Foreclosure Proceeds, proceeds from a guarantor, if any, of Assessments to pay the debt service requirements on the Bonds, and penalties) and of the interest thereon shall be deposited into the Pledged Revenue Fund, except that amounts received as Prepayments shall be deposited into the Redemption Fund.

Any sums collected as Annual Collection Costs shall be deposited in the Administrative Fund.

### **Unconditional Levy of Assessments**

The City has imposed special assessments on the property within the District to pay the principal of and interest on the 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. This Assessment shall be effective on the date of, and strictly in accordance with the terms of, the Assessment Ordinance. Each Assessment may be paid immediately in full or in periodic annual installments over a period of time equal to the term of the Bonds, which installments shall include interest on the Assessments. Each Annual Installment, including the interest on the unpaid amount of an Assessment, shall be assessed on September 1 and shall be due on January 31 of the following year. Each Annual Installment together with interest thereon shall be delinquent if not paid prior to February 1. The initial Annual Installments will be assessed on September 1, 2012.

As authorized by Section 372.003(b)(14) of the PID Act, the City has levied, assessed, and will collect, each year while the Bonds are Outstanding and unpaid, commencing September 1, 2012, an Assessment to pay the annual costs incurred by the City in the administration and operation of the District. The Assessment to pay such annual 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 Assessments to pay annual expenses shall be due in the manner set forth in the ordinance levying the Assessments on October 1 of each year and shall be delinquent if not paid by February 1 of the following year.

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

Assessments together with interest, penalties, and expense of collection and reasonable attorneys' fees, as permitted by the Texas Tax Code, shall be 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 municipal ad valorem taxes and shall be a personal liability of and charge against the owner of the property regardless of whether the owners are named. The lien for Assessments and penalties and interest shall begin on the effective date of the Assessment Ordinance and continue until the Assessments are paid or until all Bonds are finally paid.

Failure to pay an Annual Installment when due shall not accelerate the payment of the remaining Annual Installments of the Assessment 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**

Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the Pledged Revenues and such pledges are, therefore, valid, effective, and perfected. The City will covenant in the Indenture that, should Texas law be amended at any time while the Bonds are outstanding and unpaid, the result of such amendment being that the pledge of such revenues is subject to the filing requirements of Chapter 9, Texas Business & Commerce Code, in order to preserve to the registered owners of the Bonds a security interest in such pledge, the City will take such measures as it determines are reasonable and necessary to enable a filing of a security interest in said pledge to occur. See "APPENDIX A — Form of Indenture."

## **Pledged Revenue Fund**

The City has created under the Indenture a Pledged Revenue Fund held by the Trustee. Immediately upon receipt thereof, the City shall deposit or cause to be deposited the Pledged Revenues into the Pledged Revenue Fund.

From time to time as needed to pay the obligations relating to the Bonds, but no later than five business days before each Interest Payment Date, the Trustee shall withdraw from the Pledged Revenue Fund, and transfer to the Principal and Interest Account of the Bond Fund, 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, 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 Bonds on the next Interest Payment Date.

If, after the foregoing transfers and any transfer from the Reserve Fund as provided in “Reserve Fund” herein, there are insufficient funds to make the payments provided in the preceding paragraph, 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 Bonds.

The Trustee shall transfer Prepayments to the Redemption Fund promptly after deposit of such amounts into the Pledged Revenue Fund.

The Trustee shall transfer Foreclosure Proceeds first to the Reserve Fund to restore any transfers from the Reserve Fund made with respect to the Assessed Parcel or Assessed Parcels to which the Foreclosure Proceeds relate, and second, to the Redemption Fund promptly after deposit of such amounts into the Pledged Revenue Fund.

After satisfaction of the requirement to provide for the payment of the principal and interest on the Bonds and to fund any deficiency that may exist in the Reserve Fund, the Trustee may apply assessments to the payment of the amounts due to the Subordinate Bonds but such payment is subject and subordinate to the use of the Assessments to pay the Bonds and prior to using any Assessments to pay the Subordinate Bonds the Trustee shall determine what other monies, if any, have been deposited with it to make payments on the Subordinate Bonds and shall credit the use of those monies to the payment obligations of the Subordinate Bonds prior to using Assessments for that purpose and shall only use the Assessments needed to provide the difference between the payment requirement and the amount credited.

Any Assessments remaining after satisfying the foregoing payments may be used for any lawful purpose for which Assessments may be used under the PID Act.

## **Reserve Fund**

Pursuant to the Indenture, a Reserve Account will be created within the Reserve Fund for the benefit of the Bonds and held by the Trustee and will be funded with proceeds of the Bonds in the amount of the Reserve Fund Requirement. Pursuant to the Indenture, the “Reserve Fund Requirement” for the Bonds shall be an amount equal to the least of (i) Maximum Annual Debt Service on the Bonds as of their date of issuance, (ii) 125% of average Annual Debt Service on the Bonds as of their date of issuance, and (iii) 10% of the proceeds of the Bonds. As of the date of delivery of the Bonds, the Reserve Fund Requirement equals \$270,507.68.

If, on any Maturity Date or Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service on the Bonds due on such date, the Trustee shall, after first transferring any available funds on deposit in the Delinquency Reserve Account (described below), transfer from the Reserve Account of the Reserve Fund to the Bond Fund the amounts necessary to cure such deficiency. The Trustee shall determine the value of cash and investments on deposit in the Reserve Account as of December 31 of each year. So long as no Event of Default under the Indenture shall have occurred and be continuing, if as of the date of such determination the value of cash and investments on deposit in the Reserve Account exceeds the Reserve Fund Requirement for the Bonds, the Trustee shall transfer such excess to the Bond Fund. In the event of an extraordinary optional redemption of the Bonds from the proceeds of a Prepayment, the Trustee, pursuant to written directions from the

City, shall transfer from the Reserve Account to the Redemption Fund the amount specified in such directions, which shall be an amount equal to the difference between the Reserve Fund Requirement immediately prior to such extraordinary optional redemption and the Reserve Fund Requirements immediately after such extraordinary optional redemption.

#### **Prepayment Reserve Account of the Reserve Fund**

Pursuant to the Indenture, a Prepayment Reserve Account will be created within the Reserve Fund and held by the Trustee for the benefit of the Bonds. The Trustee will transfer funds from the Pledged Revenue Fund to the Prepayment Reserve Account on a semi-annual basis for a period of up to 5.5 years until the amount on deposit therein is equal to the Prepayment Reserve Requirement. The City has allocated 0.20% of the interest rate component of the Annual Installments during such time for such purpose. See “APPENDIX A – Form of Indenture” and “APPENDIX B – Service and Assessment Plan.”

Money deposited in the Prepayment Reserve Account will be used and withdrawn by the Trustee for the purpose of making transfers to the Bond Fund, pursuant to, and at the times specified in, the Indenture to pay a portion of the accrued interest on Bonds being redeemed pursuant to an extraordinary optional redemption. The amount to be transferred shall be an amount, for each Prepayment, equal to the amount of interest that would have accrued on the Assessment but for the Prepayment for the period from and including the date of the Prepayment to but excluding the date of redemption of Bonds pursuant to an extraordinary optional redemption with the proceeds of such Prepayment.

If, on any Maturity Date or Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service due on such date, and if there are not sufficient monies in the Reserve Account of the Reserve Fund to cure such deficiency, the Trustee shall transfer from the Prepayment Reserve Account to the Bond Fund the amounts necessary to cure such deficiency.

#### **Delinquency Reserve Account of the Reserve Fund**

Pursuant to the Indenture, a Delinquency Reserve Account will be created within the Reserve Fund and held by the Trustee for the benefit of the Bonds. The Trustee will transfer funds from the Pledged Revenue Fund to the Delinquency Reserve Account on a semi-annual basis for approximately the first four to five years that Assessments are collected until the amount on deposit therein is equal to the Delinquency Reserve Requirement. The City has allocated 0.30% of the interest rate component of the Annual Installments during such time for such purpose. See “APPENDIX A – Form of Indenture” and “APPENDIX B – Service and Assessment Plan.”

If, on any Maturity Date or Interest Payment Date, the amount on deposit in the Bond Fund is insufficient, to pay the debt service on the Bonds due on such date, the Trustee shall transfer from the Delinquency Reserve Account of the Reserve Fund to the Bond Fund the amounts necessary to cure such deficiency. The Trustee shall determine the value of cash and investments on deposit in the Delinquency Reserve Account as of December 31 of each year. So long as no Event of Default under the Indenture shall have occurred and be continuing, if as of the date of such determination the value of cash and investments on deposit in the Delinquency Reserve Account exceeds the Delinquency Reserve Fund Requirement for the Bonds, the Trustee shall transfer such excess at the direction of the City.

#### **Administrative Fund**

The City has created under the Indenture an Administrative Fund held by the Trustee. Upon receipt, the City shall transfer to the Trustee, for deposit to the Administrative Fund, all amounts representing Annual Collection Costs. Monies in the Administrative Fund may be used as directed by City Order for the purposes set forth in the Service and Assessment Plan. See “APPENDIX B — Service and Assessment Plan.”

## **Defeasance**

All Outstanding 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 Bonds are to be redeemed on any date prior to their Stated Maturity, the Trustee shall have given notice of redemption on 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 Bonds to become due on such 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 of the Bonds to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iv) if the Bonds are then rated, the Trustee shall have received written confirmation from each rating agency then rating the Bonds that such deposit will not result in the reduction or withdrawal of the rating on the Bonds. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section 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 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 by the City maturing at times and in amounts sufficient to pay when due the principal of and interest on the Bonds on and prior to such redemption date or maturity date thereof, as the case may be. 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 Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended; and provided further investments are, at the time made, included in and authorized by the City’s official investment policy as approved by the City Council from time to time.

## **Events of Default**

Each of the following occurrences or events constitutes an “Event of Default” under the 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; and
- (iii) default in the performance or observance of any covenant, agreement or obligation of the City under this Indenture and the continuation thereof for a period of 60 days after written notice specifying such default by the Owners of at least 25% of the Bonds at the time Outstanding requesting that the failure be remedied.

## **Remedies in Event of Default**

Upon the happening and continuance of any Event of Default, the Owners of at least 25% of the Bonds then Outstanding may 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 Applicable Laws including, but not limited to, the specific performance of any covenant or agreement contained in the Indenture, or injunction; provided, however, that no action for money damages against the City may be sought or will be permitted.

THE PRINCIPAL OF THE 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 Outstanding Bonds, in the selection of Trust Estate assets to be used in the payment of Bonds due in an Event of Default, the City shall determine, in its absolute discretion, and shall instruct the Trustee by City Order, 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 Order, 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 an Event of Default, irrespective of and whether other remedies authorized under the 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 law and apply the proceeds thereof in accordance with the provisions of the Indenture. 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, in the judgment of the Trustee, 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 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 or of which it is deemed to have notice, (ii) such default has become an Event of Default and the Owners of 25% of the aggregate principal amount of the Bonds then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, (iii) the Owners have furnished to the Trustee indemnity as provided in the Indenture, (iv) the Trustee has for 60 days after such notice failed or refused to exercise the powers 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 60-day period by the Owners of a majority of the aggregate principal amount of the 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 Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice the Indenture by its, his or their action or to enforce any right hereunder except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided in the Indenture and for the equal benefit of the Owners of all Bonds then Outstanding. The notification, request and furnishing of shall, at the option of the Trustee, be conditions precedent to the execution of the powers and trusts of the Indenture and to any action or cause of action for the enforcement of the Indenture or for any other remedy thereunder.

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

In case the Trustee or any Owners shall have proceeded to enforce any right under the 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 Indenture with respect to Events of Default 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 Indenture, be applied by the Trustee, on behalf of the City, to the payment of interest and principal or redemption price then due on Bonds, as follows:

(i) **FIRST:** To the payment to the 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 Owners entitled thereto, without any discrimination or preference; and

(ii) **SECOND:** To the payment to the Owners entitled thereto of the unpaid principal of Outstanding Bonds, or redemption price of any 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 Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal due and to the 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 this section.

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

## **Investment or Deposit of Funds**

Money in any fund established pursuant to the Indenture will be invested by the Trustee as directed by the City pursuant to a City Order filed with the Trustee at least two (2) days in advance of the making of such investment in time deposits 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.

Obligations purchased as an investment of moneys in any fund or account shall be deemed to be part of such fund or account, subject, however, to the requirements of the Indenture for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in the Indenture any moneys are required to be transferred by the City to the Trustee, such transfer may be accomplished by transferring a like amount of permitted investments.

## **Additional Obligations**

The City is not authorized to issue additional bonds secured by the Pledged Revenues on parity with the Bonds or the Subordinate Bonds other than refunding bonds, the proceeds of which would be utilized to refund all or any portion of the Outstanding Bonds or the Outstanding Subordinate Bonds, as the case may be, and to pay all costs incident to the issuance of such refunding bonds.

The City may issue bonds secured by and payable from Pledged Revenues so long as such pledge is subordinate to the pledge of Pledged Revenues securing payment of the Bonds and the Subordinate Bonds.

## 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	\$2,860,000.00
Original Issue Discount	(154,923.15)
Total Sources	\$2,705,076.85
Use of Funds:	
Deposit to Improvement Account of Project Fund	\$ 1,455,789.38
Deposit to Interest and Sinking Fund	646,462.79
Deposit to Reserve Fund	270,507.68
Costs of Issuance <sup>(1)</sup>	332,317.00
Total Uses	\$2,705,076.85

<sup>(1)</sup> Includes Underwriter's discount and structuring fee.

## DEBT SERVICE REQUIREMENTS

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

<b>Year Ending (September 30)</b>	<b><u>Principal</u></b>	<b><u>Interest*</u></b>	<b><u>Total*</u></b>
2012	—	\$ 183,325	183,325
2013	—	231,569	231,569
2014	—	231,569	231,569
2015	\$ 45,000	231,569	276,569
2016	70,000	227,744	297,744
2017	95,000	221,794	316,794
2018	125,000	213,719	338,719
2019	155,000	203,094	358,094
2020	190,000	190,113	380,113
2021	230,000	174,200	404,200
2022	275,000	154,938	429,938
2023	330,000	131,906	461,906
2024	385,000	105,919	490,919
2025	445,000	75,600	520,600
2026	<u>515,000</u>	<u>40,556</u>	555,556
<b>Total</b>	<b><u>\$2,860,000</u></b>	<b><u>\$2,617,613</u></b>	<b><u>\$5,477,613</u></b>

\*Totals may not add due to rounding.

## OVERLAPPING TAXES AND DEBT

Pursuant to the Whisper Valley and Indian Hills Annexation and Development Agreement (the "Development Agreement") by and among the City, the Developer and the Whisper Valley Developer, the City may not annex the District or levy any taxes within the District until the earlier of (i) final payment of the Bonds, the Subordinate Bonds and all Phased Bonds (defined herein) and (ii) 44 years and 6 months after the effective date of the Development Agreement. The land within the District has been, and is expected to continue to be, subject to

taxes and assessments imposed by taxing entities other than the City. Such taxes are payable in addition to the Assessments.

In addition to the Assessments set forth above, the Developer has anticipated that each residential unit will pay a maintenance and operation fee and/or a property owner's association fee. In addition, exclusive of voter approved millages levied for general obligation bonds, as to which no limit applies, the County, the Del Valle Independent School District, the Austin Community College District, the Travis County Healthcare District and the Travis County Emergency Services District No. 12 may each levy ad valorem taxes upon land in 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 special assessments levied by such other taxing authorities. The following table below reflects the overlapping ad valorem taxes currently levied on property located in the District.

<u>Taxing Entity</u>	<u>Ad Valorem Tax Rate*</u>
Travis County	\$0.4658
Del Valle Independent School District	1.5300
Austin Community College District	0.0951
Travis County Healthcare District	0.0719
Travis County Emergency Services District No. 12	<u>0.1000</u>
	<u>\$2.2628</u>

\*Per \$100 taxable appraised value.

Source: Travis Central Appraisal District

As noted above, 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. Set forth below is an overlapping debt table showing the outstanding indebtedness payable from ad valorem taxes with respect to property within the District, as of August 1, 2011, and City debt secured by the Assessments:

<u>Taxing or Assessing Entity</u>	<u>Total Outstanding Debt</u>	<u>Estimated % Applicable</u>	<u>Direct and Estimated Overlapping Debt</u>
The City	\$ 5,192,350	100.00%	\$5,192,350
Travis County	578,650,243	0.04	208,648
Del Valle ISD	168,850,000	0.22	372,748
Austin Community College District	91,822,751	0.03	27,547
Travis County Healthcare District	—	0.04	—
Travis County ESD No. 12	—	0.25	—
	<u>\$844,515,344</u>		<u>\$5,801,293</u>

Source: Municipal Advisory Council of Texas (taxes) and the City (Assessments).

If land is devoted principally to agricultural use, the landowner can apply for an agricultural exemption on the property and pay ad valorem taxes based on the land's agricultural value. The property in the District is currently subject to an agricultural exemption on its ad valorem taxes. 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. The property in the District is subject to hay and/or grazing leases. These leases and lessees' operations on the property allow the property to maintain its agricultural exemption.

If land qualified for an agricultural appraisal and the land use changes to a non-agricultural use, "rollback taxes" are assessed for each of the previous 5 years in which the land received the lower agricultural appraisal. The rollback tax is the difference between taxes paid on land's agricultural value and the taxes that the land owner 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 land owner can fence off the remaining land and maintain the agricultural exemption on the remaining land. In this scenario, the land owner would only be responsible for rollback taxes on that portion of the land where use changed and not the entire tract.

## **ASSESSMENT PROCEDURES**

### **General**

As required by applicable law, when the City determined to defray a portion of the costs of the Improvements through Assessments, it adopted a resolution generally describing the Improvements and the land within the District to be subject to Assessments to pay the cost therefor. The City caused an assessment roll to be prepared (the "Assessment Roll"), which Assessment Roll shows the land within the District 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 in which the Assessment is divided. The Assessment Roll was filed with the City Clerk and is 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 Improvements and funding a portion of the same with Assessments. Following the hearing, the City determined to proceed to levy the Assessments pursuant to the Assessment Ordinance and thereafter the Assessments became legal, valid and binding liens upon the property against which the Assessments are made.

Under the PID Act, the costs of Improvements may be assessed by the City against the assessable property in the District so long as the special benefit conferred upon the assessed property by the Improvements equals or exceeds the Assessments. The costs of the 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 the District is presented in the Service and Assessment Plan, which should be read in its entirety. See "APPENDIX B — Service and Assessment Plan."

### **Assessment Methodology**

The Service and Assessment Plan describes the special benefit received by each parcel of assessable property as a result of the 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 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, the costs of the Improvements are being funded with proceeds of the Bonds, which are payable from and secured by Pledged Revenues, including the Assessments. As set forth in the Service and Assessment Plan, the benefits received by the Improvements are currently spread among the existing parcels (the "Assessed Property") based on the ratio of the area of each parcel to the total assessable area within the District. As the existing parcels are subsequently divided, the Assessments will be further apportioned based on the ratio of the areas of the newly created parcels. When final building sites are platted, Assessments will be apportioned proportionately among each resulting parcel based on its relative size. The City has determined that the Assessments shall be allocated to the Assessed Property based on the relative size of each parcel using a modified area method and that such method of allocation will result in the imposition of equal shares of the Assessments on parcels similarly situated. The Assessments and the interest thereon are expected to be paid in annual installments as described in the Service and Assessment Plan (the "Annual Installments"). The determination by the City of the 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 the Developer, all other current owners of property within the District and all future owners and developers within the District. See "APPENDIX B — Service and Assessment Plan."

## Collection Procedures

Under the PID Act, the Annual Installments may be collected in the same manner and at the same time as regular 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 of Texas, county, city, school district, municipal or other political subdivision’s ad valorem taxes. See “BONDHOLDERS’ RISKS — Assessment Limitations” herein.

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, the City Treasurer or his designee 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. Administrative Expenses shall be allocated among Parcels in proportion to the amount of the Annual Installments for the Parcels.

Annual Installments will be paid to the City Treasurer. Property within the City is generally appraised as of January 1 of each year. Annual Installments are due on January 31 of the following year, and become delinquent on February 1. 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 and the Financing Agreement. The Assessments will be levied against the parcels comprising the Assessed Property as indicated on the Assessment Roll. See “APPENDIX B — Service and Assessment Plan” and “APPENDIX F — Financing Agreement.”

Rate and Method of Apportionment of Assessments. For purposes of the Service and Assessment Plan, the City Council has determined that the Assessments shall be allocated to the Assessed Property based on the modified area method that takes into account and is based on the relative size of each parcel after undertaking the Improvements and that such method of allocation will result in the imposition of equal shares of Assessments on parcels similarly situated. See “ASSESSMENT PROCEDURES — Assessment Methodology.”

The total Assessments per acre of each parcel is \$21,636. The Bonds are secured by a first lien on and pledge of Pledged Revenues, including the Assessments. See “SECURITY FOR THE BONDS” and “APPENDIX B— Service and Assessment Plan.”

## **Prepayment of Assessments**

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 prepayments, such amounts will be applied towards the redemption or payment of the Bonds. Amounts received at the time of a Prepayment which represent a payment of principal, interest, or penalties on a delinquent installment of a Assessment are not to be considered a Prepayment, but rather are to be treated as payment of regularly scheduled Assessments.

## **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 State of Texas, county, city, school districts or other political subdivisions’ 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 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 Assessment. In such action the real property subject to the delinquent unpaid Assessment may be sold at judicial foreclosure sale for the amount of such delinquent 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 nondelinquent installments of the Assessment 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 (i) at all times, to the extent permitted by Applicable Laws, defend, preserve and protect the pledge of Pledged Revenues and all the rights of the Owners and the Trustee under the Indenture, and (ii) take all steps reasonably necessary and appropriate, and direct the Trustee to take all steps reasonably necessary and appropriate, to collect all delinquencies in the collection of the Assessments and any other amounts pledged to the payment of the Bonds to the fullest extent permitted by the PID Act and other Applicable Laws. See “APPENDIX A – Form of Indenture.” See also “APPENDIX D – Form of Disclosure Agreement” for a description of the expected timing of certain events with respect to collection of delinquent Assessments.

The City has allocated 0.30% of the interest rate component of Annual Installments for approximately the first four to five years after Assessments begin to be collected to offset any possible delinquent payments. See “SECURITY FOR THE BONDS – Delinquency Reserve Account,” “APPENDIX A – Form of Indenture” and “APPENDIX B – Service and Assessment Plan.”

## THE CITY

### Background

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. The City Council is comprised of a Mayor and six council members elected at-large for three year staggered terms.

### City Government

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City. Marc Ott was appointed City Manager in January 2008.

The current members of the City Council and their respective expiration of terms of office are as follows:

<u>Council Member</u>	<u>Term Expires</u>
Lee Leffingwell, Mayor	2012
Sheryl Cole, Mayor Pro-Tem	2012
Chris Riley, Member	2014
Kathie Tovo, Member	2014
Laura Morrison	2014
Bill Spelman	2012
Mike Martinez	2012

The principal administrators of the City include the following:

<u>Name</u>	<u>Position</u>
Marc A. Ott	City Manager
Leslie Browder	Chief Financial Officer
Shirley Gentry	City Clerk
Karen Kennard	City Attorney

### Major Employers

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

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	State Government	38,538
The University of Texas at Austin	Education	24,864
Dell Computer Corporation	Computers	14,000
City of Austin	City Government	11,815
Austin Independent School District	Education	11,570
Seton Healthcare Network	Healthcare	11,500
Federal Government	Government	11,100
HEB Grocery	Grocery/Retail	10,904
St. David's Healthcare Partnership	Healthcare	6,600
IBM Corporation	Computers	6,239

Source: City's 2010 Comprehensive Annual Financial Report

## 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 the City in accordance with the PID Act by City of Austin Resolution No. 20100826-023 (the “Creation Resolution”) for the purpose of, among others, funding the Improvements. The District is not a separate political subdivision of the State of Texas and is governed by the City Council. The District has been annexed for limited purposes and is located within the extraterritorial jurisdiction of the City and contains approximately 240 acres of land. A map of the property within the District is included on page ii hereof. See “APPENDIX B — Service and Assessment Plan.”

### Powers and Authority

Pursuant to the PID Act, the City may establish and create the District and undertake 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, 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 the acquisition, construction or improvement of the Improvements. See “THE IMPROVEMENTS.”

Pursuant to the authority granted by the PID Act and the Creation Resolution, the City has determined to undertake the acquisition and construction of certain water and roadway public improvements within the District comprising the Improvements and to finance a portion of the costs thereof through the issuance of the Bonds. The City has further determined to provide for the payment of debt service on the Bonds through Pledged Revenues. See “ASSESSMENT PROCEDURES” herein and “APPENDIX B — Service and Assessment Plan.”

## THE IMPROVEMENTS

### General

The “Improvements” consist of the construction of certain water and roadway public improvements in the District. The Improvements will be constructed with the proceeds of the Bonds and the Subordinate Bonds will be dedicated to the City. The Developer is responsible for ensuring that construction of the Improvements is completed and it or its designee will act as construction manager. The Improvements are expected to support all 240 assessable acres within the District.

The Appraisal (defined herein) estimates that the sum of (i) the property within the District after construction of the Improvements (\$8,790,000) and (ii) the present value of the City’s payment obligations under the Water CRA (\$3,880,000) is \$12,670,000. See “APPRAISAL OF PROPERTY WITHIN THE DISTRICT.” The costs of all of the Improvements are expected to be approximately \$13,967,505. Only a portion of the costs of the Improvements, in the approximate amount of \$4,043,818, is expected to be paid with proceeds of the Bonds and the Subordinate Bonds. See “BONDHOLDERS’ RISKS — Additional Developer Financing Necessary to Complete Improvements.”

The following table reflects the expected costs of the Improvements.

<u>Type of Improvement</u>	<u>Cost</u>
Decker Lake Road	\$ 2,806,046
Water Line 1	<u>11,161,459</u>
Total	<u>\$13,967,505</u>

## **Ownership of Improvements**

The Improvements, except for Decker Lake Road, will be dedicated to and accepted by the City and will constitute a portion of the City's infrastructure improvements. Decker Lake Road will be dedicated to and accepted by the County and will constitute a portion of the County's infrastructure improvements..

## **Maintenance of Improvements**

Except for Decker Lake Road, the City will provide for the ongoing maintenance and repair of the Improvements constructed and conveyed, as outlined in the Service and Assessment Plan. Decker Lake Road will be maintained by the County.

## **THE DEVELOPMENT**

The following information has been provided by the Developer. Certain of the following information is beyond the direct knowledge of the City, and the City has no way of guaranteeing the accuracy of such information. The Developer has reviewed this Official Statement and warrants and represents that to the best of its knowledge, neither (i) the information under the caption "THE DEVELOPMENT" nor (ii) the information relating to the Development under subcaption "BONDHOLDERS' RISKS — Dependence on the Developer" 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 the light of the circumstances under which they are made, not misleading.

### **Overview**

The Indian Hills Development (the "Development") is located in the limited purpose annexation and extraterritorial jurisdiction of the City. The boundaries of the Development are coterminous with the District as described herein. See "THE DISTRICT." The Development contains approximately 239.8 acres, of which approximately 234.2 acres are planned to be developed into a mixed use project consisting of two sub-parcels. The 89.9 acre northeastern parcel will consist of apartment residential uses, while the 149.9 acre southern parcel will be developed with industrial/flex improvements consisting of general office, research and development, and light industrial. The development plan includes supporting neighborhood retail uses as well. Approximately 5.6 acres of land will be used for the Decker Lake Road extension right of way. A boundary map of the Development is included herein.

Indian Hills is located on the west side of SH-130, and south of US-290 East in east central Travis County. It is generally located in far eastern Travis County approximately four miles west of the Travis/Bastrop County line. It adjoins the west frontage right of way of the SH-130 toll road between FM-969 on the south and US-290 East on the north. The south boundary adjoins agricultural land, and the north boundary adjoins Decker Creek and the Walter E. Long Lake spillway.

At completion, the Development is expected to consist of approximately 1,500 apartment units, 2,651,000 square feet of general office, R&D and light industrial, and 131,000 square feet of neighborhood retail. Some usable open/recreation space is also contemplated.

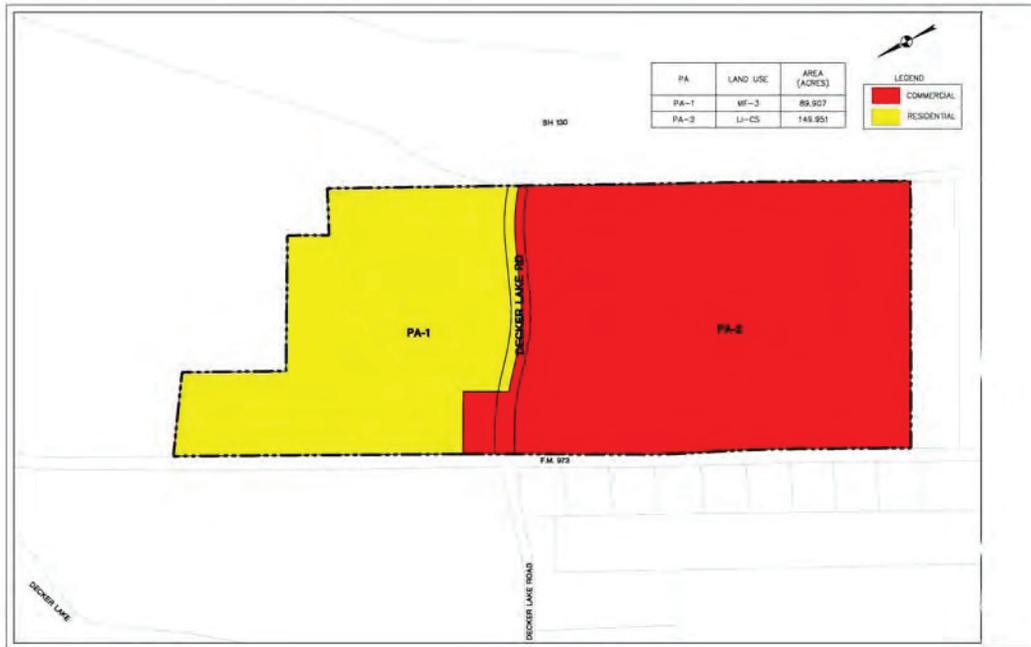
The property was purchased by the Developer in December 2005 with a reported acquisition price of \$4,200,000. At the time, the land was in its current raw state with no improvements or infrastructure. To date the Developer has invested substantial additional funds to achieve the limited purpose annexation, zoning and creation of the District.

### **Development Plans**

The current development plan is divided into two major steps, "macro-structure" development followed by "micro-structure" or phased development.

**Macro-Structure to the Development.** This includes building the necessary water lines; and the primary arterial road – an extension of Decker Lake Road. This step will be accomplished through the sale of the bonds. These items are covered in detail in the Service and Assessment Plan. The plan calls for the design and construction of the first phase of Macro Structure to begin in September of 2011, and be completed by mid-2013. See “APPENDIX B — Service and Assessment Plan.”

**Micro-Structure Phasing.** The Development will include approximately 1,500 apartment housing units, 2,651,000 square feet of mixed-use and commercial development, and 131,000 square feet of neighborhood retail. The estimated number of building lots and the classification of each use will be based upon existing zoning provisions.



The Development will occur in a series of phases, and will reflect market demand in each phase. The micro structure will include local streets, water, wastewater, drainage structures and landscaping. A portion of the micro structure will be financed by private developers and area improvement bonds. It is anticipated that a series of seven area improvement bond issuances will occur over a 15 year period. The total cost of the infrastructure improvements is forecasted to be approximately \$28.4 million.

The development plan envisions selling portions of the land to qualified developers and merchant builders during this period. The Developer will take on the role of the on-going Master Developer to ensure the project is developed according to the standards established by the Creation Resolution, the District and the City. It is anticipated the Developer will also be active in the development and marketing of pads to qualified builders.

**Zoning/Permitting**

Pursuant to the City of Austin Ordinance No. 20100826-065 and the Development Agreement with the City, the Developer secured entitlements to develop the property with a mixture of Residential and Commercial/Industrial uses by increasing the entitlements on the property to MF-3, Multifamily Residence (Medium District) and LI, Limited Industrial Service. The MF-3 zoning allows for a mix of residential product including single family, townhome/condominiums and multifamily. The flexibility of uses allowed in the LI

category provides for a mix of commercial and industrial services than will compliment the adjacent multifamily uses.

**Environmental**

Several environmental studies of the Development have been prepared, including a Phase 1 Environmental Site Assessment and a City of Austin Environmental Assessment (together, the “Phase 1 – ESA”).

Based on the information as presented in the Phase 1 – ESA there is no evidence that the Development or adjacent properties are currently under environmental regulatory review or enforcement action. The site reconnaissance, regulatory database review and historical source review revealed no evidence of recognized environmental conditions involving the site or the adjoining properties.

**Public Schools**

The Development is located in the Del Valle Independent School District (the “School District”). The School District will acquire school sites and build facilities through local bond elections. The Development is expected to provide an increase in the ad valorem tax base available to fund public schools.

**Utilities**

The City will provide both water and wastewater service to the Development. See “THE IMPROVEMENTS.”

Additional utilities are provided by the following entities:

Gas	Texas Gas Service
Phone/Data	AT&T
Electric	Austin Energy
Cable	Time Warner Cable

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## THE DEVELOPER

The following information has been provided by the Developer. Certain of the following information is beyond the direct knowledge of the City, and the City has no way of guaranteeing the accuracy of such information. The Developer has reviewed this Official Statement and warrants and represents that, to the best of its knowledge, neither (i) the information herein under the caption “THE DEVELOPER” nor (ii) the information relating to the Developer under the subcaption “BONDHOLDERS’ RISKS — Dependence on the Developer” 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 the light of the circumstances under which they are made, not misleading.

### **Taurus Investment Holdings, LLC — History and Deal Structure**

For the past 35 years, Taurus Investment Holdings, LLC (“TIH”) has been sourcing real estate investments and developments on a global scale. The company has developed a successful “Club Deal” investment template based upon a three part strategy.

1. Develop a network of high net worth individuals that are knowledgeable investors. The network includes several hundred German investors, U.S. investors, and additional investors from various other parts of the world such as Israel and South America. Many of these investors have been involved in the TIH real estate program for decades.
2. Apply expert deal underwriting standards supervised by the key TIH partners: Lorenz Reibling (Chairman), Guenther Reibling (Executive Vice President and COO), and Peter Merrigan (President and CEO). Each Club Deal receives critical underwriting by this group in conjunction with input from the sourcing Local Partner (such as the Developer). Once an acquisition decision has been made, the Senior Partners present the Club Deal opportunity to the network of high net worth investors to fund capital into the deals. The acquisitions are generally structured into single asset Limited Partnerships and Limited Liability Companies. Senior Management Partners and Local Partners provide the General Partnership function, and investors provide capital as Limited Partners. Each individual limited partner’s risk is limited to the funds they invest. In most cases, the land acquisitions are made with cash investments. In those cases, no bank financing is used which reduces the risk of holding the land during the project development. (This is the case with Indian Hills.) Additional funds are typically raised to obtain entitlements, market research, and preliminary engineering. (This is also the case with Indian Hills.) Once the projects have begun, management is conducted by the Local Partners, and an extensive reporting system is provided to the investors. Reports are supervised by the Senior Management team and by Linda Kassof (Senior Vice President and CFO). When development of infrastructure and improvements begins, often times funds are borrowed from banks. These funds are repaid from revenues that are generated from the sale of lots, or land as it is developed.
3. Day-to-day management of the projects is conducted by Local Partners. Local Partners are experienced development partners who are knowledgeable about local conditions surrounding the specific projects. Local Partners are located in several US offices, Canada, South America and Europe. These management members work through the acquisition, entitlement, development, property management and sales of the Club Deals until the project is fully liquidated. They provide frequent reports to the Senior Management Team and investors.

Currently, nearly two billion dollars in asset value are managed in the TIH network, and there is over six hundred million dollars in capital invested. TIH has purchased and sold over 20,000,000 square feet of office, residential, industrial, retail, hotel and other commercial real estate assets. Over the past 35 years, TIH has successfully acquired, managed, developed and sold almost 200 real estate investments. It has managed through many real estate cycles both good and bad. When markets have declined, and investors have been asked to make additional capital calls to cover the costs of operation, they have responded. In the current recession, they have been asked to make a number of capital calls and have remained very supportive. Within the TIH operation, they have remained supportive in all of the programs without exception.

There are 10 Club Deals that are or have been managed by Taurus of Texas Holdings, L.P. a Texas limited partnership (“TOT”). See “ONGOING TAURUS OF TEXAS HOLDINGS, L.P. PROJECTS.” In all of these ventures, the limited partners have performed as requested. In the Whisper Valley Club Deal partnership, there are approximately 50 Limited Partners, some of which have a net worth of over a billion dollars. In Indian Hills, there are 4 limited partners. These limited partners have invested combined almost 40 million dollars in the two projects to date. They have steadfastly provided capital calls when requested. There is currently no bank debt against either property.

The following tables summarize TIH’s Club Deal assets by category:

**TAURUS INVESTMENT HOLDINGS “CLUB DEAL” ASSET SUMMARY**

					<u>Asset Class</u>	<u>Square Feet</u>	<u>Total</u>
<b>Office Assets:</b>							
1	16	Sugarland Bus. Center	Maitland, FL	USA	Office Condo	17,600	\$ 2,000,000
2	26	22 Batterymarch	Boston, MA	USA	Class B Office	34,914	10,299,470
3	35	Airport II	NC & NM	USA	Flex Office / Industrial	92,325	3,949,290
4	54	Contractors Bus. Park Pompano	Pompano, FL	USA	Office/Warehouse Condo	37,871	3,950,865
5	55	160 Federal Street	Boston, MA	USA	Class B Office	345,280	115,413,561
6	74	Contractors Bus. Park Vista Center	West Palm Beach, FL	USA	Office/Warehouse Condo	49,600	3,475,909
7	90	Mercantile Plaza	Orlando, FL	USA	Office	102,651	14,288,171
8	98	Challop South	Orlando, FL	USA	Flex Office	146,538	21,987,290
9	99	DiscovTech II	Orlando, FL	USA	Flex Office	62,500	10,955,873
10	111	TOP LP - Billerica, 300, and 400 Riverpark	Billerica & North Reading, MA	USA	Flex Office / R&D	74,031	45,084,560
18	119	Phillips Portfolio	Jacksonville, FL	USA	Multitenant Office Park	678,501	68,277,011
19	126	Parque Austral	Buenos Aires	Argentina	Flex Office / R&D	124,301	12,178,216
20	134	111 Peter Street	Toronto, Ontario	Canada	Office	251,923	43,843,063
21	138	Net Lease Portfolio	Statesville, NC & Irvine, CA	USA	Net Lease Property	391,968	22,435,100
22	143	313 Washington St.	Newton, MA	USA	Office	81,603	13,055,201
23	40/118	Harvard Mills	Wakefield, MA	USA	Office	233,922	31,994,734
24	VF 701	One Deerwood	Jacksonville, FL	USA	Office	162,609	24,800,100
<b>Subtotal - Office Assets</b>						<b>2,888,137</b>	<b>\$447,988,414</b>
<b>Industrial Assets:</b>							
25	2	Landman Omnibus XIII	Taunton, MA	USA	Industrial Mill Building	509,652	\$ 4,802,014
26	21	Runway Road	Santa Teresa, NM	USA	Industrial	256,439	7,334,765
27	96	Andover	Andover, MA	USA	Industrial	135,330	6,431,655
<b>Subtotal - Industrial Assets</b>						<b>901,421</b>	<b>\$18,568,434</b>
<b>Multifamily Assets:</b>							
28	115	University Village Housing	Charleston, IL	USA	Student Housing	154,440	\$ 15,362,839
29	129	Galata	Istanbul	Turkey	Residential Condo	62,861	16,159,214
30	133	Columbia Heights	Brooklyn, NY	USA	Multifamily	55,038	64,506,667
31	141	The Gatherings	Orlando, FL	USA	Student Housing	144,000	15,780,174
<b>Subtotal - Multifamily Assets</b>						<b>416,339</b>	<b>\$111,808,894</b>
<b>Retail Assets:</b>							
32	80	534 Bayfield Street	Barrie, Ontario	Canada	Retail	37,158	\$ 5,294,962
33	89	405 Dundas Street	Belleville, Ontario	Canada	Shoppers Drug Mart	17,514	2,828,069
34	92	King Street	Oshawa, Ontario	Canada	Retail	34,202	8,217,302
35	94	Taurus Business Center	Augusta, ME	USA	Shopping Center	214,934	23,057,376
36	95	Plaistow	Plaistow, NH	USA	Shopping Center	151,884	19,790,404
37	101	Hornbach Portfolio	Various -	German	NNN Single Retail	1,302,084	250,662,294

38	105	1213 Oxford Street	Germany/Sweden	y	BigBox			
			London, Ontario	Canada	Bank Branch	5,096	1,296,556	
39	106	Carleton Place	Carleton Place, Ontario	Canada	Shoppers Drug Mart retail	17,040	2,810,227	
40	107	Taurentas Portfolio	NH, MA, CT, KY, TX, MS	USA	Retail	579,600	46,387,953	
41	122	Taurus Euro Retail I	Various - Germany	German y	Retail Neighborhood	1,966,751	474,829,663	
42	123	1875 Bath Road	Kingston, Ontario	Canada	Retail	18,304	3,992,089	
43	130	Taurus Euro Retail II	Various - Germany	German y	Retail	429,411	122,955,145	
44	131	Newbury Street I	Boston, MA	USA	Boutique	170,778	132,828,742	
45	132	Taurval Portfolio	Various	USA	Retail/Residential NNN Auto Oil Shops	27,705	11,001,659	
46	135	Ankara Shopping Center	Ankara, Turkey	Turkey	Mall / Office Tower	500,000	96,960,926	
47	136	Cookstown	Innisfil, Ontario	Canada	Outlet Mall	160,752	50,887,177	
48	140	Newbury Street II	Boston, MA	USA	Boutique	32,293	17,352,463	
49	NA	Shoppes at Salem	Salem, NH	USA	Retail/Residential Retail	61,282	6,734,318	
<b>Subtotal - Retail Assets</b>						<b>5,726,788</b>	<b>\$1,277,887,324</b>	
50	Various	Land Portfolio	Various	USA	Land	0	\$164,378,492	
<b>Subtotal - Land</b>						<b>0</b>	<b>\$164,378,492</b>	
<b>TOTAL - ALL ASSETS</b>						<b>9,932,685</b>	<b>\$2,020,631,558</b>	

#### CLUB DEAL LAND ASSET SUMMARY

General Information					Estimated	
<u>No.</u>	<u>Club Deal</u>	<u>Property Name</u>	<u>Location</u>	<u>Asset Class</u>	<u>Total Acres</u>	<u>Basis Total</u>
1	139	Tampa Commerce Center	Tampa, FL	Land	48	
2	137	Milos	Milos, Greece	Land	707	
3	136	Cookstown	Innisfil, Ontario	Land	98	
4	135	Ankara Shopping Center	Ankara	Land	6	
5	127	Merk Grand Junction	Grand Junction, CO	Land	40	
6	125	Bowen Business Center	Dalworthington Gardens, TX	Land	5	
7	120	Whisper Valley	Stonelake/Whisper Valley, TX	Land	2,066	
8	116	Indian Hills	Indian Hills, TX	Land	240	
9	113/114	Park Plaza & Grand Junction	Grand Junction, CO	Land	81	
10	104	Quechee Lakes	Hartford, Vermont	Land	1,305	
11	103	Castle Pines II	Douglas County, CO	Land	8	
12	99	DiscovTech II	Orlando, FL	Land	6	
13	98	Challop South	Orlando, FL	Land	15	
14	97	Garden Heights	Mansfield, TX	Land	138	
15	93	Beltway Commerce Ctr.	Orlando, FL	Land	155	
16	86	Twin Mills	Fort Worth, TX	Land	100	
17	53	"053"	Orlando, FL	Land	69	
18	NA	Ashwood Park	Azle, TX	Land	21	
19	NA	"O" Property	Orlando, FL	Land	39	
<b>TOTAL LAND ASSETS</b>					<b>5,147</b>	<b>\$164,378,492</b>

## Senior Management Biography

As President and CEO of TIH, **Peter Merrigan** oversees the daily operations of Taurus worldwide. Peter has negotiated, structured and closed more than \$3 billion worth of complex real estate transactions, spanning over 20 years in numerous U.S. states and 7 countries. Peter is co-founder of TIH, along with Lorenz Reibling and Guenther Reibling. Among other board positions, Peter is the former Chairman of the Alumni Association of the MIT Center for Real Estate. His formal education includes a BA from the College of the Holy Cross and an MS from Massachusetts Institute of Technology.

**Guenther Reibling** is the Executive Vice President, COO, and co-founder of TIH. Guenther oversees origination and development activities of new projects, including underwriting and acquisition. He also directs the ongoing overall management of current projects. Guenther has managed real estate construction, development, and sales since 1971. While at Derag, he directed the sales coordination of real estate collectively valued at \$100 million that included parts of the Olympic Village. In 1976, Guenther and partners formed TBG Taurus Bau GmbH, a Munich-based development company. In 1979, Guenther was the first of the TIH group to come to the US to explore development opportunities. He is a former Special Advisor to the Secretary of Commerce of the State of Florida.

As Chairman of TIH, **Lorenz Reibling** is focused on the development and nourishment of international relationships with investors and product sources predominantly in TIH's non-US related businesses. He is a frequent speaker at real estate conferences, and an advisor to and board member of the renowned MIT/CRE (Massachusetts Institute of Technology/Center for Real Estate) in Cambridge, Massachusetts. As Chairman of TIH, Lorenz also acts as a spokesperson for the firm. Lorenz is a cofounder of TIH, and has been involved in hundreds of commercial real estate transactions since 1979. His education includes Munchen-Kolleg; Technische Universitat; Ludwigs-Maximilians Universitat; and an MS from Boston College.

## Local Partner Biography

As President of the General Partner of TOT, **Douglas Gilliland** is responsible for deal sourcing, permitting, development, disposition and financing of high quality residential and commercial communities. Douglas brings over 30 years of development and marketing experience and has been involved in a number of large and distinctive residential and mixed use land developments in Texas, Colorado, and Kansas. See "SAMPLING OF PROJECTS BY DOUGLAS GILLILAND PRIOR TO JOINING TAURUS OF TEXAS HOLDINGS, L.P." He is a past President of the Texas Association of Builders, Greater Fort Worth Home Builder Association, and a former National Vice President of the National Association of Home Builders. He also is a former Director of the Greater Dallas Builder's Association. In 2005 he received the Herman J. Smith Legend Award from the Greater Fort Worth Home Builder Association. His education includes one year at Southern Methodist University in Dallas, and a BS degree from the University of Missouri at Kansas City. Douglas is currently serving as a Director of "The Bank, Arlington" in Texas and also holds a real estate broker's license for the state of Texas.

## History of Whisper Valley and Indian Hills

*Whisper Valley.* Club Deal 120 Whisper Valley, L.P. (the "Whisper Valley Developer") was created in 2006 for the purpose managing the development and disposition of the Whisper Valley District. The 2,066-acre Whisper Valley site was brought to the attention of TIH when an existing unrelated partnership out of Dallas attempted to negotiate a wastewater treatment plant and interceptor line reimbursement agreement with the City of Austin for \$12,500,000. That partnership ended up in a lawsuit with the City because of their aggressive tactics and inability to work with the City's long term vision for the property. The Whisper Valley Developer placed the property under contract, and assumed the leadership role in the negotiations with the City, and was able to resolve the impasse with the City in creating a cost reimbursement agreement for the wastewater project.

Subsequent to these negotiations, the Whisper Valley Developer bought the property and negotiated additional reimbursement agreements for two major water lines and a major collector road (Braker Lane). The total value of the reimbursement agreements was over \$40,000,000. Because the property is located in Austin's Desired Development, the City was receptive to working with the Whisper Valley Developer to create a public improvement

district. In addition, the City approved a Planned Unit Development for the site that will include almost 700 acres of parks and open space and a village cluster land plan that will provide approximately 7,500 housing units and over 2,000,000 square feet of retail and commercial uses. The partnership team enjoys a very close and cooperative relationship with City officials in an effort to create a win-win program. The partnership team worked closely with the City to create a PID policy which is the first of its kind in the City. Because of the cooperative spirit of the development team and City staff, Whisper Valley will be the first large planned development along the SH130 corridor. This area of the City is seen as the future growth region for Austin.

*Indian Hills.* The Developer was created in 2005 for the purpose managing the development and disposition of the Development as described in the section “THE DEVELOPMENT.” The District is located about 1 mile from the Whisper Valley site. It has excellent access to SH130 which is perhaps the most important highway improvement in the Austin region. The 239 acre site was purchased in 2005. The site has been zoned for over 1,200 multifamily units and just under 2,000,000 square feet of high quality industrial, commercial and retail uses. The City worked with the Developer to create a public improvement district for Indian Hills that will allow for the construction of a major water line that will serve both Indian Hills and Whisper Valley. In addition, the Developer team negotiated a reimbursement agreement with Travis County and the City to build the major collector road Decker Lake Road which runs through the District.

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**ONGOING TAURUS OF TEXAS HOLDINGS, L.P. PROJECTS**

<b>Project Name</b>	<b>Project Location</b>	<b>Project Status</b>	<b>Percent Complete</b>	<b>Total Project Budget</b>	<b>Anticipated Completion Date</b>	<b>Project Description</b>
Whisper Valley <sup>(a)</sup>	Austin, TX	In Progress	5%	\$34,653,000	2030	2,063 Acre Planned Community
Indian Hills <sup>(b)</sup>	Austin, TX	In Progress	5%	\$8,703,000	2025	239 Acre Multi-family/ Industrial
Twin Mills Farms	Fort Worth, TX	In Progress	40%	\$28,000,000	2017	950 Residential Lots
Garden Heights	Mansfield, TX	In Progress	50%	\$22,275,000	2016	450 Residential Lots
Garden Town Center	Dalworthington Gardens, TX	In Progress	40%	\$2,237,340	2015	Commercial Mixed Use
Mesa Point Plaza	Grand Junction, COLO	Completed	100%	\$8,600,000	2008	Shopping Center
Merkel Tract	Grand Junction, COLO	Hold <sup>(c)</sup>	0%	\$6,969,600	Unknown	40 Acre Mixed Use Commercial
Park Plaza	Grand Junction, COLO	Hold <sup>(c)</sup>	0%	\$2,650,000	Unknown	70 Acre Mixed Use Res/Comm
Grand West Business Park	Grand Junction, COLO	In Progress	80%	\$4,356,000	2014	40 Acre Industrial Park
Castle Pines	Denver, COLO	Hold	0%	\$2,050,000	Unknown	8.8 Acre Mixed Use Res/Comm

(a) Whisper Valley Budget includes Macro Structure only for Water line 1 and 2, Waste Water Treatment Plant and Interceptor and Phase 1 of Braker Lane.

(b) Indian Hills Budget includes Macro Structure only for Water line 1, Waster Water and Decker Lake Road.

(c) Vacant land to be developed as market conditions improve.

**SAMPLING OF PROJECTS BY DOUGLAS GILLILAND PRIOR TO JOINING TAURUS OF TEXAS HOLDINGS, L.P.**

<b>Name of Project</b>	<b>Type of Community</b>	<b>Number of Lots</b>	<b>Price Point</b>	<b>Approximate Year Started</b>	<b>Disposition</b>
Quail Valley Estates	Single Family Residential	240	\$150-275	1986	Sold all lots to 10-15 Custom Builders
Spring Lake Estates	Single Family Residential	600	\$100-300	1995	Sold all lots to Merchant Builders
Ashwood Park	Single Family Residential	143	\$90-150	2004	Sold lots to Custom Builders and Investors
The Commons	Single Family Residential	220	\$150-250	2000	Sold all lots to Custom and Merchant Builders
Willow Creek	Single Family Residential	225	\$150-250	1998	Sold all lots to Custom and Merchant Builders
The Manors of Waterford	Single Family Residential	64	\$900-2,200	2001	Sold all Lots to Custom Builders
Wyndham Village	Mixed Use Patio Homes	60	\$175-250	1996	Sold all Lots to Custom Builders Sold Office Bldg Lots to Commercial Builders
Carriage Gate	Single Family Residential	300	\$120-225	1991	Sold all lots to Merchant Builders
Williamsburg Estates	Single Family Residential	90	\$225-400	1989	Sold all lots to Custom Builders
Keller Town Center	Mixed Use	130 acres	N/A	2000	Commercial/Multifamily/Office/ Patio Homes/ Municipal Uses

## APPRAISAL OF PROPERTY WITHIN THE DISTRICT

### The Appraisal

*General.* Paul Hornsby & Company, Austin, Texas (the “Appraiser”) prepared an appraisal report for the District, dated April 27, 2011, with an effective date of March 31, 2011 (the “Appraisal”). The Appraisal was prepared at the request of the City. The description herein of the Appraisal is intended to be a brief summary only. The Appraisal is attached hereto as APPENDIX E 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 E — Appraisal of Indian Hills.”

*Value Estimates.* The Appraiser estimated the aggregate retail value of the fee simple interest in various tracts of land comprising the District under the hypothetical condition that the Improvements had been completed. See “THE IMPROVEMENTS.” The Appraisal does not reflect the as-is condition of the property as the Improvements have not yet been constructed. Moreover, the Appraisal does not reflect the value of the property as if sold to a single purchaser in a single transaction. See “APPENDIX E — Appraisal of Indian Hills.” The Appraisal also calculates the present value of payment obligations under the Water CRA. See “PLAN OF FINANCE — The Water CRA.”

The value estimate for the property using the methodologies described in the Appraisal and subject to the limiting conditions and assumptions set forth in the Appraisal as of March 31, 2011 is \$8,790,000. The present value of the Water CRA payments as set forth in the Appraisal is \$3,880,000.

*Assumptions and Limiting Conditions.* The Appraisal is based upon a number of hypothetical conditions (defined as that which is contrary to what exists but is supposed for purposes of the analysis), extraordinary assumptions (defined as assumptions, directly related to a specific assignment, which, if found to be false, could alter the appraiser’s opinions or conclusions), ordinary assumptions, and certain limiting conditions. The hypothetical conditions and extraordinary assumptions which may affect the estimates as to value include, among others, the following:

#### Hypothetical Conditions:

1. "Basic Infrastructure" components including water/wastewater facilities providing sufficient capacity for development and primary arterial roadway access via the extension of Decker Lane Road is completed.
2. The Developer is scheduled to be finished with the construction of “Basic Infrastructure” on July 30, 2013, and reimbursements are scheduled to occur at various times until the final reimbursement on October 31, 2016. As the Appraisal is predicated on a hypothetical condition that all initial infrastructure is complete as of the date of the Appraisal, a concomitant hypothetical condition is that the present value of the reimbursements are relative to July 30, 2013.

#### Extraordinary Assumptions:

1. All infrastructure costs, cash flow, reimbursement agreement, and other development agreement information supplied to the Appraiser is true and correct.
2. Bonds will finance the basic infrastructure improvements to be constructed with reimbursement by the City (utilities) and Travis County (roadways) for a portion of the infrastructure as set forth in the cash flow models and reimbursement agreements. Such bonds will be special assessment revenue bonds with the debt service paid for by special assessments on the real property within the District. No City taxes will be imposed on the property until the bonds are retired so that no undue burden is placed on future landowners.

As further described in this Official Statements, proceeds of the Bonds, the Subordinate Bonds and the Phased Bonds will be used to pay for a portion of the basic infrastructure improvements to be constructed. The Bonds, the Subordinate Bonds and the Phased Bonds will be repaid from Assessment revenues and, with respect to

the Subordinate Bonds, payments pursuant to the Water CRA. The City will not fully annex the Development, and thus not levy City taxes, until the earlier of retirement of the Bonds, the Subordinate Bonds and the Phased Bonds or 44 years and 6 months from the effective date of the Development Agreement. See “PLAN OF FINANCE.”

### **Value to Assessment Burden and Reimbursement Payment Ratios**

The primary security for the Bonds consists of Pledged Revenues (which, in turn, primarily consist of the annual payments of the Assessments). See “SECURITY FOR THE BONDS” Subject to the assumptions and limiting conditions stated therein, the Appraisal sets forth the estimated aggregate retail value of the taxable property subject to Assessment within the District to be \$8,790,000. As noted above, the estimated aggregate retail value of the property within the District assumes (among other matters) completion of the Improvements, which will be financed with the proceeds of the Bonds and the Subordinate Bonds. The primary security for the Subordinate Bonds will consist of Pledged Revenues (which primarily consist of reimbursement payments payable pursuant to the Water CRA and annual payments of the Assessments (after periodic payments of debt service on the Bonds)). See “PLAN OF FINANCE — The Water CRA.” Subject to the Developers’ performance of its obligations under the Water CRA, the City is obligated to make reimbursement payments pursuant to the Water CRA with an estimated present value of \$3,880,000, as estimated by the Appraisal (subject to certain assumptions, conditions and qualifications stated therein).

Set forth below for the purpose of illustration are certain ratios derived based on a comparison of (i) the estimated value of property within the District and the estimated present value of the reimbursement payments to (ii) the principal amount of the Bonds and the principal amount and the Maturity Value of the Subordinate Bonds.

The principal amount of the Bonds is \$2,860,000. When compared to the estimated aggregate retail value of the taxable property only (\$8,790,000), the principal amount of the Bonds has an estimated value to assessment burden ratio of 3.07 to 1. When compared to the estimated aggregate retail value of the taxable property plus the present value of the reimbursements (\$12,670,000), the principal amount of the Bonds has an estimated value to assessment burden and reimbursement payment ratio of 4.43 to 1.

The combined principal amount of the Bonds and the Subordinate Bonds is \$5,192,349.75 and the sum of the principal amount of the Bonds and the Maturity Value of the Subordinate Bonds is \$5,490,000. When compared to the estimated aggregate retail value of the taxable property plus the present value of the reimbursements (\$12,670,000), (i) the combined principal amount of the Bonds and the Subordinate Bonds has an estimated value to assessment burden and reimbursement payment ratio of 2.44 to 1, and (ii) the sum of the principal amount of the Bonds and the Maturity Value of the Subordinate Bonds has an estimated value to assessment burden and reimbursement payment ratio of 2.31 to 1. When compared to the estimated aggregate retail value of the taxable property only (\$8,790,000), (i) the combined principal amount of the Bonds and the Subordinate Bonds has an estimated value to assessment burden ratio of 1.69 to 1, and (ii) the sum of the principal amount of the Bonds plus the Maturity Value of the Subordinate Bonds has an estimated value to assessment burden ratio of 1.60 to 1.

The ratio of the estimated aggregate retail value of the taxable property plus the present value of the reimbursements to the principal amount of the Bonds is based on the assumption that the reimbursement payments enhance the security for the Bonds by virtue of the pledge of such payments to secure the Subordinate Bonds; however, the reimbursement payments are not pledged to secure payment of the Bonds and such payments are not expected to be used for such purpose. The City expects to pay all of the debt service on the Subordinate Bonds from the contract payments provided under the Water CRA, which the City has agreed to pay as Improvements, or portions thereof, are completed by the Developer and accepted by the City. Therefore, the City does not expect to collect Assessments for repayment of the Subordinate Bonds.

The following table sets forth the various ratios discussed above:

	Estimated Value of Land	Estimated Present Value of Reimbursement Payments <sup>(1)</sup>	Estimated Value of Land plus Estimated Present Value of Reimbursement Payments <sup>(2)</sup>	Ratio
<b>Principal Amount of the Bonds</b>				
\$2,860,000	\$8,790,000	\$3,880,000	\$12,670,000	3.07 to 1
<b>Combined Principal Amount of the Bonds and Principal Amount of the Subordinate Bonds</b>				
\$5,192,349.75	\$8,790,000	\$3,880,000	\$12,670,000	1.69 to 1
<b>Combined Principal Amount of the Bonds and Maturity Value of the Subordinate Bonds</b>				
\$5,490,000	\$8,790,000	\$3,880,000	\$12,670,000	1.60 to 1
				2.31 to 1

(1) Reimbursement payments are pledged solely to secure payment of the Subordinate Bonds.

(2) The Ratio of (i) Estimated Value of Land plus Estimated Present Value of Reimbursement Payments to (ii) the Principal Amount of Bonds is provided based on the assumption that the Reimbursement Payments enhance the security for the Bonds by virtue of the pledge of the Reimbursement Payments to secure the Subordinate Bonds; however, the Reimbursement Payments are not pledged to secure payment of the Bonds.

In comparing the appraised value of the real property within the District and the aggregate principal amount of the Bonds and the aggregate principal amount and Maturity Value of the Subordinate Bonds, it should be noted that only the real property upon which there is a delinquent Assessment can be foreclosed upon, and the real property within the District cannot be foreclosed upon as a whole to pay delinquent Assessments of the owners of such parcels with the District unless all of the property is subject to a delinquent Assessment. In any event, individual parcels may be foreclosed upon separately to pay delinquent Assessments levied against such parcels.

Other public entities whose boundaries overlap those of the District currently impose ad valorem taxes on the property within the District and will likely do so in the future. Such entities could also impose assessment liens on the property within the District. Liens created on the property within the District through the levy of ad valorem taxes as well as liens created through the levy of the Assessments are a first and prior lien superior to all others. For example, construction loans may be obtained by the Developer or home loans may be obtained by ultimate homeowners. The deeds of trust securing such debt on property within the District, however, will be in a junior position to ad valorem tax and Assessment liens. See "OVERLAPPING TAXES AND DEBT" and "ASSESSMENT PROCEDURES."

#### 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 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 the District to pay Assessments levied by the District, (b) cash flow delays associated with the institution of foreclosure and enforcement proceedings against property within the District, (c) general and local economic conditions which 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 the District, 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 the District is directly related to the vitality of the residential housing industry. In the event that the sale of the lands within the District should proceed more slowly than expected and the Developer 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 the District. There can be and 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 Bonds, which are limited, special revenue obligations of the City and are not the obligation of the State of Texas, Travis County, or any other political subdivision thereof, are secured solely by the Pledged Revenues.

The Underwriter is not obligated to repurchase any of the Bonds, and no representation is made by the Underwriter or the City 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.

### **Assessment Limitations**

Annual Installments of Assessments are billed to property owners in 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" herein. 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 and the annual collection costs for such year. See "ASSESSMENT PROCEDURES" herein. 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 Assessment installment payments 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 the newly created District, the City has established a 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 Reserve Fund and delay in payments of debt service on the Bonds. See "BONDHOLDERS' RISKS — Remedies and Bankruptcy" herein.

Upon an ad valorem tax lien foreclosure event of a property within the District, an Assessment that is also delinquent will be foreclosed 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, any remaining unpaid balance of the delinquent Assessments would likely be extinguished.

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 that first arise and are subsequently claimed by a property owner after the adoption of the Assessment Ordinance. The Assessment lien would be subordinate to any homestead rights to the extent properly claimed by a property owner prior to the adoption of the Assessment Ordinance, thus precluding foreclosure of the Assessment lien on such pre-existing homestead property. 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 Resolution, no such homestead rights had been claimed.

Failure by owners of the parcels to pay Annual Installments when due, depletion of the Reserve Fund, 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 OF TEXAS, COUNTY OR SCHOOL DISTRICT OR MUNICIPAL AD VALOREM TAXES AND IS A PERSONAL OBLIGATION OF AND CHARGE AGAINST THE OWNERS OF PROPERTY LOCATED WITHIN THE DISTRICT.

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

During recent years, 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. These 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. There have been reports of various public-private efforts to relieve the subprime mortgage crisis but as of yet no one can predict with certainty when the real estate market will rebound.

### **Competition**

The housing industry in the Austin area is very competitive, and neither the Developer nor the City can give any assurance that the building programs which are planned will ever commence. The competitive position of the Developer in the sale of developed lots or of any other home builder 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.

### **Loss of Tax Exemption**

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" herein, 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.

## **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 of Texas 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 the District 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 the District currently impose ad valorem taxes on the property within the District and will likely do so in the future. Such entities could also impose assessment liens on the property within the District. The imposition of additional liens, or for private financing, may reduce the ability or willingness of the landowners to pay the Assessments.

Pursuant to the Development Agreement, the City has agreed not to annex or impose ad valorem taxes on property in the District until the earlier of (i) the date that all Bonds, Subordinate Bonds and Phased Bonds are paid in full, or (ii) 44 years and 6 months after the effective date of the Development Agreement. See "OVERLAPPING TAXES AND DEBT."

## **Depletion of Reserve Fund**

Failure of the owners of property within the District to pay the Assessments when due could result in the rapid, total depletion of 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 or the Prepayment Reserve Account. The Indenture provides that if, after a withdrawal from the Reserve Fund, the amount in the Reserve Fund is less than the Debt Reserve Fund Requirement, the Trustee shall transfer an amount from the Pledged Revenue Fund to the Reserve Fund sufficient to cure such deficiency, as described under "SECURITY FOR THE BONDS — Reserve Fund" herein.

## **Hazardous Substance**

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 "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 (or operator) for the remedy of a hazardous substance condition of the parcel. The City has not independently verified, and is not aware, that the owner (or operator) of any of the parcels within the District 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 the 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.

## **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.

## **100-Year Flood Plain**

Approximately 9 acres within the District are located within an official FEMA 100 year flood plain as shown on the current Federal Emergency Management Agency's Flood Insurance Rate Map Panels 48453C0490H. All of the lands identified to be within the developed floodplain will be located within dedicated open space, park or drainage easements. As the project is developed the final location of the floodplain will be determined and will be contained within drainage easements or dedicated lots. The City of Austin will not allow occupied structures to be developed within the floodplain.

## **Bondholders' Remedies and Bankruptcy**

In the event of default in the payment of principal or of interest on the Bonds or the occurrence of any other Event of Default under the Indenture, and upon the written request of the Owners of the Bonds of not less than a majority in principal amount of the Outstanding Bonds, the Trustee shall proceed to protect and enforce its rights and the rights of the owners of the Bonds under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for mandamus or the specific performance of any covenant or agreement contained therein or in aid or execution of any power granted or for the enforcement of any proper legal or equitable remedy, as the Trustee shall deem most effectual to protect and enforce such rights. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the Bonds or the Indenture and the City's obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with 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 the District or sell property within the District 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 District. 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" herein.

Any bankruptcy court with jurisdiction over bankruptcy proceedings initiated by or against a taxpayer 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 ad valorem taxes or Assessments against such taxpayer.

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. 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 the 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. Chapter 1371, Texas Government Code ("Chapter 1371"), which pertains to the issuance of public securities by issuers such as the City, permits the City to waive sovereign immunity in the proceedings authorizing its debt, but in connection with the issuance of the Bonds, the City has not waived sovereign immunity and is not using the authority to do so as provided by Chapter 1371. As noted above, the Indenture provide that Bondholders 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 monies due under a contract).

### **No Acceleration**

The Indenture does not contain a provision allowing for the acceleration of the Bonds in the event of a payment default or other default under the terms of the Bonds or the Indenture.

### **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. 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 Federal Bankruptcy Code, 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 Federal Bankruptcy Code, (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 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 residential homebuilding.

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

Investments in 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 applicable developer. Furthermore, the operating revenues of such entities may be materially adversely affected if specific conditions in the lot purchase contracts are not met by such entities. Failure to meet the lot purchase contract's conditions allows the applicable lot purchaser to terminate its obligation to purchase lots and obtain its earnest money deposit back. See "THE DEVELOPER" herein.

The Development cannot be initiated or completed without the applicable developer obtaining a variety of governmental approvals and permits, some of which have already been obtained. Such permits are necessary to initiate construction of each phase of the Development and to allow the occupancy of the homes 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. See "THE DEVELOPMENT."

### **Dependence Upon Developer**

The Developer, as the owner of all of the parcels comprising the Development, currently has the only obligation for payment of the Assessments. 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 Developer is a nominally capitalized limited partnership, the primary asset of which is its land within the District. The source of funding for future land development activities and infrastructure construction to develop the remaining lots proposed for the Development also consists of proceeds from Phased Bonds and proceeds of lot sales, as well as possible bank financing.

There can be no assurances given as to the financial ability of the Developer to advance any funds to the City to supplement the Assessments or as to whether the Developer actually will advance such funds.

## **TAX MATTERS**

### **Tax Exemption**

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof who are individuals or, except as hereinafter described, corporations. A form of Bond Counsel's opinion is reproduced as APPENDIX C. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporation, other than an S

corporation, a qualified mutual fund, a real estate investment trust, a real estate mortgage investment conduit, or a financial asset securitization investment trust (“FASIT”). A corporation’s alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Indenture subsequent to the issuance of the Bonds. The Indenture contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage “profits” from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel’s opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the “IRS”) with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel’s opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the “taxpayer,” and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

### **Impact of Proposed American Jobs Act**

On September 12, 2011, President Obama submitted to Congress the “American Jobs Act of 2011” (the “American Jobs Act”), which, if enacted, could result in additional federal income tax being imposed on certain owners of tax-exempt obligations, including the Bonds, for tax years beginning on or after January 1, 2013. As proposed, the American Jobs Act would limit for certain individual taxpayers the value of certain deductions and exclusions, including the exclusion for tax-exempt interest, to 28 percent irrespective of the actual marginal tax rate imposed on such taxpayers. The American Jobs Act or other proposed legislation, if enacted, could directly or indirectly reduce or eliminate the benefit of the exclusion of interest on the Bonds from gross income for federal income tax purposes. The introduction or enactment of the American Jobs Act or other proposed legislation 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 the American Jobs Act or other pending or proposed tax legislation.

### **Tax Accounting Treatment of Discount and Premium on Certain Bonds**

The initial public offering price of certain Bonds (the “Discount Bonds”) may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such

Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under “Tax Exemption.” Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the alternative minimum taxable income of a corporation, for purposes of calculating a corporation’s alternative minimum tax imposed by Section 55 of the Code, and the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such 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 Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the “Premium Bonds”) may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser’s yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

## **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 of Texas, payable from the proceeds of the Assessments 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.

Fulbright & Jaworski L.L.P. serves as Bond Counsel to the City. Andrews Kurth LLP serves as Underwriter’s Counsel. The legal fees paid to Bond 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 of Texas, to the effect that the Bonds are valid and binding special obligations of the City. The City will also furnish the legal opinion of Fulbright & Jaworski L.L.P., Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special obligations of the City under the Constitution and laws of the State of Texas. The legal opinion of Bond Counsel will further state that the Bonds, including principal of an interest thereon, are payable from and secured by a pledge of and lien on the Pledged Revenues. 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," including the alternative minimum tax consequences for corporations. A copy of the opinion of Bond Counsel is attached hereto as "APPENDIX C —Form of Opinion of Bond Counsel."

Except as noted below, Bond Counsel did not take part in the preparation of the Official Statement, 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 Official Statement under the captions "PLAN OF FINANCE," "DESCRIPTION OF THE BONDS," "SECURITY FOR THE BONDS," "TAX MATTERS," "LEGAL MATTERS," "CONTINUING DISCLOSURE OF INFORMATION" (except for the subcaption "Compliance with Prior Undertakings"), "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE" and APPENDIX A and such firm is of the opinion that the information relating to the Bonds, the Ordinance and the Indenture contained therein fairly and accurately describes the laws and legal issues addressed herein and, with respect to the Bonds, such information conforms to the 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 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 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 revenues provided for the payment of the Bonds, or in any way contesting the completeness or accuracy of this Official Statement 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 of said documents.

### **Litigation — The Developer**

At the time of delivery and payment for the Bonds, the 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 the Developer, threatened against or affecting the Developer wherein an unfavorable decision, ruling or finding would have a material adverse effect on the financial condition of the Developer or its co-general partners 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 Developer Prepayment Agreement or the Bond Purchase Agreement, or otherwise described in this Official Statement, or (2) the tax-exempt status of interest on the Bonds.

## **SUITABILITY FOR INVESTMENT**

Investment in the Bonds poses certain economic risks. 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 Official Statement, 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. 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 of 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**

Pursuant to Rule 15c2-12 of the Securities and Exchange Commission (the “Rule”), the City, the Trustee and the Developer will enter into a Continuing Disclosure Agreement (the “Disclosure Agreement”), for the benefit of the Bondholders (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement, certain financial information and operating data relating to the City, the Development and the Developer and certain information regarding the Improvements and other projects within the District that will be financed by the Developer (the “Reports”). The specific nature of the information to be contained in the Reports is set forth in “APPENDIX D — Form of Disclosure Agreement.” Under certain circumstances, the failure of the City or the Developer to comply with its obligations under the Disclosure Agreement 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 would allow the Bondholders (including owners of beneficial interests in the Bonds) to bring an action for specific performance. During the last five years, the City has complied in all material respects with all continuing disclosure agreements made by it in accordance with the Rule. The Developer has not previously entered into any continuing disclosure agreements in accordance with the Rule.

The City has agreed to update information and to provide notices of material events only as provided in the Disclosure Agreement. 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 Official Statement, except as provided in the Disclosure Agreement. 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 or from any statement made pursuant to the Disclosure Agreement.

## **UNDERWRITING**

Piper Jaffray & Co. (the “Underwriter”) has agreed to purchase the Bonds from the City at a purchase price of \$2,624,996.85 (the par amount of the Bonds, less a reoffering discount of \$154,923.15 and less an underwriting

discount of \$80,080.00). 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. The Bonds may be offered and sold by the Underwriter at prices lower than the initial offering prices stated on the cover hereof, and such initial offering prices may be changed from time to time by the Underwriter.

### **REGISTRATION AND QUALIFICATION OF BONDS FOR SALE**

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

### **LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS**

The PID Act and Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Government Code, as amended) provide that the Bonds are negotiable instruments governed by Chapter 8, 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 of Texas, the Public Funds Investment Act, Chapter 2256, Government Code, as amended, 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" above. In addition, the PID Act and various provisions of the Texas Finance Code provide that, subject to a prudent investment standard, the Bonds are legal investments for state banks, savings banks, trust companies with a 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 Texas law in accordance with investment policies approved by the City Council. Both Texas law and the City's investment policies are subject to change.

Under Texas law, the City is authorized to invest in (1) obligations, including letter of credit, of the United States or its agencies and instrumentalities, (2) direct obligations of the State of Texas or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State of Texas or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than A or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) certificates of deposit and share certificates meeting the requirements of the Texas Public Funds Investment Act (Chapter 2256, Texas Government Code, as amended (the "PFIA")) that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1)

through (6) or in any other manner and amount provided by law for City deposits, or are invested by the City through a broker or depository institution that has its main office or a branch office in the State of Texas and otherwise meet the requirements of the PFIA, (8) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State of Texas, (9) certain bankers' acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least A-1 or P-1 or the equivalent by at least one nationally recognized credit rating agency, (10) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a U.S. or state bank, (11) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission that have a dollar weighted average stated maturity of 90 days or less and include in their investment objectives the maintenance of a stable net asset value of \$1 for each share, and (12) no-load mutual funds registered with the Securities and Exchange Commission that have an average weighted maturity of less than two years, invest exclusively in obligations described in the this paragraph, and are continuously rated as to investment quality by at least one nationally recognized investment rating firm of not less than AAA or its equivalent. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The 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. 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.

Political subdivisions such as the City are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (6) of the first paragraph under this subcaption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than "A" or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (6) and (10) through (12) of the first paragraph under this subcaption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the governmental body, held in the name of the governmental body and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State of Texas; and (iv) the agreement to lend securities has a term of one year or less.

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 includes a list of authorized investments for City funds, the 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 funds' 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.

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

## **SOURCES OF INFORMATION**

### **General**

The information contained in this Official Statement 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 Official Statement 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 Official Statement or any sale hereunder will create any implication that there has been no change in the financial condition or operations of the City described herein since the date hereof. This Official Statement 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, 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.

## **Experts**

The information contained in this Official Statement relating to the description of the Improvements generally and, in particular, the information included in the sections captioned “THE IMPROVEMENTS,” “THE DEVELOPMENT,” “THE DEVELOPER,” “BONDHOLDERS’ RISKS” (only as it pertains to the Developer and the Development) and “LEGAL MATTERS — Litigation — The Developer” has been provided by the Developer.

## **Updating of Official Statement**

If, subsequent to the date of the Official Statement, 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 Official Statement 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 Official Statement satisfactory to the Underwriter; provided, however, that the obligation of the City to so amend or supplement the Official Statement 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 Official Statement 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” HEREIN.

**AUTHORIZATION AND APPROVAL**

The execution and delivery of this Official Statement has been duly authorized by the City Council of the City of Austin.

CITY OF AUSTIN, TEXAS

\_\_\_\_\_  
Mayor

ATTEST:

\_\_\_\_\_  
City Secretary

APPENDIX A  
FORM OF INDENTURE

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**INDENTURE OF TRUST**

**By and Between**

**CITY OF AUSTIN, TEXAS**

**and**

**DEUTSCHE BANK NATIONAL TRUST COMPANY,  
as Trustee**

**DATED AS OF November 1, 2011**

**SECURING**

**\$2,860,000**

**CITY OF AUSTIN, TEXAS,  
SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011  
(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)**

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## INDENTURE OF TRUST

THIS INDENTURE, dated as of November 1, 2011, is by and between the CITY OF AUSTIN, TEXAS (the "City"), and DEUTSCHE BANK NATIONAL TRUST COMPANY, as trustee (together with its successors, the "Trustee"). Capitalized terms used in the preambles, recitals and granting clauses and not otherwise defined shall have the meanings assigned thereto in Article I.

WHEREAS, a petition was submitted by the Developer and filed with the City Clerk of the City (the "City Clerk") pursuant to the Public Improvement District Assessment Act, Chapter 372, Texas Local Government Code (the "PID Act"), requesting the creation of a public improvement district located in the extraterritorial jurisdiction of the City to be known as Indian Hills Public Improvement District (the "District"); and

WHEREAS, the petition contained the signatures of the owners of taxable property representing more than fifty percent of the appraised value of taxable real property liable for assessment within the District, as determined by the then current ad valorem tax rolls of the Travis Central Appraisal District, and the signatures of property owners who own taxable real property that constitutes more than fifty percent of the area of all taxable property that is liable for assessment by the District; and

WHEREAS, on August 5, 2010, after due notice, the City Council of the City (the "City Council") held the public hearing in the manner required by law on the advisability of the improvement projects and services described in the petition as required by Sec. 372.009 of the PID Act and on August 26, 2010, the City Council made the findings required by Sec. 372.009(b) of the PID Act and, by Resolution No. 20100826-026, adopted by a majority of the members of the City Council, authorized the District in accordance with its finding as to the advisability of the improvement projects and services; and

WHEREAS, on September 7, 2010, the City published notice of its authorization of the District in the Austin American Statesman, a newspaper of general circulation in the City; and

WHEREAS, no written protests of the District from any owners of record of property within the District were filed with the City Clerk within 20 days after September 7, 2010; and

WHEREAS, the City Council, pursuant to Section 372.016(b) of the PID Act, published notice of a public hearing in a newspaper of general circulation in the City to consider the proposed "Assessment Roll" and the "Service and Assessment Plan" and the levy of the "Assessments" on property in the District; and

WHEREAS, the City Council, pursuant to Section 372.016(c) of the PID Act, mailed notice of the public hearing to consider the proposed Assessment Roll and the Service and Assessment Plan and the levy of Assessments on property in the District to the last known address of the owners of the property liable for the Assessments; and

WHEREAS, the City Council convened the hearing on August 4, 2011, at which all persons who appeared, or requested to appear, in person or by their attorney, were given the opportunity to contend for or contest the Service and Assessment Plan, the Assessment Roll, and

the Assessments, and to offer testimony pertinent to any issue presented on the amount of the Assessment, the allocation of Costs, the purposes of the Assessment, the special benefits of the Assessment, and the penalties and interest on annual installments and on delinquent annual installments of the Assessment; and

WHEREAS, at the August 4, 2011 public hearing referenced above, there were no written objections or evidence submitted to the City Clerk in opposition to the Service and Assessment Plan, the allocation of Costs, the Assessment Roll, and the levy of the Assessments; and

WHEREAS, the City Council closed the hearing, and, after considering all written and documentary evidence presented at the hearing, including all written comments and statements filed with the City, approved and accepted the Service and Assessment Plan in conformity with the requirements of the PID Act and adopted the Assessment Ordinance and therein levied the Assessments; and

WHEREAS, the City Council hereby finds and determines that the Assessment Roll and the Service and Assessment Plan should be approved and that the Assessments should be levied as provided in the Service and Assessment Plan and the Assessment Roll; and

WHEREAS, the City Council is authorized by the PID Act to issue its revenue bonds payable from the Assessments and from other revenue to be received from the Developer for the purpose of (i) paying the Costs of the Improvement Projects, (ii) paying interest on the Bonds during and after the period of acquisition and construction of the Improvement Projects, and (iii) funding a reserve fund for payment of principal and interest on Bonds and for funding other funds as provided in Section 6.2; and

WHEREAS, the City Council now desires to issue its revenue bonds, in accordance with the PID Act, such bonds to be entitled "City of Austin, Texas, Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District)," (the "Bonds"), such Bonds being payable from the Assessments and other funds pledged under this Indenture to the payment of the Bonds and for the purposes set forth in this preamble; and

WHEREAS, concurrently with the issuance of the Bonds, the City Council intends to issue the City of Austin, Texas, Special Assessment Revenue Bonds, Subordinate Series 2011 (Indian Hills Public Improvement District) which are also payable from Assessments but the use of the assessments to pay such subordinate series of bonds is subject to and subordinate to the use of the Assessments to pay the Bonds and to fund the funds and accounts related to the Bonds;

WHEREAS, the Trustee has agreed to accept the trusts herein created upon the terms set forth in this Indenture;

NOW, THEREFORE, the City, in consideration of the foregoing premises and acceptance by the Trustee of the trusts herein created, of the purchase and acceptance of the Bonds by the Owners thereof, and of other good and valuable consideration, the receipt and sufficiency of which are hereby acknowledged, does hereby GRANT, CONVEY, PLEDGE, TRANSFER, ASSIGN, and DELIVER to the Trustee for the benefit of the Owners, a security

interest in all of the moneys, rights and properties described in the Granting Clauses hereof, as follows (collectively, the “Trust Estate”):

#### FIRST GRANTING CLAUSE

The Pledged Revenues, as herein defined, and all moneys and investments held in the Pledged Funds, 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

#### SECOND GRANTING CLAUSE

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 hereunder by the City or by anyone on its behalf or with its written consent, and the Trustee is hereby authorized to receive any and all such property or money at any and all times and to hold and apply the same subject to the terms thereof;

TO HAVE AND TO HOLD the Trust Estate, whether now owned or hereafter acquired, unto the Trustee and its successors or assigns;

IN TRUST NEVERTHELESS, upon the terms and trusts herein set forth for the benefit of all present and future Owners of the Bonds from time to time issued under and secured by this Indenture, and for enforcement of the payment of the Bonds in accordance with their terms, and for the performance of and compliance with the obligations, covenants, and conditions of this Indenture;

PROVIDED, HOWEVER, that if and to the extent Assessments have been prepaid, the real property associated with such Assessment prepayment shall be released from the Trust Estate and shall no longer constitute a part of the Trust Estate;

PROVIDED FURTHER, HOWEVER, if the City or its assigns shall well and truly pay, or cause to be paid, the principal or Redemption Price of and the interest on the Bonds at the times and in the manner stated in the Bonds, according to the true intent and meaning thereof, then this Indenture and the rights hereby granted shall cease, terminate and be void; otherwise this Indenture is to be and remain in full force and effect;

THIS INDENTURE FURTHER WITNESSETH, and it is expressly declared, that all Bonds issued and secured hereunder are to be issued, authenticated, and delivered and the Trust Estate hereby created, assigned, and pledged is to be dealt with and disposed of under, upon and subject to the terms, conditions, stipulations, covenants, agreements, trusts, uses, and purposes as hereinafter expressed, and the City has agreed and covenanted, and does hereby agree and covenant, with the Trustee and with the respective Owners from time to time of the Bonds as follows:

## ARTICLE I

### DEFINITIONS, FINDINGS AND INTERPRETATION

#### Section 1.1. Definitions.

Unless otherwise expressly provided or unless the context clearly requires otherwise in this Indenture, the following terms shall have the meanings specified below:

“Account” means any of the accounts established pursuant to Section 6.1 of this Indenture.

“Administrative Fund” means that Fund established by Section 6.1 and administered pursuant to Section 6.9 hereof.

“Administrator” means an employee or designee of the City who shall have the responsibilities provided in the Service and Assessment Plan, this Indenture, or any other agreement or document approved by the City related to the duties and responsibilities of the administration of the District.

“Annual Collection Costs” mean the following actual or budgeted costs, as applicable, related to the annual collection costs of outstanding Assessments paid in installments, including the costs or anticipated costs of: (i) issuing, refunding or refinancing bonds, (ii) computing, levying, collecting and transmitting the Assessments (whether by the City, the Administrator or otherwise), (iii) remitting the Assessments to the Trustee, (iv) the City, the Administrator and Trustee (including legal counsel) in the discharge of their duties, (v) complying with arbitrage rebate requirements, (vi) complying with securities disclosure requirements, and (vii) the City in any way related to the collection of the Assessments in installments, including, without limitation, the administration of the District, maintaining the record of installments, payments and reallocations and/or cancellations of Assessments, and the repayment of the Bonds, including, without limitation, any associated legal expenses, the reasonable costs of other consultants and advisors and contingencies and reserves for such costs as deemed appropriate by the City Council. Annual Collection Costs collected and not expended for actual Annual Collection Costs shall be carried forward and applied to reduce Annual Collection Costs in subsequent years to avoid the over-collection of Annual Collection Costs.

“Annual Debt Service” means, for each Bond Year, the sum of (i) the interest due on the Outstanding Bonds in such Bond Year, assuming that the Outstanding Bonds are retired as scheduled (including by reason of Sinking Fund Installments), and (ii) the principal amount of the Outstanding Bonds due in such Bond Year (including any Sinking Fund Installments due in such Bond Year).

“Annual Installment” means, with respect to each Assessed Parcel, each annual payment of the Assessment as shown on the Assessment Roll attached to the Service and Assessment Plan as Exhibit A and related to the Bonds and the Subordinate Bonds or as shown on an Annual Service Plan Update, as defined in the Service and Assessment Plan, related to the Bonds and the Subordinate Bonds.

“Applicable Laws” means 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, by which the City and its powers, securities, operations, and procedures are, or may be, governed or from which its powers may be derived.

“Assessed Parcel” means each respective parcel of land located within the District against which an Assessment is levied by the Assessment Ordinance in accordance with the Service and Assessment Plan.

“Assessment Ordinance” means Ordinance No. 20111103-011 adopted by the City Council on November 3, 2011, that levied the Assessments on the Assessed Parcels.

“Assessment Roll” means the document attached as Appendix A to the Service and Assessment Plan, showing the total amount of the Assessment against each Assessed Parcel, as updated, modified, or amended from time to time in accordance with the terms of the Service and Assessment Plan and the PID Act.

“Assessments” means the aggregate assessments shown on the Assessment Roll. The singular of such term means the assessment levied against an Assessed Parcel as shown on the Assessment Roll.

“Authorized Denomination” means \$25,000 and any integral multiple of \$5,000 in excess thereof.

“Bond” means any of the Bonds.

“Bond Counsel” means Fulbright & Jaworski L.L.P. or any other attorney or firm of attorneys designated by the City that are nationally recognized for expertise in rendering opinions as to the legality and tax-exempt status of securities issued by public entities.

“Bond Date” means the date designated as the initial date of the Bonds by Section 3.2(a) of this Indenture.

“Bond Fund” means the Fund established pursuant to Section 6.1 and administered as provided in Section 6.4.

“Bond Ordinance” means Ordinance No. 20111103-052 adopted by the City Council on November 3, 2011 authorizing the issuance of the Bonds pursuant to this Indenture.

“Bonds” means the City’s bonds authorized to be issued by Section 3.1 of this Indenture entitled “City of Austin, Texas, Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District).”

“Bond Year” means the one-year period beginning on January 1 in each year and ending on the day prior to January 1 in the following year.

“Business Day” means any day other than a Saturday, Sunday or legal holiday in the State of Texas observed as such by the City or the Trustee.

“Certification for Payment” means a certificate executed by an engineer, construction manager or other person or entity acceptable to the City, as evidenced by the signature of a City Representative, specifying the amount of work performed and the cost thereof, presented to the Trustee to request funding for Costs from money on deposit in the Project Fund.

“City Certificate” means a certificate signed by the City Representative and delivered to the Trustee.

“City Order” means written instructions by the City, executed by a City Representative.

“City Representative” means that official or agent of the City authorized by the City Council to undertake the action referenced herein.

“Closing Date” means the date of the initial delivery of and payment for the Bonds.

“Code” means the Internal Revenue Code of 1986, as amended, including applicable regulations, published rulings and court decisions.

“Costs” means the costs of the Improvement Projects.

“Defeasance Securities” means Investment Securities then authorized by applicable law for the investment of funds to defease public securities.

“Delinquency Reserve Requirement” means an amount equal to \$35,000 which will be funded from revenues received from the payment of Assessments deposited to the Pledged Revenue Fund.

“Delinquent Collection Costs” mean the costs related to the foreclosure on an Assessed Parcel and the costs of collection of a delinquent Assessment, including penalties and reasonable attorney’s fees actually paid, but excluding amounts representing interest and penalty interest

“Designated Payment/Transfer Office” means (i) with respect to the initial Paying Agent/Registrar named in this Indenture, the transfer/payment office located in Jacksonville, Florida, or such other location designated by the Paying Agent/Registrar and (ii) with respect to any successor Paying Agent/Registrar, the office of such successor designated and located as may be agreed upon by the City and such successor.

“Developer” means Club Deal 116 Indian Hills TX, Limited Partnership, a Delaware limited partnership.

“DTC” shall mean The Depository Trust Company of New York, New York, or any successor securities depository.

“DTC Participant” shall mean brokers and dealers, banks, trust companies, clearing corporations, and certain other organizations on whose behalf DTC was created to hold securities to facilitate the clearance and settlement of securities transactions among DTC Participants.

“Financing Agreement” means the Indian Hills Public Improvement District Financing Agreement between the City and the Developer dated as of November 1, 2011 which provides for the appointment, levying and collection of Assessments, the construction of the Improvement Projects, the maintenance of the Improvement Projects, the issuance of bonds and other matters related thereto.

“Foreclosure Proceeds” means the proceeds, including interest and penalty interest, received by the City from the enforcement of the Assessments against any Assessed Parcel or Assessed Parcels, whether by foreclosure of lien or otherwise, but excluding and net of all Delinquent Collection Costs.

“Fund” means any of the funds established pursuant to Section 6.1 of this Indenture.

“Improvement Projects” mean the public improvements and other related costs defined as Master PID Bond Authorized Improvements in the Service and Assessment Plan.

“Indenture” means this Indenture of Trust as originally executed or as it may be from time to time supplemented or amended by one or more indentures supplemental hereto and entered into pursuant to the applicable provisions hereof.

“Independent Financial Consultant” means any consultant or firm of such consultants appointed by the City who, or each of whom: (i) is judged by the City, as the case may be, to have experience in matters relating to the issuance and/or administration of the Bonds; (ii) is in fact independent and not under the domination of the City; (iii) does not have any substantial interest, direct or indirect, with or in the City, or any owner of real property in the District, or any real property in the District; and (iv) is not connected with the City as an officer or employee of the City, but who may be regularly retained to make reports to the City.

“Initial Bonds” means the Initial Bonds authorized by Section 5.2 of this Indenture.

“Interest Payment Date” means the date or dates upon which interest on the Bonds is scheduled to be paid until their respective dates of maturity or prior redemption, such dates being on March 1 and September 1 of each year, commencing March 1, 2012.

“Investment Securities” means those authorized investments described in the Public Funds Investment Act, Chapter 2256, Government Code, as amended; and provided further investments are, at the time made, included in and authorized by the City’s official investment policy as approved by the City Council from time to time.

“Maximum Annual Debt Service” means the largest Annual Debt Service for any Bond Year after the calculation is made through the final maturity date of any Outstanding Bonds.

“Outstanding” means, as of any particular date when used with reference to Bonds, all Bonds authenticated and delivered under this Indenture except (i) any Bond that has been canceled by the Trustee (or has been delivered to the Trustee for cancellation) at or before such date, (ii) any Bond for which the payment of the principal or Redemption Price of and interest on such Bond shall have been made as provided in Article IV, and (iii) any Bond in lieu of or in

substitution for which a new Bond shall have been authenticated and delivered pursuant to Section 3.10 herein.

“Owner” means the Person who is the registered owner of a Bond or Bonds, as shown in the Register, which shall be Cede & Co., as nominee for DTC, so long as the Bonds are in book-entry only form and held by DTC as securities depository in accordance with Section 3.11 herein.

“Paying Agent/Registrar” means initially the Trustee, or any successor thereto as provided in this Indenture.

“Person” or “Persons” means any individual, corporation, partnership, limited liability company, joint venture, association, joint-stock company, trust, unincorporated organization or government or any agency or political subdivision thereof.

“PID Act” means Chapter 372, Improvement Districts in Municipalities and Counties, Subchapter A, Public Improvement Districts, Texas Local Government Code, as amended.

“Pledged Funds” means the Pledged Revenue Fund, the Bond Fund, the Project Fund, the Reserve Fund, and the Redemption Fund.

“Pledged Revenue Fund” means that fund established pursuant to Section 6.1 and administered pursuant to Section 6.3 herein.

“Pledged Revenues” means the sum of (i) the Annual Installments, less the Annual Collection Costs, (ii) any Prepayments received by the City, (iii) any Foreclosure Proceeds received by the City, and (iv) the moneys held in any of the Pledged Funds.

“Prepayment” means the payment of all or a portion of an Assessment before the due date thereof.

“Prepayment Reserve Requirement” means an amount equal to \$27,500 which will be funded from revenues received from the payment of Assessments deposited to the Pledged Revenue Fund.

“Project Fund” means that fund established pursuant to Section 6.1 and administered pursuant to Section 6.5 herein.

“Purchaser” means the initial purchaser of the Bonds.

“Rebatable Arbitrage” means rebatable arbitrage as defined in Section 1.148-3 of the Regulations (as defined in Section 7.5 hereof).

“Rebate Fund” means that fund established pursuant to Section 6.1 and administered pursuant to Section 6.8 herein.

“Record Date” means the close of business on the 15th calendar (whether or not a Business Day) day of the month next preceding an Interest Payment Date.

“Redemption Fund” means that fund established pursuant to Section 6.1 and administered pursuant to Section 6.6 herein.

“Redemption Price” means, when used with respect to any Bond or portion thereof, the principal amount of such Bond or such portion thereof plus the applicable premium, if any, plus accrued and unpaid interest on such Bond to the date fixed for redemption payable upon redemption thereof pursuant to the Indenture.

“Register” means the register specified in Article III of this Indenture.

“Reserve Fund” means that fund established pursuant to Section 6.1 and administered in Section 6.7 herein.

“Reserve Fund Obligations” means cash or Investment Securities.

“Reserve Fund Requirement” means the least of: (i) Maximum Annual Debt Service on the Bonds as of the date of issuance, (ii) 125% of average Annual Debt Service on the Bonds as of the date of issuance, or (iii) 10% of the proceeds of the Bonds; provided, however, that such amount shall be reduced by the amount of any transfers made pursuant to subsections (c) and (d) of Section 6.7; and provided further that as a result of an optional redemption pursuant to Section 4.3, the Reserve Fund Requirement shall be reduced by a percentage equal to the pro rata amount of Bonds redeemed by such optional redemption divided by the total amount of the Outstanding Bonds prior to such redemption. As of the date of delivery of the Bonds, the Reserve Fund Requirement is \$270,486.49 which is an amount equal to 10% of the proceeds of the Bonds.

“Service and Assessment Plan” means the document, including the Assessment Roll, as amended, which is attached as Exhibit A to the Assessment Ordinance.

“Sinking Fund Installment” means the amount of money to redeem or pay at maturity the principal of Bonds payable from such installments at the times and in the amounts provided in Section 4.2 herein.

“Stated Maturity” means the date the Bonds, or any portion of the Bonds, as applicable are scheduled to mature without regard to any redemption or prepayment.

“Subordinate Bonds” means the “City of Austin, Texas, Special Assessment Revenue Bonds, Subordinate Series 2011 (Indian Hills Public Improvement District).”

“Supplemental Indenture” means an indenture which has been duly executed by the City Representative pursuant to an ordinance adopted by the City Council and which indenture amends or supplements this Indenture, but only if and to the extent that such indenture is specifically authorized hereunder.

“Tax Certificate” means the Certificate as to Tax Exemption delivered by the City on the Closing Date for the Bonds setting forth the facts, estimates and circumstances in existence on the Closing Date which establish that it is not expected that the proceeds of the Bonds will be used in a manner that would cause the interest on such Bonds to be included in the gross income of the Owners thereof for Federal income tax purposes.

“Trust Estate” means the Trust Estate described in the granting clauses of this Indenture.

“Trustee” means Deutsche Bank National Trust Company and its successors, and any other corporation or association that may at any time be substituted in its place, as provided in Article IX, such entity to serve as Trustee and Paying Agent/Registrar for the Bonds.

Section 1.2. Findings.

The declarations, determinations and findings declared, made and found in the preamble to this Indenture are hereby adopted, restated and made a part of the operative provisions hereof.

Section 1.3. Table of Contents, Titles and Headings.

The table of contents, titles, and headings of the Articles and Sections of this Indenture have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof and shall never be considered or given any effect in construing this Indenture or any provision hereof or in ascertaining intent, if any question of intent should arise.

Section 1.4. Interpretation.

(a) Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa.

(b) Words importing persons include any individual, corporation, limited liability company, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government or agency or political subdivision thereof.

(c) Any reference to a particular Article or Section shall be to such Article or Section of this Indenture unless the context shall require otherwise.

(d) This Indenture and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein to sustain the validity of this Indenture.

## ARTICLE II

### THE BONDS

Section 2.1. Security for the Bonds.

The Bonds, as to both principal and interest, are and shall be equally and ratably secured by and payable from a first lien on and pledge of the Trust Estate; provided, however, that the Assessments may be used to pay the debt service on the Subordinate Bonds, such use, however, being subject and subordinate to the use of the Assessments to pay the Bonds and to fund the funds and accounts associated with the Bonds.

The lien on and pledge of the Pledged Revenues shall be valid and binding and fully perfected from and after the Closing Date, which is the date of the delivery of this Indenture, without physical delivery or transfer of control of the Pledged Revenues, the filing of this 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 Pledged Revenues granted by the City under this 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 Pledged Revenues granted by the City under this 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.

Section 2.2. Limited Obligations.

The Bonds are special and limited obligations of the City, payable solely from and secured solely by the Trust Estate, including the Pledged Revenues and the Pledged Funds; and the Bonds shall never be payable out of funds raised or to be raised by taxation or from any other revenues, properties or income of the City.

Section 2.3. Authorization for Indenture.

The terms and provisions of this Indenture and the execution and delivery hereof by the City to the Trustee have been duly authorized by official action of the City Council of the City. The City has ascertained and it is hereby determined and declared that the execution and delivery of this Indenture is necessary to carry out and effectuate the purposes set forth in the preambles of this Indenture and that each and every covenant or agreement herein contained and made is necessary, useful or convenient in order to better secure the Bonds and is a contract or agreement necessary, useful and convenient to carry out and effectuate the purposes herein described.

Section 2.4. Contract with Owners and Trustee.

(a) The purposes of this Indenture are to establish a lien and the security for, and to prescribe the minimum standards for the authorization, issuance, execution and delivery of, the Bonds and to prescribe the rights of the Owners, and the rights and duties of the City and the Trustee.

(b) In consideration of the purchase and acceptance of any or all of the Bonds by those who shall purchase and hold the same from time to time, the provisions of this Indenture shall be a part of the contract of the City with the Owner, and shall be deemed to be and shall constitute a contract among the City, the Owners, and the Trustee.

ARTICLE III

AUTHORIZATION; GENERAL TERMS AND PROVISIONS REGARDING THE BONDS

Section 3.1. Authorization.

The Bonds are hereby authorized to be issued and delivered in accordance with the Constitution and laws of the State of Texas, including particularly the PID Act, as amended. The Bonds shall be issued in the aggregate principal amount of \$2,860,000 for the purpose of (i) paying the Costs of the Improvement Projects, (ii) paying interest on the Bonds during and after the period of acquisition and construction of the Improvement Projects, (iii) funding a reserve fund for payment of principal and interest on Bonds, (iv) paying a portion of the costs incidental to the organization of the District, and (v) paying the costs of issuance.

Section 3.2. Date, Denomination, Maturities, Numbers and Interest.

(a) The Bonds shall be dated the date of the initial delivery thereof (the “Bond Date”) and shall be issued in Authorized Denominations. The Bonds shall be in fully registered form, without coupons, and shall be numbered separately from R-1 upward, except the Initial Bond, which shall be numbered T-1.

(b) Interest shall accrue and be paid on each Bond from the later of the Bond Date or the most recent Interest Payment Date to which interest has been paid or provided for, at the rate per annum set forth below until the principal thereof has been paid on the maturity date specified below or otherwise provided for. Such interest shall be payable semiannually on March 1 and September 1 of each year, commencing March 1, 2012 computed on the basis of a 360-day year of twelve 30-day months.

(c) The Bonds shall mature on September 1 in the years and in the principal amounts and shall bear interest as set forth below:

<u>Year</u>	<u>Principal Amount</u>	<u>Interest Rate</u>
2018	\$ 335,000	8.500%
2020	345,000	8.375%
2022	505,000	8.375%
2026	1,675,000	7.875%

(d) The Bonds shall be subject to mandatory sinking fund redemption, optional redemption, and extraordinary optional redemption prior to maturity as provided in Article IV herein, and shall otherwise have the terms, tenor, denominations, details, and specifications as set forth in the form of Bond set forth in Section 5.2 herein.

Section 3.3. Conditions Precedent to Delivery of Bonds.

The Bonds shall be executed by the City and delivered to the Trustee, whereupon the Trustee shall authenticate the Bonds and, upon payment of the purchase price of the Bonds, shall deliver the Bonds upon the order of the City, but only upon delivery to the Trustee of:

- (a) a certified copy of the Assessment Ordinance;
- (b) a certified copy of the Bond Ordinance;
- (c) a copy of the executed Financing Agreement;
- (d) a copy of this Indenture executed by the Trustee and the City; and

(e) a City Certificate directing the authentication and delivery of the Bonds, describing the Bonds to be authenticated and delivered, designating the purchasers to whom the Bonds are to be delivered, stating the purchase price of the Bonds and stating that all items required by this Section are therewith delivered to the Trustee in form and substance satisfactory to the City.

Section 3.4. Medium, Method and Place of Payment

(a) Principal of and interest on the Bonds shall be paid in lawful money of the United States of America, as provided in this Section.

(b) Interest on the Bonds shall be payable to the Owners thereof as shown in the Register at the close of business on the relevant Record Date.

(c) Interest on the Bonds shall be paid by check, dated as of the Interest Payment Date, and sent, first class United States mail, postage prepaid, by the Paying Agent/Registrar to each Owner at the address of each as such appears in the Register or by such other customary banking arrangement acceptable to the Paying Agent/Registrar and the Owner; provided, however, the Owner shall bear all risk and expense of such other banking arrangement.

(d) The principal of each Bond shall be paid to the Owner of such Bond on the due date thereof, whether at the maturity date or the date of prior redemption thereof, upon presentation and surrender of such Bond at the Designated Payment/Transfer Office of the Paying Agent/Registrar.

(e) If the date for the payment of the principal of or interest on the Bonds shall be a Saturday, Sunday, legal holiday, or day on which banking institutions in the city where the Designated Payment/Transfer Office of the Paying Agent/Registrar is located are required or authorized by law or executive order to close, the date for such payment shall be the next succeeding day that is not a Saturday, Sunday, legal holiday, or day on which banking institutions are required or authorized to close, and payment on such date shall for all purposes be deemed to have been made on the due date thereof as specified in Section 3.2 of this Indenture.

(f) Unclaimed payments of amounts due hereunder shall be segregated in a special account and held in trust, uninvested by the Paying Agent/Registrar, for the account of the Owner of the Bonds to which such unclaimed payments pertain. Subject to any escheat, abandoned property, or similar law of the State of Texas, any such payments remaining unclaimed by the Owners entitled thereto for two (2) years after the applicable payment or redemption date shall be applied to the next payment or payments on the Bonds thereafter coming due and, to the extent any such money remains after the retirement of all Outstanding Bonds, shall be paid to the City to be used for any lawful purpose. Thereafter, none of the City, the Paying Agent/Registrar, or any other Person shall be liable or responsible to any holders of such Bonds for any further payment of such unclaimed moneys or on account of any such Bonds, subject to any applicable escheat law or similar law of the State of Texas.

Section 3.5. Execution and Registration of Bonds.

(a) The Bonds shall be executed on behalf of the City by the Mayor and City Clerk or the Deputy City Clerk, by their manual or facsimile signatures, and the official seal of the City shall be impressed or placed in facsimile thereon. Such facsimile signatures on the Bonds shall have the same effect as if each of the Bonds had been signed manually and in person by each of said officers, and such facsimile seal on the Bonds shall have the same effect as if the official seal of the City had been manually impressed upon each of the Bonds.

(b) In the event that any officer of the City whose manual or facsimile signature appears on the Bonds ceases to be such officer before the authentication of such Bonds or before the delivery thereof, such manual or facsimile signature nevertheless shall be valid and sufficient for all purposes as if such officer had remained in such office.

(c) Except as provided below, no Bond shall be valid or obligatory for any purpose or be entitled to any security or benefit of this Indenture unless and until there appears thereon the Certificate of Trustee substantially in the form provided herein, duly authenticated by manual execution by an officer or duly authorized signatory of the Trustee. It shall not be required that the same officer or authorized signatory of the Trustee sign the Certificate of Trustee on all of the Bonds. In lieu of the executed Certificate of Trustee described above, the Initial Bond delivered at the Closing Date shall have attached thereto the Comptroller's Registration Certificate substantially in the form provided herein, manually executed by the Comptroller of Public Accounts of the State of Texas, or by her duly authorized agent, which certificate shall be evidence that the Initial Bond has been duly approved by the Attorney General of the State of Texas, is a valid and binding obligation of the City, and has been registered by the Comptroller of Public Accounts of the State of Texas.

(d) On the Closing Date, one Initial Bond representing the entire principal amount of all Bonds, payable in stated installments to the Purchaser, or its designee, executed with the manual or facsimile signatures of the Mayor and the City Clerk or Deputy City Clerk, approved by the Attorney General, and registered and manually signed by the Comptroller of Public Accounts, will be delivered to the Purchaser or its designee. Upon payment for the Initial Bond, the Trustee shall cancel the Initial Bond and deliver to DTC on behalf of the Purchaser one registered definitive Bond for each year of maturity of the Bonds, in the aggregate principal

amount of all Bonds for such maturity, registered in the name of Cede & Co., as nominee of DTC.

Section 3.6. Ownership.

(a) The City, the Trustee the Paying Agent/Registrar and any other Person may treat the Person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment as provided herein (except interest shall be paid to the Person in whose name such Bond is registered on the Record Date) and for all other purposes, whether or not such Bond is overdue, and neither the City nor the Trustee, nor the Paying Agent/Registrar, shall be bound by any notice or knowledge to the contrary.

(b) All payments made to the Owner of any Bond shall be valid and effectual and shall discharge the liability of the City, the Trustee and the Paying Agent/Registrar upon such Bond to the extent of the sums paid.

Section 3.7. Registration, Transfer and Exchange.

(a) So long as any Bond remains outstanding, the City shall cause the Paying Agent/Registrar to keep at the Designated Payment/Transfer Office a Register in which, subject to such reasonable regulations as it may prescribe, the Paying Agent/Registrar shall provide for the registration and transfer of Bonds in accordance with this Indenture. The Paying Agent/Registrar represents and warrants that it will file and maintain a copy of the Register with the City, and shall cause the Register to be current with all registration and transfer information as from time to time may be applicable.

(b) A Bond shall be transferable only upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar with such endorsement or other evidence of transfer as is acceptable to the Paying Agent/Registrar. No transfer of any Bond shall be effective until entered in the Register.

(c) The Bonds shall be exchangeable upon the presentation and surrender thereof at the Designated Payment/Transfer Office of the Paying Agent/Registrar for a Bond or Bonds of the same maturity and interest rate and in any Authorized Denomination and in an aggregate principal amount equal to the unpaid principal amount of the Bond presented for exchange. The Trustee is hereby authorized to authenticate and deliver Bonds exchanged for other Bonds in accordance with this Section.

(d) The Trustee is hereby authorized to authenticate and deliver Bonds transferred or exchanged in accordance with this Section. A new Bond or Bonds will be delivered by the Paying Agent/Registrar, in lieu of the Bond being transferred or exchanged, at the Designated Payment/Transfer Office, or sent by United States mail, first class, postage prepaid, to the Owner or his designee. Each transferred Bond delivered by the Paying Agent/Registrar in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of this Indenture to the same extent as the Bond or Bonds in lieu of which such transferred Bond is delivered.

(e) Each exchange Bond delivered in accordance with this Section shall constitute an original contractual obligation of the City and shall be entitled to the benefits and security of this Indenture to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

(f) No service charge shall be made to the Owner for the initial registration, subsequent transfer, or exchange for a different denomination of any of the Bonds. The Paying Agent/Registrar, however, may require the Owner to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection with the registration, transfer, or exchange of a Bond.

(g) Neither the City nor the Paying Agent/Registrar shall be required to issue, transfer, or exchange any Bond or portion thereof called for redemption prior to maturity within forty-five (45) days prior to the date fixed for redemption; provided, however, such limitation shall not be applicable to an exchange by the Owner of the uncalled principal balance of a Bond.

#### Section 3.8. Cancellation.

All Bonds paid or redeemed before scheduled maturity in accordance with this Indenture, and all Bonds in lieu of which exchange Bonds or replacement Bonds are authenticated and delivered in accordance with this Indenture, shall be cancelled, and proper records shall be made regarding such payment, redemption, exchange, or replacement. The Paying Agent/Registrar shall dispose of cancelled Bonds in accordance with the records retention requirements of the Trustee.

#### Section 3.9. Temporary Bonds.

(a) Following the delivery and registration of the Initial Bond and pending the preparation of definitive Bonds, the proper officers of the City may execute and, upon the City's request, the Trustee shall authenticate and deliver, one or more temporary Bonds that are printed, lithographed, typewritten, mimeographed or otherwise produced, in any denomination, substantially of the tenor of the definitive Bonds in lieu of which they are delivered, without coupons, and with such appropriate insertions, omissions, substitutions and other variations as the officers of the City executing such temporary Bonds may determine, as evidenced by their signing of such temporary Bonds.

(b) Until exchanged for Bonds in definitive form, such Bonds in temporary form shall be entitled to the benefit and security of this Indenture.

(c) The City, without unreasonable delay, shall prepare, execute and deliver to the Trustee the Bonds in definitive form; thereupon, upon the presentation and surrender of the Bond or Bonds in temporary form to the Paying Agent/Registrar, the Paying Agent/Registrar shall cancel the Bonds in temporary form and the Trustee shall authenticate and deliver in exchange therefor a Bond or Bonds of the same maturity and series, in definitive form, in the Authorized Denomination, and in the same aggregate principal amount, as the Bond or Bonds in temporary form surrendered. Such exchange shall be made without the making of any charge therefor to any Owner.

Section 3.10. Replacement Bonds.

(a) Upon the presentation and surrender to the Paying Agent/Registrar of a mutilated Bond, the Trustee shall authenticate and deliver in exchange therefor a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding. The City or the Paying Agent/Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that is authorized to be imposed in connection therewith and any other expenses connected therewith.

(b) In the event that any Bond is lost, apparently destroyed or wrongfully taken, the Trustee, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall authenticate and deliver a replacement Bond of like tenor and principal amount bearing a number not contemporaneously outstanding, provided that the Owner first complies with the following requirements:

(i) furnishes to the Paying Agent/Registrar satisfactory evidence of his or her ownership of and the circumstances of the loss, destruction or theft of such Bond;

(ii) furnishes such security or indemnity as may be required by the Paying Agent/Registrar and the Trustee to save them and the City harmless;

(iii) pays all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Trustee and the Paying Agent/Registrar and any tax or other governmental charge that is authorized to be imposed; and

(iv) satisfies any other reasonable requirements imposed by the City and the Trustee.

(c) After the delivery of such replacement Bond, if a bona fide purchaser of the original Bond in lieu of which such replacement Bond was issued presents for payment such original Bond, the City and the Paying Agent/Registrar shall be entitled to recover such replacement Bond from the Person to whom it was delivered or any Person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost, or expense incurred by the City, the Paying Agent/Registrar or the Trustee in connection therewith.

(d) In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Paying Agent/Registrar, in its discretion, instead of issuing a replacement Bond, may pay such Bond if it has become due and payable or may pay such Bond when it becomes due and payable.

(e) Each replacement Bond delivered in accordance with this Section shall constitute an original additional contractual obligation of the City and shall be entitled to the benefits and security of this Indenture to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

### Section 3.11. Book-Entry Only System.

The Bonds shall initially be issued in book-entry-only form and shall be deposited with DTC, which is hereby appointed to act as the securities depository therefor, in accordance with the letter of representations from the City to DTC. On the Closing Date the definitive Bonds shall be issued in the form of a single typewritten certificate for each maturity thereof registered in the name of Cede & Co., as nominee for DTC.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the City and the Paying Agent/Registrar shall have no responsibility or obligation to any DTC Participant or to any Person on behalf of whom such a DTC Participant holds an interest in the Bonds. Without limiting the immediately preceding sentence, the City and the Paying Agent/Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co. or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other Person, other than an Owner, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other Person, other than an Owner, as shown in the Register of any amount with respect to principal of, premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Indenture to the contrary, the City and the Paying Agent/Registrar shall be entitled to treat and consider the Person in whose name each Bond is registered in the Register as the absolute owner of such Bond for the purpose of payment of principal of, premium, if any, and interest on Bonds, for the purpose of giving notices of redemption and other matters with respect to such Bond, for the purpose of registering transfer with respect to such Bond, and for all other purposes whatsoever. The Paying Agent/Registrar shall pay all principal of, premium, if any, and interest on the Bonds only to or upon the order of the respective Owners as shown in the Register, as provided in this Indenture, and all such payments shall be valid and effective to fully satisfy and discharge the City's obligations with respect to payment of principal of, premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. No Person other than an Owner, as shown in the Register, shall receive a Bond certificate evidencing the obligation of the City to make payments of amounts due pursuant to this Indenture. Upon delivery by DTC to the Paying Agent/Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions in this Indenture with respect to interest checks or drafts being mailed to the registered owner at the close of business on the Record Date, the word "Cede & Co." in this Indenture shall refer to such new nominee of DTC.

### Section 3.12. Successor Securities Depository: Transfer Outside Book-Entry-Only System.

In the event that the City determines that DTC is incapable of discharging its responsibilities described herein and in the letter of representations from the City to DTC, the City shall (i) appoint a successor securities depository, qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended, notify DTC and DTC Participants of the appointment of such successor securities depository and transfer one or more separate Bonds to such successor securities depository; or (ii) notify DTC and DTC Participants of the availability through DTC of certificated Bonds and cause the Paying Agent/Registrar to

transfer one or more separate registered Bonds to DTC Participants having Bonds credited to their DTC accounts. In such event, the Bonds shall no longer be restricted to being registered in the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Owners transferring or exchanging Bonds shall designate, in accordance with the provisions of this Indenture.

Section 3.13. Payments to Cede & Co.

Notwithstanding any other provision of this Indenture to the contrary, so long as any Bonds are registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of, premium, if any, and interest on such Bonds, and all notices with respect to such Bonds shall be made and given, respectively, in the manner provided in the blanket letter of representations from the City to DTC.

ARTICLE IV

REDEMPTION OF BONDS BEFORE MATURITY

Section 4.1. Limitation on Redemption.

The Bonds shall be subject to redemption before their scheduled maturity only as provided in this Article IV.

Section 4.2. Mandatory Sinking Fund Redemption.

(a) The Bonds maturing on September 1, 2018, September 1, 2020, September 1, 2022 and September 1, 2026 (“Term Bonds”) are subject to mandatory sinking fund redemption prior to their respective maturities and will be redeemed by the City in part at the Redemption Price from moneys available for such purpose in the Principal and Interest Account of the Bond Fund pursuant to Article VI, on the dates and in the respective sinking fund installments as set forth in the following schedule:

Term Bonds Maturing September 1, 2018

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2015	\$ 45,000
September 1, 2016	\$ 70,000
September 1, 2017	\$ 95,000
September 1, 2018 (maturity)	\$125,000

Term Bonds Maturing September 1, 2020

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2019	\$155,000
September 1, 2020 (maturity)	\$190,000

Term Bonds Maturing September 1, 2022

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2021	\$230,000
September 1, 2022 (maturity)	\$275,000

Term Bonds Maturing September 1, 2026

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2023	\$330,000
September 1, 2024	\$385,000
September 1, 2025	\$445,000
September 1, 2026 (maturity)	\$515,000

(b) At least forty-five (45) days prior to each sinking fund redemption date, the Trustee shall select a principal amount of Bonds of such maturity equal to the sinking fund installment amount of such Bonds to be redeemed, shall call such Bonds for redemption on such scheduled mandatory redemption date, and shall give notice of such redemption, as provided in Section 4.6.

(c) The principal amount of Bonds required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.2 shall be reduced, at the option of the City, by the principal amount of any Bonds of such maturity which, at least 45 days prior to the sinking fund redemption date shall have been acquired by the City at a price not exceeding the principal amount of such Bonds plus accrued unpaid interest to the date of purchase thereof, and delivered to the Trustee for cancellation.

(d) The principal amount of Bonds required to be redeemed on any redemption date pursuant to subparagraph (a) of this Section 4.2 shall be reduced on a pro rata basis among sinking fund installments by the principal amount of any Bonds which, at least 45 days prior to the sinking fund redemption date, shall have been redeemed pursuant to the optional redemption or extraordinary optional redemption provisions hereof and not previously credited to a mandatory sinking fund redemption.

Section 4.3. Optional Redemption.

(a) The City reserves the right and option to redeem Bonds before their scheduled maturity date, in whole or in part, on the dates shown below, such redemption date or dates to be fixed by the City, at the Redemption Price and without premium:

<u>Term Bonds Due</u>	<u>Redemption Date</u>
September 1, 2018	On September 1, 2013 or any Interest Payment Date thereafter
September 1, 2020	On September 1, 2015 or any Interest Payment Date thereafter
September 1, 2022	On September 1, 2017 or any Interest Payment Date thereafter
September 1, 2026	On September 1, 2021 or any Interest Payment Date thereafter

Section 4.4. Extraordinary Optional Redemption.

The City reserves the right and option to redeem Bonds before their respective scheduled maturity dates, in whole or in part, on the first day of any month, 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 Section 6.7(c).

Section 4.5. Partial Redemption.

(a) If less than all of the Bonds are to be redeemed pursuant to either Sections 4.2, 4.3 or 4.4, Bonds shall be redeemed in minimum principal amounts of \$25,000 and increments of \$5,000 thereafter by any method selected by the Trustee that results in a random selection. Each Bond shall be treated as representing the number of Bonds that is obtained by dividing the principal amount of such Bond by the smallest Authorized Denomination for such Bond.

(b) A portion of a single Bond of a denomination greater than an Authorized Denomination may be redeemed, but only in a principal amount equal to \$25,000 or any integral of \$5,000 in excess thereof. The Trustee shall treat each \$25,000 portion of such Bond as though it were a single bond for purposes of selection for redemption. No redemption shall result in a Bond in a denomination of less than the Authorized Denomination in effect at that time.

(c) Upon surrender of any Bond for redemption in part, the Trustee in accordance with Section 3.7 of this Indenture, 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.

Section 4.6. Notice of Redemption to Owners.

(a) The Trustee shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 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.

(b) 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, and subject to Section 4.5 hereof, 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.

(c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

(d) The City has the right to rescind any optional redemption or extraordinary optional redemption described in Section 4.3 or 4.4 by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if

for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

(e) With respect to any optional redemption of the Bonds, unless the Trustee has received funds sufficient to pay the Redemption Price of the Bonds to be redeemed before giving of a notice of redemption, the notice may state the City may condition redemption on the receipt of such funds by the Trustee on or before the date fixed for the redemption, or on the satisfaction of any other prerequisites set forth in the notice of redemption. If a conditional notice of redemption is given and such prerequisites to the redemption and sufficient funds are not received, the notice shall be of no force and effect, the City shall not redeem the Bonds and the Trustee shall give notice, in the manner in which the notice of redemption was given, that the Bonds have not been redeemed.

#### Section 4.7. Payment Upon Redemption.

(a) The Trustee shall make provision for the payment of the Bonds to be redeemed on such date by setting aside and holding in trust an amount from the Redemption Fund or otherwise received by the Trustee from the City and shall use such funds solely for the purpose of paying the Redemption Price on the Bonds being redeemed.

(b) Upon presentation and surrender of any Bond called for redemption at the designated corporate trust office of the Trustee on or after the date fixed for redemption, the Trustee shall pay the Redemption Price on such Bond to the date of redemption from the moneys set aside for such purpose.

#### Section 4.8. Effect of Redemption.

Notice of redemption having been given as provided in Section 4.6 of this Indenture, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption provided that funds for the payment of the principal amount plus accrued unpaid interest on such Bonds to the date fixed for redemption are on deposit with the Trustee; thereafter, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.

## ARTICLE V

### FORM OF THE BONDS

#### Section 5.1. Form Generally.

(a) The Bonds, including the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of the Trustee, and the Assignment to appear on each of the Bonds, (i) shall be substantially in the form set forth in this Article with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Indenture, and (ii) may have such letters, numbers, or other marks of identification

(including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as, consistently herewith, may be determined by the City or by the officers executing such Bonds, as evidenced by their execution thereof.

(b) Any portion of the text of any Bonds may be set forth on the reverse side thereof, with an appropriate reference thereto on the face of the Bonds.

(c) The definitive Bonds shall be typewritten, printed, lithographed, or engraved, and may be produced by any combination of these methods or produced in any other similar manner, all as determined by the officers executing such Bonds, as evidenced by their execution thereof.

(d) The Initial Bond submitted to the Attorney General of the State of Texas may be typewritten and photocopied or otherwise reproduced.

Section 5.2. Form of the Bonds.

(a) Form of Bond.

NEITHER THE FAITH AND CREDIT NOR THE TAXING POWER OF THE STATE OF TEXAS, THE CITY, OR ANY OTHER POLITICAL CORPORATION, SUBDIVISION OR AGENCY THEREOF, IS PLEDGED TO THE PAYMENT OF THE PRINCIPAL OF OR INTEREST ON THIS BOND.

REGISTERED

REGISTERED

No. \_\_\_\_\_

\$ \_\_\_\_\_

United States of America  
State of Texas

CITY OF AUSTIN, TEXAS  
SPECIAL ASSESSMENT REVENUE BOND, SENIOR SERIES 2011  
(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)

INTEREST RATE:      MATURITY DATE:      DATE OF DELIVERY      CUSIP NUMBER:  
\_\_\_\_\_ %      \_\_\_\_\_, \_\_\_\_\_      \_\_\_\_\_, 2011      \_\_\_\_\_

The City of Austin, Texas (the "City"), for value received, hereby promises to pay, solely from the Pledged Revenues, to

\_\_\_\_\_

or registered assigns, on the Maturity Date, as specified above, the sum of

\_\_\_\_\_ DOLLARS

unless this Bond shall have been sooner called for redemption and the payment of the principal hereof shall have been paid or provision for such payment shall have been made, and to pay interest on the unpaid principal amount hereof from the later of the Bond Date, as specified above, or the most recent Interest Payment Date to which interest has been paid or provided for until such principal amount shall have been paid or provided for, at the per annum rate of interest specified above, computed on the basis of a 360-day year of twelve 30-day months, such interest to be paid semiannually on March 1 and September 1 of each year, commencing March 1, 2012.

Capitalized terms appearing herein that are defined terms in the Indenture defined below, have the meanings assigned to them in the Indenture. Reference is made to the Indenture for such definitions and for all other purposes.

The principal of this Bond shall be payable without exchange or collection charges in lawful money of the United States of America upon presentation and surrender of this Bond at the corporate trust office in Jacksonville, Florida (the "Designated Payment/Transfer Office"), of Deutsche Bank National Trust Company as trustee and paying agent/registrar (the "Trustee"), or, with respect to a successor trustee and paying agent/registrar, at the Designated Payment/Transfer Office of such successor. Interest on this Bond is payable by check dated as of the Interest Payment Date, mailed by the Trustee to the registered owner at the address shown on the registration books kept by the Trustee or by such other customary banking arrangements acceptable to the Trustee, requested by, and at the risk and expense of, the Person to whom interest is to be paid. For the purpose of the payment of interest on this Bond, the registered owner shall be the Person in whose name this Bond is registered at the close of business on the "Record Date," which shall be the 15th calendar day of the month next preceding such Interest Payment Date; provided, however, that in the event of nonpayment of interest on a scheduled Interest Payment Date, and for 30 days thereafter, a new record date for such interest payment (a "Special Record Date") will be established by the Trustee, if and when funds for the payment of such interest have been received from the City. Notice of the Special Record Date and of the scheduled payment date of the past due interest (the "Special Payment Date," which shall be 15 days after the Special Record Date) shall be sent at least five Business Days prior to the Special Record Date by United States mail, first class postage prepaid, to the address of each Owner of a Bond appearing on the books of the Trustee at the close of business on the last Business Day preceding the date of mailing such notice.

If a date for the payment of the principal of or interest on the Bonds is a Saturday, Sunday, legal holiday, or a day on which banking institutions in the city in which the Designated Payment/Transfer Office is located are authorized by law or executive order to close, then the date for such payment shall be the next succeeding Business Day, and payment on such date shall have the same force and effect as if made on the original date payment was due.

This Bond maturing on is one of a duly authorized issue of assessment revenue bonds of the City having the designation specified in its title (herein referred to as the "Bonds"), dated as of the date of delivery and issued in the aggregate principal amount of \$2,860,000 and issued,

with the limitations described herein, pursuant to an Indenture of Trust, dated as of November 1, 2011 (the “Indenture”), by and between the City and Deutsche Bank National Trust Company, as trustee (the “Trustee,” which term includes any successor trustee under the Indenture), to which Indenture reference is hereby made for a description of the amounts thereby pledged and assigned, the nature and extent of the lien and security, the respective rights thereunder to the holders of the Bonds, the Trustee, and the City, and the terms upon which the Bonds are, and are to be, authenticated and delivered and by this reference to the terms of which each holder of this Bond hereby consents. All Bonds issued under the Indenture are equally and ratably secured by the amounts thereby pledged and assigned. The Bonds are being issued for the purpose of (i) paying the Costs of the Improvement Projects, (ii) paying interest on the Bonds during and after the period of acquisition and construction of the Improvement Projects, (iii) making deposits to a reserve fund, a capitalized interest account, and a project fund, and (iv) paying the costs of issuing the Bonds.

The Bonds are limited obligations of the City payable solely from the Pledged Revenues as defined in the Indenture. Reference is hereby made to the Indenture, copies of which are on file with and available upon request from the Trustee, for the provisions, among others, with respect to the nature and extent of the duties and obligations of the City, the Trustee and the Owners. The Owner of this Bond, by the acceptance hereof, is deemed to have agreed and consented to the terms, conditions and provisions of the Indenture.

Notwithstanding any provision hereof, the Indenture may be released and the obligation of the City to make money available to pay this Bond may be defeased by the deposit of money and/or certain direct or indirect Defeasance Securities sufficient for such purpose as described in the Indenture.

The Bonds are issuable as fully registered bonds only in Authorized Denominations, subject to the provisions of the Indenture authorizing redemption in denominations of \$25,000 and any multiple of \$5,000 in excess thereof.

The Bonds maturing on September 1, 2018, September 1, 2020, September 1, 2022 and September 1, 2026 are subject to sinking fund redemption prior to their respective maturities and will be redeemed by the City in part at a price equal to the principal amount thereof plus accrued and unpaid interest thereon to the date set for redemption from moneys available for such purpose in the Redemption Fund pursuant to Article VI of the Indenture, on the dates and in the principal amounts as set forth in the following schedule:

Term Bonds Maturing September 1, 2018

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2015	\$ 45,000
September 1, 2016	\$ 70,000
September 1, 2017	\$ 95,000
September 1, 2018 (maturity)	\$125,000

Term Bonds Maturing September 1, 2020

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2019	\$155,000
September 1, 2020 (maturity)	\$190,000

Term Bonds Maturing September 1, 2022

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2021	\$230,000
September 1, 2022 (maturity)	\$275,000

Term Bonds Maturing September 1, 2026

<u>Redemption Date</u>	<u>Principal Amount</u>
September 1, 2023	\$330,000
September 1, 2024	\$385,000
September 1, 2025	\$445,000
September 1, 2026 (maturity)	\$515,000

At least forty-five (45) days prior to each sinking fund redemption date, the Trustee shall select for redemption by lot, or by any other customary method that results in a random selection, a principal amount of Bonds of such maturity equal to the sinking fund installments of such Bonds to be redeemed, shall call such Bonds for redemption on such scheduled mandatory sinking fund redemption date, and shall give notice of such redemption, as provided in Section 4.6 of the Indenture.

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

The City reserves the right and option to redeem Bonds before their scheduled maturity date, in whole or in part, on the dates shown below, such redemption date or dates to be fixed by the City, at the Redemption Price and without premium:

<u>Term Bonds Due</u>	<u>Redemption Date</u>
September 1, 2018	On September 1, 2013 or any Interest Payment Date thereafter
September 1, 2020	On September 1, 2015 or any Interest Payment Date thereafter
September 1, 2022	On September 1, 2017 or any Interest Payment Date thereafter
September 1, 2026	On September 1, 2021 or any Interest Payment Date thereafter

Bonds are subject to extraordinary optional redemption prior to maturity in whole or in part, on the first day of any month, 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 from amounts on deposit in the Redemption Fund as a result of Prepayments.

The Trustee shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown on 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 notice so given shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice.

The Indenture permits, with certain exceptions as therein provided, the amendment thereof and the modification of the rights and obligations of the City and the rights of the holders of the Bonds under the Indenture at any time Outstanding affected by such modification. The Indenture also contains provisions permitting the holders of specified percentages in aggregate principal amount of the Bonds at the time Outstanding, on behalf of the holders of all the Bonds, to waive compliance by the City with certain past defaults under the Bond Ordinance or the Indenture and their consequences. Any such consent or waiver by the holder of this Bond or any predecessor Bond evidencing the same debt shall be conclusive and binding upon such holder and upon all future holders thereof and of any Bond issued upon the transfer thereof or in exchange therefor or in lieu thereof, whether or not notation of such consent or waiver is made upon this Bond.

As provided in the Indenture, this Bond is transferable upon surrender of this Bond for transfer at the Designated Payment/Transfer Office, with such endorsement or other evidence of transfer as is acceptable to the Trustee, and upon delivery to the Trustee of such certifications and/or opinion of counsel as may be required under the Indenture for the transfer of this Bond. Upon satisfaction of such requirements, one or more new fully registered Bonds of the same Stated Maturity, of Authorized Denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

Neither the City nor the Trustee shall be required to issue, transfer or exchange any Bond called for redemption where such redemption is scheduled to occur within 45 calendar days of the transfer or exchange date; provided, however, such limitation shall not be applicable to an exchange by the registered owner of the uncalled principal balance of a Bond.

The City, the Trustee, and any other Person may treat the Person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided (except interest shall be paid to the Person in whose name this Bond is registered on the Record Date or Special Record Date, as applicable) and for all other purposes, whether or not this Bond be overdue, and neither the City nor the Trustee shall be affected by notice to the contrary.

NEITHER THE FULL FAITH AND CREDIT NOR THE GENERAL TAXING POWER OF THE CITY OF AUSTIN, TEXAS, TRAVIS COUNTY, TEXAS OR THE STATE OF

TEXAS, OR ANY POLITICAL SUBDIVISION THEREOF, IS PLEDGED TO THE PAYMENT OF THE BONDS.

IT IS HEREBY CERTIFIED AND RECITED that the issuance of this Bond and the series of which it is a part is duly authorized by law; that all acts, conditions and things required to be done precedent to and in the issuance of the Bonds have been properly done and performed and have happened in regular and due time, form and manner, as required by law; and that the total indebtedness of the City, including the Bonds, does not exceed any Constitutional or statutory limitation.

IN WITNESS WHEREOF, the City Council of the City has caused this Bond to be executed under the official seal of the City.

\_\_\_\_\_  
City Clerk, City of Austin, Texas

\_\_\_\_\_  
Mayor, City of Austin, Texas

[Seal]

Form of Comptroller's Registration Certificate.

The following Registration Certificate of Comptroller of Public Accounts shall appear on the Initial Bond:

REGISTRATION CERTIFICATE OF  
COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER §  
OF PUBLIC ACCOUNTS § REGISTER NO. \_\_\_\_\_  
§  
THE STATE OF TEXAS §

I HEREBY CERTIFY THAT there is on file and of record in my office a certificate to the effect that the Attorney General of the State of Texas has approved this Bond, and that this Bond has been registered this day by me.

WITNESS MY SIGNATURE AND SEAL OF OFFICE this \_\_\_\_\_

\_\_\_\_\_  
Comptroller of Public Accounts  
of the State of Texas

[SEAL]

(b) Form of Certificate of Trustee.

CERTIFICATE OF TRUSTEE

It is hereby certified that this is one of the Bonds of the series of Bonds referred to in the within mentioned Indenture.

DEUTSCHE BANK NATIONAL TRUST COMPANY, as Trustee

DATED: \_\_\_\_\_

By: \_\_\_\_\_  
Authorized Signatory

(c) Form of Assignment.

ASSIGNMENT

FOR VALUE RECEIVED, the undersigned hereby sells, assigns, and transfers unto (print or typewrite name, address and zip code of transferee):

\_\_\_\_\_  
\_\_\_\_\_  
\_\_\_\_\_

(Social Security or other identifying number: \_\_\_\_\_) the within Bond and all rights hereunder and hereby irrevocably constitutes and appoints \_\_\_\_\_ attorney to transfer the within Bond on the books kept for registration hereof, with full power of substitution in the premises.

Date: \_\_\_\_\_

\_\_\_\_\_

Signature Guaranteed By:

\_\_\_\_\_  
\_\_\_\_\_

NOTICE: The signature on this Assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed in a manner acceptable to the Trustee.

Authorized Signatory

(d) The Initial Bond shall be in the form set forth in paragraphs (a) through (d) of this section, except for the following alterations:

(i) immediately under the name of the Bond the heading “INTEREST RATE” and “MATURITY DATE” shall both be completed with the expression “As Shown Below,” and the reference to the “CUSIP NUMBER” shall be deleted;

(ii) in the first paragraph of the Bond, the words “on the Maturity Date specified above” shall be deleted and the following will be inserted: “on \_\_\_\_\_ 1 in each of the years, in the principal installments and bearing interest at the per annum rates set forth in the following schedule:

<u>Years</u>	<u>Principal Installments</u>	<u>Interest Rates</u> ”
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(Information to be inserted from Section 3.2(b) hereof); and

(iii) the Initial Bond shall be numbered T-1.

Section 5.3. CUSIP Registration.

The City may secure identification numbers through the CUSIP Service Bureau Division of Standard & Poor’s Corporation, New York, New York, and may authorize the printing of such numbers on the face of the Bonds. It is expressly provided, however, that the presence or absence of CUSIP numbers on the Bonds shall be of no significance or effect as regards the legality thereof and neither the City nor the attorneys approving said Bonds as to legality are to be held responsible for CUSIP numbers incorrectly printed on the Bonds.

Section 5.4. Legal Opinion.

The approving legal opinion of Bond Counsel may be printed on or attached to each Bond over the certification of the City Clerk of the City, which may be executed in facsimile.

ARTICLE VI

FUNDS AND ACCOUNTS

Section 6.1. Establishment of Funds and Accounts.

(a) Creation of Funds. The following Funds are hereby created and established under this Indenture:

- (i) Pledged Revenue Fund;
- (ii) Bond Fund;
- (iii) Project Fund;
- (iv) Reserve Fund;
- (v) Redemption Fund;
- (vi) Rebate Fund; and

(vii) Administrative Fund.

(b) Creation of Accounts.

(i) The following Accounts are hereby created and established under the Bond Fund:

(A) Capitalized Interest Account; and

(B) Principal and Interest Account

(ii) The following Accounts are hereby created and established under the Reserve Fund:

(A) Reserve Account;

(B) Prepayment Reserve Account; and

(C) Delinquency Reserve Account

(iii) The following Accounts are hereby created and established under the Project Fund:

(A) Improvement Account; and

(B) Costs of Issuance Account

(c) Each Fund and Account created within such Fund shall be maintained by the Trustee separate and apart from all other funds and accounts of the City. The Pledged Funds shall constitute trust funds which shall be held in trust by the Trustee as part of the Trust Estate solely for the benefit of the Owners of the Bonds.

(d) Interest earnings and profit on each respective Fund and Account established by this Indenture shall be applied or withdrawn for the purposes of such Fund or Account as specified below.

Section 6.2. Initial Deposits to Funds and Accounts.

The proceeds from the sale of the Bonds shall be paid to the Trustee and deposited or transferred by the Trustee as follows:

(i) to the Capitalized Interest Account of the Bond Fund: \$646,462.79;

(ii) to the Reserve Fund: \$270,507.68;

(iii) to the Cost of Issuance Account of the Project Fund: \$252,237.00; and

(iv) to the Improvement Account of the Project Fund: \$1,455,789.38.

Section 6.3. Pledged Revenue Fund.

(a) Immediately upon receipt thereof, the City shall deposit or cause to be deposited the Pledged Revenues into the Pledged Revenue Fund.

(b) From time to time as needed to pay the obligations relating to the 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 of the Bond Fund, 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, 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 Bonds on the next Interest Payment Date.

(c) If, after the foregoing transfers and any transfer from the Reserve Fund as provided in Section 6.7 herein, there are insufficient funds to make the payments provided in paragraph (b) 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 Bonds.

(d) The Trustee shall transfer Prepayments to the Redemption Fund promptly after deposit of such amounts into the Pledged Revenue Fund.

(e) The Trustee shall transfer Foreclosure Proceeds first to the Reserve Fund to restore any transfers from the Reserve Fund made with respect to the Assessed Parcel or Assessed Parcels to which the Foreclosure Proceeds relate, and second, to the Redemption Fund promptly after deposit of such amounts into the Pledged Revenue Fund.

(f) After satisfaction of the requirement to provide for the payment of the principal and interest on the Bonds and to fund any deficiency that may exist in the Reserve Fund, the Trustee may apply assessments to the payment of the amounts due in the City of Austin, Texas Special Assessment Revenue Bonds, Subordinate Series 2011 (Indian Hills Public Improvement District) [the “Subordinate Series”], but such payment is subject and subordinate to the use of the Assessments to pay the Bonds and, prior to using any Assessments to pay the Subordinate Series, the Trustee shall determine what other monies, if any, have been deposited with it to make payments on the Subordinate Series, and shall credit the use of those monies to the payment obligations of the Subordinate Series prior to using Assessments for that purpose, and shall only use the Assessments needed to provide the difference between the payment requirement and the amount credited.

(g) Any Assessments remaining after satisfying the foregoing payments may be used for any lawful purpose for which Assessments may be used under the PID Act.

Section 6.4. Bond Fund.

(a) 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 Bonds, less any amount to

be used to pay interest on the Bonds on such Interest Payment Date from the Capitalized Interest Account as provided below.

(b) If amounts in the Principal and Interest Account are insufficient for the purposes set forth in paragraph (a) above, the Trustee shall withdraw from 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.

(c) Moneys in the Capitalized Interest Account shall be used for the payment of interest on the Bonds on the following dates and in the following amounts:

<u>Date</u>	<u>Amount</u>
March 1, 2012	\$ 67,540.89
September 1, 2012	\$115,784.38
March 1, 2013	\$115,784.38
September 1, 2013	\$115,784.38
March 1, 2014	\$115,784.38
September 1, 2014	\$115,784.38

Any amounts on deposit to the Capitalized Interest Account after the payment of interest on the dates and in the amounts listed above shall be transferred to the Project Fund, or if the Project Fund has been closed as provided in Section 6.5(d) herein, such amounts shall be transferred to the Redemption Fund to be used to redeem Bonds and the Capitalized Interest Account shall be closed.

Section 6.5. Project Fund.

(a) Money on deposit in the Project Fund shall be used for the purposes specified in Section 3.1 hereof.

(b) Any funds received at Closing pursuant to the Financing Agreement shall be applied as provided therein. Such provisions and procedures are herein incorporated by reference and deemed set forth herein in full.

(c) Disbursements from the Project Fund to pay Costs shall be made by the Trustee upon receipt by the Trustee of a properly executed and completed Certification for Payment. The disbursement of funds in the Project Fund pursuant to a Certification for Payment shall be pursuant to and accordance with the disbursement procedures described in the Financing Agreement. Such provisions and procedures are herein incorporated by reference and deemed set forth herein in full.

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

(e) In making any determination pursuant to this Section, the City Representative may conclusively rely upon a certificate of an Independent Financial Consultant.

(f) Upon the filing of a City Certificate stating that all Improvement Projects have been completed and that all Costs of the Improvement Projects have been paid, or that any such Costs are not required to be paid from the Project Fund pursuant to a Certification for Payment, the Trustee shall transfer the amount, if any, remaining within the Project Fund to the Bond Fund and the Project Fund shall be closed.

#### Section 6.6. Redemption Fund.

(a) The Trustee shall cause to be deposited to the Redemption Fund from the Pledged Revenue Fund an amount sufficient to redeem Bonds as provided in Sections 4.3 and 4.4 on the dates specified for redemption as provided in Sections 4.3 and 4.4. Amounts on deposit in the Redemption Fund shall be used and withdrawn by the Trustee to redeem Bonds as provided in Article IV.

#### Section 6.7. Reserve Fund.

(a) All amounts deposited in 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 as provided in this Indenture. The Trustee will transfer from the Pledged Revenue Fund to the Prepayment Reserve Account on March 1 and September 1 of each year, commencing March 1, 2013, an amount equal to .20% of the interest rate component of the Annual Installments until the Prepayment Reserve Requirement has been accumulated in the Prepayment Reserve Account. The Trustee shall also deposit from the Pledged Revenue Fund to the Delinquency Reserve Account on March 1 and September 1, commencing March 1, 2013, an amount equal to .30% of the interest rate component of the Annual Installments until the Delinquency Reserve Requirement has been accumulated in the Delinquency Reserve Account.

(b) Whenever a transfer is made from the Reserve Fund to the Bond Fund due to a deficiency in the Bond Fund, the Trustee shall provide written notice thereof to the City, specifying the amount withdrawn and the source of said funds.

(c) Whenever Bonds are to be redeemed with the proceeds of Prepayments pursuant to Section 4.4, a proportionate amount in the Reserve Account of the Reserve Fund 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 Bonds. The amount so transferred from the Reserve Account of the Reserve Fund shall be equal to a percentage of the amount of the Bonds redeemed with such percentage equal to the lesser of: (i) the amount required to be in the Reserve Account of the Reserve Fund, as a percentage of the Outstanding Bonds prior to the redemption, and (ii) the amount actually in the Reserve Account of the Reserve Fund, as a percentage of the Outstanding Bonds prior to the redemption. If after such transfer, and after applying investment earnings on the Prepayment toward payment of accrued interest, 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 Bonds to be redeemed as a result of such Prepayment, the Trustee shall transfer an amount equal to the shortfall from the Prepayment Reserve Account to the Redemption Fund to be applied to the redemption of the Bonds.

(d) Whenever, on any Interest Payment Date, or on any other date at the request of a City Representative, the amount in the Reserve Account exceeds the Reserve Fund Requirement, the Trustee shall provide written notice to the City Representative of the amount of the excess. Such excess shall be transferred to the Principal and Interest Account to be used for the payment of interest on the Bonds on the next Interest Payment Date in accordance with Section 6.4 hereof, unless within thirty days of such notice to the City Representative, the Trustee receives a City Order instructing the Trustee to apply such excess: (i) to pay amounts due under Section 6.8 hereof, (ii) to the Administrative Fund in an amount not more than the Annual Collection Costs for the Bonds, or (iii) to the Project Fund if such application and the expenditure of funds is expected to occur within three years of the date hereof.

(e) Whenever, on any Interest Payment Date, or on any other date at the written request of the City Representative, the amount in the Prepayment Reserve Account exceeds the Prepayment Reserve Requirement, the Trustee shall provide written notice to the City of the amount of the excess. The amount of such excess on deposit in the Prepayment Reserve Account shall be transferred to the Pledged Revenue Fund.

(f) Whenever, on any Interest Payment Date, or on any other date at the written request of the City Representative, the amount in the Delinquency Reserve Account exceeds the Delinquency Reserve Requirement, the Trustee shall provide written notice to the City of the amount of the excess. The amount of such excess on deposit in the Delinquency Reserve Account shall be transferred to the Pledged Revenue Fund.

(g) Whenever, on any Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service on the Bonds due on such date, the Trustee shall transfer first from the Delinquency Reserve Account of the Reserve Fund, second from the Reserve Account of the Reserve Fund and third from the Prepayment Reserve Account to the Bond Fund the amounts necessary to cure such deficiency. The Trustee shall determine the value of cash and investments on deposit in the Delinquency Reserve Account as of December 31 of each year. So long as no Event of Default under this Indenture shall have occurred and be continuing, if as of the date of such determination the value of cash and investments on deposit in the Delinquency Reserve Account exceeds the Delinquency Reserve Fund Requirement for the Bonds, the Trustee shall transfer such excess at the direction of the City.

(h) At the final maturity of the Bonds, the amount on deposit in the Reserve Account and the Prepayment Reserve Account shall be transferred to the Redemption Fund and applied to the payment of the principal of the Bonds.

(i) If, after a Reserve Fund withdrawal, the amount on deposit in the Reserve Fund is less than the Reserve Fund Requirement, the Trustee shall transfer from the Pledged Revenue Fund to the Reserve Fund 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.

(j) If the amount held in the Reserve Fund together with the amount held in the Bond Fund and Redemption Fund is sufficient to pay the principal amount and of all Outstanding Bonds on the next Interest Payment Date, together with the unpaid interest accrued on such Bonds as of such Interest Payment Date, the moneys shall be transferred to the Redemption Fund and thereafter used to redeem all Bonds as of such Interest Payment Date.

Section 6.8. Rebate Fund: Rebatable Arbitrage.

(a) There is hereby established a special fund of the City to be designated “City of Austin, Texas, Rebate Fund” (the “Rebate Fund”) to be held by the Trustee in accordance with the terms and provisions of this Indenture. Amounts on deposit in the Rebate Fund shall be used solely for the purpose of paying amounts due the United States Government in accordance with the Code.

(b) In order to assure that Rebatable Arbitrage is paid to the United States rather than to a third party, investments of funds on deposit in the Rebate Fund shall be made in accordance with the Code and the Tax Certificate.

(c) The Trustee conclusively shall be deemed to have complied with the provisions of this Section and Section 7.5(h) and shall not be liable or responsible if it follows the instructions of the City and shall not be required to take any action under this Section and Section 7.5(h) in the absence of instructions from the City.

(d) If, on the date of each annual calculation, the amount on deposit in the Rebate Fund exceeds the amount of the Rebatable Arbitrage, the City may direct the Trustee, pursuant to a City Order, to transfer the amount in excess of the Rebatable Arbitrage to the Bond Fund.

Section 6.9. Administrative Fund.

(a) Immediately upon receipt thereof, the City shall deposit or cause to be deposited to the Administrative Fund the Annual Collection Costs.

(b) Moneys in the Administrative Fund shall be held by the Trustee separate and apart from the other Funds created and administered hereunder and used as directed by a City Order solely for the purposes set forth in the Service and Assessment Plan.

Section 6.10. Investment of Funds.

(a) Money in any Fund established pursuant to this Indenture shall be invested by the Trustee as directed by the City pursuant to a City Order filed with the Trustee at least two (2) days in advance of the making of such investment in time deposits 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 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 of 1987, 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. Such investments shall be valued each year in terms of current market value as of December 31. 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 investment 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

(b) 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 this Indenture for transfer of interest earnings and profits resulting from investment of amounts in Funds and Accounts. Whenever in this Indenture any moneys are required to be transferred by the City to the Trustee, such transfer may be accomplished by transferring a like amount of Permitted Investments.

(c) The Trustee and its affiliates may act as sponsor, advisor, depository, principal or agent in the acquisition or disposition of any investment. The Trustee shall not incur any liability for losses arising from any investments made pursuant to this Section. The Trustee shall not be required to determine the legality of any investments.

(d) 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 herein for transfer to or holding in or to the credit of particular Funds or Accounts of amounts received or held by the Trustee hereunder, 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 this Indenture.

(e) The Trustee will furnish the City periodic cash transaction statements which include detail for all investment transactions made by the Trustee hereunder.

Section 6.11. Security of Funds.

All Funds heretofore created or reaffirmed, to the extent not invested as herein permitted, shall be secured in the manner and to the fullest extent required by law for the security of public funds, and such Funds shall be used only for the purposes and in the manner permitted or required by this Indenture.

ARTICLE VII

COVENANTS

Section 7.1. Confirmation of Assessments.

The City hereby confirms, covenants, and agrees that, in the Assessment Ordinance, it has levied the Assessments against the respective Assessed Parcels from which the Pledged Revenues will be collected and received.

Section 7.2. Collection and Enforcement of Assessments.

(a) For so long as any Bonds are Outstanding, the City covenants, agrees and warrants that 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 cause no reduction, abatement or exemption in the Assessments.

(b) The City will determine or cause to be determined, no later than March 1 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, 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 Parcel.

Section 7.3. Against Encumbrances.

(a) 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 Pledged Revenues or upon any other property pledged under this Indenture, except the pledge created for the security of the Bonds and the Subordinate Bonds, which are being issued concurrently with the issuance of the Bonds, and other than a lien or pledge subordinate to the lien and pledge of such property related to the Bonds.

(b) So long as Bonds are Outstanding hereunder, the City shall not issue any bonds, notes or other evidences of indebtedness other than the Bonds secured by any pledge of or other lien or charge on the Pledged Revenues or other property pledged under this Indenture, other than a lien or pledge subordinate to the lien and pledge of such property related to the Bonds.

Section 7.4. Records, Accounts, Accounting Reports.

The City hereby covenants and agrees that so long as any of the Bonds or Outstanding Bonds or any interest thereon remain outstanding and unpaid, it will keep and maintain a proper and complete system of records and accounts pertaining to the Assessments. The Trustee and holder or holders of any Bonds or any duly authorized agent or agents of such holders shall have the right at all reasonable times to inspect all such records, accounts, and data relating thereto, upon written request to the City by the Trustee or duly authorized representative, as applicable. The City shall provide the Trustee or duly authorized representative, as applicable, an opportunity to inspect such books and records relating to the Bonds during the City's regular business hours and on a mutually agreeable date not later than thirty days after the City receives such request.

Section 7.5. Covenants to Maintain Tax-Exempt Status.

(a) Definitions. When used in this Section, the following terms shall have the following meanings:

“*Closing Date*” means the date on which the Bonds are first authenticated and delivered to the initial purchasers against payment therefor.

“*Code*” means the Internal Revenue Code of 1986, as amended by all legislation, if any, effective on or before the Closing Date.

“*Computation Date*” has the meaning set forth in section 1.148-1(b) of the Regulations.

“*Gross Proceeds*” means any proceeds as defined in section 1.148-1(b) of the Regulations, and any replacement proceeds as defined in section 1.148-1(c) of the Regulations, of the Bonds.

“*Investment*” has the meaning set forth in section 1.148-1(b) of the Regulations.

“*Nonpurpose Investment*” means any investment property, as defined in section 148(b) of the Code, in which Gross Proceeds of the Bonds are invested and which is not acquired to carry out the governmental purposes of the Bonds.

“*Rebate Amount*” has the meaning set forth in section 1.148-1(b) of the Regulations.

“*Regulations*” means any proposed, temporary or final Income Tax Regulations issued pursuant to sections 103 and 141 through 150 of the Code, and 103 of the Internal Revenue Code of 1954, which are applicable to the Bonds. Any reference to any specific Regulation shall also mean, as appropriate, any proposed,

temporary or final Income Tax Regulation designed to supplement, amend or replace the specific Regulation referenced.

“Yield” of (1) any Investment has the meaning set forth in section 1.148-5 of the Regulations; and (2) the Bonds has the meaning set forth in section 1.148-4 of the Regulations.

(b) Not to Cause Interest to Become Taxable. The City shall not use, permit the use of, or omit to use Gross Proceeds or any other amounts (or any property the acquisition, construction or improvement of which is to be financed directly or indirectly with Gross Proceeds) in a manner which if made or omitted, respectively, would cause the interest on any Bond to become includable in the gross income, as defined in section 61 of the Code, of the owner thereof for federal income tax purposes. Without limiting the generality of the foregoing, unless and until the City receives a written opinion of counsel nationally recognized in the field of municipal bond law to the effect that failure to comply with such covenant will not adversely affect the exemption from federal income tax of the interest on any Bond, the City shall comply with each of the specific covenants in this Section.

(c) No Private Use or Private Payments. Except as permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall at all times prior to the last Stated Maturity of Bonds:

(i) exclusively own, operate and possess all property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with Gross Proceeds of the Bonds, and not use or permit the use of such Gross Proceeds (including all contractual arrangements with terms different than those applicable to the general public) or any property acquired, constructed or improved with such Gross Proceeds in any activity carried on by any person or entity (including the United States or any agency, department and instrumentality thereof) other than a state or local government, unless such use is solely as a member of the general public; and

(ii) not directly or indirectly impose or accept any charge or other payment by any person or entity who is treated as using Gross Proceeds of the Bonds or any property the acquisition, construction or improvement of which is to be financed or refinanced directly or indirectly with such Gross Proceeds, other than taxes of general application within the City or interest earned on investments acquired with such Gross Proceeds pending application for their intended purposes.

(d) No Private Loan.

(i) Except to the extent permitted by section 141 of the Code and the Regulations and rulings thereunder, the City shall not use Gross Proceeds of the Bonds to make or finance loans to any person or entity other than a state or local government. For purposes of the foregoing covenant, such Gross Proceeds are considered to be “loaned” to a person or entity if: (1) property acquired, constructed or improved with such Gross Proceeds is sold or leased to such person or entity in a transaction which creates a debt for federal income tax purposes; (2) capacity in or service from such property is

committed to such person or entity under a take-or-pay, output or similar contract or arrangement; or (3) indirect benefits, or burdens and benefits of ownership, of such Gross Proceeds or any property acquired, constructed or improved with such Gross Proceeds are otherwise transferred in a transaction which is the economic equivalent of a loan.

(ii) The City covenants and agrees that the levied Assessments will meet the requirements of the “tax assessment loan exception” within the meaning of section 1.141-5(d) of the Regulations on the date the Bonds are delivered and will ensure that the Assessments continue to meet such requirements for so long as the Bonds are outstanding hereunder.

(e) Not to Invest at Higher Yield. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not at any time prior to the final Stated Maturity of the Bonds directly or indirectly invest Gross Proceeds in any Investment (or use Gross Proceeds to replace money so invested) if, as a result of such investment, the Yield from the Closing Date of all Investments acquired with Gross Proceeds (or with money replaced thereby), whether then held or previously disposed of, exceeds the Yield of the Bonds.

(f) Not Federally Guaranteed. Except to the extent permitted by section 149(b) of the Code and the Regulations and rulings thereunder, the City shall not take or omit to take any action which would cause the Bonds to be federally guaranteed within the meaning of section 149(b) of the Code and the Regulations and rulings thereunder.

(g) Information Report. The City shall timely file the information required by section 149(e) of the Code with the Secretary of the Treasury on Form 8038-G or such other form and in such place as the Secretary may prescribe.

(h) Rebate of Arbitrage Profits. Except to the extent otherwise provided in section 148(f) of the Code and the Regulations and rulings thereunder:

(i) The City shall account for all Gross Proceeds (including all receipts, expenditures and investments thereof) on its books of account separately and apart from all other funds (and receipts, expenditures and investments thereof) and shall retain all records of accounting for at least six years after the day on which the last outstanding Bond is discharged. However, to the extent permitted by law, the City may commingle Gross Proceeds of the Bonds with other money of the City, provided that the City separately accounts for each receipt and expenditure of Gross Proceeds and the obligations acquired therewith.

(ii) Not less frequently than each Computation Date, the City shall calculate the Rebate Amount in accordance with rules set forth in section 148(f) of the Code and the Regulations and rulings thereunder. The City shall maintain such calculations with its official transcript of proceedings relating to the issuance of the Bonds until six years after the final Computation Date.

(iii) As additional consideration for the purchase of the Bonds by the Purchasers and the loan of the money represented thereby and in order to induce such

purchase by measures designed to insure the excludability of the interest thereon from the gross income of the owners thereof for federal income tax purposes, the City shall, pursuant to a City Order, direct the Trustee to transfer to the Rebate Fund from the funds or subaccounts designated in such City Order and direct the Trustee to pay to the United States from the Rebate Fund the amount that when added to the future value of previous rebate payments made for the Bonds equals (i) in the case of a Final Computation Date as defined in Section 1.148-3(e)(2) of the Regulations, one hundred percent (100%) of the Rebate Amount on such date; and (ii) in the case of any other Computation Date, ninety percent (90%) of the Rebate Amount on such date. In all cases, the rebate payments shall be made at the times, in the installments, to the place and in the manner as is or may be required by section 148(f) of the Code and the Regulations and rulings thereunder, and shall be accompanied by Form 8038-T or such other forms and information as is or may be required by Section 148(f) of the Code and the Regulations and rulings thereunder.

(iv) The City shall exercise reasonable diligence to assure that no errors are made in the calculations and payments required by paragraphs (ii) and (iii), and if an error is made, to discover and promptly correct such error within a reasonable amount of time thereafter (and in all events within one hundred eighty (180) days after discovery of the error), including payment to the United States of any additional Rebate Amount owed to it, interest thereon, and any penalty imposed under Section 1.148-3(h) of the Regulations.

(i) Not to Divert Arbitrage Profits. Except to the extent permitted by section 148 of the Code and the Regulations and rulings thereunder, the City shall not, at any time prior to the earlier of the Stated Maturity or final payment of the Bonds, enter into any transaction that reduces the amount required to be paid to the United States pursuant to Subsection (h) of this Section because such transaction results in a smaller profit or a larger loss than would have resulted if the transaction had been at arm's length and had the Yield of the Bonds not been relevant to either party.

(j) Elections. The City hereby directs and authorizes the Mayor, Mayor Pro Tem, City Manager, Assistant City Manager, Chief Financial Officer, City Treasurer, City Clerk, or Deputy City Clerk, individually or jointly, to make elections permitted or required pursuant to the provisions of the Code or the Regulations, as they deem necessary or appropriate in connection with the Bonds, in the Tax Certificate or similar or other appropriate certificate, form or document.

## ARTICLE VIII

### LIABILITY OF CITY

The City shall not incur any responsibility in respect of the Bonds or this Indenture other than in connection with the duties or obligations explicitly herein or in the Bonds assigned to or imposed upon it. The City shall not be liable in connection with the performance of its duties hereunder, except for its own willful default or act of bad faith. The City shall not be bound to ascertain or inquire as to the performance or observance of any of the terms, conditions covenants or agreements of the Trustee herein or of any of the documents executed by the

Trustee in connection with the Bonds, or as to the existence of a default or event of default thereunder.

In the absence of bad faith, the City may conclusively rely, as to the truth of the statements and the correctness of the opinions expressed therein, upon certificates or opinions furnished to the City and conforming to the requirements of this Indenture. The City shall not be liable for any error of judgment made in good faith unless it shall be proved that it was negligent in ascertaining the pertinent facts.

No provision of this Indenture, the Bonds, the Assessment Ordinance, or any agreement, document, instrument, or certificate executed, delivered or approved in connection with the issuance, sale, delivery, or administration of the Bonds (the "Bond Documents"), shall require the City to expend or risk its own general funds or otherwise incur any financial liability (other than with respect to the Pledged Revenues and the Annual Collection Costs) in the performance of any of its obligations hereunder, or in the exercise of any of its rights or powers, if in the judgment of the City there are reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it.

Neither the Owners nor any other Person shall have any claim against the City or any of its officers, officials, agents, or employees for damages suffered as a result of the City's failure to perform in any respect any covenant, undertaking, or obligation under any Bond Documents or as a result of the incorrectness of any representation in, or omission from, any of the Bond Documents, except to the extent that any such claim relates to an obligation, undertaking, representation, or covenant of the City, in accordance with the Bond Documents and the PID Act. Any such claim shall be payable only from Pledged Revenues or the Annual Collection Costs. Nothing contained in any of the Bond Documents shall be construed to preclude any action or proceeding in any court or before any governmental body, agency, or instrumentality against the City or any of its officers, officials, agents, or employees to enforce the provisions of any of the Bond Documents or to enforce all rights of the Owners of the Bonds by mandamus or other proceeding at law or in equity.

The City may rely on and shall be protected in acting or refraining from acting upon any notice, resolution, request, consent, order, certificate, report, warrant, bond, or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or proper parties. The City may consult with counsel with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Whenever in the administration of its duties under this Indenture the City shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may, in the absence of willful misconduct on the part of the City, be deemed to be conclusively proved and established by a certificate of the Trustee, an Independent Financial Consultant, an independent inspector or City Manager or other person designated by the City Council to so act on behalf of the City, and such certificate shall be full warrant to the City for any action taken or suffered under the provisions of this Indenture upon the faith thereof, but in

its discretion the City may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

In order to perform its duties and obligations hereunder, the City may employ such persons or entities as it deems necessary or advisable. The City shall not be liable for any of the acts or omissions of such persons or entities employed by it in good faith hereunder, and shall be entitled to rely, and shall be fully protected in doing so, upon the opinions, calculations, determinations, and directions of such persons or entities.

## ARTICLE IX

### THE TRUSTEE

#### Section 9.1. Trustee as Registrar and Paying Agent

The Trustee is hereby designated and agrees to act as Registrar and Paying Agent for and in respect to the Bonds.

#### Section 9.2. Trustee Entitled to Indemnity

The Trustee shall be under no obligation to institute any suit, or to undertake any proceeding under this Indenture, or to enter any appearance or in any way defend in any suit in which it may be made defendant, or to take any steps in the execution of the trusts hereby created or in the enforcement of any rights and powers hereunder, until it shall be indemnified to its satisfaction against any and all costs and expenses, outlays, and counsel fees and other reasonable disbursements, and against all liability except as a consequence of its own negligence or willful misconduct. Nevertheless, the Trustee may begin suit, or appear in and defend suit, or do anything else in its judgment proper to be done by it as the Trustee, without indemnity, and in such case the Trustee may make transfers from the Pledged Revenue Fund to pay all costs and expenses, outlays, and counsel fees and other reasonable disbursements properly incurred in connection therewith and shall be entitled to a preference therefor over any Bonds Outstanding hereunder.

#### Section 9.3. Responsibilities of the Trustee.

The recitals contained in this Indenture and in the Bonds shall be taken as the statements of the City and the Trustee assumes no responsibility for the correctness of the same. The Trustee makes no representations as to the validity or sufficiency of this Indenture or the Bonds or with respect to the security afforded by this Indenture, and the Trustee shall incur no liability with respect thereto. Except as otherwise expressly provided in this Indenture, the Trustee shall have no responsibility or duty with respect to: (i) the issuance of Bonds for value; (ii) the application of the proceeds thereof, except to the extent that such proceeds are received by it in its capacity as Trustee; (iii) the application of any moneys paid to the City or others in accordance with this Indenture, except as to the application of any moneys paid to it in its capacity as Trustee; or (iv) any calculation of arbitrage or rebate under the Code.

The duties and obligations of the Trustee shall be determined by the express provisions of this Indenture, and the Trustee shall not be liable except for the performance of such duties and obligations as are specifically set forth in this Indenture.

The Trustee shall not be liable for any action taken or omitted by it in the performance of its duties under this Indenture, except for its own gross negligence or willful misconduct.

Section 9.4. Property Held in Trust.

All moneys and securities held by the Trustee at any time pursuant to the terms of this Indenture shall be held by the Trustee in trust for the purposes and under the terms and conditions of this Indenture.

Section 9.5. Trustee Protected in Relying on Certain Documents.

The Trustee may rely upon any order, notice, request, consent, waiver, certificate, statement, affidavit, requisition, bond, or other document provided to the Trustee in accordance with the terms of this Indenture that it shall in good faith reasonably believe to be genuine and to have been adopted or signed by the proper board or Person or to have been prepared and furnished pursuant to any of the provisions of this Indenture, or upon the written opinion of any counsel, architect, engineer, insurance consultant, management consultant, or accountant believed by the Trustee to be qualified in relation to the subject matter, and the Trustee shall be under no duty to make any investigation or inquiry into any statements contained or matters referred to in any such instrument. The Trustee may consult with counsel, who may or may not be Bond Counsel, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it in good faith and in accordance therewith.

Whenever the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action under this Indenture, such matter may be deemed to be conclusively proved and established by a City Certificate, unless other evidence in respect thereof be hereby specifically prescribed. Such City Certificate shall be full warrant for any action taken or suffered in good faith under the provisions hereof, but in its discretion the Trustee may in lieu thereof accept other evidence of such fact or matter or may require such further or additional evidence as it may deem reasonable. Except as otherwise expressly provided herein, any request, order, notice, or other direction required or permitted to be furnished pursuant to any provision hereof by the City to the Trustee shall be sufficiently executed if executed in the name of the City by the City Representative.

The Trustee shall not be under any obligation to see to the recording or filing of this Indenture, or otherwise to the giving to any Person of notice of the provisions hereof except as expressly required in Section 9.13 herein.

Section 9.6. Compensation.

Unless otherwise provided by contract with the Trustee, the Trustee shall transfer from the Administrative Fund, from time to time, reasonable compensation for all services rendered by it hereunder, including its services as Registrar and Paying Agent, together with all its

reasonable expenses, charges, and other disbursements and those of its counsel, agents and employees, incurred in and about the administration and execution of the trusts hereby created and the exercise of its powers and the performance of its duties hereunder, subject to any limit on the amount of such compensation or recovery of expenses or other charges as shall be prescribed by specific agreement, and the Trustee shall have a lien therefor on any and all funds at any time held by it hereunder prior to any Bonds Outstanding. None of the provisions contained in this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur financial liability in the performance of any of its duties or in the exercise of any of its rights or powers, if in the judgment of the Trustee there are reasonable grounds for believing that the repayment of such funds or liability is not reasonably assured to it. If the City shall fail to make any payment required by this Section, the Trustee may make such payment from any moneys in its possession under the provisions of this Indenture and shall be entitled to a preference therefor over any Bonds Outstanding hereunder.

Section 9.7. Permitted Acts.

The Trustee and its directors, officers, employees, or agents may become the owner of or may in good faith buy, sell, own, hold and deal in Bonds and may join in any action that any Owner of Bonds may be entitled to take as fully and with the same rights as if it were not the Trustee. The Trustee may act as depository, and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, the City or any committee formed to protect the rights of holders of Bonds or to effect or aid in any reorganization growing out of the enforcement of the Bonds or this Indenture, whether or not such committee shall represent the holders of a majority of the Bonds.

Section 9.8. Resignation of Trustee.

The Trustee may at any time resign and be discharged of its duties and obligations hereunder by giving not fewer than 30 days' notice, specifying the date when such resignation shall take effect, to the City and each Owner of any Outstanding Bond. Such resignation shall take effect upon the appointment of a successor as provided in Section 9.10 and the acceptance of such appointment by such successor.

Section 9.9. Removal of Trustee.

The Trustee may be removed at any time by (i) the Owners of at least a majority of the Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or by their attorneys-in-fact, duly authorized and delivered to the City, or (ii) so long as the City is not in default under this Indenture, the City. Copies of each such instrument shall be delivered by the City to the Trustee and any successor thereof. The Trustee may also be removed at any time for any breach of trust or for acting or proceeding in violation of, or for failing to act or proceed in accordance with, any provision of this Indenture with respect to the duties and obligations of the Trustee by any court of competent jurisdiction upon the application of the City or the Owners of not less than 10% of the Bonds.

Section 9.10. Successor Trustee.

If the Trustee shall resign, be removed, be dissolved, or become incapable of acting, or shall be adjudged a bankrupt or insolvent, or if a receiver, liquidator, or conservator of the Trustee or of its property shall be appointed, or if any public officer shall take charge or control of the Trustee or of its property or affairs, the position of the Trustee hereunder shall thereupon become vacant.

If the position of Trustee shall become vacant for any of the foregoing reasons or for any other reason, a successor Trustee may be appointed within one year after any such vacancy shall have occurred by the Owners of at least twenty-five percent (25%) of the Bonds by an instrument or concurrent instruments in writing signed and acknowledged by such Owners or their attorneys-in-fact, duly authorized and delivered to such successor Trustee, with notification thereof being given to the predecessor Trustee and the City.

Until such successor Trustee shall have been appointed by the Owners of the Bonds, the City shall forthwith appoint a Trustee to act hereunder. Copies of any instrument of the City providing for any such appointment shall be delivered by the City to the Trustee so appointed. The City shall mail notice of any such appointment to each Owner of any Outstanding Bonds within 30 days after such appointment. Any appointment of a successor Trustee made by the City immediately and without further act shall be superseded and revoked by an appointment subsequently made by the Owners of Bonds.

If in a proper case no appointment of a successor Trustee shall be made within 45 days after the giving by any Trustee of any notice of resignation in accordance with Section 9.8 herein or after the occurrence of any other event requiring or authorizing such appointment, the Trustee or any Owner of Bonds may apply to any court of competent jurisdiction for the appointment of such a successor, and the court may thereupon, after such notice, if any, as the court may deem proper, appoint such successor and the City shall be responsible for the costs of such appointment process.

Any successor Trustee appointed under the provisions of this Section shall be a commercial bank or trust company or national banking association (i) having a capital and surplus and undivided profits aggregating at least \$50,000,000, if there be such a commercial bank or trust company or national banking association willing and able to accept the appointment on reasonable and customary terms, and (ii) authorized by law to perform all the duties of the Trustee required by this Indenture.

Each successor Trustee shall mail, in accordance with the provisions of the Bonds, notice of its appointment to the Trustee, any rating agency which, at the time of such appointment, is providing a rating on the Bonds and each of the Owners of the Bonds.

Section 9.11. Transfer of Rights and Property to Successor Trustee.

Any successor Trustee appointed under the provisions of Section 9.10 shall execute, acknowledge, and deliver to its predecessor and the City an instrument in writing accepting such appointment, and thereupon such successor, without any further act, deed, or conveyance, shall

become fully vested with all moneys, estates, properties, rights, immunities, powers, duties, obligations, and trusts of its predecessor hereunder, with like effect as if originally appointed as Trustee. However, the Trustee then ceasing to act shall nevertheless, on request of the City or of such successor, execute, acknowledge, and deliver such instruments of conveyance and further assurance and do such other things as may reasonably be required for more fully and certainly vesting and confirming in such successor all the rights, immunities, powers, and trusts of such Trustee and all the right, title, and interest of such Trustee in and to the Trust Estate, and shall pay over, assign, and deliver to such successor any moneys or other properties subject to the trusts and conditions herein set forth. Should any deed, conveyance, or instrument in writing from the City be required by such successor for more fully and certainly vesting in and confirming to it any such moneys, estates, properties, rights, powers, duties, or obligations, any and all such deeds, conveyances, and instruments in writing, on request and so far as may be authorized by law, shall be executed, acknowledged, and delivered by the City.

Section 9.12. Merger, Conversion or Consolidation of Trustee.

Any corporation or association into which the Trustee may be merged or with which it may be consolidated or any corporation or association resulting from any merger, conversion or consolidation to which it shall be a party or any corporation or association to which the Trustee may sell or transfer all or substantially all of its corporate trust business shall be the successor to such Trustee hereunder, without any further act, deed or conveyance, provided that such corporation or association shall be a commercial bank or trust company or national banking association qualified to be a successor to such Trustee under the provisions of Section 9.10, or a trust company that is a wholly-owned subsidiary of any of the foregoing.

Section 9.13. Trustee To File Continuation Statements.

If necessary, the Trustee shall file or cause to be filed, such continuation statements as may be required by the Texas Uniform Commercial Code, as from time to time in effect (the "UCC"), in order to continue perfection of the security interest of the Trustee in such items of tangible or intangible personal property and any fixtures as may have been granted to the Trustee pursuant to this Indenture in the time, place and manner required by the UCC.

Section 9.14. Construction of Indenture.

The Trustee may construe any of the provisions of this Indenture insofar as the same may appear to be ambiguous or inconsistent with any other provision hereof, and any construction of any such provisions hereof by the Trustee in good faith shall be binding upon the Owners of the Bonds.

## ARTICLE X

### MODIFICATION OR AMENDMENT OF THIS INDENTURE

Section 10.1. Amendments Permitted.

This Indenture and the rights and obligations of the City and of the Owners of the Bonds may be modified or amended at any time by a Supplemental Indenture, except as provided

below, pursuant to the affirmative vote at a meeting of Owners of the Bonds, or with the written consent without a meeting, of the Owners of the Bonds of at least sixty-six and two-thirds percent (66-2/3%) of the aggregate principal amount of the Bonds then Outstanding. No such modification or amendment shall (i) extend the maturity of any Bond or reduce the interest rate thereon, or otherwise alter or impair the obligation of the City to pay the principal of, and the interest and any premium on, any Bond, without the express consent of the Owner of such Bond, or (ii) permit the creation by the City of any pledge or lien upon the Pledged Revenues superior to or on a parity with the pledge and lien created for the benefit of the Bonds (except as otherwise permitted by Applicable Laws or this Indenture), or reduce the percentage of Bonds required for the amendment hereof. Any such amendment may not modify any of the rights or obligations of the Trustee without its written consent.

This Indenture and the rights and obligations of the City and of the Owners may also be modified or amended at any time by a Supplemental Indenture, without the consent of any Owners, only to the extent permitted by law and only for any one or more of the following purposes:

(i) to add to the covenants and agreements of the City in this Indenture contained, other covenants and agreements thereafter to be observed, or to limit or surrender any right or power herein reserved to or conferred upon the City;

(ii) to make modifications not adversely affecting any Outstanding Bonds in any material respect;

(iii) to make such provisions for the purpose of curing any ambiguity, or of curing, correcting or supplementing any defective provision contained in this Indenture, or in regard to questions arising under this Indenture, as the City and the Trustee may deem necessary or desirable and not inconsistent with this Indenture, and that shall not adversely affect the rights of the Owners of the Bonds; and

(iv) to make such additions, deletions or modifications as may be necessary or desirable to assure exemption from federal income taxation of interest on the Bonds.

#### Section 10.2. Owners' Meetings.

The City may at any time call a meeting of the Owners of the Bonds. In such event the City is authorized to fix the time and place of said meeting and to provide for the giving of notice thereof, and to fix and adopt rules and regulations for the conduct of said meeting.

#### Section 10.3. Procedure for Amendment with Written Consent of Owners.

The City and the Trustee may at any time adopt a Supplemental Indenture amending the provisions of the Bonds or of this Indenture, to the extent that such amendment is permitted by Section 10.1 herein, to take effect when and as provided in this Section. A copy of such Supplemental Indenture, together with a request to Owners for their consent thereto, shall be mailed by first class mail, by the Trustee to each Owner of Bonds from whom consent is required under this Indenture, but failure to mail copies of such Supplemental Indenture and request shall

not affect the validity of the Supplemental Indenture when assented to as in this Section provided.

Such Supplemental Indenture shall not become effective unless there shall be filed with the Trustee the written consents of the Owners as required by this Indenture and a notice shall have been mailed as hereinafter in this Section provided. Each such consent shall be effective only if accompanied by proof of ownership of the Bonds for which such consent is given, which proof shall be such as is permitted by Section 11.6 herein. Any such consent shall be binding upon the Owner of the Bonds giving such consent and on any subsequent Owner (whether or not such subsequent Owner has notice thereof), unless such consent is revoked in writing by the Owner giving such consent or a subsequent Owner by filing such revocation with the Trustee prior to the date when the notice hereinafter in this Section provided for has been mailed.

After the Owners of the required percentage of Bonds shall have filed their consents to the Supplemental Indenture, the City shall mail a notice to the Owners in the manner hereinbefore provided in this Section for the mailing of the Supplemental Indenture, stating in substance that the Supplemental Indenture has been consented to by the Owners of the required percentage of Bonds and will be effective as provided in this Section (but failure to mail copies of said notice shall not affect the validity of the Supplemental Indenture or consents thereto). Proof of the mailing of such notice shall be filed with the Trustee. A record, consisting of the papers required by this Section 10.3 to be filed with the Trustee, shall be proof of the matters therein stated until the contrary is proved. The Supplemental Indenture shall become effective upon the filing with the Trustee of the proof of mailing of such notice, and the Supplemental Indenture shall be deemed conclusively binding (except as otherwise hereinabove specifically provided in this Article) upon the City and the Owners of all Bonds at the expiration of sixty (60) days after such filing, except in the event of a final decree of a court of competent jurisdiction setting aside such consent in a legal action or equitable proceeding for such purpose commenced within such sixty-day period.

#### Section 10.4. Effect of Supplemental Indenture.

From and after the time any Supplemental Indenture becomes effective pursuant to this Article X, this Indenture shall be deemed to be modified and amended in accordance therewith, the respective rights, duties, and obligations under this Indenture of the City and all Owners of Bonds Outstanding shall thereafter be determined, exercised and enforced hereunder subject in all respects to such modifications and amendments, and all the terms and conditions of any such Supplemental Indenture shall be deemed to be part of the terms and conditions of this Indenture for any and all purposes.

#### Section 10.5. Endorsement or Replacement of Bonds Issued After Amendments.

The City may determine that Bonds issued and delivered after the effective date of any action taken as provided in this Article X shall bear a notation, by endorsement or otherwise, in form approved by the City, as to such action. In that case, upon demand of the Owner of any Bond Outstanding at such effective date and presentation of his Bond for that purpose at the designated office of the Trustee or at such other office as the City may select and designate for that purpose, a suitable notation shall be made on such Bond. The City may determine that new

Bonds, so modified as in the opinion of the City is necessary to conform to such Owners' action, shall be prepared, executed, and delivered. In that case, upon demand of the Owner of any Bonds then Outstanding, such new Bonds shall be exchanged at the designated office of the Trustee without cost to any Owner, for Bonds then Outstanding, upon surrender of such Bonds.

Section 10.6. Amendatory Endorsement of Bonds.

The provisions of this Article X shall not prevent any Owner from accepting any amendment as to the particular Bonds held by such Owner, provided that due notation thereof is made on such Bonds.

Section 10.7. Waiver of Default

With the written consent of at least sixty-six and two-thirds percent (66-2/3%) in aggregate principal amount of the Bonds then Outstanding, the Owners may waive compliance by the City with certain past defaults under the Indenture and their consequences. Any such consent shall be conclusive and binding upon the Owners and upon all future Owners.

## ARTICLE XI

### DEFAULT AND REMEDIES

Section 11.1. Events of Default.

Each of the following occurrences or events shall be and is hereby declared to be an "Event of Default," to wit:

(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; and

(iii) Default in the performance or observance of any covenant, agreement or obligation of the City under this Indenture and the continuation thereof for a period of 60 days after written notice specifying such default by the Owners of at least 25% of the Bonds at the time Outstanding requesting that the failure be remedied.

Section 11.2. Immediate Remedies for Default.

(a) Subject to Article VIII, upon the happening and continuance of any of the Events of Default described in Section 11.1, the Owners of at least 25% of the Bonds then Outstanding, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under this 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 herein, or injunction; provided, however, that no action for money damages against the City may be sought or shall be permitted.

(b) THE PRINCIPAL OF THE BONDS SHALL NOT BE SUBJECT TO ACCELERATION UNDER ANY CIRCUMSTANCES.

(c) If the assets of the Trust Estate are sufficient to pay all amounts due with respect to Outstanding Bonds, in the selection of Trust Estate assets to be used in the payment of Bonds due under this Article, the City shall determine, in its absolute discretion, and shall instruct the Trustee by City Order, 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 Order, 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.

(d) Whenever moneys are to be applied pursuant to this Article XI, irrespective of and whether other remedies authorized under this 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 law and apply the proceeds thereof in accordance with the provisions of this Section. 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, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

### Section 11.3. Restriction on Owner's Action.

(a) No Owner shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of this Indenture or for the execution of any trust thereof or any other remedy hereunder, unless (i) a default has occurred and is continuing of which the Trustee has been notified in writing as provided in Section 11.1, or of which by such Section it is deemed to have notice, (ii) such default has become an Event of Default and the Owners of 25% of the aggregate principal amount of the 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 indemnity as provided in Section 9.2 herein, (iv) the Trustee has for 60 days after such notice failed or refused to exercise the powers hereinbefore 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 60-day period by the Owners of a majority of the aggregate principal amount of the 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 Bonds shall have any right in any manner whatsoever to affect, disturb, or prejudice this Indenture by its, his or their action or to enforce any right hereunder except in the

manner provided herein, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided herein and for the equal benefit of the Owners of all Bonds then Outstanding. The notification, request and furnishing of indemnity set forth above shall, at the option of the Trustee, be conditions precedent to the execution of the powers and trusts of this Indenture and to any action or cause of action for the enforcement of this Indenture or for any other remedy hereunder.

(b) Subject to Article VIII, nothing in this Indenture shall affect or impair the right of any Owner to enforce, by action at law, payment of any Bond at and after the maturity thereof, or on the date fixed for redemption or the obligation of the City to pay each Bond issued hereunder to the respective Owners thereof at the time and place, from the source and in the manner expressed herein and in the Bonds.

(c) In case the Trustee or any Owners shall have proceeded to enforce any right under this 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 hereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

#### Section 11.4. Application of Revenues and Other Moneys After Default.

(a) 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 this Article 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 this Indenture, during the continuance of an Event of Default, the Trustee, on behalf of the City, notwithstanding Section 11.2 hereof, be applied by the Trustee to the payment of interest and principal or Redemption Price then due on Bonds, as follows:

FIRST: To the payment to the 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 Owners entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the Owners entitled thereto of the unpaid principal of Outstanding Bonds, or Redemption Price of any 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 Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal due and to the 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 this Section 11.4.

(b) In the event funds are not adequate to cure any of the Events of Default described in Section 11.1, the available funds shall be allocated to the Bonds that are Outstanding in proportion to the quantity of Bonds that are currently due and in default under the terms of this Indenture.

(c) The restoration of the City to its prior position after any and all defaults have been cured, as provided in Section 11.3, shall not extend to or affect any subsequent default under this Indenture or impair any right consequent thereon.

Section 11.5. Effect of Waiver.

(a) No delay or omission of the Trustee, or any Owner, to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default or an acquiescence therein; and every power and remedy given by this Indenture to the Trustee or the Owners, respectively, may be exercised from time to time and as often as may be deemed expedient.

Section 11.6. Evidence of Ownership of Bonds.

(a) Any request, consent, revocation of consent or other instrument which this Indenture may require or permit to be signed and executed by the Owners of Bonds may be in one or more instruments of similar tenor, and shall be signed or executed by such Owners in person or by their attorneys duly appointed in writing. Proof of the execution of any such instrument, or of any instrument appointing any such attorney, or the holding by any Person of the Bonds shall be sufficient for any purpose of this Indenture (except as otherwise herein expressly provided) if made in the following manner:

(i) The fact and date of the execution of such instruments by any Owner of Bonds or the duly appointed attorney authorized to act on behalf of such Owner may be provided by a guarantee of the signature thereon by a bank or trust company or by the certificate of any notary public or other officer authorized to take acknowledgments of deeds, that the Person signing such request or other instrument acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer. Where such execution is by an officer of a corporation or association or a member of a partnership, on behalf of such corporation, association or partnership, such signature guarantee, certificate, or affidavit shall also constitute sufficient proof of his authority.

(ii) The ownership of Bonds and the amount, numbers and other identification and date of holding the same shall be proved by the Register.

(b) Except as otherwise provided in this Indenture with respect to revocation of a consent, any request or consent by an Owner of Bonds shall bind all future Owners of the same Bond in respect of anything done or suffered to be done by the City or the Trustee in accordance therewith.

Section 11.7. No Acceleration.

In the event of the occurrence of an Event of Default under Section 11.1 hereof, the right of acceleration of any Stated Maturity is not granted as a remedy hereunder and the right of acceleration under this Indenture is expressly denied.

Section 11.8. Mailing of Notice.

Any provision in this Article for the mailing of a notice or other document to Owners shall be fully complied with if it is mailed, first class postage prepaid, only to each Owner at the address appearing upon the Register.

Section 11.9. Exclusion of Bonds.

Bonds owned or held by or for the account of the City will not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Indenture, and the City shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Indenture.

## ARTICLE XII

### GENERAL COVENANTS AND REPRESENTATIONS

Section 12.1. Representations as to Pledged Revenues.

(a) The City represents and warrants that it is authorized by Applicable Laws to authorize and issue the Bonds, to execute and deliver this Indenture and to pledge the Pledged Revenues in the manner and to the extent provided in this Indenture, and that the Pledged Revenues are and will be and remain free and clear of any pledge, lien, charge, or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and lien created in or authorized by this Indenture except as expressly provided herein.

(b) The City shall at all times, to the extent permitted by Applicable Laws, defend, preserve and protect the pledge of the Pledged Revenues and all the rights of the Owners and the Trustee, under this Indenture against all claims and demands of all Persons whomsoever.

(c) The City will take all steps reasonably necessary and appropriate, and will direct the Trustee to take all steps reasonably necessary and appropriate, to collect all delinquencies in the collection of the Assessments and any other amounts pledged to the payment of the Bonds to the fullest extent permitted by the Act and other Applicable Laws.

(d) To the extent permitted by law, notice of the Annual Installments shall 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.

Section 12.2. Accounts, Periodic Reports and Certificates.

The Trustee shall keep or cause to be kept proper books of record and account (separate from all other records and accounts) in which complete and correct entries shall be made of its transactions relating to the Funds and Accounts established by this Indenture and which shall at all times be subject to inspection by the City, and the Owner or Owners of not less than 10% in principal amount of the Bonds then Outstanding or their representatives duly authorized in writing.

Section 12.3. General.

The City shall do and perform or cause to be done and performed all acts and things required to be done or performed by or on behalf of the City under the provisions of this Indenture.

ARTICLE XIII

SPECIAL COVENANTS

Section 13.1. Further Assurances; Due Performance.

(a) At any and all times the City will duly execute, acknowledge and deliver, or will cause to be done, executed and delivered, all and every such further acts, conveyances, transfers, and assurances in a manner as the Trustee shall reasonably require for better conveying, transferring, pledging, and confirming unto the Trustee, all and singular, the revenues, Funds, Accounts and properties constituting the Pledged Revenues, and the Trust Estate hereby transferred and pledged, or intended so to be transferred and pledged.

(b) The City will duly and punctually keep, observe and perform each and every term, covenant and condition on its part to be kept, observed and performed, contained in this Indenture.

Section 13.2. Other Obligations or Other Liens.

(a) The City reserves the right to issue 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.

(b) The City will not create or voluntarily permit to be created any debt, lien or charge on the Trust Estate other than any debt, lien or charge on the Trust Estate associated with the Subordinate Bonds, which is hereby acknowledged and permitted, 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 this Indenture or the priority hereof 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 this Indenture as a lien or charge upon the Pledged Revenues or Pledged Funds; provided, however, that nothing in this Section 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 endanger the security for the Bonds.

Section 13.3. Books of Record.

(a) The City shall cause to be kept full and proper books of record and accounts, in which full, true and proper entries will be made of all dealing, business and affairs of the City, which relate to the Pledged Revenues, the Pledged Funds, and the Bonds.

(b) The Trustee shall have no responsibility with respect to the financial and other information received by it pursuant to this Section 13.3 except to receive and retain same, subject to the Trustee's document retention policies, and to distribute the same in accordance with the provisions of this Indenture.

ARTICLE XIV

PAYMENT AND CANCELLATION OF THE BONDS AND SATISFACTION OF THE  
INDENTURE

Section 14.1. Trust Irrevocable.

The trust created by the terms and provisions of this Indenture is irrevocable until the Bonds secured hereby are fully paid or provision is made for their payment as provided in this Article.

Section 14.2. Satisfaction of Indenture.

If the City shall pay or cause to be paid, or there shall otherwise be paid to the Owners, principal of and interest on all of the Bonds, at the times and in the manner stipulated in this Indenture, and all amounts due and owing with respect to the Bonds have been paid or provided for, then the pledge of the Trust Estate and all covenants, agreements, and other obligations of the City to the Owners of such Bonds, shall thereupon cease, terminate, and become void and be discharged and satisfied. In such event, the Trustee shall execute and deliver to the City copies of all such documents as it may have evidencing that principal of and interest on all of the Bonds has been paid so that the City may determine if the Indenture is satisfied; if so, the Trustee shall pay over or deliver all moneys held by it in the in Funds and Accounts held hereunder to the Person entitled to receive such amounts, or, if no Person is entitled to receive such amounts, then to the City.

Section 14.3. Bonds Deemed Paid.

All Outstanding 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 Bonds are to be redeemed on any date prior to their Stated Maturity, the Trustee shall have given notice of redemption on said date as provided herein, (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 Bonds to become due on such 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 of the Bonds to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iv) if the Bonds are then rated, the Trustee shall have received written confirmation from each rating agency that such deposit will not result in the reduction or withdrawal of the rating on the Bonds. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to this Section 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 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 by the City maturing at times and in amounts sufficient to pay when due the principal of and interest on the Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any payment for Defeasance Securities purchased for the purpose of reinvesting cash as aforesaid shall be made only against delivery of such Defeasance Securities.

## ARTICLE XV

### MISCELLANEOUS

#### Section 15.1. Benefits of Indenture Limited to Parties.

Nothing in this Indenture, expressed or implied, is intended to give to any Person other than the City, the Trustee and the Owners, any right, remedy, or claim under or by reason of this Indenture. Any covenants, stipulations, promises or agreements in this Indenture by and on behalf of the City shall be for the sole and exclusive benefit of the Owners and the Trustee.

#### Section 15.2. Successor is Deemed Included in All References to Predecessor.

Whenever in this Indenture or any Supplemental Indenture either the City or the Trustee is named or referred to, such reference shall be deemed to include the successors or assigns thereof, and all the covenants and agreements in this Indenture contained by or on behalf of the City or the Trustee shall bind and inure to the benefit of the respective successors and assigns thereof whether so expressed or not.

#### Section 15.3. Execution of Documents and Proof of Ownership by Owners.

Any request, declaration, or other instrument which this Indenture may require or permit to be executed by Owners may be in one or more instruments of similar tenor, and shall be executed by Owners in person or by their attorneys duly appointed in writing.

Except as otherwise herein expressly provided, the fact and date of the execution by any Owner or his attorney of such request, declaration, or other instrument, or of such writing appointing such attorney, may be proved by the certificate of any notary public or other officer

authorized to take acknowledgments of deeds to be recorded in the state in which he purports to act, that the Person signing such request, declaration, or other instrument or writing acknowledged to him the execution thereof, or by an affidavit of a witness of such execution, duly sworn to before such notary public or other officer.

Except as otherwise herein expressly provided, the ownership of registered Bonds and the amount, maturity, number, and date of holding the same shall be proved by the Register.

Any request, declaration or other instrument or writing of the Owner of any Bond shall bind all future Owners of such Bond in respect of anything done or suffered to be done by the City or the Trustee in good faith and in accordance therewith.

Section 15.4. Waiver of Personal Liability.

No member, officer, agent, or employee of the City shall be individually or personally liable for the payment of the principal of, or interest or any premium on, the Bonds; but nothing herein contained shall relieve any such member, officer, agent, or employee from the performance of any official duty provided by law.

Section 15.5. Notices to and Demands on City and Trustee.

(a) Except as otherwise expressly provided in this Indenture, all notices or other instruments required or permitted under this Indenture shall be in writing and shall be telexed, cabled, delivered by hand, or mailed by first class mail, postage prepaid, and addressed as follows:

If to the City:

City of Austin, Texas  
P.O. Box 1088  
Austin, Texas 78767  
Attn: City Manager

If to the Trustee  
or the Paying Agent/Registrar:

Deutsche Bank National Trust Company  
Trust & Securities Services  
101 California Street, 47<sup>th</sup> Floor  
San Francisco, CA 92111  
Attn: US Global Debt Services

Any such notice, demand, or request may also be transmitted to the appropriate party by telegram or telephone and shall be deemed to be properly given or made at the time of such transmission if, and only if, such transmission of notice shall be confirmed in writing and sent as specified above.

Any of such addresses may be changed at any time upon written notice of such change given to the other party by the party effecting the change. Notices and consents given by mail in accordance with this Section shall be deemed to have been given five Business Days after the

date of dispatch; notices and consents given by any other means shall be deemed to have been given when received.

(b) The Trustee shall mail to each Owner of a Bond notice of (i) any substitution of the Trustee; or (ii) the redemption or defeasance of all Bonds Outstanding.

Section 15.6. Partial Invalidity.

If any Section, paragraph, sentence, clause, or phrase of this Indenture shall for any reason be held illegal or unenforceable, such holding shall not affect the validity of the remaining portions of this Indenture. The City hereby declares that it would have adopted this Indenture and each and every other Section, paragraph, sentence, clause, or phrase hereof and authorized the issue of the Bonds pursuant thereto irrespective of the fact that any one or more Sections, paragraphs, sentences, clauses, or phrases of this Indenture may be held illegal, invalid, or unenforceable.

Section 15.7. Applicable Laws.

This Indenture shall be governed by and enforced in accordance with the laws of the State of Texas applicable to contracts made and performed in the State of Texas.

Section 15.8. Payment on Business Day.

In any case where the date of the maturity of interest or of principal (and premium, if any) of the Bonds or the date fixed for redemption of any Bonds or the date any action is to be taken pursuant to this Indenture is other than a Business Day, the payment of interest or principal (and premium, if any) or the action need not be made on such date but may be made on the next succeeding day that is a Business Day with the same force and effect as if made on the date required and no interest shall accrue for the period from and after such date.

Section 15.9. Counterparts.

This Indenture may be executed in counterparts, each of which shall be deemed an original.

*[remainder of page left blank intentionally]*

IN WITNESS WHEREOF, the City and the Trustee have caused this Indenture of Trust to be executed all as of the date hereof.

CITY OF AUSTIN, TEXAS

By: \_\_\_\_\_  
LEE LEFFINGWELL, Mayor

[SEAL]

Attest:

\_\_\_\_\_  
SHIRLEY A. GENTRY  
City Clerk

DEUTSCHE BANK NATIONAL TRUST COMPANY,  
as Trustee

By: \_\_\_\_\_  
Authorized Officer

By: \_\_\_\_\_  
Authorized Officer

*Signature Page to Indenture of Trust*

APPENDIX B

FORM OF SERVICE AND ASSESSMENT PLAN

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# Indian Hills Public Improvement District

Service and Assessment Plan

November 2011

## Section I

### PLAN DESCRIPTION AND DEFINED TERMS

#### **A. Introduction**

On August 26, 2010, (the “Creation Date”) the Austin City Council approved that certain “Petition for the Creation of a Public Improvement District to Finance Improvements to Indian Hills Subdivision” which authorized the creation of Indian Hills Public Improvement District (the “PID”) to finance the Actual Costs for the benefit of certain property in the PID, all of which is located in limited purpose annexed jurisdiction of the City, but not within its corporate limits.

Upon application of the current property owners, the property within the PID was zoned by Ordinance No. 20100826-065 (the “Zoning Ordinance”) adopted by the City of Austin on the Creation Date. The Zoning Ordinance designates the type of land uses that are permitted within the project and include development standards for each land use type.

Chapter 372 of the Texas Local Government Code, Improvement Districts in Municipalities and Counties (as amended, the “PID Act”), governs the creation of public improvement districts within the State of Texas. This Service and Assessment Plan has been prepared pursuant to Section 372.013, 372.014, 372.015 and 372.016 of the PID Act. According to Section 372.013 of the PID Act, a service plan “must cover a period of five years and must also define the annual indebtedness and the projected costs for improvements. The plan shall be reviewed and updated annually for the purpose of determining the annual budget for improvements.” The service plan is described in Section V of this Service and Assessment Plan.

Section 372.014 of the PID Act states that “an assessment plan must be included in the annual service plan.” The assessment plan is described in Section IV.

Section 372.015 of the PID Act states that “the governing body of the municipality or county shall apportion the cost of an improvement to be assessed against property in an improvement district.” The method of assessing the Actual Costs to the property in the PID is included in Section VI of this Service and Assessment Plan.

Section 372.016 of the PID Act states that “after the total cost of an improvement is determined, the governing body of the municipality or county shall prepare a proposed assessment roll. The roll must state the assessment of each parcel of land in the district, as determined by the method chosen by the municipality or county under this subchapter.” The Assessment Roll for the PID is attached hereto as Appendix A and addressed in Section VII of this Service and Assessment Plan. The Assessments as shown on the Assessment Roll are based on the method of assessment described in Sections IV and VI of this Service and Assessment Plan.

Contemporaneously herewith, the City and Developer have entered into that certain Indian Hills Public Improvement District Financing Agreement (the “PID Finance Agreement”). The PID Finance Agreement contains a more detailed description of many of the concepts addressed in this Service and Assessment Plan, therefore, the two documents should be read as a

whole in order to have a more complete understanding of the terms addressed in each of the agreements.

**B. Definitions**

Capitalized terms used herein shall have the meaning ascribed to them as follows; provided, however, many capitalized terms not otherwise defined herein shall have the meaning ascribed to them in the PID Finance Agreement:

**“Administrator”** means an employee or designee of the City who shall have the responsibilities provided for herein, in the Indenture related to the Bonds, or in another agreement approved by the City Council.

**“Annual Installment”** means, with respect to each Parcel, each annual payment of the Assessment, as shown on the Assessment Roll attached hereto as Appendix A or an Annual Service Plan Update, and calculated as provided in Section VI of this Service and Assessment Plan.

**“Annual Service Plan Update”** has the meaning set forth in Section V of this Service and Assessment Plan.

**“Assessed Property”** means, for any year, Parcels within the PID other than Non-Benefited Property.

**“Assessment”** means the assessment levied against a Parcel imposed pursuant to the Assessment Ordinance and the provisions herein, as shown on the Assessment Roll, subject to reallocation upon the subdivision of such Parcel created by such subdivision or reduction according to the provision herein and the PID Act.

**“Assessment Ordinance”** means each ordinance adopted by the City Council approving the Assessment Plan (or such amendments to the Assessment Plan) and levying the Special Assessments, as required by Article II of the PID Finance Agreement. The Parties hereby acknowledge that the Assessment Plan will be amended from time to time as additional Bonds are sold and Improvement Areas are developed.

**“Assessment Revenues”** mean the revenues actually received by the City from Assessments.

**“Assessment Roll”** means the document included in this Service and Assessment Plan as Appendix A, as updated, modified or amended from time to time in accordance with the procedures set forth herein and in the PID Act.

**“Authorized Improvements”** mean those public improvements described in Appendix B of this Service and Assessment Plan and Section 372.003 of the PID Act which the Developer may design, construct, and install, and convey to the applicable governmental entity in accordance with this Service and Assessment Plan, and any future amendments. The parties hereby acknowledge that only some of the Authorized Improvements will be paid for by Bonds. Any

CRA Improvements shall be designed, constructed, installed and conveyed to the applicable governmental entity in accordance with the terms of the applicable CRA.

“**Bonds**” mean any bonds secured by Assessment Revenues issued by the City in one or more series.

“**City**” means the City of Austin, Texas.

“**City Council**” means the duly elected governing body of the City.

“**Delinquent Collection Costs**” mean interest, penalties and expenses incurred or imposed with respect to any delinquent installment of an Assessment in accordance with Section 372.018 (b) of the PID Act and the costs related to pursuing collection of a delinquent Assessment and foreclosing the lien against the Assessed Property, including attorney’s fees.

“**Developer**” means Club Deal 116 Indian Hills TX, Limited Partnership, a Delaware limited partnership or its assignees or successors.

“**Future Improvement Area**” means Improvement Areas that are developed after Improvement Area #1, as such areas are generally shown on Table II-B. The Future Improvement Areas are subject to adjustment and are shown for example only.

“**Improvement Area**” means a set of Parcels within the PID that will be developed in the same general time period. The Parcels within an Improvement Area will be assessed in connection with the issuance of Phased PID Bonds for Authorized Improvements (or the portion thereof) designated in an update to this Service and Assessment Plan that specially benefit the parcels within the Improvement Area, but any parcels outside of the Improvement Area will not be assessed.

“**Improvement Area #1**” The initial Improvement Area to be developed as generally shown on Table II-B.

“**Landowner’s Agreement**” means that certain Landowner Agreement by and between the City and Developer whereby Developer grants its consent for assessments to be levied on the Property, in addition to other matters.

“**Lot Type**” means a classification of final building lots with similar characteristics (e.g. commercial, light industrial, multifamily residential, single family residential, etc.), as determined by the Administrator and confirmed by the City Council. In the case of single family residential, the Lot Type shall be further defined by classifying the residential lots by density or lot size, as determined by the Administrator and confirmed by the City Council.

“**Master PID Assessed Property**” means, for any year, all land within the Property other than Non-Benefited Property.

“**Master PID Bonds**” means collectively the Senior Master PID Bonds and the Subordinate

Master PID Bonds.

**“Master PID Bond Authorized Improvements”** are the Authorized Improvements set forth in Table III-A and further described in Section III B of this Service and Assessment Plan.

**“Non-Benefited Property”** means Parcels within the boundaries of the PID that accrue no special benefit from the Authorized Improvements, including Owner Association Property, Public Property and easements that create an exclusive use for a public utility provider. Property identified as Non-Benefited Property at the time the Assessments (i) are imposed or (ii) are reallocated pursuant to a subdivision of a Parcel is not assessed. Assessed Property converted to Non-Benefited Property, if the Assessments may not be reallocated pursuant to Section VI.E, remains subject to the Assessments and requires the Assessments to be prepaid as provided for in Section VI.E.

**“Owner Association Property”** means property within the boundaries of the PID that is owned by or irrevocably offered for dedication to, whether in fee simple or through an exclusive use easement, a property owners’ association.

**“Parcel”** means a parcel identified by either a tax map identification number assigned by the Travis County Appraisal District for real property tax purpose or by lot and block number in a final subdivision plat recorded in the real property records of Travis County.

**“Phased PID Bonds”** shall have the meaning ascribed in the PID Finance Agreement

**“Phased PID Bond Authorized Improvements”** means those Authorized Improvements associated with any given Improvement Area and contained in any supplemental table referred to in Section III.C and IV.D hereof.

**“PID Act”** means Texas Local Government Code Chapter 372, Improvement Districts in Municipalities and Counties, Subchapter A, Public Improvement Districts, as amended.

**“PID”** has the meaning set forth in Section I.A of this Service and Assessment Plan.

**“PID Finance Agreement”** has the meaning set forth in Section 1.A of this Service and Assessment Plan.

**“Prepayment Costs”** mean interest and expenses to the date of prepayment (or in the case of capital appreciation bonds, the accreted value on the date of prepayment), plus any additional amounts due pursuant to the Indenture related to the Bonds and allowed by law, if any, reasonably expected to be incurred by or imposed upon the City as a result of any prepayment of an Assessment.

**“Public Property”** means property within the boundaries of the PID that is owned by or irrevocably offered for dedication to the federal government, the State of Texas, Travis County, the City, a school district, a public utility provider or any other political subdivision or public agency, whether in fee simple or through an exclusive use easement.

**“Reimbursement Payment”** means a payment made under the terms of a CRA to the Initial Trustee pursuant to the Developer’s pledge thereof.

**“Senior Master PID Bonds”** shall have the meaning ascribed in the PID Finance Agreement.

**“Service and Assessment Plan”** means this Service and Assessment Plan prepared for the PID pursuant to the PID Act, as the same may be amended from time to time.

**“Subordinate Master PID Bonds”** shall have the meanings ascribed in the PID Finance Agreement.

**“Zoning Ordinance”** has the meaning set forth in Section I.A of this Service and Assessment Plan.

## Section II

### PROPERTY INCLUDED IN THE PID

#### **A. Property Included in the PID**

The PID is located in the limited purpose annexed jurisdiction of the City of Austin, Texas, within Travis County, Texas. This mixed use development contains approximately 240 acres. A map of the property within the PID is shown in Table II-A.

At completion, the PID is expected to consist of approximately 1,160 apartment homes, 919,000 square feet of office, 1,732,000 square feet of light industrial, and 131,000 square feet of neighborhood retail, as well as entry monuments, associated rights-of-way, landscaping, and infrastructure necessary to provide roadways, drainage, and utilities to the PID.

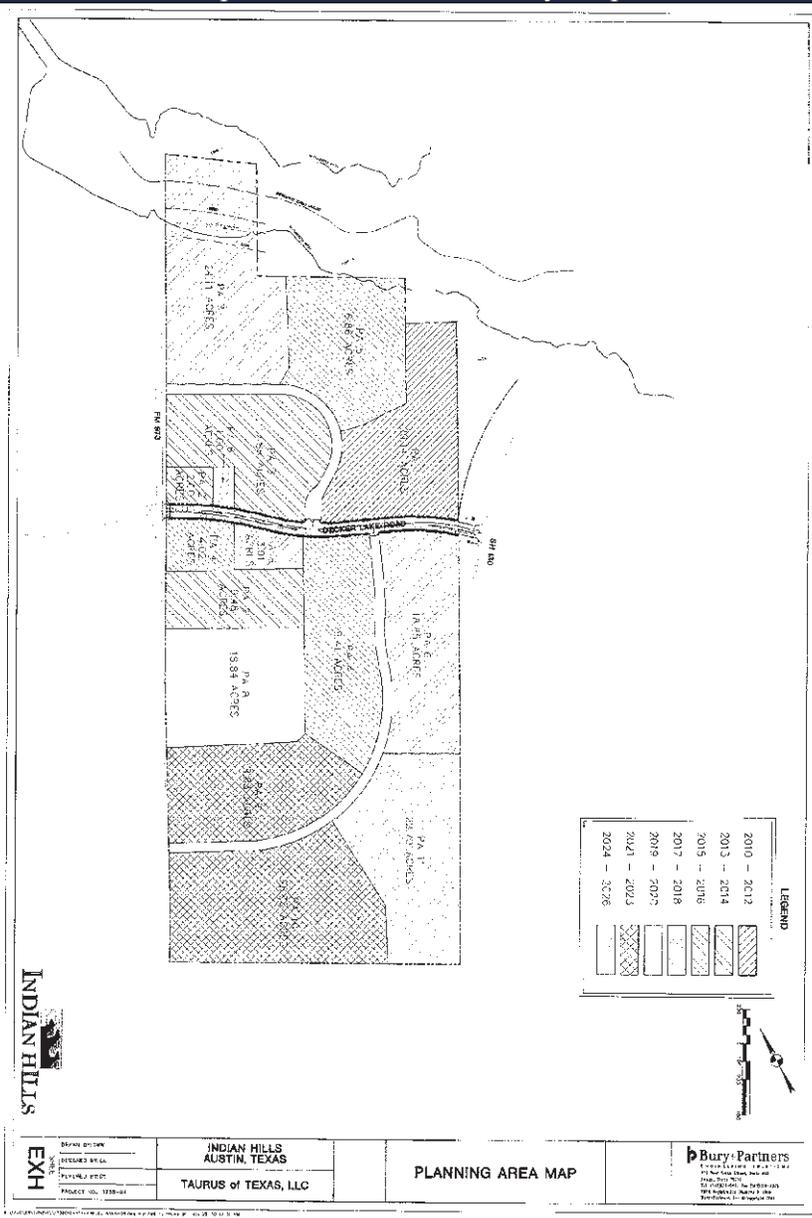
The estimated number of lots and the classification of each lot are based upon the Zoning Ordinance.



**B. Property Included in Improvement Areas**

As Improvement Areas are developed, then in connection with the issuance of Phased PID Bonds, this Service and Assessment Plan will be amended to add a new table to this Section II.B (e.g. Table II-B-1 will be added for Improvement Area #1, Table II-B-2 for Improvement Area #2, etc.). A map of the property within each Improvement Area is shown in Table II-B. The Future Improvement Areas are shown for illustrative purposes only and are subject to adjustment.

**TABLE II-B**  
**Improvement Area Boundary Map**



## Section III

### DESCRIPTION OF THE AUTHORIZED IMPROVEMENTS

#### **A. Authorized Improvement Overview**

Section 372.003 of the PID Act defines the Authorized Improvements that may be undertaken by a municipality or county through the establishment of a public improvement district, as follows:

#### 372.003. Authorized Improvements

- (a) If the governing body of a municipality or county finds that it promotes the interests of the municipality or county, the governing body may undertake an improvement project that confers a special benefit on a definable part of the municipality or county or the municipality's extraterritorial jurisdiction. A project may be undertaken in the municipality or county or the municipality's extraterritorial jurisdiction.
  
- (b) A public improvement may include:
  - (i) landscaping;
  - (ii) erection of fountains, distinctive lighting, and signs;
  - (iii) acquiring, constructing, improving, widening, narrowing, closing, or rerouting of sidewalks or of streets, any other roadways, or their rights-of way;
  - (iv) construction or improvement of pedestrian mall;
  - (v) acquisition and installment of pieces of art;
  - (vi) acquisition, construction or improvement of libraries;
  - (vii) acquisition, construction or improvement of off-street parking facilities;
  - (viii) acquisition, construction or improvement of rerouting of mass transportation facilities;
  - (ix) acquisition, construction or improvement of water, wastewater, or drainage facilities or improvements;
  - (x) the establishment or improvement of parks;
  - (xi) projects similar to those listed in Subdivisions (i)-(x)
  - (xii) acquisition, by purchase or otherwise, of real property in connection with an authorized improvement;
  - (xiii) special supplemental services for improvement and promotion of the district, including services relating to advertising, promotion, health and sanitation, water and wastewater, public safety, security, business recruitment, development recreation and cultural enhancement; and
  - (xiv) payment of expenses incurred in the establishment, administration and operation of the district.

After analyzing the public improvement projects authorized by the PID Act, the City has determined that the Authorized Improvements should be undertaken by the City. A list of potential Authorized Improvements is included on Appendix B attached hereto.

## **B. Master PID Bond Authorized Improvements Overview**

The Senior Master PID Bonds and Subordinate Master PID Bonds only fund Authorized Improvements that benefit the entire PID. The Senior Master PID Bonds will be secured by Assessments and the Subordinate Master PID Bonds will be secured by funds received pursuant to the CRAs and Assessments, subject to the use of the Assessments to pay the Senior Master PID Bonds. The Master PID Authorized Improvements are described below and the costs are shown in Table III-A. The estimated Actual Cost to construct the Master PID Bond Authorized Improvements is \$16,290,772. The Actual Costs shown in Table III-A are estimates and may be revised in Annual Service Plan Updates.

### *Decker Lake Road*

This project is a 0.54 mile Major Arterial Roadway from FM 973 on the west to SH 130 frontage road on the east. The roadway section will consist of two (2) paved sections 32-feet in width to accommodate two (2) vehicle lanes and one (1) bicycle lane in each direction divided by a large landscape median. The minimum ROW for this section is 114-feet. Intersection Improvements will be funded under an agreement with TxDOT to construct left and right turn lanes on FM 973. The entire roadway section will be built in one phase. The project will provide water quality and detention facilities adjacent to the roadway to serve this improvement.

### *Water Line 1*

This project consists of constructing approximately 19,684 linear feet of 48” diameter water transmission main from the City of Austin’s Central Pressure zone. The project will be constructed within the existing right of way (ROW) of Decker Lake Road. The line will be designed and constructed in accordance with City of Austin standards and specifications. The line will have all the necessary appurtenances to be fully operational transmission main. The line will provide service to Indian Hills and will also serve the Whisper Valley development as well as future projects outside the PID. Only the portion of this line that serves the PID will be funded with proceeds of the Bonds.

**TABLE III-A**  
**Master PID Bonds Authorized Improvements and Costs**

PROJECT NAME	CONSTRUCTION				TOTAL COST
	HARD COST	MANAGEMENT	SOFT COST	CONTINGENCY	
<b>Senior Master PID Bonds</b>					
Decker Lake Road	\$ 2,884,492	\$ 115,380	\$ 703,737	\$ 317,294	\$ 4,020,903
Water Line 1 - 19,684 LF of 48" Water Line	\$ 1,788,513	\$ 71,541	\$ 402,949	\$ 196,736	\$ 2,459,739
Capitalized Interest	\$ -	\$ -	\$ 646,463	\$ -	\$ 646,463
Reserve Fund	\$ -	\$ -	\$ 270,508	\$ -	\$ 270,508
Original Issue Discount	\$ -	\$ -	\$ 154,923	\$ -	\$ 154,923
Underwriter's Discount	\$ -	\$ -	\$ 80,080	\$ -	\$ 80,080
Other Bond Issuance Costs	\$ -	\$ -	\$ 252,237	\$ -	\$ 252,237
Subtotal	\$ 4,673,005	\$ 186,920	\$ 2,510,897	\$ 514,031	\$ 7,884,853
<b>Subordinate Master PID Bonds</b>					
Water Line 1 - 19,684 LF of 48" Water Line	\$ 5,888,244	\$ 235,530	\$ 1,326,612	\$ 647,707	\$ 8,098,092
Underwriter's Discount	\$ -	\$ -	\$ 23,767	\$ -	\$ 23,767
Other Bond Issuance Costs	\$ -	\$ -	\$ 284,060	\$ -	\$ 284,060
Subtotal	\$ 5,888,244	\$ 235,530	\$ 1,634,439	\$ 647,707	\$ 8,405,919
<b>Total Authorized Improvement Costs</b>	<b>\$ 10,561,249</b>	<b>\$ 422,450</b>	<b>\$ 4,145,335</b>	<b>\$ 1,161,737</b>	<b>\$ 16,290,772</b>

Notes: The figures shown in Table III-A are estimates and may be revised in Annual Service Plan Updates.

(a) Water Line 1 is being funded by both Senior Master PID Bonds and Subordinate Master PID Bonds. The amounts indicated are the costs being funded by each bond series, and when added together equal the total cost.

### **C. Improvement Area Authorized Improvement Overview**

As Improvement Areas are developed, then in association with issuing Phased PID Bonds this Service and Assessment Plan will be amended to identify the Phased PID Bond Authorized Improvements that benefit each Improvement Area from the list of Authorized Improvements on Appendix B attached hereto (e.g. Table III-A-1 will be added to show Improvement Area #1 Authorized Improvements for Improvement Area #1, etc.).

## **Section IV ASSESSMENT PLAN**

### **A. Introduction**

The PID Act requires the City Council to apportion the Actual Costs on the basis of special benefits conferred upon the property because of the Authorized Improvements. The PID Act provides that the Actual Costs may be assessed: (i) equally per front foot or square foot; (ii) according to the value of the property as determined by the governing body, with or without regard to improvements on the property; or (iii) in any other manner that results in imposing equal shares of the cost on property similarly benefited. The PID Act further provides that the governing body may establish by ordinance or order reasonable classifications and formulas for the apportionment of the cost between the municipality and the area to be assessed and the methods of assessing the special benefits for various classes or improvements.

Table IV-A provides the estimated allocation of Actual Costs between the PID and the area outside the PID for the Master PID Bond Authorized Improvements.

At this time it is impossible to determine with absolute certainty the amount of special benefit each Parcel within the PID will receive from the Authorized Improvements other than for Master PID Bond Authorized Improvements. As such, at this time Parcels will be only be assessed for the special benefits conferred upon the property because of the Master PID Bond Authorized Improvements.

As Improvement Areas are final platted, in connection with issuance of Phased PID Bonds, this Service and Assessment Plan will be updated to reflect the special benefit each Parcel within an Improvement Area receives from the Authorized Improvements funded with those Phased PID Bonds issued with respect to that Improvement Area. Prior to assessing Parcels located within Improvement Areas in connection with issuance of Phased PID bonds, the owners of the Parcels to be assessed must acknowledge that the Authorized Improvements confer a special benefit on their Parcel and must consent to the imposition of the Assessments to pay for the Actual Costs.

This section of this Service and Assessment Plan currently describes the special benefit received by each Parcel of the Property as a result of the Master PID Bond Authorized Improvements, provides the basis and justification for the determination that this special benefit exceeds the amount of the Assessments, and establishes the methodology by which the City Council allocates the special benefit of the Master PID Bond Authorized Improvements to Parcels in the manner that results in equal share of the Actual Cost being apportioned to Parcels similarly benefited. The determination by the City Council of the assessment methodology set forth below is the result of the discretionary exercise by the City Council of its legislative authority and governmental powers and is conclusive and binding on the Developer and all future owners and developers of the Assessed Property.

As Improvement Areas are developed, then in connection with issuance of Phased PID Bonds this Service and Assessment Plan will be updated based on the City's determination of the assessment methodology for each Improvement Area.

**B. Special Benefit**

The Assessed Property will receive a direct and special benefit from the Master PID Bond Authorized Improvements, and this benefit will be equal to or greater than the amount of the Assessments. The Master PID Bond Authorized Improvements are provided specifically for the benefit of the Assessed Property. The Master PID Bond Authorized Improvements (more particularly described in line-item format on Table III-A to this Service and Assessment Plan) and the costs of issuance and payment of costs incurred in the establishment, administration, and operation of the PID shown in Table V-A are authorized by the Act.

The owners of the Assessed Property have acknowledged that the Master PID Bond Authorized Improvements confer a special benefit on the Assessed Property and have consented to the imposition of the Assessments to pay for the Actual Costs associated therewith. The owners are acting in their interest in consenting to this imposition because the special benefit conferred upon the Assessed Property by the Master PID Bond Authorized Improvements exceeds the amount of the Assessments.

Pursuant to the Landowner's Agreement, the owners of the Assessed Property have ratified, confirmed, accepted, agreed to and approved; (i) the determinations and finding as to benefits by the City Council in the Service and Assessment Plan and the Assessment Ordinance; and (ii) the Service and Assessment Plan and the Assessment Ordinance. Use of the Assessed Property as described in this Service and Assessment Plan and as required by the Zoning Ordinance required that Authorized Improvements be acquired, constructed, installed, and/or improved. Funding the Actual Costs through the PID is determined to be the most beneficial means of doing so. As a result, the Assessments result in a special benefit to the Assessed Property, and this special benefit exceeds the amount of the Assessment. This conclusion is based on and supported by the evidence, information, and testimony provided to the City Council.

**C. Allocation of Actual Costs of Master PID Bond Authorized Improvements**

The Master PID Bond Authorized Improvements will provide a special benefit to property inside and outside the PID. Accordingly, the Actual Costs of the Master PID Bond Authorized Improvements must be allocated between the property inside the PID and outside of the PID. Table IV-A summarizes the Actual Costs for each Master PID Bond Authorized Improvements. The costs shown in Table IV-A are estimates and may be revised in Annual Service Plan Updates, but may not result in increased assessments without the owners of the Parcels consent to the imposition of the increased Assessments to pay for the Actual Costs.

**D. Allocation of Actual Costs of Phased PID Bond Authorized Improvements**

As Improvement Areas are developed, then in connection with issuance of Phased PID Bonds this Service and Assessment Plan will be amended to identify the special benefit to property inside and outside the PID resulting from the Phased PID Bond Authorized Improvements (e.g. Table IV-A-1 will be added to show the estimated allocation of Actual Costs between the PID and the area outside the PID for the Improvement Area #1 Authorized Improvements, etc.) Further, to the extent a Phased PID Bond Authorization Improvement benefits portions of the

Assessed Property both inside and outside of a given Improvement Area, then a new Table IV-B will be added showing the special benefit to the PID both inside and outside the Improvement Area in question and that Improvement Area will only be assessed based on the percentage of Actual Costs that benefit it, and the remainder will be assessed to Future Improvement Areas (e.g., a new Table IV-B-1 will be added for Improvement Area #1).

**TABLE IV-A**  
**Allocation of Master PID Authorized Improvement Costs to the PID**

PROJECT NAME	TOTAL COST	% PID Eligible	PID Eligible Cost
<b>Senior Master PID Bonds</b>			
Decker Lake Road (a)	\$ 4,020,903	42.0%	\$ 1,688,937
Water Line 1 - 19,684 LF of 48" Water Line (b)	\$ 2,459,739	25.0%	\$ 614,935
Capitalized Interest	\$ 646,463	100.0%	\$ 646,463
Reserve Fund	\$ 270,508	100.0%	\$ 270,508
Original Issue Discount	\$ 154,923	100.0%	\$ 154,923
Underwriter's Discount	\$ 80,080	100.0%	\$ 80,080
Other Bond Issuance Costs	\$ 252,237	100.0%	\$ 252,237
Subtotal	\$ 7,884,853		\$ 3,708,082
<b>Subordinate Master PID Bonds</b>			
Water Line 1 - 19,684 LF of 48" Water Line (b)	\$ 8,098,092	25.0%	\$ 2,024,523
Underwriter's Discount	\$ 23,767	100.0%	\$ 23,767
Other Bond Issuance Costs	\$ 284,060	100.0%	\$ 284,060
Subtotal	\$ 8,405,919		\$ 2,332,350
<b>TOTAL</b>	<b>\$ 16,290,772</b>		<b>\$ 6,040,432</b>

Notes:

(a) The Developer and County entered into that certain Decker Lake Road Participation Agreement (as amended) whereby the Developer is reimbursed 66.6% of the cost of Decker Lake Road Hard Costs and 50% of Construction management costs and engineering costs. Landscape Costs, City and County Fees, and Inspection Fees are not subject to reimbursement. Only non reimbursed costs are determined to be PID eligible, and as such 42% of Decker Lake Road Costs are PID Eligible Costs.

(b) Water Line 1 is being funded by both Senior Master PID Bonds and Subordinate Master PID Bonds. The amounts indicated are the costs being funded by each bond series, and when added together equal the total cost. The Developer and City entered into the Water Cost Reimbursement Agreement whereby the Developer is reimbursed the hard and certain soft costs of Water Line 1. However, 75% of Water Line 1's capacity will be used by property outside of the PID, and as such only 25% of the Water Line 1 Costs are PID Eligible. The Developer will pledge the reimbursements of those certain hard and soft costs due under the Water Cost Reimbursement Agreement to the payment of the Subordinate Master PID Bonds. The City will be repaid for the non-oversized portion of Water Line 1 costs it reimburses to the Developer pursuant to the Water Cost Reimbursement Agreement.

**E. Assessment Methodology**

The Actual Costs may be assessed by the City Council against the Assessed Property so long as the special benefit conferred upon the Assessed Property by the Authorized Improvements equal or exceeds the Assessments. The Actual Costs may be assessed using any methodology that results in the imposition of equal shares of the Actual Costs on Assessed Property similarly benefited.

*Assessment Methodology for the Master PID*

For purpose of this Service and Assessment Plan, the City Council has determined that the Actual Costs associated with the Senior Master PID Bonds and Subordinate Master PID Bonds shall be allocated to the Assessed Property on the basis of the modified area method and such method of allocation will result in the imposition of equal shares of the Actual Costs on Parcels similarly benefited. The modified area method is applied by spreading the entire assessment

across all Parcels within the PID based on their ratio of the total assessable area within the PID. Upon subsequent divisions of any Parcel, the assessment applicable to it is then apportioned based on the ratio of the areas of the newly created parcels. For residential parcels, when final residential building sites are platted, assessments are apportioned proportionately among each residential parcel based on its relative size. The result of this approach is that each final residential parcel with the same density has the same assessment, and residential parcels with similar densities will have similar assessments.

*Assessment Methodology for Improvement Areas*

As any given Improvement Area is developed, then in connection with issuance of any Phased PID Bonds for that Improvement Area, this Service and Assessment Plan will be amended to determine the assessment methodology that results in the imposition of equal shares of the Actual Costs on Assessed Property similarly benefited within that Improvement Area.

**F. Assessments**

The Assessments for the Senior Master PID Bonds and the Subordinate Master PID Bonds will be levied on each Parcel according to the Assessment Roll attached hereto as Appendix A. The Annual Installments for the Senior Master PID Bonds will be collected on the dates and in the amounts shown on the Assessment Roll, subject to any revisions made during an Annual Service Plan Update. The Annual Installments for the Subordinate Master PID Bonds will be collected on the dates and in the amounts shown on the Assessment Roll to the extent sufficient funds are not received by the Trustee pursuant to the pledge of the reimbursements under the CRAs by the Developer. The use of the Annual Installments to pay debt service under the Subordinate Master PID Bonds shall be subordinate to the use of the Annual Installments to pay debt service under the Senior Master PID Bonds.

**G. Administrative Expenses**

The cost of administering the PID and collecting the Annual Installments shall be paid for on a pro rata basis by each parcel based on the amount of Assessment levied against the Parcel. The administrative expenses shall be collected in the same manner as Annual Installments in the amounts shown on the Assessment Roll, which may be revised based on actual costs incurred in Annual Service Plan Updates.

**H. Prepayment Reserve**

Pursuant to the PID Act, the interest rate for Assessments may exceed the actual interest rate paid on the bonds by no more than one half of one percent (0.50%). The interest rate used to determine the Senior Master PID Bonds Assessments is one-fifth percent (0.50%) higher than the actual rate paid on the Senior Master PID Bonds, with 0.20% allocated to fund any interest charged between the date of prepayment of an Assessment and the date in which bonds are prepaid and 0.30% allocated to fund a delinquency reserve account as described below.

**I. Delinquency Reserve**

The City has allocated up to 0.30% of the interest rate component of the Annual Installments to offset any possible delinquent payments. The additional reserve shall be funded up to 0.1% of the next year's debt service for the Senior Master PID Bonds, but in no event will the annual collection be more than 0.30% higher than the actual interest rate paid on the debt.

## Section V

### SERVICE PLAN

The PID Act requires the service plan to cover a period of at least five years. The service plan is required to define the annual projected costs and indebtedness for the Authorized Improvements undertaken within the PID during the five year period. It is anticipated that it will take approximately two years for the Master PID Bond Authorized Improvements to be constructed. At some point after the Master PID Bond Authorized Improvements are constructed, Improvement Area #1 will begin development. After Improvement Area #1 is developed, it is anticipated that Improvement Area #2 will begin development, and so on, with each Improvement Area to be subsequently developed corresponding to the Service and Assessment Plan to be updated with that development

The estimated Actual Costs for Master PID Bond Authorized Improvements plus costs related to the issuance of the Bonds, and payment of expenses incurred in the establishment, administration and operation of the PID is \$16,290,772, as shown in Table V-A. The service plan shall be reviewed and updated annually for the purpose of determining the annual budget for improvements. The annual update to this Service and Assessment Plan is herein referred as the “Annual Service Plan Update.”

Table V-A summarizes the sources and uses of funds required to construct the Master PID Bond Authorized Improvements, establish the PID, and issue the Bonds. Table V-A may be revised based on final bond pricing and final costs of issuance. The sources and uses of funds shown in Table V-A shall be updated each year in the Annual Service Plan Update to reflect any budget revisions and actual costs.

As Improvement Areas are developed in connection with issuance of Phased PID Bonds, this Service and Assessment Plan will be amended to add a new table to this Section V (e.g. Table V-A-1 will be added for Improvement Area #1, etc.).

**TABLE V-A**  
**Sources and Uses of Funds for Master PID**

<b>Sources of Funds</b>	Senior Master PID Bonds	Subordinate Master PID Bonds	Reimbursement Agreements	Whisper Valley Water Line 1 Contribution	Developer Contribution or Future IA Bonds	Total
Estimated Bond PAR Amount (a)	\$ 2,860,000	\$ 2,332,350	\$ -	\$ -	\$ -	\$ 5,192,350
Reimbursement Agreement - Decker Lake Road (b)	\$ -	\$ -	\$ 2,331,966	\$ -	\$ -	\$ 2,331,966
Whisper Valley Contribution to Waterline 1 - Non IH share (c)	\$ -	\$ -	\$ -	\$ 7,918,374	\$ -	\$ 7,918,374
Developer Contribution and/or Future Improvement Area Bonds (d)	\$ -	\$ -	\$ -	\$ -	\$ 848,082	\$ 848,082
<b>Total</b>	<b>\$ 2,860,000</b>	<b>\$ 2,332,350</b>	<b>\$ 2,331,966</b>	<b>\$ 7,918,374</b>	<b>\$ 848,082</b>	<b>\$ 16,290,772</b>
<b>Uses of Funds</b>						
PID Authorized Improvements (e)	\$ 1,455,789	\$ 2,024,523	\$ 2,331,966	\$ 7,918,374	\$ 848,082	\$ 14,578,734
Debt Service Reserve Fund (f)	\$ 270,508	\$ -	\$ -	\$ -	\$ -	\$ 270,508
Capitalized Interest (g)	\$ 646,463	\$ -	\$ -	\$ -	\$ -	\$ 646,463
Underwriter Discount (h)	\$ 80,080	\$ 23,767	\$ -	\$ -	\$ -	\$ 103,847
Original Issue Discount	\$ 154,923	\$ -	\$ -	\$ -	\$ -	\$ 154,923
Cost to Establish PID and Issue Bonds (i)	\$ 252,237	\$ 284,060	\$ -	\$ -	\$ -	\$ 536,297
<b>Total</b>	<b>\$ 2,860,000</b>	<b>\$ 2,332,350</b>	<b>\$ 2,331,966</b>	<b>\$ 7,918,374</b>	<b>\$ 848,082</b>	<b>\$ 16,290,772</b>

(a) Assumes Subordinate Master PID Bonds are able to be fully paid with revenue from CRAs.

(b) Pursuant to the Decker Lake Road Participation Agreement between Travis County and the Developer, the County will reimburse the Developer for 66% of the cost of Decker Lake Road Hard Costs and 50% of Construction management costs and engineering costs. The funding of the improvements is initially funded by the Developer.

(c) 25% of Water Line 1's capacity will be used by the Indian Hills development, and as such only 25% of the Water Line 1 Costs will be funded by the Indian Hills project.

(d) The Developer will fund any costs not covered by Senior Master PID Bonds, Subordinate Master PID Bonds or County reimbursements until such time as Phased PID Bond proceeds are available. The Developer and City will enter into an acquisition agreement for any facility acquired by the City which is intended to be paid for, partially or in its entirety, from Phased PID Bonds. Developer Funds will be utilized if the amounts specified above are not sufficient to pay for the costs of such improvements.

(e) See Table III-A and Table IV-A for details. Excludes Bond Issuance Costs, which are identified separately.

(f) The Subordinate Master PID Bonds will include a debt service reserve fund equal to the lesser of maximum annual debt service or 10% of the bond amount.

(g) The Bonds will include capitalized interest.

(h) The Bonds will have a 2% underwriter's discount.

(i) Preliminary estimate.

The annual projected costs and annual projected indebtedness is shown by Table V-B. The annual projected costs and indebtedness is subject to revision and each shall be updated in the Annual Service Plan Update to reflect any changes in the costs or indebtedness expected for each year.

**TABLE V-B**  
**Annual Projected Costs and Annual Projected Indebtedness**

Year	Annual Projected Cost	Annual Projected PID Indebtedness	Sources Other Than Indian Hills PID
2011	\$ 4,345,813	\$ 5,192,350	\$ 2,005,911
2012	\$ 10,905,117	\$ -	\$ 8,077,889
2013	\$ 1,039,841	\$ -	\$ 1,014,622
2014	\$ -	\$ -	\$ -
2015	\$ -	\$ -	\$ -
Total	\$ 16,290,772	\$ 5,192,350	\$ 11,098,422

Note: The Annual Projected Costs shown are the annual expenditures relating to the PID Authorized Improvements shown in Table III-A. The Annual Projected Indebtedness shown is for the Senior Master PID Bonds and the Subordinate Master PID Bonds. The difference between the two totals is the amount contributed by sources other than the Indian Hills PID, including Decker Lake Road reimbursements, non Indian Hills PID's share of the Waterline 1 costs, and Developer contributions. As Improvement Areas are developed, then in association with issuing Phased PID Bonds this Table V-B will be amended to identify the Phased PID Bond Authorized Improvements and the projected indebtedness resulting from the Phased PID Bond.

## Section VI

### TERMS OF THE ASSESSMENTS

**A. Amount of Assessments and Annual Installments for Parcels Located Within Master PID**

The Assessment and Annual Installments for each Parcel located within the Master PID is shown on the Assessment Roll, attached as Appendix A, and no Assessment shall be changed except as authorized by this Service and Assessment Plan or the PID Act. The Annual Installments shall be collected in an amount sufficient to pay principal and interest on the Senior Master PID Bonds, or maturity value on the Subordinate Master PID Bonds, as applicable, and to cover Administrative Expenses of the PID.

**B. Amount of Assessments and Annual Installments for Parcels Located Within Future Improvement Areas**

As Improvement Area #1 and Future Improvement Areas are developed, this Service and Assessment Plan will be amended to determine the Assessment and Annual Installments for each Parcel located within Future Improvement Areas (e.g. Appendix A-1 will be added as the Assessment Roll for Improvement Area #1, etc.). The Annual Installments for each Parcel located within a Future Improvement Area will escalate at 2% per year. The Assessments shall not exceed the benefit received by the Assessed Property.

**C. Reallocation of Assessments for Parcels Located Within the Master PID**

1. Upon Subdivision Prior to Final Subdivision Map

Upon the subdivision of any Parcel (but prior to final lots being created), the Administrator shall reallocate the Assessment for the Parcel prior to the subdivision among the new subdivided Parcels according to the following formula:

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

Where the terms have the following meanings:

A = the Assessment for the new subdivided Parcel

B = the Assessment for the Parcel prior to subdivision

C = the acreage of the newly subdivided Parcel

D = the sum of the acreage for all of the new subdivided Parcels excluding Non-Benefitted Property

The calculation of the acreage of a Parcel shall be performed by the Administrator based on information available regarding the Parcel. The estimate as confirmed shall be conclusive.

The sum of the Assessments for all newly subdivided Parcels shall equal the Assessment for the Parcel prior to subdivision. The calculation shall be made separately for each newly subdivided Parcel. The reallocation of an Assessment for a Parcel 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 this Service and Assessment Plan approved by the City Council.

## 2. Upon Subdivision From Final Subdivision Map

Upon the subdivision of any Parcel based on a Final Subdivision Map, the Administrator shall reallocate the Assessment for the Parcel prior to the subdivision among the new subdivided Parcels according to the following formula:

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

Where the terms have the following meanings:

A = the Assessment for the new subdivided Parcel

B = the Assessment for the Parcel prior to subdivision

C = the sum of the acreage of all new subdivided Parcels with same Lot Type

D = the sum of the acreage for all of the new subdivided Parcels excluding Non-Benefitted Property

E = the number of Parcels with same Lot Type

The calculation of the acreage of a Parcel shall be performed by the Administrator and confirmed by the City Council based on information available regarding the Parcel. The estimate as confirmed shall be conclusive.

The sum of the Assessments for all newly subdivided Parcels shall equal the Assessment for the Parcel prior to subdivision. The calculation shall be made separately for each newly subdivided Parcel. The reallocation of an Assessment for a Parcel 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 this Service and Assessment Plan approved by the City Council.

## 3. Upon Consolidation

Upon the consolidation of two or more Parcels, the Assessment for the consolidated Parcel shall be the sum of the Assessments for the Parcels prior to consolidation. The reallocation of an Assessment for a Parcel that is a homestead under Texas law may not exceed the Assessment prior to the reallocation. Any reallocation pursuant to this section shall be calculated by the

Administrator and reflected in an update to this Service and Assessment Plan approved by the City Council.

**D. Reallocation of Assessments for Parcels Located Within Future Improvement Areas**

As Future Improvement Areas are developed, this Service and Assessment Plan will be amended to determine the assessment reallocation methodology that results in the imposition of equal shares of the Actual Costs on Assessed Property similarly benefited within each Future Improvement Area.

**E. Mandatory Prepayment of Assessments**

If a Parcel or portion thereof is transferred to a party that is exempt from the payment of the Assessment under applicable law, or if an owner causes a Parcel or portion thereof to become Non-Benefited Property, the owner of such Parcel or portion thereof shall pay to the Administrator the full amount of the Assessment, plus all Prepayment Costs, for such Parcel or portion thereof prior to any such transfer or act; provided, however that such mandatory prepayment of assessment shall not be required for portions of a Parcel that are dedicated for use as internal roads, parks and other similar, public improvements. At the time such public improvements are dedicated, the Assessment that was allocated to that certain Parcel in which the public improvement was located will be reallocated to similarly benefitted Parcels; provided, however, that reallocation of an Assessment for a Parcel that is a homestead under Texas Law may not exceed the Assessment prior to reallocation.

**F. Reduction of Assessments**

1. If after all Authorized Improvements have been completed and Actual Costs are less than the Actual Costs used to calculate the Assessments, resulting in excess Bond proceeds being available to redeem Bonds, then the Assessment for each Parcel shall be reduced prorata such that the sum of the resulting reduced Assessments for all Parcels equals the actual reduced Actual Costs and such excess Bond proceeds shall applied to redeem Bonds. The Assessments shall not be reduced to an amount less than the outstanding Bonds.
2. If the Authorized Improvements are not undertaken by the City or County, resulting in excess Bond proceeds being available to redeem Bonds, the Assessment for each Parcel shall be approximately reduced by the City Council to reflect only the Actual Costs that were expended and such excess Bond proceeds shall be applied to redeem Bonds. The City Council may reduce the Assessments for each Parcel prorata such that the sum of the resulting reduced Assessments equals the Actual Costs with respect to the Authorized Improvements that were undertaken. The Assessments shall not be reduced to an amount less than the outstanding Bonds.
3. If a Reimbursement Payment is received by the Initial Trustee for an Authorized Improvement, resulting in proceeds being available to redeem the Subordinate Master

PID Bonds, then the Assessment for each Parcel shall be reduced prorata such that the sum of the resulting reduced Assessments for all Parcels equals the Actual Costs less the Reimbursement Payment and any excess proceeds shall applied to redeem Subordinate Master PID Bonds. The Assessments shall not be reduced to an amount less than the outstanding Subordinate Master PID Bonds.

**G. Payment of Assessments**

1. Payment in Full

- (a) The Assessment for any Parcel may be paid in full at any time in accordance with applicable laws. Payment shall include all Prepayment Costs. If prepayment in full will result in a redemption of Bonds, the payment amount shall receive credit from any proceeds from the reserve fund applied to the redemption under the Indenture, net of any other costs applicable to the redemption of Bonds.
- (b) If an Annual Installment has been billed prior to payment in full of an Assessment, the Annual Installment shall be due and payable and shall be credited against the payment-in-full amount.
- (c) Upon payment in full of an Assessment and all Prepayment Costs, the City shall deposit the payment in accordance with the Indenture; whereupon, the Assessment shall be reduced to zero, and the owner's obligation to pay the Assessment and Annual Installments thereof shall automatically terminate.
- (d) At the option of the owner, the Assessment on any Parcel plus Prepayment Costs may be paid in part in an amount sufficient to allow for a convenient redemption of Bonds as determined by the Administrator. Upon the payment of such amount for a Parcel, the Assessment for the Parcel shall be reduced, the Assessment Roll shall be updated to reflect such partial payment, and the obligation to pay the Annual Installment for such Parcel shall be reduced to the extent the partial payment is made.

2. Payment in Annual Installments

The Act provides that an Assessment for a Parcel may be paid in full at any time. If not paid in full, the Act authorizes the City to collect interest and collection costs on the outstanding Assessment. An Assessment for a Parcel that is not paid in full will be collected in Annual Installments each year in the amounts shown in the Assessment Roll, which include interest on the outstanding Assessment and Administrative Expenses. The process and dates for payment of the Annual Installments shall be as determined by the Administrator.

Each Assessment for a Future Improvement Area shall bear interest at a rate of interest on the Bonds approved and issued by the City. The Annual Installments as listed on the Assessment Roll for Senior Master PID Bonds have been calculated using the actual interest rates for the Senior Master PID Bonds and the Subordinate Master PID Bonds. The Annual Installments may

not exceed the amount amounts shown on the Assessment Roll except as pursuant to any amendment or update to this Service and Assessment Plan.

The Annual Installments shall be reduced to equal the actual costs of repaying the Bonds and actual Administrative Expenses (as provided for in the definition of such term), taking into consideration any other available funds for these costs, such as amounts received from the City pursuant to the CRAs and interest income on account balances.

The City reserves and shall have the right and option to refund the Bonds in accordance with Section 372.027 of the PID Act. In the event of such refunding, the Administrator shall recalculate the Annual Installments, and if necessary, may adjust, decrease, or extend the term of the Annual Installment so that total Annual Installments of Assessments will be produced in annual amounts that are required to pay the refunding bonds when due and payable as required by and established in the ordinance and/or the indenture authorizing and securing the refunding bonds.

#### **H. Collection of Annual Installments**

No less frequently than annually, the Administrator shall prepare, and the City Council shall approve, an Annual Service Plan Updates 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. Administrative Expenses shall be allocated among Parcels in proportion to the amount of the Annual Installments for the Parcels. Each Annual Installment shall be reduced by any credits applied under the applicable Indenture, such as capitalized interest, interest earnings on any account balances, and any other funds available to the Trustee for such purpose, including any amounts received from the City pursuant to the CRAs and existing deposits for a prepayment reserve. For Senior master PID Bonds, Annual Installments shall be collected by the City (or such entity to whom the City directs) in the same manner and at the same time as ad valorem taxes. For Subordinate Master PID Bonds, Annual Installments shall be collected by the City (or such entity to whom the City directs) by hand billing on dates to be determined by the Administrator in accordance with the Indenture. Annual Installments 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 Council may provide for other means of collecting the Annual Installments to the extent permitted under the PID Act. The assessments shall have lien priority as specified in the PID Act.

Any sale of property for nonpayment of the delinquent Annual Installments shall be subject to the lien established for the remaining unpaid Annual Installments 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 Annual Installments against such property as they become due and payable.

#### **I. Surplus Funds Remaining in Senior Master PID Bond Account**

If Senior Master PID Bond proceeds still remain after all of the Master PID Bond

Authorized Improvements are constructed and accepted by the City, the proceeds may be utilized to finance other Authorized Improvements.

## Section VII

### THE ASSESMENT ROLL

#### **A. Master PID Assessment Roll**

Each Parcel within the Master PID has been evaluated by the City Council (based on the PUD, developable area, proposed Owner Association Property and Public Property, the Authorized Improvements, best and highest use of land, and other development factors deemed relevant by the City Council) to determine the amount of Assessed property within the Parcel.

At this time it is impossible to determine with absolute certainty the amount of special benefit each Parcel within the PID will receive from the Authorized Improvements other than for Master PID Authorized Improvements. As such, at this time only Master PID Assessed Property will be assessed for the special benefits conferred upon the property because of the Master PID Authorized Improvements. Table IV-A summarizes the \$6,040,032 in special benefit received by Master PID Assessed Property from the Master PID Authorized Improvements. The cumulative total for the Authorized Improvements to be funded by the Senior Master PID Bonds and Subordinate Master PID Bonds, is \$5,192,350, which is less than the benefit received by Master PID Assessed Property, and as such the total assessment for all Parcels within the Master PID is \$5,192,350. The Assessment for each Parcel within the Master PID is calculated based on the allocation methodologies described in Section IV.E. of this Service and Assessment Plan. The Assessment Roll for the Master PID is attached hereto as Appendix A.

#### **B. Future Improvement Area Assessment Roll**

As Improvement Area #1 and Future Improvement Areas are developed, this Service and Assessment Plan will be amended to determine the Assessment for each Parcel located within Improvement Area # 1 and Future Improvement Areas (e.g. Appendix A-1 will be added as the Assessment Roll for Improvement Area #1, etc.).

#### **C. Annual Assessment Roll Updates**

The Administrator shall prepare, and the City Council shall review and approve, annual updates to the Assessment Roll in conjunction with the Annual Service Plan Update to reflect the following matters, together with any other changes helpful to the Administrator or the City and permitted by the Act: (i) the identification of each Parcel (ii) the Assessment for each Parcel, including any adjustments authorized by this Service and Assessment Plan or in the PID Act; (iii) the Annual Installment for the Parcel for the year (if the Assessment is payable in installments); and (iv) payments of the Assessment, if any, as provided by Section VI.C of this Service and Assessment Plan.

Once Bonds are issued, the Assessment Roll shall be updated, which update may be done in the next Annual Service Plan Update, to reflect any changes resulting from the issuance of the Bonds. This update shall reflect the actual interest on the Bonds at which the Annual Installments

shall be paid, any reduction in the Assessments, and any revisions in the Actual Costs to be funded by the Bonds and Developer funds.

## Section VIII

### MISCELLANEOUS PROVISIONS

#### **A Administrative Review**

The City shall serve as the Administrator until the Property is final platted at which time this practice will be re-examined and the City may elect to designate a third party to serve as Administrator. The City shall notify Developer in writing at least thirty (30) days in advance before appointing a third party Administrator.

To the extent consistent with the Act, an owner of an Assessed Parcel claiming that a calculation error has been made in the Assessment Roll, including the calculation of the Annual Installment, shall send a written notice describing the error to the City no later than thirty (30) days after the date any amount which is alleged to be incorrect is due prior to seeking any other remedy. The Administrator shall promptly review the notice, and if necessary, meet with the Assessed Parcel owner, consider written and oral evidence regarding the alleged error and decide whether, in fact, such a calculation error occurred.

If the Administrator determines that a calculation error has been made and the Assessment Roll should be modified or changed in favor of the Assessed Parcel owner, such change or modification shall be presented to the City Council for approval, to the extent permitted by the PID Act. A cash refund may not be made for any amount previously paid by the Assessed Parcel owner (except for the final year during which the Annual Installment shall be collected), but an adjustment may be made in the amount of the Annual Installment to be paid in the following year. The decision of the Administrator regarding a calculation error relating to the Assessment Roll may be appealed to the City Council for determination. Any amendments made to the Assessment Roll pursuant to calculation errors shall be made pursuant to the PID Act.

#### **B Termination of Assessments**

Each Assessment shall terminate on the date the Assessment is paid in full, including unpaid Annual Installments and Delinquent Collection Costs, if any. After the termination of an Assessment, and the collection of any delinquent Annual Installments and Delinquent Collection Costs, the City shall provide the owner of the affected Parcel a recordable "Notice of the PID Assessment Termination."

#### **C Cost Savings/Cost Overruns**

Savings from one line item may be applied to a cost increase in another line item. These transfers, however, are limited to the portion of the savings related to the PID's share of the costs, and these savings may be applied only to the PID's share of the increase in the costs of another line item. With respect to CRA Improvements, cost savings and cost overruns shall be handled in accordance with the terms and conditions set forth in the applicable CRA.

**D**      **Cost Overruns**

In the event there are cost overruns and the proceeds of the Subordinate Master PID Bonds and the funds in the Master PID Bond Holdback are not sufficient to fund the CRA Improvements specified in the Service and Assessment Plan, the Developer may request an additional amount of debt issuance of up to \$750,000 of bonds commencing in year 2012 with the first assessments to occur in 2014 to provide additional contingency funding.

**E**      **Amendments**

Amendments to the Service and Assessment Plan can be made as permitted by the PID Act and under Texas law.

**F**      **Administration and Interpretation of Provisions**

The City Council shall administer (or cause the administration of) the PID, this Service and Assessment Plan, and all Annual Service Plan Updates consistent with the PID Act, and shall make all interpretations and determinations related to the application of this Service and Assessment Plan unless stated otherwise herein or in the Indenture, such determination shall be conclusive.

**G**      **Severability**

If any provision, section, subsection, sentence, clause or phrase of this Service and Assessment Plan, or the application of same to an Assessed Parcel or any person or set of circumstances is for any reason held to be unconstitutional, void or invalid, the validity of the remaining portions of this Service and Assessment Plan or the application to other persons or sets of circumstances shall not be affected thereby, it being the intent of the City Council in adopting this Service and Assessment Plan that no part thereof, or provision or regulation contained herein shall become inoperative or fail by reason of any unconstitutionality, voidness or invalidity of any other part hereof, and all provisions of this Service and Assessment Plan are declared to be severable for that purpose.

If any provision of this Service and Assessment Plan is determined by a court to be unenforceable, the unenforceable provision shall be deleted from this Service and Assessment Plan and the unenforceable provision shall, to the extent possible, be rewritten to be enforceable and to give effect to the intent of the City.

If a conflict exists between the terms of this Service and Assessment Plan and a CRA, the terms and conditions of the applicable CRA shall control.

# Appendix A

## Master PID Assessment Roll

Appendix A  
Assessment by Parcel

Tax Parcel #	Assessable Acres	Senior Master PID Bond Assessment	Subordinate Master PID Bonds	Total Assessment
201733	<u>239.99</u>	<u>\$ 2,860,000.00</u>	<u>\$ 2,332,349.75</u>	<u>\$ 5,192,349.75</u>
Total	239.99	\$ 2,860,000.00	\$ 2,332,349.75	\$ 5,192,349.75

## Appendix A Annual Installments – ALL PARCELS

Installment Due Date (a)	Senior Master PID Bonds			Subordinate Master PID Bonds			Prepayment Reserve	Delinquency Reserve	Administrative Expenses (f)	Annual Installment
	Principal	Interest (b)	Net Debt Service (c)	Principal	Interest (d)	Net Debt Service (e)				
01/31/11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
01/31/12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 25,000.00	\$ 25,000.00
01/31/13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 25,500.00	\$ 25,500.00
01/31/14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 26,010.00	\$ 26,010.00
01/31/15	\$ 45,000.00	\$ 231,568.76	\$ 276,568.76	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 26,530.20	\$ 303,098.96
11/01/15	\$ -	\$ -	\$ -	\$ 1,189,364.90	\$ 125,635.10	\$ 1,315,000.00	\$ 5,720.00	\$ 680.00	\$ -	\$ 1,315,000.00
01/31/16	\$ 70,000.00	\$ 227,743.76	\$ 297,743.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,060.80	\$ 324,804.56
11/01/16	\$ -	\$ -	\$ -	\$ 1,142,984.85	\$ 172,015.15	\$ 1,315,000.00	\$ -	\$ -	\$ -	\$ 1,315,000.00
01/31/17	\$ 95,000.00	\$ 221,793.76	\$ 316,793.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,602.02	\$ 344,395.78
01/31/18	\$ 125,000.00	\$ 213,718.76	\$ 338,718.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,154.06	\$ 366,872.82
01/31/19	\$ 155,000.00	\$ 203,093.76	\$ 358,093.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,717.14	\$ 386,810.90
01/31/20	\$ 190,000.00	\$ 190,112.50	\$ 380,112.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,291.48	\$ 409,403.98
01/31/21	\$ 230,000.00	\$ 174,200.00	\$ 404,200.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,877.31	\$ 434,077.31
01/31/22	\$ 275,000.00	\$ 154,937.50	\$ 429,937.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,474.86	\$ 460,412.36
01/31/23	\$ 330,000.00	\$ 131,906.26	\$ 461,906.26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,084.36	\$ 492,990.62
01/31/24	\$ 385,000.00	\$ 105,918.76	\$ 490,918.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,706.04	\$ 522,624.80
01/31/25	\$ 445,000.00	\$ 75,600.00	\$ 520,600.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,340.17	\$ 552,940.17
01/31/26	\$ 515,000.00	\$ 40,556.26	\$ 555,556.26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,986.97	\$ 588,543.23
	\$ 2,860,000.00	\$ 1,971,150.08	\$ 4,831,150.08	\$ 2,332,349.75	\$ 297,650.25	\$ 2,630,000.00	\$ 28,600.00	\$ 35,000.00	\$ 432,335.42	\$ 7,893,485.50

- (a) The 1/31/XX dates represent Installment due dates for the Senior Master PID Bond which are intended to cover the March 1 and September 1 payments.
- (b) Net of Capitalized Interest.
- (c) Does not include reserve fund earnings or any other funds which could reduce net debt service.
- (d) Subordinate Master PID Bonds are capital appreciation bonds, therefore interest accrues until principal payment date.
- (e) Reimbursement Payments equaling the net debt service, including accrued interest, for the Subordinate Master PID Bonds are pledged to the Trustee, which are intended to reduce the net debt service to \$0. Until the Reimbursement Payments are received by the Trustee, the Assessment will remain on each parcel and the Installment will be due as scheduled.
- (f) Preliminary Estimate. The administrative charges will be revised in Annual Service Plan Updates based on actual costs.

**Appendix A**  
**Annual Installments – Tax parcel # 201733**

Installment Due Date (a)	Senior Master PID Bonds			Subordinate Master PID Bonds			Prepayment Reserve	Delinquency Reserve	Administrative Expenses (f)	Annual Installment
	Principal	Interest (b)	Net Debt Service (c)	Principal	Interest (d)	Net Debt Service (e)				
01/31/11	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
01/31/12	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 25,000.00	\$ 25,000.00
01/31/13	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 25,500.00	\$ 25,500.00
01/31/14	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 26,010.00	\$ 26,010.00
01/31/15	\$ 45,000.00	\$ 231,568.76	\$ 276,568.76	\$ -	\$ -	\$ -	\$ 5,720.00	\$ 8,580.00	\$ 26,530.20	\$ 303,098.96
11/01/15	\$ -	\$ -	\$ -	\$ 1,189,364.90	\$ 125,635.10	\$ 1,315,000.00	\$ 5,720.00	\$ 680.00	\$ -	\$ 1,315,000.00
01/31/16	\$ 70,000.00	\$ 227,743.76	\$ 297,743.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,060.80	\$ 324,804.56
11/01/16	\$ -	\$ -	\$ -	\$ 1,142,984.85	\$ 172,015.15	\$ 1,315,000.00	\$ -	\$ -	\$ -	\$ 1,315,000.00
01/31/17	\$ 95,000.00	\$ 221,793.76	\$ 316,793.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 27,602.02	\$ 344,395.78
01/31/18	\$ 125,000.00	\$ 213,718.76	\$ 338,718.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,154.06	\$ 366,872.82
01/31/19	\$ 155,000.00	\$ 203,093.76	\$ 358,093.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 28,717.14	\$ 386,810.90
01/31/20	\$ 190,000.00	\$ 190,112.50	\$ 380,112.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,291.48	\$ 409,403.98
01/31/21	\$ 230,000.00	\$ 174,200.00	\$ 404,200.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 29,877.31	\$ 434,077.31
01/31/22	\$ 275,000.00	\$ 154,937.50	\$ 429,937.50	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 30,474.86	\$ 460,412.36
01/31/23	\$ 330,000.00	\$ 131,906.26	\$ 461,906.26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,084.36	\$ 492,990.62
01/31/24	\$ 385,000.00	\$ 105,918.76	\$ 490,918.76	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 31,706.04	\$ 522,624.80
01/31/25	\$ 445,000.00	\$ 75,600.00	\$ 520,600.00	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,340.17	\$ 552,940.17
01/31/26	\$ 515,000.00	\$ 40,556.26	\$ 555,556.26	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 32,986.97	\$ 588,543.23
	\$ 2,860,000.00	\$ 1,971,150.08	\$ 4,831,150.08	\$ 2,332,349.75	\$ 297,650.25	\$ 2,630,000.00	\$ 28,600.00	\$ 35,000.00	\$ 432,335.42	\$ 7,893,485.50

- (a) The 1/31/XX dates represent Installment due dates for the Senior Master PID Bond which are intended to cover March 1 and September 1 payments.
- (b) Net of Capitalized Interest.
- (c) Does not include reserve fund earnings or any other funds which could reduce net debt service.
- (d) Subordinate Master PID Bonds are capital appreciation bonds, therefore interest accrues until principal payment date.
- (e) Reimbursement Payments equaling the net debt service, including accrued interest, for the Subordinate Master PID Bonds are pledged to the Trustee, which are intended to reduce the net debt service to \$0. Until the Reimbursement Payments are received by the Trustee, the Assessment will remain on each parcel and the Installment will be due as scheduled.
- (f) Preliminary Estimate. The administrative charges will be revised in Annual Service Plan Updates based on actual costs.

# **Appendix B**

## *Authorized Improvements*

Appendix B  
Authorized Improvements

PROJECT	PROJECT NAME	TOTAL COST
Macro Road	Decker Lake Road (a)	\$4,020,903
	<b>SUBTOTAL</b>	<b>\$4,020,903</b>
Macro Wastewater	6" Force Main	\$2,128,560
	15" Gravity Main	\$488,700
	Lift Station	\$1,153,875
	4" Force Main	\$524,538
	Lift Station	\$678,750
	<b>SUBTOTAL</b>	<b>\$4,974,423</b>
Macro Water	Water Line 1 - 19,684 LF of 48" Water Line	\$10,557,832
	Line 4 - 24" main from FM 969 and FM 973 to Decker Lake Road	\$2,211,368
	<b>SUBTOTAL</b>	<b>\$12,769,199</b>
Ponds	PARCEL 1	\$484,376
	PARCEL 2	\$968,752
	<b>SUBTOTAL</b>	<b>\$1,453,129</b>
Collector Roads	PARCEL 1	\$443,312
	PARCEL 2	\$383,040
	PARCEL 3	\$443,312
	PARCEL 4	\$766,082
	PARCEL 5	\$443,312
	PARCEL 6	\$766,082
	PARCEL 7	\$443,312
	PARCEL 8	\$632,152
	PARCEL 9	\$632,152
	PARCEL 10	\$948,227
	PARCEL 11	\$948,227
	<b>SUBTOTAL</b>	<b>\$6,849,212</b>
<b>TOTAL</b>		<b>\$30,066,865</b>

Note: Lines shaded grey indicate Master PID Bond Authorized Improvements.

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APPENDIX C

FORM OF OPINION OF BOND COUNSEL

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\_\_\_\_\_, 2011

IN REGARD to the authorization and issuance of the “City of Austin, Texas, Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District)” (the “Bonds”), dated November 16, 2011, in the principal amount of \$2,860,000, we have examined the legality and validity of the issuance thereof by the City of Austin, Texas (the “City”) solely to express legal opinions as to the validity of the Bonds and the exclusion of the interest on the Bonds from gross income for federal income tax purposes, and for no other purpose. We have not been requested to investigate or verify, and we neither expressly nor by implication render herein any opinion concerning, the financial condition or capabilities of the City, the disclosure of any financial or statistical information or data pertaining to the City and used in the sale of the Bonds, or the sufficiency of the security for or the value or marketability of the Bonds.

THE BONDS are issued in fully registered form only and mature, unless redeemed prior to maturity in accordance with the terms stated on the Bonds, on September 1 in each of the years specified in an Indenture of Trust (the “Indenture”), dated as of November 1, 2011, with Deutsche Bank National Trust Company, as trustee (the “Trustee”), approved by the City Council of the City pursuant to an ordinance (the “Ordinance”) adopted by the City Council of the City authorizing the issuance of the Bonds. The Bonds accrue interest from the date, at the rates, and in the manner and interest is payable on the dates, all as provided in the Indenture.

We have acted as Bond Counsel for the City solely to pass upon the legality and validity of the Bonds under the Constitution and laws of the State of Texas and with respect to the exclusion of interest on the Bonds from gross income for federal income tax purposes, and none other. We have not been requested to investigate or verify, and have not independently investigated or verified, any records, data or other material relating to the financial condition or capabilities of the City or the history or prospects of the collection of Pledged Revenues, and have not assumed any responsibility with respect thereto. Capitalized terms used herein and not otherwise defined have the meanings assigned in the Indenture.

IN RENDERING THE OPINIONS herein we have examined and rely upon (i) original or certified copies of the proceedings had in connection with the issuance of the Bonds, including the Indenture, the Ordinance and an examination of the initial Bond executed and delivered by the City (which we found to be in due form and properly executed); (ii) certifications of officers of the City relating to the expected use and investment of proceeds of the sale of the Bonds and certain other funds of the City and (iii) other documentation and such matters of law as we deem relevant. In the examination of the proceedings relating to the issuance of the Bonds, we have assumed the authenticity of all documents submitted to us as originals, the conformity to original copies of all documents submitted to us as certified copies, and the accuracy of the statements contained in such documents and certifications.

BASED ON OUR EXAMINATION, we are of the opinion that, under applicable law of the United States of America and the State of Texas in force and effect on the date hereof:

1. The Bonds have been authorized, issued and delivered in accordance with law; that the Bonds are valid, legally binding and enforceable limited obligations of the City in accordance with their terms payable solely from the Pledged Revenues, except to the extent the enforceability thereof may be limited by bankruptcy, insolvency, reorganization, moratorium, liquidation and other similar laws now or hereafter enacted relating to creditors' rights generally.

2. Assuming continuing compliance after the date hereof by the City with the provisions of the Indenture and in reliance upon representations and certifications of the City made in a certificate of even date herewith pertaining to the use, expenditure, and investment of the proceeds of the Bonds, interest on the Bonds for federal income tax purposes (i) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date hereof, of the owners thereof pursuant to section 103 of such Code, existing regulations, published rulings, and court decisions thereunder, and (ii) will not be included in computing the alternative minimum taxable income of individuals or, except as hereinafter described, corporations. Interest on the Bonds owned by a corporation will be included in such corporation's adjusted current earnings for purposes of calculating the alternative minimum taxable income of such corporations, other than an S corporation, a qualified mutual fund, a real estate mortgage investment conduit, a real estate investment trust, or a financial asset securitization investment trust (FASIT). A corporation's alternative minimum taxable income is the basis on which the alternative minimum tax imposed by Section 55 of the Code will be computed.

We express no opinion as to the affect on the excludability from gross income for federal income tax purposes of any action taken under the Indenture which requires that the City shall have received an opinion of counsel to the effect that such action will not adversely affect the excludability of interest on the Bonds from the gross income, as defined in Section 61 of the Code, of the owners thereof for federal income tax purposes. The Indenture provides that prior to taking certain actions, including converting the interest rate on the Bonds, the City must have received such an opinion, which is dependent on the occurrence of certain events in the future.

We express no opinion with respect to any other federal, state, or local tax consequences under present law or any proposed legislation resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, property and casualty insurance companies, life insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement Benefits, individuals otherwise qualifying for the earned income tax credit, owners of interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations.

Page 3 of Legal Opinion of Fulbright & Jaworski L.L.P.

Re: City of Austin, Texas, Special Assessment Revenue Bonds, Senior Series 2011  
(Indian Hills Public Improvement District )

Our opinions are based on existing law, which is subject to change. Such opinions are further based on our knowledge of facts as of the date hereof. We assume no duty to update or supplement our opinions to reflect any facts or circumstances that may thereafter come to our attention or to reflect any changes in any law that may thereafter occur or become effective. Moreover, our opinions are not a guarantee of result and are not binding on the Internal Revenue Service; rather, such opinions represent our legal judgment based upon our review of existing law that we deem relevant to such opinions and in reliance upon the representations and covenants referenced above.

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APPENDIX D

FORM OF DISCLOSURE AGREEMENT

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**CITY OF AUSTIN, TEXAS**  
**SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011**  
**(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)**

**CONTINUING DISCLOSURE AGREEMENT**

This Continuing Disclosure Agreement dated as of November 1, 2011 (this “Disclosure Agreement”) is executed and delivered by and among the City of Austin, Texas (the “Issuer”) and Deutsche Bank National Trust Company (the “Trustee”) and Club Deal 116 Indian Hills, TX, Limited Partnership, a Delaware limited partnership (the “Developer”) with respect to the Issuer’s Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District) (the “Bonds”). The Issuer, the Trustee and the Developer covenant and agree as follows:

SECTION 1. Purpose of the Disclosure Agreement. This Disclosure Agreement is being executed and delivered by the Issuer, the Trustee and the Developer for the benefit of the Owners and beneficial owners of the Bonds.

SECTION 2. Definitions. In addition to the definitions set forth in the Indenture of Trust dated as of November 1, 2011 (the “Indenture”), which apply to any capitalized term used in this Disclosure Agreement unless otherwise defined in this Section, the following capitalized terms shall have the following meanings:

“Annual Bond Disclosure Report” shall mean any Annual Bond Disclosure Report provided by the Issuer pursuant to, and as described in, Sections 3 and 4 of this Disclosure Agreement.

“Disclosure Representative” shall mean the City Treasurer of the Issuer and the general partner of the Developer or his or her designee, or such other officer or employee as the Issuer or the Developer, as applicable, may designate in writing to the Trustee from time to time.

“Dissemination Agent” shall mean the Trustee, or any successor Dissemination Agent designated in writing by the Issuer and which has filed with the Trustee a written acceptance of such designation.

“District” means the Indian Hills Public Improvement District established by the Issuer and related to the Bonds.

“Fiscal Year” means the calendar year from October 1 through September 30.

“Listed Events” shall mean any of the events listed in Section 5(a) of this Disclosure Agreement.

“MSRB” means the Municipal Securities Rulemaking Board.

“Owner” means the registered owner of any Bonds.

“Participating Underwriter” shall mean Piper Jaffray & Co. and its successors and assigns.

“Responsible Officer” shall mean, in the case of the Trustee, the officer or officers specifically administering the Indenture.

“Rule” shall mean Rule 15c2-12 adopted by the Securities and Exchange Commission under the Securities Exchange Act of 1934, as the same may be amended from time to time.

“Tax-exempt” shall mean that interest on the Bonds is excluded from gross income for federal income tax purposes, whether or not such interest is includable as an item of tax preference or otherwise includable directly or indirectly for purposes of calculating any other tax liability, including any alternative minimum tax liability.

“Trustee” shall mean Deutsche Bank National Trust Company, or any successor trustee pursuant to the Indenture.

### SECTION 3. Provision of Annual Bond Disclosure Reports.

(a) The Issuer and the Developer shall cause and hereby direct the Dissemination Agent to, not later than six months after the end of the Issuer’s Fiscal Year, commencing with the Fiscal Year ending in 2011, provide to the MSRB, in the electronic or other form required by the MSRB, an Annual Bond Disclosure Report which is consistent with the requirements of Section 4 of this Disclosure Agreement. In each case, the Annual Bond Disclosure Report may be submitted as single document or as separate documents comprising a package and may include by reference other information as provided in Section 4 of this Disclosure Agreement; *provided* that the audited financial statements of the Issuer, if prepared and when available, may be submitted separately from the balance of the Annual Bond Disclosure Report, and later than the date required in this paragraph for the filing of the Annual Bond Disclosure Report if audited financial statements are not available by that date and unaudited financial statements are submitted not later than six months after the end of the Issuer’s Fiscal Year. If the Issuer’s Fiscal Year changes, it shall give notice of such change in the same manner as for a Listed Event under Section 5(d). All documents provided to the MSRB shall be accompanied by identifying information as prescribed by the MSRB.

(b) Not later than ten (10) Business Days prior to the date specified in subsection (a) for providing the Annual Bond Disclosure Report to the MSRB, the Dissemination Agent shall provide the Annual Bond Disclosure Report to the Issuer, the Developer and the Trustee. If by the date specified in this subsection 3(b), the Trustee has not received a copy of the Annual Bond Disclosure Report, the Trustee shall contact the Issuer, the Developer and the Dissemination Agent to determine if the Issuer and the Developer are intending to comply with subsection (a).

(c) If the Trustee is able to verify that an Annual Bond Disclosure Report has not been provided to the MSRB by the date required in subsection (a), the Trustee shall send a notice to the MSRB in substantially the form attached as Exhibit A.

(d) The Dissemination Agent shall:

(i) on behalf of the Issuer prepare and file the Annual Bond Disclosure Report (excluding the audited financial statements of the Issuer, if any, which shall be filed by the Dissemination Agent upon receipt from the Issuer) containing or incorporating by reference the information set forth in Section 4 hereof; and

(ii) file a report with the Issuer, the Developer and (if the Dissemination Agent is not the Trustee) the Trustee certifying that the Annual Bond Disclosure Report has been provided pursuant to this Disclosure Agreement, stating the date it was provided and that it was filed with the MSRB.

SECTION 4. Content of Annual Bond Disclosure Reports. The Annual Bond Disclosure Report for the Bonds shall contain or incorporate by reference, and the Issuer and the Developer agree to provide or cause to be provided to the Dissemination Agent, the following:

(a) If prepared and when available, the audited financial statements of the Issuer for the most recently ended Fiscal Year, prepared in accordance with generally accepted accounting principles applicable from time to time to the Issuer. If audited financial statements of the Issuer are not available by the date required by Section 3(a), the Issuer shall provide unaudited financial statements not later than such date.

(b) Tables setting forth the following information, as of the end of such Fiscal Year:

(i) For the Bonds, the maturity date or dates, the interest rate or rates, the original aggregate principal amount and principal amount remaining Outstanding.

(ii) The amounts in the funds and accounts securing the Bonds and a description of the related investments.

(c) Updates to the information in the final Service and Assessment Plan (“SAP”).

(d) Listing of any District property or property owners representing more than five percent (5%) of the levy of Assessments, the amount of the levy of Assessments against such landowners, and the percentage of such Assessments relative to the entire levy of Assessments within the District, all as of the previous October 1.

(e) The result of any foreclosure sales of assessed property within the District.

(f) Any changes to the identity of the Administrator.

(g) The total amount of Assessments on all property subject to Assessments by the Issuer as of the first and last days of such Fiscal Year, together with the amount of Assessments prepaid during such Fiscal Year.

(h) The amount of Annual Installments levied during such Fiscal Year, and assessed valuation and Assessments for all parcels within the District, as of the previous October 1.

(i) The amount of Assessments collected from the property owners during such Fiscal Year.

(j) The amount of Assessment delinquencies greater than six months, one year and two years, and, if delinquencies amount to more than five percent (5%) of aggregate amount of Assessments due in any year, a list of property owners whose Assessments are delinquent.

(k) The amount of delinquent Assessments by Fiscal Year: (1) which are subject to institution of foreclosure proceedings (but as to which such proceedings have not been instituted); (2) which are currently subject to foreclosure proceeding which have not been concluded; (3) which have been reduced to judgment but not collected; and (4) which have been reduced to judgment and collected and the results of any foreclosure sales of assessed property within the District.

(l) The principal and interest paid on the Bonds during the most recent Fiscal Year and the minimum scheduled principal and interest required to be paid on the Bonds in the next Fiscal Year;

(m) Any changes to the methodology for levying the Assessments in the District since the report of the most recent Fiscal Year;

(n) Any changes to the land use designation for the property in the District that might negatively impact its development for those purposes identified in the final SAP, as the same may be amended and supplemental from time to time.

(o) A description of any amendment to this Disclosure Agreement and a copy of any restatements to the Issuer's financial statements.

See Exhibit B hereto for a form for submitting the information set forth in the preceding paragraph.

Any or all of the items listed above may be included by specific reference to other documents, including disclosure documents of debt issues of the Issuer, which have been submitted to and are publicly accessible from the MSRB. If the document included by reference is a final offering document, it must be available from the MSRB. The Issuer shall clearly identify each such other document so included by reference.

#### SECTION 5. Reporting of Significant Events.

(a) Pursuant to the provisions of this Section 5, each of the following is a Listed Event with respect to the Bonds:

1. Principal and interest payment delinquencies.
2. Non-payment related defaults.
3. Modifications to rights of Bondholders.
4. Optional or unscheduled redemptions or repayments of the Bonds.

5. Defeasances.
6. Rating changes.
7. Unscheduled draws on debt service reserves reflecting financial difficulties.
8. Unscheduled draws on credit enhancements reflecting financial difficulties.
9. Substitution of credit or liquidity providers, or their failure to perform.
10. Release, substitution, or sale of property securing repayment of the Bonds.
11. Adverse tax opinions, the issuance by the IRS of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Bonds, or other material events affecting the tax status of the Bonds.
12. Tender offers to any Bondholder.
13. Bankruptcy, insolvency, receivership or similar event of the Issuer or the Developer.
14. The consummation of a merger, consolidation, or acquisition of the Issuer or the Developer, or the sale of all or substantially all of the assets of the Issuer or the Developer, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material.
15. Appointment of a successor or additional trustee under the Indenture or the change of name of a trustee.

Whenever the Issuer or the Developer obtains knowledge of the occurrence of a Listed Event under number 1, 5, 6, 7, 8, 9, 11, 12, 13 or 14 above, it shall promptly notify the Trustee in writing and the Issuer shall direct the Dissemination Agent to immediately file a notice of such occurrence with the MSRB. Such notice is required to be filed within ten (10) Business Days of the occurrence of such Listed Event.

Whenever the Issuer or the Developer obtains knowledge of any other Listed Event (under number 2, 3, 4, 10, or 15 above), it shall promptly determine if such event would constitute material information to the Owners of the Bonds. If the Issuer determines that knowledge of the event would be material, it shall immediately notify the Developer, the Trustee and the Dissemination Agent in writing and shall direct the Dissemination Agent to immediately file a notice of such occurrence with the MSRB. Such notice is required to be filed within ten (10) Business Days of the occurrence of such Listed Event.

Any notice under the two (2) preceding paragraphs shall be accompanied with the text of the disclosure that the Issuer desires to make, the written authorization of the Issuer for the Dissemination Agent to disseminate such information as provided herein, and the date the Issuer desires for the

Dissemination Agent to disseminate the information (which date shall not be more than ten (10) Business Days after the occurrence of the Listed Event).

In all cases, the Issuer shall have the sole responsibility for the content, design and other elements comprising substantive contents of all disclosures.

(b) The Trustee shall, within one (1) Business Day of a Responsible Officer obtaining actual knowledge of the occurrence of any Listed Event with respect to the Bonds, notify the Disclosure Representative of such Listed Event. It is agreed and understood that the duty to make the disclosures herein is that of the Issuer or the Developer and not that of the Trustee or the Dissemination Agent. It is agreed and understood that the Trustee has agreed to give the foregoing notice to the Issuer and the Developer as an accommodation to assist it in monitoring the occurrence of such event, but is under no obligation to investigate whether any such event has occurred. As used above, "actual knowledge" means the actual fact or statement of knowing, without a duty to make any investigation with respect thereto. In no event shall the Trustee be liable in damages or in tort to the Participating Underwriter, the Issuer, the Developer or any Bondholder or beneficial owner of any interests in the Bonds as a result of its failure to give the foregoing notice or to give such notice in a timely fashion.

(c) If in response to a request under subsection (b), the Issuer determines that the Listed Event under number 2, 3, 4, 10, or 15 of subparagraph (a) above is not material under applicable federal securities laws, the Issuer shall promptly notify the Developer, the Dissemination Agent and the Trustee in writing and instruct the Dissemination Agent not to report the occurrence pursuant to subsection (d).

(d) If the Dissemination Agent has been instructed by the Issuer to report the occurrence of a Listed Event, the Dissemination Agent shall immediately file a notice of such occurrence with the MSRB.

SECTION 6. Quarterly Reporting Obligations of the Developer. The Developer shall provide, or cause to provide at its cost and expense, to the Administrator and the Dissemination Agent (if different from the Administrator) the information described in this Section 6, and the Dissemination Agent shall, upon receipt from the Developer or its designee, promptly provide such information to the MSRB. The Developer shall provide, or cause to be provided, the information described in paragraphs (i) through (vii) below during the period from the delivery of the Bonds until the later of December 31, 2015 or until such time as the Developer no longer is responsible for the payment of Assessments equal to at least 15% of the annual debt service of the Bonds for any year. Thereafter, the Developer shall provide, or cause to be provided, the information described in paragraph (iv) below until its obligation under this Disclosure Agreement terminates. Such information shall be provided not later than thirty (30) days after each January 1, April 1, July 1 and October 1 (beginning January 1, 2012), and shall include information concerning:

(i) Statement with respect to the Developer or any affiliate of the Developer as to the status of development loans and any permanent financing with respect to any development undertaken by the Developer in the District not financed with Bond proceeds, including loan balance, interest rate, existence of deeds of trust or other similar encumbrances against the property within the District, existence of any default and remaining term;

(ii) Statement as to available funds to complete the District development under construction as contemplated (both Bond financed and non-Bond financed development undertaken by the Developer or any affiliate of the Developer);

(iii) Status of lot sales by type and pricing, as well as anticipated future absorption sales;

(iv) Update of lot ownership composition as set forth within the SAP as well as the number of homes which are completed and/or under construction;

(v) A statement as to material changes, if any, in the form, organization or controlling ownership of the Developer;

(vi) The status of any governmental approvals (other than customary home building permits required after a delivery of a finished lot) required for completion of improvements within the District; and

(vii) Any information regarding the Improvement Projects or other information as may be reasonably requested by the Administrator relating to the ability of the Developer or any affiliate of the Developer to fulfill its obligations under the Indenture or the SAP.

Additionally, the Developer or the Issuer, as applicable, shall provide or cause to be provided filings by the construction manager (who shall be retained by the Developer on a contractual basis or, if there is a failure of the Developer to complete the Improvement Projects and the Issuer assumes construction management, by the Issuer) as follows:

1. Design-Engineering and Construction Project Funds

For each of the Improvement Projects the construction manager will establish an accounting and budgeting system that will show:

(viii) Total expected design and engineering costs;

(ix) Total expected construction budget;

(x) Construction budget allocated to progress “Milestones;”

(xi) Expected design completion date;

(xii) Forecast “bidding” schedule;

(xiii) Forecast commencement of construction;

(xiv) Forecast construction “Milestones” of progress;

(xv) Forecast completion date; and

(xvi) Forecast Issuer acceptance date.

The construction manager shall prepare, within 90 days of the Bond closing, a schedule reflecting the nine points listed above for each of the primary Improvement Projects to be funded by the Bond proceeds, including:

1. Water Line 1; and
2. Decker Road.

Monthly design and construction expenditure progress reports, reflecting the nine points listed above, will be summarized on a quarterly basis and sent to the Trustee, reflecting the progress and conformance with the overall project budget. These quarterly reports will be filed with the Dissemination Agent. Budget overruns in excess of \$250,000 or delays of greater than 60 days will be highlighted and explained and the Developer shall include a plan to remedy the situation.

SECTION 7. Event Reporting Obligations of Developer. Whenever the Developer or an affiliate of the Developer obtains actual knowledge of the occurrence of one or more of the following events, the Developer shall notify, or cause such affiliate to notify, the Administrator and Dissemination Agent (if different from the Administrator) of such occurrences and the Dissemination Agent shall immediately report and file a notice of such event in the manner as provided in Section 5 for the Listed Events specified therein:

(i) Failure to pay any real property taxes or Assessments levied within the District on a parcel owned by the Developer, or an affiliate of the Developer

(ii) Material damage to or destruction of any development or improvements within the District;

(iii) Material default by the Developer or any affiliate of the Developer on any loan with respect to the development or permanent financing of District development undertaken by the Developer or any affiliate of the Developer;

(iv) Material default by the Developer or any affiliate of the Developer on any loan secured by property within the District owned by the Developer or any affiliate of the Developer;

(v) The bankruptcy filing of the Developer or of any affiliate of the Developer or any determination that the Developer or any affiliate of the Developer is unable to pay its debts as they become due;

(vi) The filing of any lawsuit with claim for damage, in excess of \$1,000,000 against the Developer or any affiliate of the Developer which may adversely affect the completion of the District development or litigation which would materially adversely affect the financial condition of the Developer or any affiliate of the Developer; and

(vii) Any change in the legal structure, chief executive officer or controlling ownership of the Developer or any affiliate of the Developer.

For purposes of Section 6 and 7, the term “affiliate” shall mean an entity that owns property within the District and is controlled by, controls, or is under common control of the Developer.

SECTION 8. Termination of Reporting Obligations. The Issuer’s and the Developer’s obligations under this Disclosure Agreement with respect to the Bonds shall terminate upon the legal defeasance, prior redemption or payment in full of the Bonds. If such termination occurs prior to the final maturity of the Bonds, the Issuer shall give notice of such termination in the same manner as for a Listed Event with respect to such series under Section 5(d).

SECTION 9. Dissemination Agent. The Issuer may, from time to time, appoint or engage a Dissemination Agent or successor Dissemination Agent to assist it in carrying out its obligations under this Disclosure Agreement, and may discharge such Dissemination Agent, with or without appointing a successor Dissemination Agent. If at any time there is not any other designated Dissemination Agent, the Issuer shall be the Dissemination Agent. The initial Dissemination Agent appointed hereunder shall be the Deutsche Bank National Trust Company.

SECTION 10. Amendment; Waiver. Notwithstanding any other provisions of this Disclosure Agreement, the Issuer, the Developer and the Trustee may amend this Disclosure Agreement with consent of Dissemination Agent (and the Trustee shall not unreasonably withhold its consent to any amendment so requested by the Issuer and the Developer), and any provision of this Disclosure Agreement may be waived, provided that the following conditions are satisfied:

(a) If the amendment or waiver relates to the provisions of Sections 3(a), 4, or 5(a), it may only be made in connection with a change in circumstances that arises from a change in legal requirements, change in law, or change in the identity, nature or status of an obligated person with respect to the Bonds, or the type of business conducted;

(b) The undertaking, as amended or taking into account such waiver, would, in the opinion of nationally recognized bond counsel, have complied with the requirements of the Rule at the time of the delivery of the Bonds, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; and

(c) The amendment or waiver either (i) is approved by the Owners of the Bonds in the same manner as provided in the Indenture for amendments to the Indenture with the consent of Owners, or (ii) does not, in the opinion of nationally recognized bond counsel, materially impair the interests of the Owners or beneficial owners of the Bonds.

In the event of any amendment or waiver of a provision of this Disclosure Agreement, the Issuer shall describe such amendment in the next related Annual Bond Disclosure Report, and shall include, as applicable, a narrative explanation of the reason for the amendment or waiver and its impact on the type (or in the case of a change of accounting principles, on the presentation) of financial information or operating data being presented by the Issuer. In addition, if the amendment relates to the accounting principles to be followed in preparing financial statements, (i) notice of such change shall be given in the same manner as for a Listed Event under Section 5(d), and (ii) the Annual Bond Disclosure Report for the year in which the change is made should present a comparison (in narrative form and also, if feasible, in quantitative form) between the financial statements as prepared on the basis of the new accounting principles and those prepared on the basis of the former accounting

principles. No amendment which adversely affects the Trustee may be made without its consent (which consent will not be unreasonably withheld or delayed).

SECTION 11. Additional Information. Nothing in this Disclosure Agreement shall be deemed to prevent the Issuer from disseminating any other information, using the means of dissemination set forth in this Disclosure Agreement or any other means of communication, or including any other information in any Annual Bond Disclosure Report or notice of occurrence of a Listed Event, in addition to that which is required by this Disclosure Agreement. If the Issuer chooses to include any information in any Annual Bond Disclosure Report or notice of occurrence of a Listed Event in addition to that which is specifically required by this Disclosure Agreement, the Issuer shall have no obligation under this Disclosure Agreement to update such information or include it in any future Annual Bond Disclosure Report or notice of occurrence of a Listed Event.

SECTION 12. Default. In the event of a failure of the Issuer, the Developer or the Trustee to comply with any provision of this Disclosure Agreement, the Dissemination Agent may (and, at the request of any Participating Underwriter or the Owners of at least 25% aggregate principal amount of Outstanding Bonds, shall, upon being indemnified to its satisfaction as provided in the Indenture), or any Owner or beneficial owner of the Bonds may, take such actions as may be necessary and appropriate to cause the Issuer, the Developer or the Trustee, as the case may be, to comply with its obligations under this Disclosure Agreement. A default under this Disclosure Agreement shall not be deemed an Event of Default under the Indenture with respect to the Bonds, and the sole remedy under this Disclosure Agreement in the event of any failure of the Issuer, the Developer or the Trustee to comply with this Disclosure Agreement shall be an action to compel performance.

SECTION 13. Duties, Immunities and Liabilities of Trustee and Dissemination Agent. Neither the Trustee nor the Dissemination Agent shall have any duty with respect to the content of any disclosures made pursuant to the terms hereof. The Dissemination Agent shall have only such duties as are specifically set forth in this Disclosure Agreement, and no implied covenants shall be read into this Disclosure Agreement with respect to the Dissemination Agent or the Trustee. To the extent permitted by law, the Issuer and the Developer agree to hold harmless the Dissemination Agent, its officers, directors, employees and agents, against any loss, expense and liabilities which it may incur arising out of or in the exercise or performance of its powers and duties hereunder, including the costs and expenses (including attorneys fees) of defending against any claim of liability, but excluding liabilities due to the Dissemination Agent's negligence or willful misconduct. The obligations of the Issuer and the Developer under this Section shall survive resignation or removal of the Dissemination Agent and payment in full of the Bonds. Nothing in this Disclosure Agreement shall be construed to mean or to imply that either the Trustee or the Dissemination Agent is an "obligated person" under the Rule. Neither the Trustee nor the Dissemination Agent is acting in a fiduciary capacity in connection with the performance of their respective obligations hereunder. The fact that the Trustee may have a banking relationship with the Issuer or the Developer or any person with whom the Issuer or the Developer contracts in connection with the transaction described in the Indenture, apart from the relationship created by the Indenture or this Disclosure Agreement, shall not be construed to mean that the Trustee or a Responsible Officer thereof has actual knowledge of any event described in Section 5 above, except as may be provided by written notice to the Trustee pursuant to this Disclosure Agreement or the Indenture. Neither the Trustee nor the Dissemination Agent shall in any event incur any liability with respect to (i) any action taken or omitted to be taken in good faith upon advice of legal counsel given with respect to any question relating to duties and responsibilities of the Trustee

hereunder, or (ii) any action taken or omitted to be taken in reliance upon any document delivered to them and believed to be genuine and to have been signed or presented by the proper party or parties.

The Trustee and the Dissemination Agent may, from time to time, consult with legal counsel of their own choosing in the event of any disagreement or controversy, or question or doubt as to the construction of any of the provisions hereof or their respective duties hereunder, and neither of them shall incur any liability and shall be fully protected in acting in good faith upon the advice of such legal counsel. UNDER NO CIRCUMSTANCES SHALL THE DISSEMINATION AGENT, THE TRUSTEE, THE DEVELOPER, OR THE ISSUER BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE ISSUER, THE DEVELOPER, THE DISSEMINATION AGENT OR THE TRUSTEE, RESPECTIVELY, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS DISCLOSURE AGREEMENT, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE. THE TRUSTEE IS UNDER NO OBLIGATION NOR IS IT REQUIRED TO BRING SUCH AN ACTION.

SECTION 14. Assessment Timeline. The basic expected timeline for the collection of Assessments and the anticipated procedures for pursuing the collection of delinquent Assessments is set forth in Exhibit C which is intended to illustrate the general procedures expected to be followed in enforcing the payment of delinquent Assessments.

SECTION 15. Beneficiaries. This Disclosure Agreement shall inure solely to the benefit of the Issuer, the Developer, the Trustee, the Dissemination Agent, the Participating Underwriter and the Owners and the beneficial owners from time to time of the Bonds, and shall create no rights in any other person or entity. Nothing in this Disclosure Agreement is intended or shall act to disclaim, waive or otherwise limit the duties of the Issuer under federal and state securities laws.

SECTION 16. Counterparts. This Disclosure Agreement may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

*[remainder of page left blank intentionally]*

CITY OF AUSTIN, TEXAS

By: \_\_\_\_\_  
MARC OTT, City Manager

DEUTSCHE BANK NATIONAL TRUST  
COMPANY  
(as Trustee and Dissemination Agent)

By: \_\_\_\_\_  
Authorized Officer

CLUB DEAL 116 INDIAN HILLS, TX  
LIMITED PARTNERSHIP, a Delaware Limited  
Partnership qualified to do business in Texas

By: CD 116 Indian Hills TX, LLC, a Delaware  
limited liability company qualified to do business  
in Texas

By: \_\_\_\_\_

**EXHIBIT A**

**NOTICE TO MSRB OF FAILURE TO FILE  
ANNUAL BOND DISCLOSURE REPORT**

Name of Issuer: City of Austin, Texas  
Name of Bond Issue: Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District)  
Date of Delivery: \_\_\_\_\_, 2011

NOTICE IS HEREBY GIVEN that the City of Austin, Texas has not provided an Annual Bond Disclosure Report with respect to the above-named bonds as required by the Continuing Disclosure Agreement dated as of \_\_\_\_\_, 2011, between the Issuer, Club Deal 116 Indian Hills, TX, Limited Partnership, a Delaware limited partnership (the “Developer”), and Deutsche Bank National Trust Company, as trustee. The Issuer anticipates that the Annual Bond Disclosure Report will be filed by \_\_\_\_\_.

Dated: \_\_\_\_\_

\_\_\_\_\_  
\_\_\_\_\_, on behalf of the City of  
Austin, Texas

By: \_\_\_\_\_

Title: \_\_\_\_\_

cc: City of Austin, Texas

**EXHIBIT B**

**CITY OF AUSTIN, TEXAS  
SPECIAL ASSESSMENT REVENUE BONDS, SENIOR SERIES 2011  
(INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT)**

---

**ANNUAL BOND DISCLOSURE REPORT\***

---

Delivery Date: \_\_\_\_\_, 20\_\_

**TRUSTEE**

Name: \_\_\_\_\_  
Address: \_\_\_\_\_  
City: \_\_\_\_\_  
Telephone: \_\_\_\_\_  
Contact Person: \_\_\_\_\_

**BONDS OUTSTANDING**

CUSIP Number	Maturity Date	Interest Rate	Original Principal Amount	Outstanding Principal Amount	Accrued Interest

**INVESTMENTS**

Fund/ Account Name	Investment Type	Principal Balance	Accrued Interest	Investment Rate	Maturity Date

\*Excluding Audited Financial Statements of the Issuer

**ASSETS & LIABILITIES OF PLEDGED TRUST ESTATE**

Bonds (Principal Balance) \_\_\_\_\_  
Funds and Accounts [list] \_\_\_\_\_  
Accrued Interest (if any) \_\_\_\_\_  
**TOTAL ASSETS** \_\_\_\_\_

**LIABILITIES**

Outstanding Bond Principal \_\_\_\_\_  
Accrued Interest (if any) \_\_\_\_\_  
Outstanding Program Expenses (if any) \_\_\_\_\_  
**TOTAL LIABILITIES** \_\_\_\_\_

**EQUITY**

Assets Less Liabilities \_\_\_\_\_  
Parity Ratio \_\_\_\_\_

<b>Form of Accounting</b>	Cash	Accrual	Modified
Accrual			

**ITEMS REQUIRED BY SECTION 4(c) - (p)**  
[Insert a line item for each applicable listing]

## EXHIBIT C

### BASIC TIMELINE FOR ASSESSMENT COLLECTIONS AND PURSUIT OF DELINQUENCIES

<u>Date:</u>	<u>Delinquency Clock:</u>	<u>Activity</u>
Prior to February 1		Assessments are due
February 1	1	Issuer to have received Assessment payments  Assessments Delinquent if not received
February 5	5	Issuer to forward payments to Trustee as soon as possible after received
February 15	15	Issuer and/or Administrator should be aware of actual and specific delinquencies
February 20	20	Issuer should be aware if Reserve Fund needs to be utilized for debt service payment on March 1. <b>If there is to be a shortfall, the Trustee should be immediately notified and EMMA should be notified.</b>

Issuer should also be aware if, based on collections; there will be a shortfall for September payment.

Issuer and/or Administrator should determine if previously collected surplus funds plus actual collections will be fully adequate for debt service in March and September.

At this point, if total delinquencies are under 5% and if there is adequate funding for March and September payment, no further action is anticipated for collection of Assessments except that Administrator, working with the City Attorney or an appropriate designee, will send supplemental billings/demand letters at least monthly to all delinquent property owners. **For properties delinquent by more than one year or if the delinquency exceeds \$10,000 the matter will be referred for commencement of foreclosure.**

**If there are over 5% delinquencies or if there is inadequate funding in the Pledged Revenue Fund for transfer to the Principal and Interest Account of such amounts as shall be required for the full March and September payment, the collection-foreclosure procedure will proceed against all delinquent properties.**

March 1

30

Bond interest payment due from January collections.

Reserve Fund payment to Bond Fund may well be required if Assessments are below approximately 50% collection rate

**EMMA to be notified if Reserve Fund utilized**

**for debt service.**

Use of Reserve Fund for debt service payment should trigger commencement of foreclosure on delinquent properties.

March 5                      35                      **Issuer to notify Trustee for disclosure to EMMA of all delinquencies.**

March 5                      35                      If any property owner with ownership of property responsible for more than \$10,000 of the Assessments is delinquent or if a total of delinquencies is over 5%, or if it is expected that Reserve Fund moneys will need to be utilized for either the March or September bond payments, the City Treasurer shall work with City Attorney's office, or the appropriate designee, to commence the collection process for all delinquent Assessments.

April 15                      75                      **Issuer shall notify Trustee (Trustee shall notify EMMA) of the plan of collections and foreclosure.**

May 1                              90                      Preliminary Foreclosure activity commences with final demand letters and commencement of actual foreclosure analysis including ordering of title reports, etc.

If Trustee has not received Foreclosure Schedule and Plan of Collections, Trustee to request same from Issuer.

May 10	100	<b>If Issuer has not provided Trustee with Foreclosure Schedule and Plan of Collections, bondholders (via EMMA) to be notified that foreclosure has not commenced</b> and Trustee to again request that Issuer commence foreclosure or provide plan for collection.
June 1	120	The designated lawyers or law firm will be preparing the formal foreclosure documents and will provide periodic updates to the Trustee for dissemination to those bondholders who have requested to be notified of collections progress. The goal for the foreclosure actions is a filing by no later than June 30 (day 149).
June 30	149	Foreclosure action to be filed with the Courts.
July 1	150	<b>Trustee notified of Foreclosure filing status and notifies EMMA and bondholders.</b>
July 15	160	If bondholders and Trustee have not been notified of a foreclosure action, Trustee will notify bondholders (via EMMA) and Issuer that it is appropriate to file action.

A committee of not less than 25% of the bondholders may request a meeting with the City Treasurer to discuss the Issuer's actions in pursuing the repayment of any delinquencies. This would also occur after day 30 if it is apparent that a Reserve Fund draw is required. Further, if delinquencies exceed 5%, bondholders may also request a meeting with the Issuer at any time to discuss the Issuer's plan and progress on collection and foreclosure activity. If the Issuer is not diligently proceeding with the foreclosure process, the bondholders may seek an action for mandamus or specific performance to direct the Issuer to pursue the collections of delinquent Assessments.

APPENDIX E

APPRAISAL OF INDIAN HILLS

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# PAUL HORNSBY & COMPANY

REAL PROPERTY APPRAISERS AND CONSULTANTS

Paul Hornsby, MAI, SRA, CRE®  
David J. Englund, MAI, SRA  
James Warren, MAI  
Eli Hanslik, MAI  
Clifford Shaw  
Steve Bryant  
Lance Lawson

Chris Hornsby  
Cathy Thomas  
Dawn Smith  
Corey Smith  
Melany Adler  
Brent Dickey

April 27, 2011

Ronald L. Olderog, MAI, SR/WA  
Office of Real Estate Services  
City of Austin  
PO Box 1088  
Austin, TX 78767

RE: Appraisal of Indian Hills

Project Name:	Indian Hills
Property Owner:	Club Deal 116 Indian Hills TX
Property Address:	FM 973, SH-130, Austin, Texas 78724
Appraisal District Parcel:	02-1050-0944-0000
Legal Description	239.99 ACS out of Abs. 15, R. Hornsby Sur. 17, Travis County, Texas

Dear Mr. Olderog:

Pursuant to your request, we have undertaken an appraisal of the above referenced property, the conclusions of which are set forth in this self-contained report. This report is intended to comply with the reporting requirements set forth under Standards Rule 2-2(a) of the Uniform Standards of Professional Appraisal Practice (USPAP) for a self-contained report. This report has also been prepared in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute. We are not responsible for unauthorized use of this report.

The purpose of the appraisal is to estimate the aggregate of retail values of the fee simple interest in two (2) parcels of land under the hypothetical condition that certain roadway and utility infrastructure has been completed. The value of reimbursements for infrastructure development has also been estimated. The intended use of the report is to assist the City of Austin, underwriters, and investors in the issuance of PID bonds. The effective date of this appraisal is March 31, 2011.

Based on the analysis and data herein, it is our opinion that the market value of the fee simple interest in the subject property and the present value of the reimbursements as of March 31, 2011, is as follows:

<b>INDIVIDUAL PARCEL AND AGGREGATE OF RETAIL VALUES</b>				
<b>Parcel</b>	<b>Acres</b>	<b>Value Per Acre</b>	<b>Indicated Value (Real Estate)</b>	<b>Allocated Value (Reimb.)</b>
Tract 1 North	87.127	\$37,500	\$3,267,263	\$1,444,198
Tract 2 South	147.171	\$37,500	\$5,518,913	\$2,439,473
Total	234.298		\$8,786,176	\$3,883,671
<b>Aggregate of Retail Values (Rounded)</b>			<b>\$8,790,000</b>	<b>\$3,880,000</b>
Per Acre			\$37,516	

We certify that, to the best of our knowledge and belief:

- The statements of fact contained in this report are true and correct.
- The reported analyses, opinions, and conclusions are limited only by the reported assumptions and limiting conditions, and are our personal, impartial, and unbiased professional analyses, opinions, and conclusions.
- We have not performed services as an appraiser or in any other capacity involving the subject within the three years prior to this assignment.
- We have no present or prospective interest in the property that is the subject of this report, and we have no personal interest with respect to the parties involved.
- We have no bias with respect to the property that is the subject of this report or to the parties involved with this assignment.
- Our engagement in this assignment was not contingent upon developing or reporting predetermined results.
- Compensation for completing this assignment is not contingent upon the development or reporting of a predetermined value or direction in value that favors the cause of the client, the amount of the value opinion, the attainment of a stipulated result, the occurrence of a subsequent event directly related to the intended use of this appraisal.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the requirements of the Code of Professional Ethics & Standards of Professional Appraisal Practice of the Appraisal Institute.
- The reported analyses, opinions, and conclusions were developed, and this report has been prepared, in conformity with the Uniform Standards of Professional Appraisal Practice.
- Paul Hornsby and David J. Englund made a personal inspection of the property that is the subject of this report.
- The use of this report is subject to the requirements of the Appraisal Institute relating to review by its duly authorized representatives.

Ronald L. Olderog, MAI, SR/WA  
City of Austin  
April 27, 2011  
Page 3

- No one provided significant real property appraisal assistance to the persons signing this certification.
- As of the date of this report, Paul Hornsby, MAI, SRA, CRE® and David J. Englund, MAI, SRA have completed the continuing education program of the Appraisal Institute.

Respectfully submitted,  
**PAUL HORNSBY & COMPANY**



Paul Hornsby, MAI, SRA, CRE®  
Texas Certified Appraiser No. 1321761-G



David J. Englund, MAI, SRA  
Texas Certified Appraiser No. 1326764-G

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**HYPOTHETICAL CONDITIONS**

1. "Basic Infrastructure" components including water/wastewater facilities providing sufficient capacity for development and primary arterial roadway access via the extension of Decker Lane Road is completed.
2. The developer is scheduled to be finished with the construction of "Basic Infrastructure" on July 30, 2013, and reimbursements are scheduled to occur at various times until the final reimbursement on October 31, 2016. As this appraisal is predicated on a hypothetical condition that all initial infrastructure is complete today, a concomitant hypothetical condition is that the present value of the reimbursements are relative to July 30, 2013.

Absent these conditions, the value opinions may be different than as set forth herein.

**EXTRAORDINARY ASSUMPTIONS**

1. All infrastructure costs, cash flow, reimbursement agreement, and other development agreement information supplied to our office are true and correct.
2. The Public Improvement District (PID) bonds will finance the basic infrastructure improvements to be constructed with reimbursement by the City (utilities) and Travis County (roadways) for a portion of the infrastructure as set forth in the cash flow models and reimbursement agreements. The PID bonds will be special assessment revenue bonds with the debt service paid for by special assessments on the real property within the PID. No City taxes will be imposed on the property until the PID bonds are retired so that no undue burden is placed on future landowners.

Absent these assumptions, the value opinions may be different than as set forth herein.

**ORDINARY ASSUMPTIONS**

1. It is assumed that the economy of the subject's market area will remain at approximately current levels for the near term.
2. It is assumed that there are no hidden or unapparent conditions of the property, sub-soils, or structures which would render them more or less valuable. No responsibility is assumed for such conditions or for engineering which may be required to discover such factors.
3. It is assumed that all necessary permits have been obtained and that there has been full compliance with all applicable federal, state, and local environmental regulations and laws unless non-compliance is stated, defined, and considered in the appraisal report.
4. It is assumed that all applicable zoning and use regulations and restrictions are complied with, unless nonconformity has been stated, defined, and considered in the appraisal report.
5. It is assumed that there are no easements or encroachments unless noted within the report.
6. We have no knowledge of the existence of any hazardous materials on or in the property. However, we are not qualified to detect such substances. The presence of substances such as asbestos, radon gas, urea-formaldehyde foam insulation, or other potentially hazardous materials may affect the value of the property. The value estimate is predicated on the assumption that there is no such material on or in the property that would cause a loss in value. No responsibility is assumed for any such conditions, or for any expertise or engineering knowledge required to discover them.
7. It is assumed that the property is free of any environmental issues, including endangered species or their habitat (i.e., caves) which might preclude development or otherwise affect the value of the property. No responsibility is assumed regarding the presence or absence of such features and the client is urged to retain an expert in these fields, if desired, as the appraiser is not qualified to discover such conditions.

**LIMITING CONDITIONS**

1. The legal description furnished our firm is assumed to be correct. We assume no responsibility for matters legal in character, nor render any opinion as to the title, which is assumed to be good. The property has been appraised as if under responsible ownership and competent management.
2. We have made no survey and assume no responsibility in connection with such matters therefore, reference to a sketch, plat, diagram, or survey appearing in the report is only for the purpose of assisting the reader to visualize the property. The firm believes that the information contained in this report, although obtained from public record and other reliable sources and, where possible, carefully checked, is reliable, but assumes no responsibility for its accuracy.
3. The construction and condition of the property (existing or proposed) mentioned in this report are based on observation or plans submitted by the client, and no engineering study has been made which could discover possible latent defects. No certification as to any of the physical aspects could be given unless a proper engineering study is made.
4. We are not required to give testimony or attendance in court by reason of this appraisal with reference to the property in question, unless arrangements have been previously made.
5. Possession of this report or a copy thereof does not carry with it the right of publication. It may not be used for any purpose by anyone other than the addressee without the previous written consent of the appraiser(s).
6. Neither all nor any part of the contents of this report shall be conveyed to the public through advertising, public relations, news, sales, or other media without the written consent and approval of the authors, particularly as to valuation and conclusions, the identity of the appraiser or firm with which they are connected, or any reference to the Appraisal Institute, the SRA, CRE, or MAI designation.
7. The appraisers' liability regarding the statements and conclusions reported herein is limited to the fee charged for the assignment.

**SUMMARY OF IMPORTANT CONCLUSIONS**

Property Name: Indian Hills  
 Location: FM 973, SH-130, Austin, Travis County, Texas  
 Owner: Club Deal 116 Indian Hills TX  
 Legal Description: 239.99 ACS out of Abs. 15, R. Hornsby Sur. 17, Travis County, Texas  
 Assessor's Parcel No: 02-1050-0944-0000  
 Property Rights Appraised: Fee simple interest subject to existing entitlements, easements and other restrictions

Parcel and  
Size Data:

**LAND AREA SUMMARY**

Area	Gross Acres (As is)	Usable Acres (When Complete)	Decker Lk Rd ROW
Tract 1 North	89.907	87.127	2.780
Tract 2 South	149.951	147.171	2.780
Total	239.858	234.298	5.560

*Source: Bury+Partners Survey June 8, 2010*

The unusable portion is the right-of-way that will be used for the extension of Decker Lake Road.

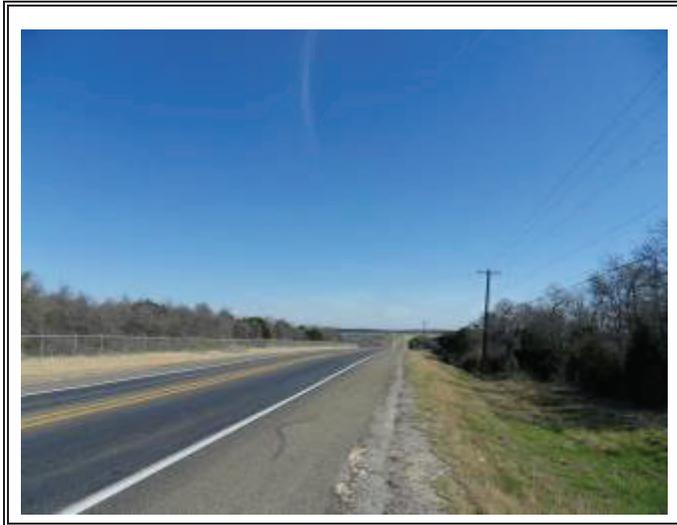
Zoning: MF-3 and LI-CO, Multifamily Residence Medium Density (Tract 1) and Limited Industrial Service-Conditional Overlay Combining District (Tract 2)  
 Utilities: As-is: Water, wastewater requires extension  
 As Complete: All available  
 Shape: Each parcel is irregular.  
 Easements: No adverse easements noted.  
 Topography: Rolling, moderately hilly  
 Flood Plain: Portions are in the 100-year floodplain  
 HBU: The highest and best use is for multifamily and limited industrial development.  
 Purpose of Appraisal: To assist the City of Austin, underwriters, and investors in the issuance of PID bonds  
 Effective Date: March 31, 2011  
 Report Date: April 27, 2011  
 Value Conclusions:

**INDIVIDUAL PARCEL AND AGGREGATE OF RETAIL VALUES**

Parcel	Acres	Value Per Acre	Indicated Value (Real Estate)	Allocated Value (Reimb.)
Tract 1 North	87.127	\$37,500	\$3,267,263	\$1,444,198
Tract 2 South	147.171	\$37,500	\$5,518,913	\$2,439,473
Total	234.298		\$8,786,176	\$3,883,671
<b>Aggregate of Retail Values (Rounded)</b>			<b>\$8,790,000</b>	<b>\$3,880,000</b>
Per Acre			\$37,516	

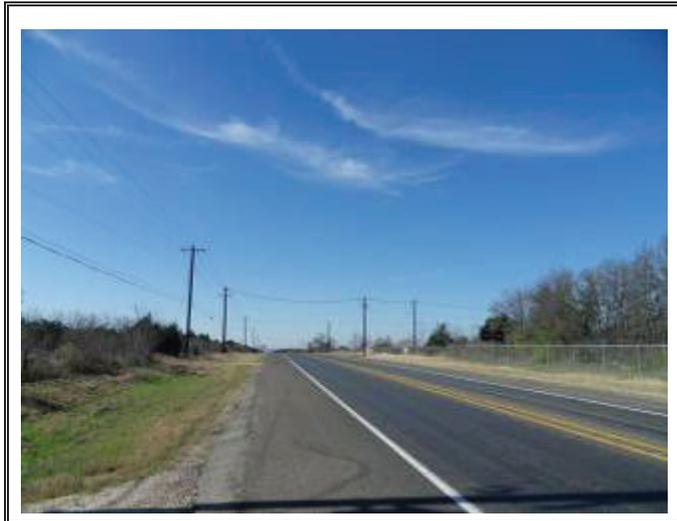
## **DESCRIPTIONS AND ANALYSES**

**SUBJECT PHOTOGRAPHS**



FM-973 looking north from approximately 100 yards north of intersection of FM-973 and Decker Lake Road

Date of Photo: 3/6/2011



FM-973 looking south from approximately 100 yards north of intersection of FM-973 and Decker Lake Road

Date of Photo: 3/6/2011



Decker Lake Road looking east from corner of FM-973

Date of Photo: 3/6/2011



Interior view of Tract 2 from FM-973 ROW looking east at about the tract's mid-section

Date of Photo: 3/6/2011



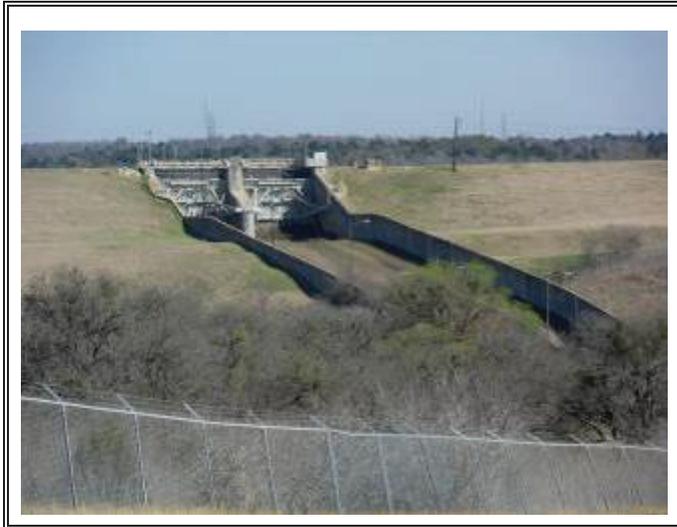
Cell tower located on Tract 2 just north of proposed Decker Lake Road

Date of Photo: 3/6/2011



Interior view of Tract 2 from SH-130 ROW looking west toward cell tower (at arrow in background) located on border of two tracts

Date of Photo: 3/6/2011



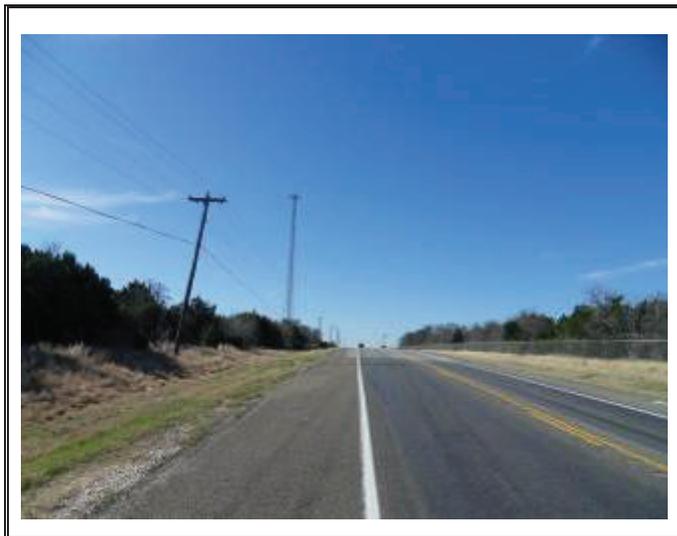
Decker Lake dam northwest of the north side of Tract 1 empties into Decker Creek, under a bridge on FM-973, and onto the flood plain at Tract 1's north side. Decker Creek eventually meets Gilleland Creek, but well past the subject's sister project, Whisper Valley. The creek was dammed in 1967 to form Decker Lake, a reservoir for the Decker Creek Power Plant. Decker Lake was renamed Walter E. Long Lake in 1978.

Date of Photo: 3/6/2011



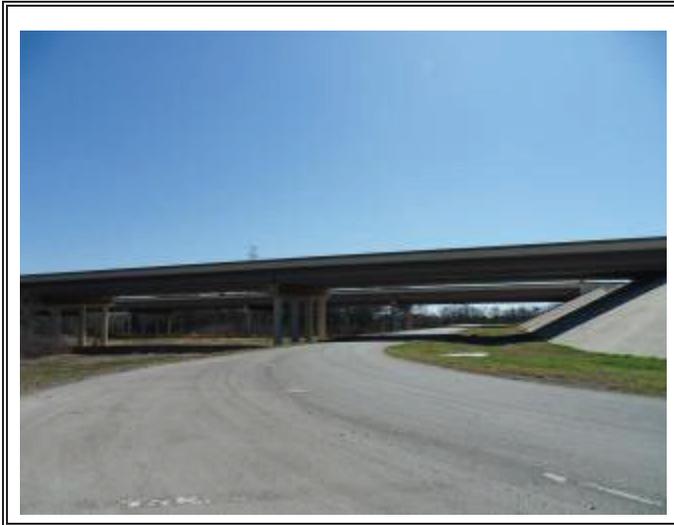
Looking north on FM-973 from the north side of Tract 1 toward Decker Creek bridge and spillway located on Tract 1's north side

Date of Photo: 3/6/2011



Looking south on FM-973 from location of north side of Tract 1

Date of Photo: 3/6/2011



The one-lane, one-way frontage road adjacent to the subject originates at FM-969 and travels along the northbound SH-130 lanes to this overpass; there it U-turns and heads south on the east boundary of the subject back to FM-969

Date of Photo: 3/6/2011



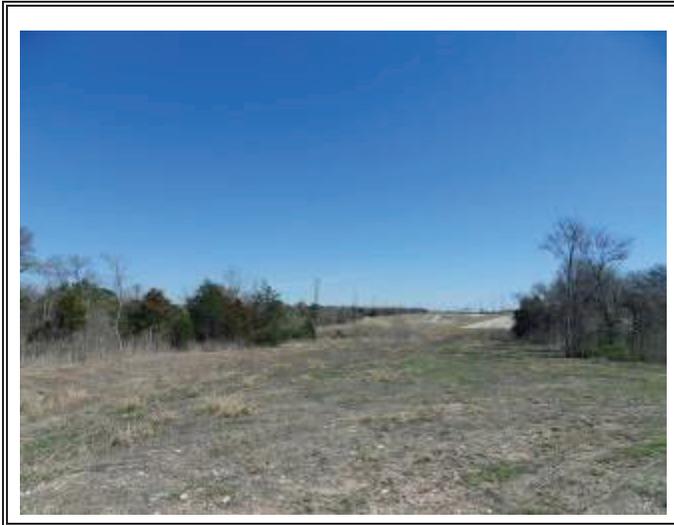
Looking north toward the U-turn from the SH-130 frontage adjacent to Tract 1

Date of Photo: 3/6/2011



Looking south along the SH-130 frontage adjacent to Tract 1, which is located to the right in this view

Date of Photo: 3/6/2011



Looking north from the north of Tract 1 to the area that may eventually become the SH-130 frontage, currently terminating on a dead end of Hog Eye Road

Date of Photo: 3/6/2011



On SH-130 frontage looking south at approximate connection of Tract 1 and Tract 2 where Decker Lake Road will be built, SH-130 toll plaza can be seen to the left.

Date of Photo: 3/6/2011



On SH-130 frontage looking north from the south end of Tract 2

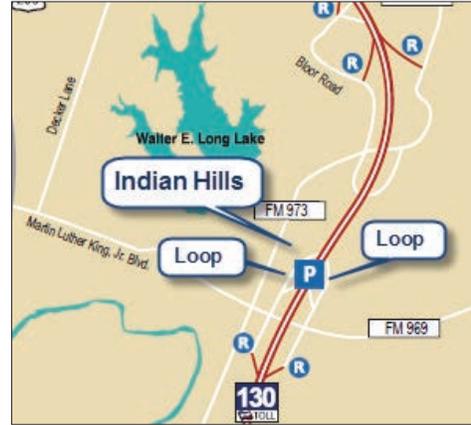
Date of Photo: 3/6/2011

**INTRODUCTION**

Indian Hills is located on the west side of SH-130, a toll road completed in 2007, and south of US-290 East in east central Travis County. It has been divided into two parcels for development, one that will be for multifamily properties and the other for limited industrial including office flex space. It fronts the east side of FM-973 a distance of 5,730.54 feet along both tracts, roughly divided by the proposed extension of Decker Lake Road. There is 2,864.13 feet of frontage along SH-130 that represents most of the west boundary of the development. Frontage along SH-130 is currently a single lane, local access road that loops from FM-969, under SH-130 northeast of the subject, and back to FM-969 adjacent to the subject. Indian Hills is not directly accessible from the toll road except by exiting on FM-969 and travelling the loop.

The south boundary of the development adjoins agricultural land, and the north boundary adjoins Decker Creek and the Walter E. Long Lake spillway as shown and described in a photo on page 4.

The tract was annexed for limited purposes and subsequently entitled with MF-3 (Multifamily Residential Medium Density, 36 units per acre) for the 89.907 acre north Tract 1, and LI-CO (Limited Industrial Service-Conditional Overlay Combining District) zoning for the 149.951 acre south Tract 2 in the fall of 2010. A Public Improvement District (PID) was established for the purpose of financing the infrastructure costs through municipal bonds to be paid through assessments to end users – the eventual site owners. A full purpose annexation of the property is planned after the PID bonds are retired.



An Annexation and Development Agreement was entered into by the City of Austin and the owners of Indian Hills and the nearby Whisper Valley in 2009. The two developments have legal ownership through separate limited partnerships, but the same development company, Taurus of Texas, GP LLC. Whisper Valley is a 2,066 acre, master planned community located on the east side of SH-130 and FM-973 northeast of the subject. Although under common ownership with a single development agreement, the two developments have separate PID agreements. Whisper Valley will include single family, multifamily, and commercial properties. Parks and improvements for civic uses like schools, libraries, and fire stations round out the properties at Whisper Valley.

Indian Hills is to be developed with multifamily and industrial/flex improvements. It will not include single family residences, which are the primary focus of Whisper Valley. The two developments are tied by the shared cost of water and wastewater extensions. Each will require roadway and utility extensions. Indian Hills depends on Whisper Valley to satisfy its parkland requirements. Per Ordinance 20100826-065, the Indian Hills zoning agreement, the Parkland Dedication requirement is satisfied up to 9,028 residential units combined with Whisper Valley. Whisper Valley currently projects 7,400 residential units and Indian Hills 1,500, so the requirement will not be exceeded under the current plan.

In order to fund public infrastructure for these developments, the City of Austin is assumed to issue PID tax-exempt municipal bonds. According to the developer's March 7, 2011 Source and Use of Funds report, PID bonds totaling \$36.1 million will be needed for the Whisper Valley PID and \$5.5 million for the Indian Hills PID. An additional \$12.9 million will be supplied by developer equity and private financing, bringing the total initial financing to \$54.5 million. From this, \$11.5 million will be used to meet interest payments for three years and for the costs of issuing the PID bonds, leaving \$43.0 million for construction. This \$43.0 million is the total construction budget to build the spine roads in both developments along with extension of, and installation of, water and wastewater facilities to provide sufficient capacity for development.

The reimbursement agreements are for more than included in the budgets because not all of the money in the agreements is used to secure bonds. The Reimbursement Agreements include the following statements related to the amounts (all dated November 1, 2010).

- Summary of Terms Cost Reimbursement Agreement with City of Austin Water Infrastructure: Reimbursement Amount, \$24,500,000 for Line 1, Line 2, Alternative Line, CCN Release Fee and soft costs for Wastewater Treatment Plant and Wastewater Interceptor;
- Summary of Cost Reimbursement Agreement Wastewater: Maximum reimbursement amount to be paid to Developer for initial phase of the WWTP and the WW Line (hard costs only): \$11,500,000
- Summary of Braker Lane Participation Agreement: The total bid for all phases of the project shall not exceed \$13,000,000 (this is for all four lanes of Braker Lane, the initial phase includes only the first two lanes); and,
- Summary of Decker Lake Road Participation Agreement: If the lowest bid for the project exceeds \$3,000,000, the County may require the Developer to reject all bids and solicit bids a second time.

The bond issues are intended to finance the entire initial off-site utility and road work for the projects, as well as two internal spine roads. The spine road in Whisper Valley will be Braker Lane, although it will not connect to the locally known Braker Lane arterial that extends from Jollyville Road to Dessau Road. Instead, it will extend from FM-973 across the development to Taylor Lane. The Indian Hills spine will be an extension of Decker Lake Road, which originates at US-183 and currently ends at FM-973 at Indian Hills. The extension of Decker Lake Road will end at the SH-130 frontage road, the single lane, one-way, local access road.

The City of Austin and Travis County have entered into reimbursements agreements with Taurus for approximately \$16.0 million of the water improvements, \$12.0 million of the sewer improvements, and \$4.8 million for the construction of Braker Lane and Decker Lake Road, a total of \$32.8 million. A \$27.9 million portion of these reimbursements, \$25.2 million for Whisper Valley and \$2.8 million for Indian Hills, will be reimbursed by the City of Austin and applied to reducing the PID bond debt. The reduction payments are scheduled at various times ending in 2016 assuming substantial completion of initial infrastructure. Substantial completion is scheduled by July 2013 at Whisper Valley. Indian Hills is projected to have Decker Lake Road completed by June 2012, water and wastewater available by January 2013, and the final lift station in place by July 2013, the last step.

A PID structure is new to the Austin market but has been used in Dallas and Houston. In the past, Municipal Utility Districts (MUDs) have more commonly been established to offset the cost of development. A MUD is under the authority of the Texas Water Code, a PID under the Texas Local Government Code. The PID allows municipalities to more closely dictate development regulations, ostensibly to benefit public interests.

A MUD tax is assessed like a local property tax and can be continued indefinitely, whereas a PID assessment is amortized and has a payoff. Both are usually assessed in lieu of a city tax, and in most cases the MUD tax rate in the Austin market is in the 0.9% to 1.0% range compared to the City of Austin's current tax rate of 0.4571%. The City of Manor, the closest municipality and the location of the subject's primary competition, had a city tax rate of 0.80260 in 2010. The PID agreement states that the annual assessment installment "will not exceed 125% of any parcel's anticipated buildout value times the City's tax rate in the fiscal year the assessment is determined." This will keep the assessment in the range of the two adjacent city's tax rates. Owners, including buyers of future divisions of lots and tracts, are assessed and billed in a manner similar to a property tax through annual payments. The PID bonds are to be secured by a property assessment lien to end users, and the PID has the right of foreclosure if a property owner fails to make scheduled payments.

For the end user, this structure should be transparent and provide neither a benefit nor a burden. For the developer, this arrangement mitigates substantial early risk as the municipality becomes a financial partner at the most uncertain stage of the development. The developer is reimbursed upon completion of infrastructure in a PID with no continued development or sellout requirements, just satisfactory completion of the infrastructure improvements. Comparatively, a MUD tax requires that the developer finance the infrastructure improvements and establish a reimbursement schedule through ad valorem

taxes against vertical improvements after their construction and sale. For MUDs, the issuance of general obligation or combination tax and revenue bonds does not take place until the assessed valuation of the district reaches a predetermined level; reimbursement to the developer might take several years and depends on the project's success measured by value support and the pace of sales.

Use of either a MUD or a PID allows the developer to build in areas with little or no existing infrastructure in order to provide a product at a competitive price. If land could be bought in an area with substantial infrastructure in place, the benefit of a MUD or a PID would be negated. Without existing infrastructure or a financing vehicle, development would not be feasible in today's market. For the municipality, the PID is a partnership with the developer that allows it full and ongoing control of development regulations. In a MUD, the municipality has initial zoning power but loses control beyond the zoning regulations.

The impact on the value of a project with a PID agreement is superior to that of a MUD because the developer is reimbursed at the completion of the infrastructure improvements rather than in the future when end product is sold. Subdivisions are occasionally sold after entitlement and platting, but most developers start from raw land and see the project through planning and construction to the finished lot stage. Thus, no direct sales comparisons are available to measure the benefit of one financing structure over another.

Ultimately, whether a PID or a MUD is used, the value is primarily dependent on the appeal of the development, its competitive position, and the timely sellout of the lots or parcels. These characteristics are not related to the method in which the developer gets reimbursed for infrastructure construction. However, to a potential buyer of a development prior to sellout, which is the scenario that exists in this analysis, the PID is superior because the buyer (developer) has lower risk, as outlined above.

The value conclusion is stated as of the current date under the hypothetical conditions that the initial phases of infrastructure are complete as of the current date. Completions will occur at various times beginning in 2012, and the latest completion projection is the south lift station in July 2013. By that time, the scheduled completion date of water and wastewater facilities to provide sufficient capacity for development will have also passed.

The value estimate recognizes the existing level of entitlements and their contribution, including zoning and the assumed PID agreement, and includes the initial infrastructure to be completed by July, 2013. The individual tracts or parcels are valued, and the sum of the parts equals the aggregate of retail values. This cumulative value does not recognize the effect of supply and demand and the time necessary to sell the individual parcels, nor does it represent bulk value as if the entire site is sold to a single purchaser in one transaction.

### **EFFECTIVE DATE**

March 31, 2011

### **PURPOSE OF THE APPRAISAL**

The purpose of the appraisal is to estimate the market value of each parcel and the aggregate of retail values as of the effective date.

### **CLIENT, INTENDED USE AND USERS OF THE APPRAISAL**

The client is the City of Austin. The intended use is to assist the City of Austin, underwriters, and investors in the issuance of PID bonds. The intender users are the City of Austin and Piper Jaffray & Company. Use of this report by others is not intended.

### **PROPERTY RIGHTS APPRAISED**

The property rights appraised are the simple interest in the property. Fee simple estate is defined as: "Absolute ownership interest unencumbered by any other interest or estate, subject only to the

limitations imposed by the governmental powers of taxation, eminent domain, police power, and escheat.”<sup>1</sup>

### **DEFINITION OF MARKET VALUE**

Market value is defined as:

“The price which the property would bring when it is offered for sale by one who desires, but is not obligated to sell, and is bought by one who is under no necessity of buying it, taking into consideration all of the uses to which it is reasonably adaptable and for which it either is or in all reasonable probability will become available within the reasonable future.” (City of Austin vs. Cannizzo, et al., 267 S.W.2d 808,815[1954].

### **DEFINITION OF AGGREGATE OF RETAIL VALUES**

Aggregate of Retail Values is defined as “The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. Also called the *sum of the retail values*, *aggregate retail value*, or *aggregate retail selling price*.”<sup>2</sup>

### **LEGAL DESCRIPTION**

The following legal description was obtained from public records and assumed to be correct. It has not been verified by legal counsel nor have independent surveys been commissioned. Therefore, it is suggested that it be verified before being used in a legal document or conveyance.

The subject is legally described as 239.99 ACS out of Abs. 15, R. Hornsby Sur. 17, Travis County, Texas.

The owner divided the tract into two sub-parcels as shown in the next table and shown in the map exhibit on page 49.

<b>LAND AREA SUMMARY</b>			
Area	Gross Acres (As is)	Usable Acres (When Complete)	Decker Lk Rd ROW
Tract 1 North	89.907	87.127	2.780
Tract 2 South	149.951	147.171	2.780
Total	239.858	234.298	5.560

*Source: Bury+Partners Survey June 8, 2010*

### **OWNER OF RECORD HISTORY / CURRENT LISTING OF THE PROPERTY**

According to the Travis County Deed Records, ownership of the subject property is vested in Club Deal 116 Indian Hills TX. This party purchased the property from Indian Hills Investments, LTD. on December 15, 2005. The total acquisition price was \$4,200,000 per the buyer. No debt was noted in the deed record describing the sale of the tract. The deed information for each segment is as follows.

<sup>1</sup> Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5<sup>th</sup> ed. (Chicago, Appraisal Institute, 2010)

<sup>2</sup> Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute, 2010).

INDIAN HILLS ACQUISITION				
Date	Doc	Description	Acres	Seller
12/15/2005	2005232159	Tract 1	149.450	IH Invest (Beard)
12/15/2005	2005232159	Tract 2	68.990	IH Invest (Beard)
12/15/2005	2005232159	Tract 3	7.170	IH Invest (Beard)
12/15/2005	2005232159	Tract 4	7.180	IH Invest (Beard)
12/15/2005	2005232159	Tract 5	7.180	IH Invest (Beard)
<b>Total acreage</b>			<b>239.970</b>	<b>Price \$4,200,000</b>

The price of \$4,200,000 for 239.970 acres is \$17,502 per acre. At the time, the land was in its current raw state with no improvements or infrastructure. The limited purpose annexation and PUD zoning became effective in 2010, so neither were present at the time of sale.

There is no evidence of development activity at the site as of the effective date of the appraisal. The owner did not supply an accounting of the costs thus far for entitlement or planning expenses. We are not aware of sales more recent than those outlined above, and as of the date of the appraisal, we have no knowledge of pending sales, offers, or efforts to market the property.

A December 2005 Title Policy notes an access and utility easement granted to Dallas MTA, LP, d/b/a Verizon Wireless as outlined in Document No. 2003152738 of the Travis County Public Records. The document describes a Land Lease dated June 23, 2003 between Donald R. and Lula Mae Dearing. As we have not been supplied with a more recent Title Policy and a cell tower and equipment are physically present, we assume that this lease is still in effect. The size of the area is small as the access measures 20x20 and the leased land is 85x85 (0.166 acre). The view of the tower is not adverse to multifamily and industrial development; therefore, the existence of the tower is not a negative characteristic and has no impact on the value estimate.

### **AD VALOREM TAXES**

The Travis Central Appraisal District's (TCAD) parcel identification number for the subject is 02-1050-0944-0000. It falls under the jurisdiction of the taxing authorities shown in the next table with tax rates per \$100 valuation for the 2009 and 2010 tax years. Tax rates are set by the end of September for each tax year.

Jurisdiction	2009 Rate	2010 Rate
Travis County	0.4215	0.4658
Del Valle ISD	1.4800	1.5300
Austin Comm Coll Dist	0.0946	0.0951
Travis Co ESD No 12	0.1000	0.1000
Travis Co Healthcare Dist	0.0674	0.0719
<b>Total</b>	<b>2.1635</b>	<b>2.2628</b>

### **2011 ASSESSMENTS AND TAXES**

Tax ID	Assessment		Tax Rate	Taxes	
	Assessed Value	Ag Value		If Assessed Value	If Ag Value
02-1050-0944-0000	\$2,378,350	\$25,392	2.2628%	\$53,817	\$575
<b>Total</b>	<b>\$2,378,350</b>	<b>\$25,392</b>		<b>\$53,817</b>	<b>\$575</b>

The subject currently benefits from an agricultural valuation. This is the application of a lower tax value granted by the local taxing authority on improved or unimproved property which is devoted to, or available for, the production of crops and other products of the soil, e.g., fruits, timber, pasture, and buildings for livestock. Of course, this will not be available to the property once development occurs. At

that point, the subject will be subject to rollback taxes, a five year retroactive tax on the use-change portion, but all comparables of development land are assumed to be treated equally.

The subject is comprised of two parcels that will eventually be developed into multifamily and commercial tracts. The current tax structure will change dramatically once development starts. The existing tax liability is relevant only in a current sale of the land as one parcel. However, tax liability does not affect the price or value because the comparables are assumed to be similar.

### **SCOPE OF WORK**

To complete the assignment, a number of steps were undertaken. The most salient of these are listed below.

- The subject was inspected from perimeter and adjacent public roadways by Paul Hornsby and David J. Englund on March 31, 2011. An interior inspection of the tract was made by David J. Englund on March 6, 2011, at which time photographs were taken and logged. The neighborhood and surrounding areas were driven and inspected, and trends in residential and commercial development were noted. All comparable sales were inspected from public roadways.
- Documents specific to the subject property were reviewed, including but not limited to:
  - Deed records, tax plats, surveys and land use plans, flood plain maps, topographical maps, and aerial photographs;
  - The Annexation and Development Agreement and the Parkland Agreement with the City of Austin;
  - The applicable PUD Ordinances and PID descriptions; and
  - Budgets, cost estimates, cash flow reports, and PID reimbursement estimates.
- Design plans for the proposed road and utility extensions consisting of preliminary drawings, construction agreements, and budgets were reviewed.
- A highest and best use analysis was performed to determine physically possible uses, legally permissible uses, financial feasibility, and the maximally productive use of the property. This research included conversations with local officials pertaining to availability of utilities, zoning, and plans for any significant roadway improvements in the area.
- The three traditional valuation techniques were considered to estimate the market value of the subject. The sales comparison approach (land only) was utilized to estimate the value of the parcels. The income capitalization approach was not applicable. The cost approach and sales comparison approach (improved) were not used as the subject is vacant land with future infrastructure.
- In subdivision or developable land analysis, the sales comparison and income approaches are often used, but not in a conventional manner. The sales comparison approach provides a market value of the various parcels, but without consideration of the time to sell each segment. The income approach considers the time until a sale of each lot or parcel can be consummated, the costs that would be incurred during the holding period, and a reasonable return on the investment reflected in a discount rate. This form of income approach is called the subdivision development method and is used in bulk discount and present value processes.
- Sales were obtained from various sources including subscription services of CoStar Group, LoopNet, and the Austin Board of Realtors® MLS Service. Peers were surveyed for sales data as well as brokers, developers, and land owners. Sale data was confirmed through research of county deed records, interviews with brokers, and conversations with principals in each transaction when available.
- The time frame for the data search was not limited but generally focused on the period from 2006 through the effective date of the appraisal. The geographical search area consisted primarily of Travis, Williamson, Bastrop, and Hays counties. Each comparable sale was inspected

from perimeter roadways and by use of aerial photographs, mapping software, and internet data sites.

- Additional steps taken to gather, confirm, and analyze relevant data, are detailed in individual sections of the report. A study of overall market conditions by property type, competing subdivisions and vacant lot inventories, and local development trends was performed by researching local publications and through conversations with developers, brokers, and participants in the market. Sources for additional data include general market and industry reports published by Metrostudy and Residential Strategies, Inc., the Austin MLS system, Texas A&M Real Estate Research Center, the local newspaper, and business publications.
- The reimbursements expected to be received for the development of infrastructure were capitalized by present value analysis.

**AUSTIN AREA ANALYSIS**

As of year end 2010, the Austin MSA remains in a period of economic inertia, but is beginning to exhibit signs of recovery. Strong underlying fundamentals are being tempered by the national economic contraction and tighter lending requirements. Softness is evident in the industrial, retail, office, and land development markets. However, some markets are showing signs of recovering, including the single family and multi-family sectors. Developers are acquiring lots in anticipation of new single family construction. The multi-family market has high occupancies, and like the single family market, developers are in site acquisition mode in preparation to build once development financing becomes available.

**POPULATION**

The Austin MSA includes Travis, Hays, Williamson, Caldwell, and Bastrop Counties. The MSA ranks as the 38th largest in the United States according to the U.S. Census Bureau. The remarkable rates of population growth in the Austin area are due to large in-migration as well as the youthful make-up of Austin's citizens. The tables below provide a brief summary of recent population trends for the Austin MSA:

Austin MSA Population Trends <sup>3</sup>				
	Census Population		Change, 1990 to 2000	
	2000	1990	Number of	Percent
Bastrop County	57,733	38,263	19,470	50.9%
Caldwell County	32,194	26,392	5,802	22.0%
Hays County	97,589	65,614	31,975	48.7%
Travis County	812,280	576,407	235,873	40.9%
Williamson County	249,967	139,551	110,416	79.1%
MSA Total	1,249,763	846,227	403,536	47.7%

<sup>3</sup>U.S. Census Bureau, <http://www.census.gov/main/www/cen2000.html>

According to Census 2000 figures, the Austin MSA was the fifth fastest growing area in the nation. From 1990 to 2000, the Austin MSA experienced a 47.7% growth rate, largely attributed to influx from other cities. Since the mid 1990's, 70% of the total population increase was due to in-migration. The table below is a list of the top ten fastest growing Metropolitan Statistical Areas in the nation over the last decade.<sup>4</sup>

U.S. Metropolitan Areas Ranked by Percent Population Change					
Rank	Metropolitan Statistical Area	Census Population		Change 1990 to 2000	
		2000	1990	Number	Percent
1	Las Vegas, NV-AZ	1,563,282	852,737	710,545	83.30%
2	Naples, FL	251,377	152,099	99,278	65.30%
3	Yuma, AZ	160,026	106,895	53,131	49.70%
4	McAllen, Edinburg, Mission, TX	569,463	383,545	185,918	48.50%
<b>5</b>	<b>Austin-San Marcos, TX</b>	<b>1,249,763</b>	<b>846,227</b>	<b>403,536</b>	<b>47.70%</b>
6	Fayetteville-Springdale-Rogers, AR	311,121	210,908	100,213	47.50%
7	Boise City, ID	432,345	295,851	136,494	46.10%
8	Phoenix-Mesa, AZ	3,251,876	2,238,480	1,013,396	45.30%
9	Laredo, TX	193,117	133,239	59,878	44.90%
10	Provo-Orem, UT	368,536	263,590	104,946	39.80%

Austin area population histories and projections from the City of Austin's Planning Department are summarized below.<sup>5</sup>

Austin Area Population Histories and Projections						
Year	City of Austin	Annualized Growth Rate	Travis County	Annualized Growth Rate	Five County MSA	Annualized Growth Rate
1940	87,930		111,053		214,603	
1950	132,459	4.20%	160,980	3.80%	256,645	1.80%
1960	186,545	3.50%	212,136	2.80%	301,261	1.60%
1970	251,808	3.00%	295,516	3.40%	398,938	2.80%
1980	345,890	3.20%	419,573	3.60%	585,051	3.90%
1990	465,622	3.00%	576,407	3.20%	846,227	3.80%
2000	656,562	3.50%	812,280	3.50%	1,249,763	4.00%
2005	707,304	1.50%	875,056	1.50%	1,346,350	1.50%
2010	771,397	1.80%	966,133	2.00%	1,486,479	2.00%
2015	851,685	2.00%	1,079,825	2.30%	1,681,814	2.50%
2020	940,329	2.00%	1,221,723	2.50%	1,926,137	2.80%
2025	1,038,199	2.00%	1,365,493	2.30%	2,179,247	2.50%
2030	1,132,277	1.80%	1,507,614	2.00%	2,435,696	2.30%

<sup>4</sup> U.S. Census Bureau, <http://www.census.gov/main/www/cen2000.html><http://www.census.gov/main/www/cen2000.html>

<sup>5</sup> City of Austin, <http://www.ci.austin.tx.us/census/tabular.htm>

**EMPLOYMENT**

The following charts show employment statistics and changes in the Austin MSA. While employment in the Austin MSA and Texas have not been` affected as much as the national economy, the recession is evident in most market sectors.

<b>Changes From Previous Year</b>				
	2007	2008	2009	2010
Total Civilian Employment	1.0%	0.4%	0.3%	2.1%
Non-agriculatural employment	4.2%	1.6%	-3.1%	2.0%

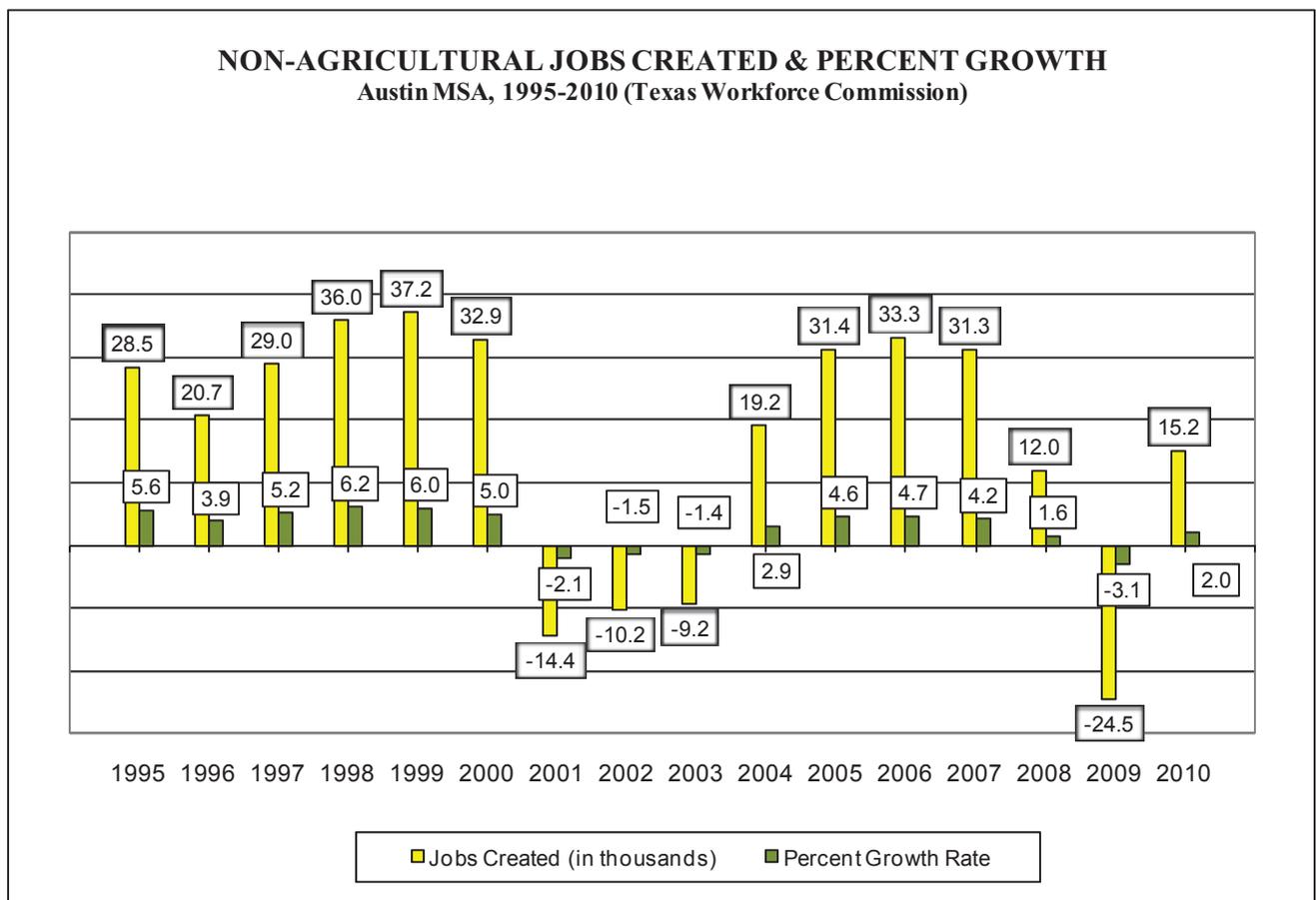
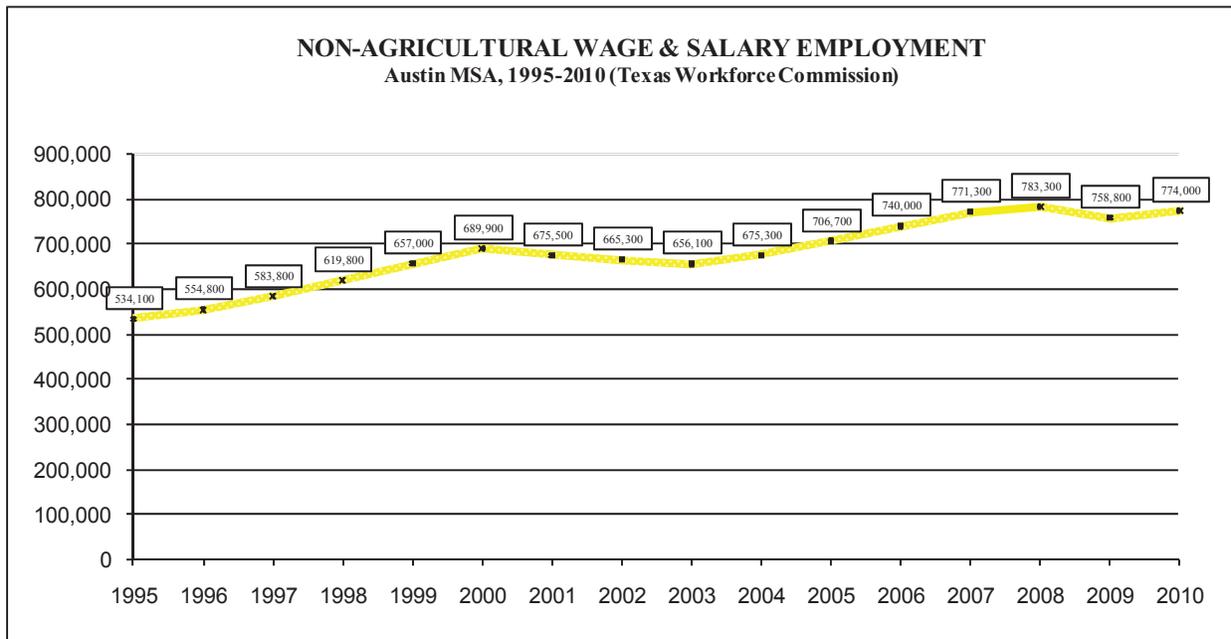
	Year End 2009	3rd Q 2010	Year End 2010	Trailing Year Change	Quarterly Increase
Total Civilian Employment	830,000	853,400	847,400	2.1%	-0.7%
Non-agriculatural employment	758,800	769,300	774,000	2.0%	0.6%
Unemployment	7.0%	7.4%	7.1%		

Employment trends are summarized below<sup>6</sup>

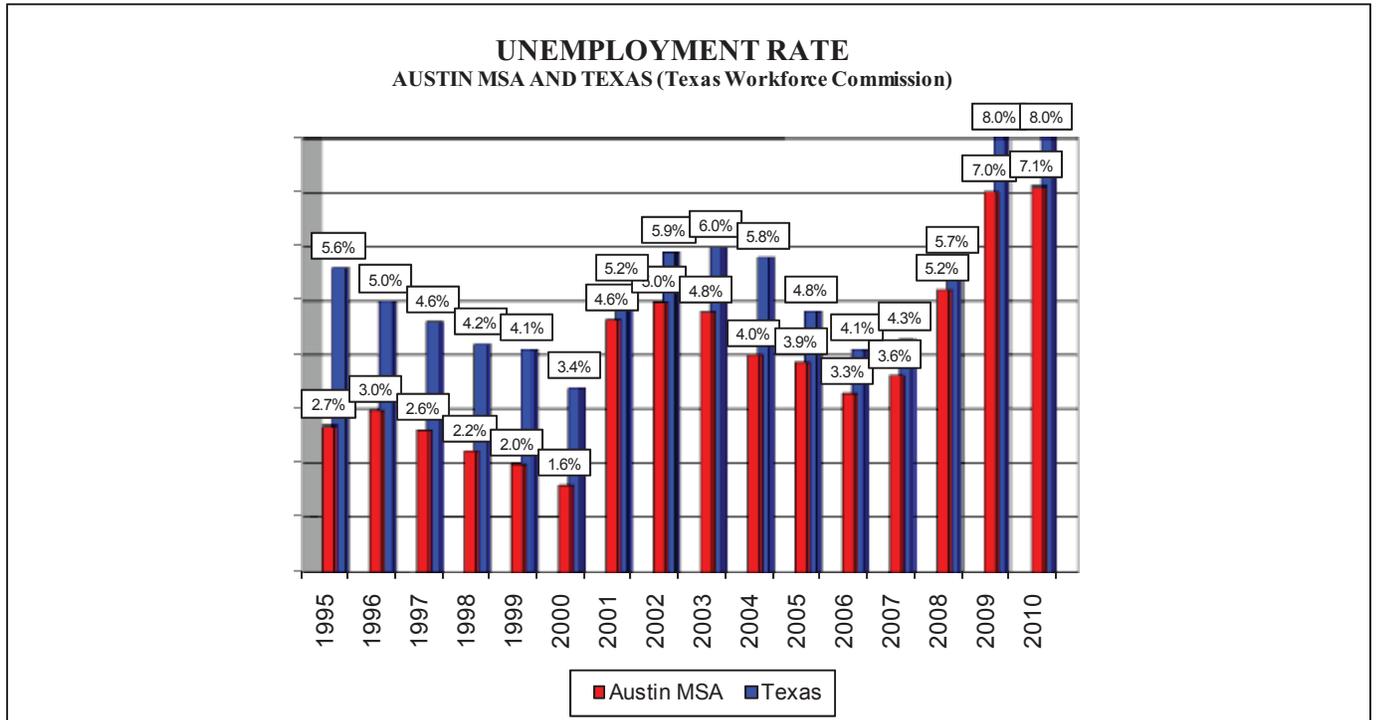
<b>Civilian Labor Force &amp; Unemployment Rate</b>					
<b>Austin MSA 1990 - 2009</b>					
Year	TLF	Emp	% Chg Emp	Unemp	% Unemp
1990	484,289	463,823	-	20,466	4.2%
1991	500,453	479,490	3.4%	20,963	4.2%
1992	531,483	511,054	6.6%	20,429	3.8%
1993	558,605	540,552	5.8%	18,053	3.2%
1994	597,126	580,458	7.4%	16,668	2.8%
1995	624,269	607,487	4.7%	16,782	2.7%
1996	639,320	620,329	2.1%	18,991	3.0%
1997	658,460	641,180	3.4%	17,280	2.6%
1998	691,908	676,526	5.5%	15,382	2.2%
1999	718,053	703,917	4.0%	14,136	2.0%
2000	755,177	743,072	5.6%	12,105	1.6%
2001	759,100	723,900	-2.6%	35,200	4.6%
2002	772,800	734,400	1.5%	38,400	5.0%
2003	770,800	733,900	-0.1%	36,900	4.8%
2004	779,800	748,600	2.0%	31,200	4.0%
2005	814,100	782,700	4.6%	31,400	3.9%
2006	843,900	816,100	4.3%	27,800	3.3%
2007	855,000	824,200	1.0%	30,800	3.6%
2008	873,100	827,600	0.4%	45,500	5.2%
2009	892,700	830,000	0.3%	62,700	7.0%
2010	909,300	847,400	2.1%	61,900	6.8%

<sup>6</sup> Texas Workforce Commission, [www.twc.state.tx.us](http://www.twc.state.tx.us)

TLF: Total Civilian Labor Force; Emp: Total Employment; % Chg Emp: Percent Change in Total Employment; Unemp: Total Number Unemployed; % Unemp: Unemployment Rate.



The local unemployment rate, as compared with that of the state, is represented in the following graph.



**MAJOR EMPLOYERS:**

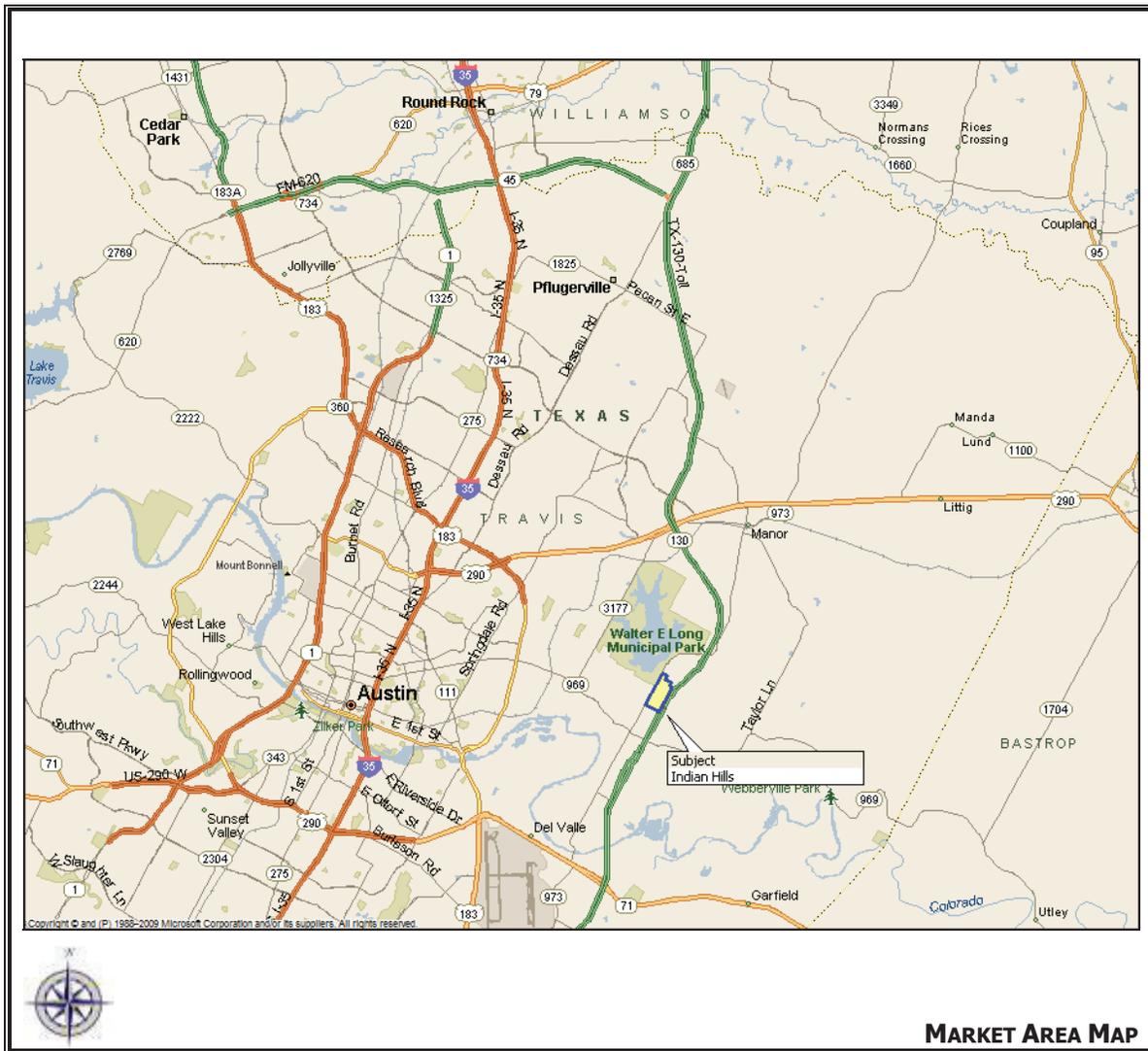
The major employers in Austin are primarily in the government, education and high-tech sectors. Following is a table showing some of Austin's major employers, as provided by the Austin Chamber of Commerce.

<b>Major Employers</b>		
<b>Company</b>	<b>Business Focus</b>	<b>Employees</b>
University of Texas at Austin	Higher Education, research and public service	20,249
Dell Computer Corporation	Personal computer systems	16,000
City of Austin	City government	11,784
Austin Independent School District	Public Education	10,408
Motorola, Inc.	Microprocessors	7,500
Seton	Health Care	7,200
IBM Corporation	Electronic circuit cards, hardware and software for personal systems and advanced workstations	6,300
HEB Grocery Co.	Retail grocery stores	6,200
IRS/ Austin Center	Regional processing center for federal income tax returns	5,000
Austin Community College	General education, workforce programs, continuing education, and developmental education	4,600

**SUMMARY**

Austin keeps a watchful eye on the industrial, retail, and office markets. Softness is evident in these sectors, resulting from the national economic contraction. Tighter lending criteria will constrain additional supply, moderating the downturn. Economic inertia is forecast to continue into 2011 for these markets while the single family and multi-family markets lead the beginning stage of recovery.

**MARKET AREA ANALYSIS**



**MARKET AREA MAP**

The subject is located in far east Austin along SH-130 near its intersection with FM-973, more specifically between FM-973 and SH-130 at the terminus of Decker Lake Road. This neighborhood is roughly bounded by US-290 East on the north, the Travis/Bastrop County line on the east, SR-71 on the south, and US-183 on the west.

**TRANSPORTATION**

Primary access to the area is provided by SH-130, part of the new Hills Austin toll road system. SH-130 in this area was completed in late 2007 and connects Georgetown at IH-35 on its north end to US-183 southeast of Austin. This is a major arterial intended to bypass Austin in a north-south direction. It will eventually connect to IH-10 on the south, and currently connects to IH-35 via SH-45 near Buda in north Hays County just south of Austin. In the northern segment of SH-130, another leg of SH-45 connects to IH-35 near Round Rock and Pflugerville.

Construction of the SH-45, SH-130, and US-183A toll roads provide quick and uninterrupted access to the neighborhood from the east and north suburban communities of Manor, Pflugerville, Hutto, Round Rock, Georgetown, Cedar Park and Leander. The south suburban communities of Buda and Kyle are also minutes away since the completion of the southern leg of SH-45. US-290 is located four miles north of

SH-130 and FM-973, and is a four lane divided highway that allows quick access to US-183 and IH-35 to its west and the suburban communities of Manor and Elgin to the east.

A project to widen US-290 and convert it to a toll road is underway, and this will further enhance access to the subject. SH-130 crosses US-290 just west of Parmer Lane and extends in a southerly direction east of Walter E. Long Lake toward the subject. It crosses FM-973 just south of Bloor Road and continues south and near-parallel to FM-973 through SR-71 near the airport and on to US-183. Upgrades to other existing major roadways are planned as indicated by the CAMPO Mobility 2030 Plan and the CAMPO Texas Metropolitan Mobility Plan of July 10, 2006. The next table summarizes the planned roadway changes in the neighborhood.

<b>CAMPO MOBILITY 2030 PLAN: REGIONAL PROJECT LIST</b>			
Roadway/Project	Segment/Location	2005 (Existing)	2030 (Adopted 2005)
US-290 East	FM 3177 - FM-973	MAD 4	Toll/Fwy 6
US-290 East	FM-973 - Bastrop Co. Line	MAD 4	Fwy 6
SH-130	US-290 - SH 71 East	Toll/Pkwy 4	Toll/Pkwy 6
Parmer Lane	US-290 East - FM-973	--	MAD 4
FM-969/MLK Blvd	Decker Lane - FM-973	MAU 4	MAD 6
FM-969/MLK Blvd	FM-973 - SH-130 South	MAU 2	MAD 6
FM-969/MLK Blvd	SH-130 - Taylor Lane	MAU 2	MAD 4
FM-969/MLK Blvd	Taylor Lane - Burleson Manor	MAU 2	MAD 4
FM-973	US-290 East - FM-969	MNR 2	MAD 4
FM-973	FM-969 - SH 71 East	MNR 2	MAD 6
Blake Manor Road	FM-973 - Taylor Lane	MNR 2	MAD 4
Braker Lane/Blue Goose	FM-973 - Taylor Lane	--	MAD 4
Braker Lane/Blue Goose	Taylor Lane - Blake Manor	--	MAD 4
Burleson Manor Road	Blake Manor Road - FM-969	MNR 2	MAD 4
Burleson Manor Road	FM-969 - SH 71	--	MAD 4
Littig Road	FM-973 - Kimbro Road	MNR 2	MAD 4
Taylor Lane/Old Kimbro	US-290 East - Littig Road	MNR 2	MAD 4
Taylor Lane/Old Kimbro	Littig Road - Blake Manor Road	MNR 2	MAD 4
Taylor Lane/Old Kimbro	Blake Manor Road - FM-969	MNR 2	MAD 4
FWY = Freeway	MAD = Major Divided Arterial 4 Lanes		
PKWY = Parkway	MAU = Minor Undivided Arterial 2 Lanes		
Toll Parkway/Freeway 4 or 6 Lanes	MNR = Minor Arterial 2 Lanes		

The major roadways in the neighborhood are US-290, Decker Lane, FM-969 and FM-973. US-290 and FM-969 extend east and west, and US-290 is one of the primary ground transportation routes through the City of Austin. FM-969 provides linkage between the City of Bastrop to the east and the City of Austin to the west. Decker Lane provides linkage along the west side of the neighborhood between US-290 and FM-969 and is an important route for accessing recreational events at the Travis County Exposition Center in addition to several residential communities. FM-973 provides linkage between FM-969 and SH-71 to the south and US-290 to the north. This roadway is a route of choice for many travelers to a number of residential communities in the Manor area, and for many traveling to the Austin Bergstrom International Airport on SH-71.

There is no daily bus service or commuter rail service in the area. The closet closest Capital Metro bus line stops at the intersection of Loyola Lane and Decker Lane, about three miles west of the FM-973 and SH-130 intersection. The Austin-Bergstrom International Airport is a 10 to 12 minute drive using SH-130 or FM-973, a distance of about 10 miles from the intersection of these roads. The Austin Central Business District is approximately seven miles measured directly from the subject's FM-973 access point to IH-35 and 969/MLK Boulevard. It is approximately nine miles when measured by driving distance via FM-973 and FM-969.

**LAND USE AND FACILITIES**

Land uses within the neighborhood are primarily residential with various commercial sites located along the main thoroughfares. The neighborhood is about 30% single family, less than 5% multifamily, less



than 5% commercial, and the remainder is vacant land. Because this is a fringe area, land used for agricultural purposes occupies the majority of the undeveloped tracts.

There are three major recreational and cultural centers in the neighborhood, the Travis County Exposition Center located on Decker Lane, Walter E. Long Metropolitan Park on Decker Lake Road, and the Travis County East Metropolitan Park located on Blake-Manor Road at Burleson-Manor Road adjacent to the northwest corner of Whisper Valley. The Exposition Center is used for special events and is adjacent to Walter E. Long Metropolitan Park. The Travis County East Metropolitan Park was recently completed and includes a large community pool, baseball fields, soccer fields, a basketball court, playground equipment, concession facilities, hiking trails, and fishing ponds. Walter E. Long Municipal Park and its lake occupy a few thousand acres and provide a major recreational facility for the area.

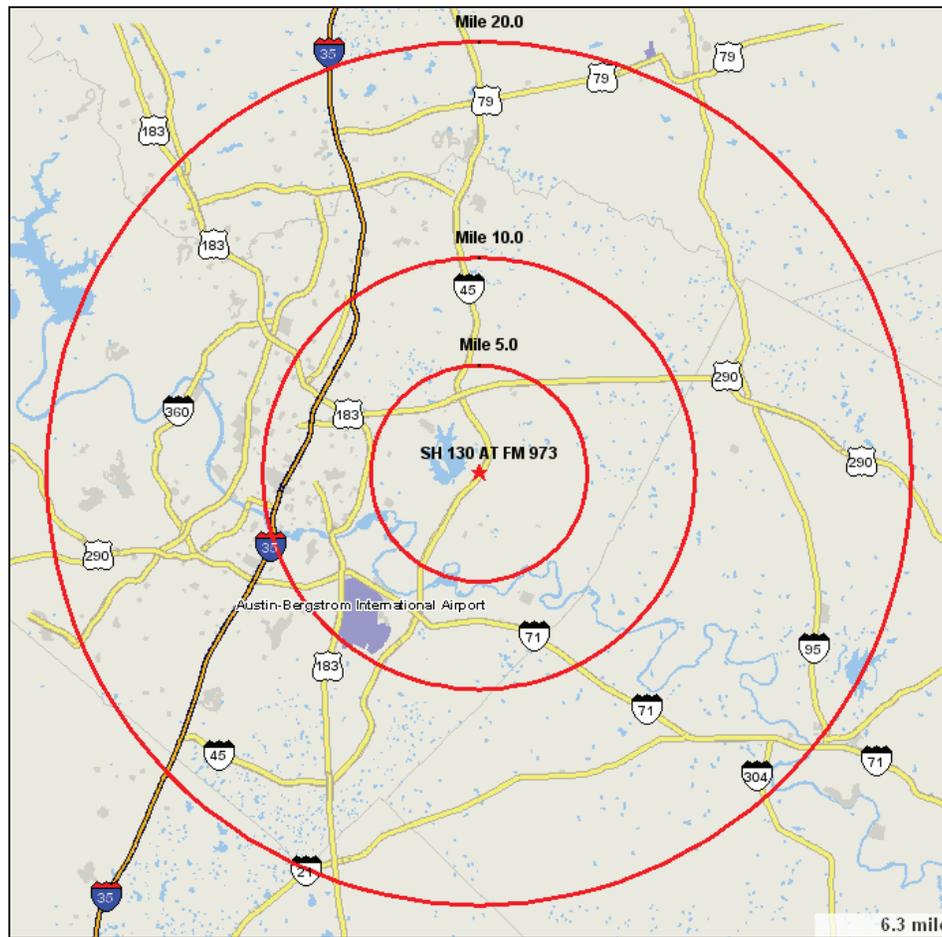
### **EMPLOYMENT**

There are three major high-tech employment centers in the area, Dell Computer in Round Rock, Samsung Electronics on Parmer Lane and Samsung Boulevard, and Applied Materials on US-290 East at Harris Branch Parkway. Walnut Creek Business Park and Tuscan Center at Walnut Creek are located at the north quadrant of U.S. Highway 290 East and U.S. Highway 183 and contain a mix of manufacturing, light industrial, and office improvements that employ a sizable workforce. Similar businesses are found along a portion of Springdale Road just south of U.S. Highway 290 East.

Significant growth was observed at Samsung and its two manufacturing plants. The first plant contains 764,000 square feet and was completed in 1997; construction of an adjacent semiconductor plant was finished in 2008 that adds 1.6 million square feet. Samsung announced plans for a \$3.6 billion expansion project for the second plant, Fab 2, in June 2010. It will add 500 permanent employees in Austin and its local payroll will expand to about \$105 million a year when the expansion is complete - a 50% increase in annual payroll. Fab 2 will be the largest chip manufacturing plant in North America, and the investment represents the largest single foreign investment in Texas and one of the largest in the United States. The continuation of Samsung's growth is expected to have a substantial impact on residential and supporting commercial growth in the east Austin market, much like Dell Computer's business expansion significantly impacted the Round Rock market in the 1990s.

**DEMOGRAPHIC PROFILE**

This is a fringe community located in east Austin. The map below shows the ring study areas outlined in the demographic table that follows.



**DEMOGRAPHIC ANALYSIS**

	5-Mile Radius	10-Mile Radius	20-Mile Radius	Austin MSA
Population 2000	18,591	274,570	928,961	1,249,763
Population 2010	31,419	324,882	1,199,328	1,765,393
Population 2015	36,719	351,762	1,329,859	2,086,147
Compound % Change 2000 - 2010	5.4%	1.7%	2.6%	3.5%
Compound % Change 2010 - 2015	3.2%	1.6%	2.1%	3.4%
Households 2000	5,055	100,599	360,232	471,855
Households 2010	8,587	117,407	456,233	656,710
Households 2015	9,909	126,558	503,433	775,332
Compound % Change 2000 - 2010	5.4%	1.6%	2.4%	3.4%
Compound % Change 2010 - 2015	2.9%	1.5%	2.0%	3.4%
Median Household Income 2010	\$44,629	\$38,739	\$56,760	\$58,887
Average Household Size	3.5	2.6	2.6	2.6
% Owner-Occupied Housing	71.6%	42.9%	55.1%	58.3%
% Renter-Occupied Housing	28.4%	57.1%	44.9%	41.7%

Source: Claritas

The current population within a 10-mile radius of the subject is 324,270, and the average household size is 2.6. Population in the area has grown since the 2000 census, and this trend is projected to continue over the next five years. The population within a 10-mile radius of the subject is projected to grow at a slower rate than the Austin MSA. This is typical of suburban or fringe areas like the subject's; however, the projection does not recognize the city's desire to promote growth in this area.

Median household income in the 10-mile radius is \$38,739, which is much lower than the \$58,887 household income for the Austin MSA. This area also has a higher rate of renters compared to owner occupants, which is related to the household income statistic. An influx of owner occupants through residential development should increase the median household income in the immediate area.

## DEVELOPMENT

The majority of this area is outside the corporate limits of a municipality. The city limits of Austin encompass the area around Decker Lake and in spotted areas around US-290 and to the west, but the bulk of the area is in the 2-mile and 5-mile extraterritorial jurisdictions (ETJ) of Austin or Manor. In the ETJs, development plans must be approved by one of those entities or by Travis County.

Whisper Valley, Indian Hills, and Wild Horse are located in limited purpose annexation areas by the City of Austin. The City of Austin has expressed the desire to plan annexations extending east from the City's current limit line to those areas proximate to the SH-130 highway corridor. The intent is to manage development with zoning where numerous developments are currently in the planning, application, and development stages. The neighborhood is not considered to be particularly environmentally sensitive when compared to the areas to the west of IH-35; hence, development in this area is preferred by the City.

The predominant development in the area has been for single-family projects. Most new subdivisions have been with high density layouts with entry level pricing, while the older residential developments in the area tend to be low density including small acreage sites. The following tables summarizes single family residential subdivisions with new home construction activity. This data is presented because the additional housing in the area will affect the need for development in the neighborhood, including Indian Hills. The data is arranged according to entry level price.

### NEIGHBORHOOD DEVELOPMENTS WITH NEW HOME ACTIVITY

Subdivision Name	Location	Asking Price Range	
		Low	High
Chaparral Crossing	South side of FM-969 betw. SH-130 and Taylor	\$79,900	\$99,900
Bell Haven Farms	North side of Old US 20 east of FM-973	\$99,000	\$139,900
Austin's Colony	South side of FM-969 betw. SH-130 and Taylor	\$99,900	\$152,990
Forest Bluff	North side of FM-969 at Delta Post	\$99,900	\$156,740
Stonewater	North of US-290 east of FM-973	\$99,990	\$158,240
Woodland Hills	North side of FM-969 at Decker Lane	\$109,990	\$143,990
Hornsby Glen	West side of FM-973 north of SR 71	\$114,990	\$160,240
Briarcreek	Blake-Manor Rd. at Briarcreek Loop	\$118,100	\$132,000
Stirling Bridge	South side of Parmer Lane at Harriss Branch	\$118,900	\$152,990
Shadow Glen	North side of US-290 just west of FM-973	\$118,950	\$259,990
Wildhorse Creek	FM-973 at Brenham and Blake-Manor Road	\$124,900	\$140,700
Carriage Hills	North side of Old TX-20 west of FM-973	\$126,000	\$142,900
Presidential Glenn	North side of US-290 east of FM-973	\$139,990	\$209,990
Presidential Meadows	North side of US-290 just east of FM-973	\$169,500	\$205,000

With the exception of Shadow Glen's upper end, pricing for the majority of these developments falls well within the affordable housing category. Shadow Glen also offers homes in the \$350,000 range in a golf course community, but the majority of the neighborhood demand is toward the lower end of the price range.

An Affordable Ownership Requirement defined in the Development Agreement of Whisper Valley and Indian Hills states that at least 10% of the Whisper Valley housing must be affordable to a household whose Median Family Income (MFI) is equal to or less than 80% of the MFI in the Austin area. The MFI was \$73,800 for a family of four in the city’s publication that became effective June 26, 2010, and 80% is \$59,040. This is a monthly income of \$4,920 of which no more than 30% can be for mortgage payments (or rent) and utilities, or \$1,476. If utilities average \$200 per month, a monthly housing payment of \$1,276 is available. Homeowner’s insurance is estimated at \$75 per month, and property taxes are estimated at \$313 per month based on a \$150,000 assessment at a 2.5% tax rate. This leaves \$851 for principal and interest. The March 1, 2010, 30-year fixed mortgage rate according to www.money-rates.com is 4.8%. Based on these assumptions, a loan of \$162,198 is available, indicating a sales price of \$170,000 with a 5% down payment or \$180,000 with 10% down. This level encompasses all but three of the 14 developments in the table.

A search was made of the Austin MLS system for homes in the Manor submarket built in 2010 or later in all price ranges. The search resulted in 24 listings priced from \$118,080 to \$178,410 with a median price of \$130,435. Note that builders often list only one floor plan or use onsite sales personnel and bypass the MLS system for listings. Consequently, this is a sampling and not a complete accounting of current inventory. Given that the median sales price in 2010 in Austin was \$189,400, the \$130,435 median asking price in the submarket indicates that builders in this area are targeting the entry level market almost exclusively.

Absorption in the overall Austin market was rapid prior to the subprime issues that began to unfold in mid-2007. The market slowed in the period from 2008 to 2010, but lately has shown definite signs of improvement through stabilized permit activity and pricing. Current development activity is characterized by numerous land acquisitions, subdivision planning, and platting for single family housing. In addition to the 14 developments summarized above, there are four major developments recently mentioned in the local media, plus the subject. These four in the table below are located in the northeast to southeast market near SH-130 and seek to take advantage of the new toll road traffic.

<b>PLANNED DEVELOPMENTS NEAR SH-130</b>					
<b>Project</b>	<b>Sun Chase</b>	<b>Pilot Knob</b>	<b>Rio De Vida</b>	<b>Fossil Creek</b>	<b>Units</b>
Size in Acres	1,604	2,214	2,130	293	
Residential Units	3,921	8,080	4,018	922	16,941
Multifamily Units	900	6,730	4,055	Included	11,685
Commercial	87 acres	3.8M SF	9,000 jobs	40 acres	NA
Financing	4 MUDs	MUD	MUD	No MUD	
Notes	12-15 year sell out projection	Plus a 40-bed hospital and an 850-room hotel	Seeking 15,000 residents and 9,000 jobs	Withdrew MUD application 2-24-2011	Total units 28,626

The subject and sister project Whisper Valley will be developed under a PID agreement rather than the customary MUD program approved for three of these four projects. Because the difference is primarily in the reimbursement timing to the developer, there is no visible difference or advantage to the buying public. Consequently, these developments are potential competitors for the subject during its sellout period. Fossil Creek withdrew its MUD application in reaction to new regulations passed by the City of Austin on February 17, 2011, that includes, among other things, a requirement that the development use the Austin water utility, requires districts to adopt tax rates that are equal to or greater than Austin’s property tax rate, comply with the city’s PUD zoning regardless of actual zoning, and provide “extraordinary public benefits”. Similar regulations are inherent in the subject’s development and PID agreements.

**CONCLUSION**

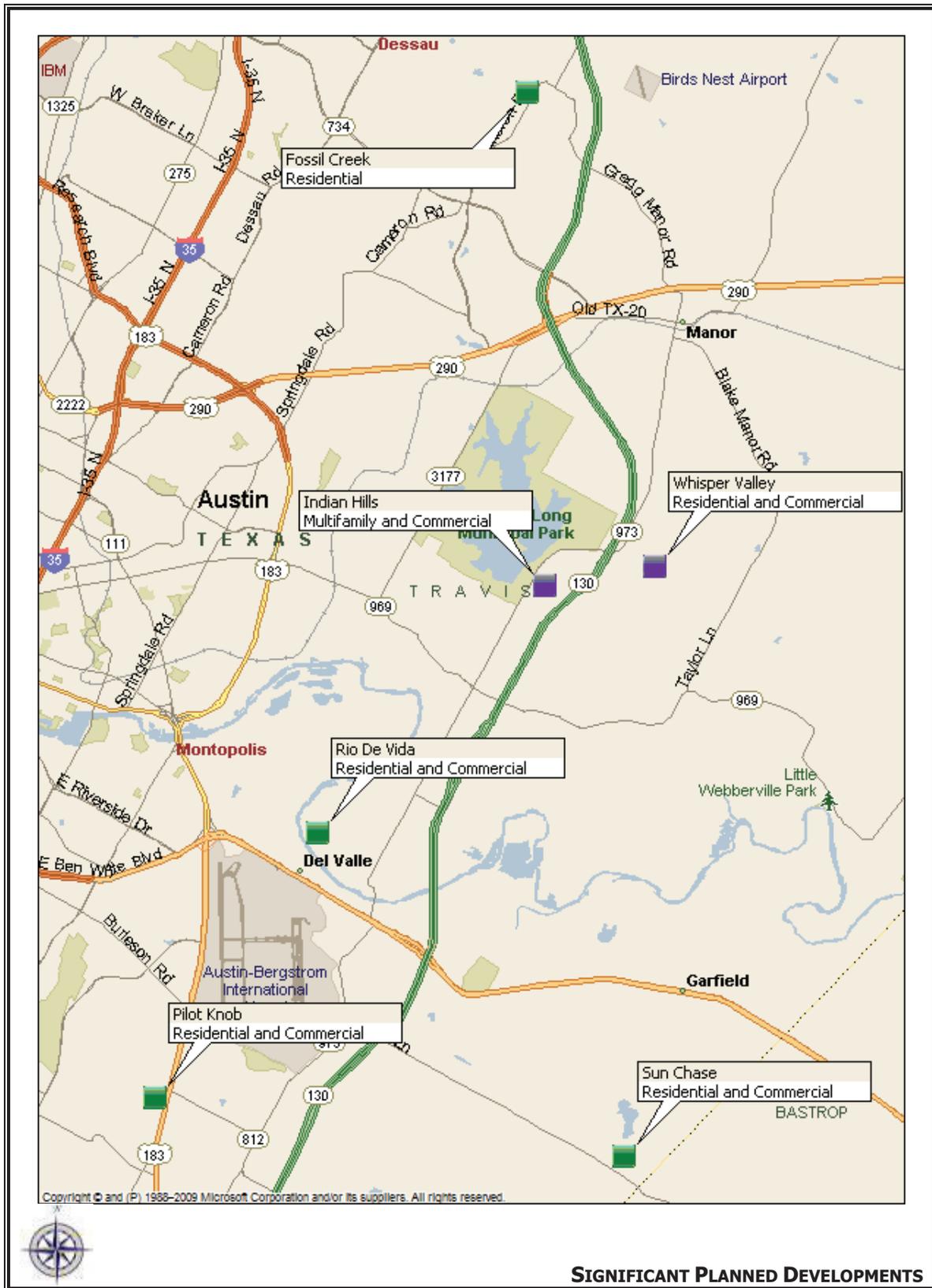
Development is not feasible without a mechanism to build infrastructure. This can be accomplished by purchasing land in an area within the city where the infrastructure is the responsibility of the municipality,



or by establishing one of the bond financing methods available under Texas law. The most common is a Municipal Utility District (MUD), but the subject will be the first Public Infrastructure District (PID) in the Austin market. The main difference is that the project developer, and any subsequent developer of the individual parcels, is reimbursed upon completion of qualifying components as opposed to waiting to collect proceeds over the sellout period and beyond. An additional benefit is that a PID allows reimbursement for roads and parkland improvements usually not included in MUD reimbursements.

This neighborhood has realized limited growth while the Austin market has expanded rapidly over the past twenty years. Most of the significant growth east of IH-35 has occurred north of the subject in the Pflugerville and Round Rock markets or south in Buda and Kyle. Residential growth along SH-130 has been strongest in Pflugerville and Hutto. Although the east and southeast markets have several new developments, they have not experienced the extent of expansion and growth seen in the areas noted above.

The lack of infrastructure in this area has contributed to its lack of growth. The roads outlined in the CAMPO plan are expected to spur development as they are completed. The subject will bring roadway and utility infrastructure to the area that could spark new growth more quickly. Over the long term, the subject will have substantial competition as developers move to benefit from the new infrastructure in the east Travis County market. The history and trends of commercial development, along with additional residential analysis, are outlined in the next sections.



Whisper Valley will include development of sites for several different property types including single family detached, attached, and multifamily residential properties. Commercial properties are also planned and are expected to be primarily retail but some office sites are proposed. Indian Hills will contain multifamily and industrial improvements, primarily office/flex properties. Because these two projects contain both residential and commercial potential, an analysis of all property types is presented in this section.

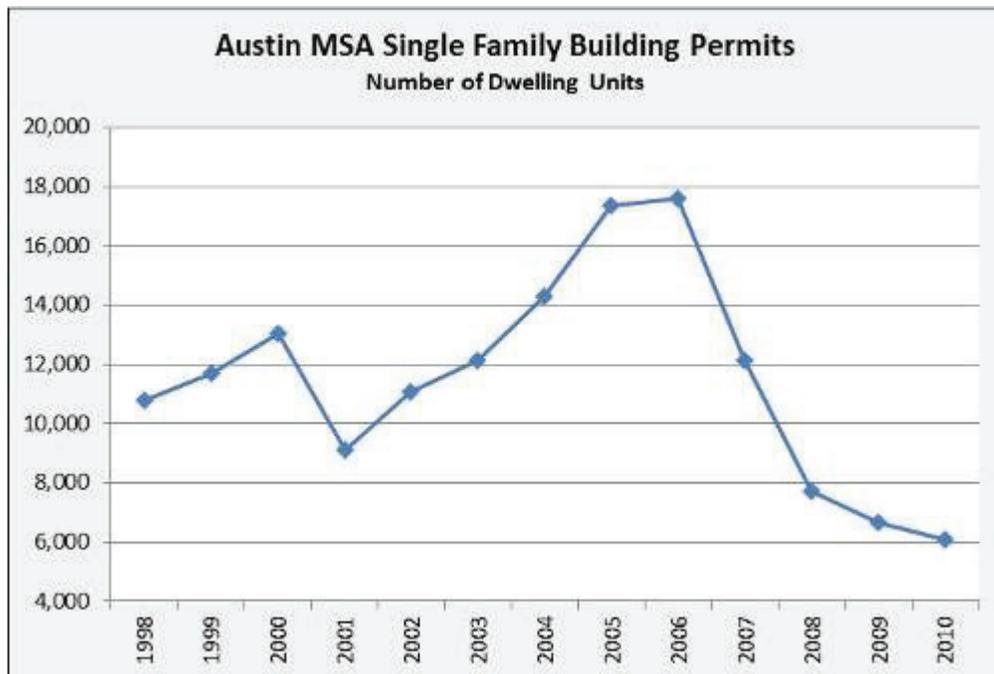
Indian Hills will be developed exclusively for multifamily and commercial use. Whisper Valley will be primarily a residential development, and the commercial properties will exist largely in a supporting role. Although Indian Hills is a not a single family development, its success will depend on the general growth in the area, which is usually led by the growth of single family development. Therefore, a residential market analysis follows along with a examples of mixed use project absorption.

**RESIDENTIAL MARKET ANALYSIS**

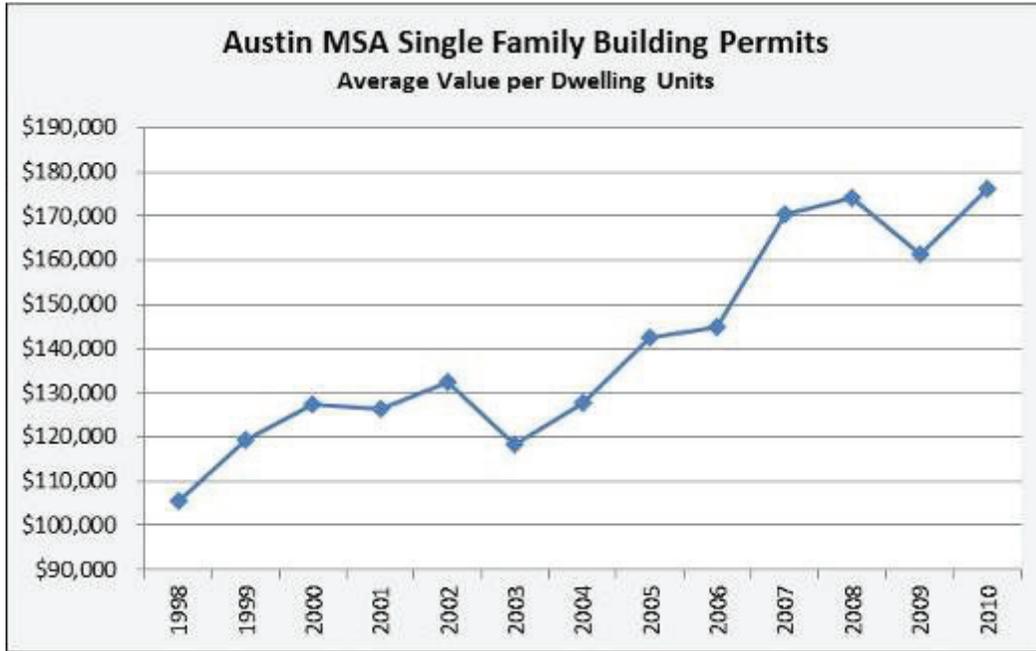
The strength of any market depends on supply and demand. Supply and demand in this submarket directly affects the subject’s value, as well as its potential exposure time and marketing period. Over the past few decades, Austin grew substantially, bounded primarily by the limitations imposed by geography.

**Permit Activity**

Single family permit activity, which includes condominium units, in the Austin-San Marcos MSA area over the past 13 years is as follows. The source of all data in the charts in this section is the Real Estate Center at Texas A&M University and the Austin MLS system, and the data is through the end of 2010.



The number of permits issued reached peak levels in 2005 and 2006, and then fell precipitously in 2007 and 2008. The decline continued at a slower pace in 2009 and 2010. The last three years have produced less than 8,000 permits annually, and the last time the 8,000 level was *not* exceeded in Austin was in 1995 when 7,435 permits were issued.



The average value of the permits dropped 7.2% in 2009, the first decline since 2003. However, in 2010 the average value increased 9.2% to wipe out the previous year’s loss and continue higher than any previous level (including prior years not shown in this chart). This might be an indication of higher priced homes being more dominant than an indication of any change in price direction, especially in view of the higher qualifying standards that resulted from the subprime debacle and reduced the volume of sales in the lower price range.

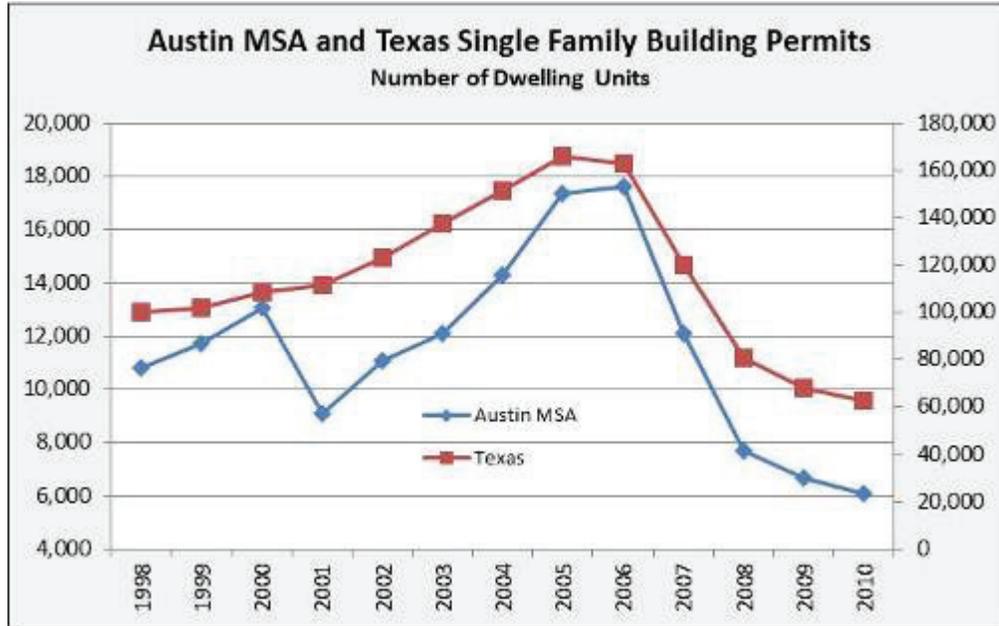
**Economic Overview – State and Region**

In 2010, permits issued in the state of Texas totaled 62,980 units, a 7.7% drop from 2009 when the state total was 68,230 single family building permits. The 2009 level was a decline of 16% from the 2008 total and 2008 represented a 33% decline from 2007. The 2007 level was a 26% decline from the 163,032 permits issued in 2006, which was only 2% below the record 166,203 issued in 2005. Between 1998 and 2005, permit activity increased every year with 10% to 12% increases in 2002 through 2005 during the heated period leading up to the subprime crisis. These results are shown in the table below.

<b>SINGLE FAMILY PERMIT HISTORY</b>				
Austin MSA Compared to the State of Texas				
Year	Austin MSA	Change	Texas	Change
1998	10,805		99,912	
1999	11,704	8.3%	101,928	2.0%
2000	13,045	11.5%	108,782	6.7%
2001	9,115	-30.1%	111,915	2.9%
2002	11,072	21.5%	122,913	9.8%
2003	12,116	9.4%	137,493	11.9%
2004	14,309	18.1%	151,384	10.1%
2005	17,346	21.2%	166,203	9.8%
2006	17,615	1.6%	163,032	-1.9%
2007	12,120	-31.2%	120,366	-26.2%
2008	7,710	-36.4%	81,107	-32.6%
2009	6,678	-13.4%	68,230	-15.9%
2010	6,069	-9.1%	62,980	-7.7%

*Source: Real Estate Center at Texas A&M*

In this chart, the relationship of permit activity between the Austin market and the state of Texas is compared. The Austin market experienced a drop in the 2000 to 2001 period because of the tech bust that did not affect the entire state. From that time forward, the trend is very similar.



A 21 year history of sales and pricing trends, along with inventory measures, is as follows.

**AUSTIN MLS RESIDENTIAL CHANGE HISTORY**

Year	Volume	Change	Average Price	Change	Median Price	Change	Total Listings	Months Inventory
1990	7,159		\$87,600		\$73,000		5,071	9.1
1991	7,581	5.9%	\$93,800	7.1%	\$76,400	4.7%	4,209	6.8
1992	8,503	12.2%	\$104,300	11.2%	\$83,700	9.6%	3,676	5.6
1993	9,926	16.7%	\$114,800	10.1%	\$91,600	9.4%	3,516	4.6
1994	10,571	6.5%	\$120,400	4.9%	\$96,000	4.8%	4,302	4.9
1995	11,459	8.4%	\$125,700	4.4%	\$100,500	4.7%	4,436	4.9
1996	12,597	9.9%	\$132,800	5.6%	\$108,700	8.2%	5,787	5.6
1997	12,439	-1.3%	\$141,700	6.7%	\$112,600	3.6%	6,005	6.0
1998	15,583	25.3%	\$149,800	5.7%	\$117,900	4.7%	4,976	4.2
1999	18,135	16.4%	\$149,800	0.0%	\$126,600	7.4%	3,948	2.8
2000	18,621	2.7%	\$191,200	27.6%	\$144,500	14.1%	3,658	2.4
2001	18,392	-1.2%	\$193,400	1.2%	\$150,600	4.2%	7,164	4.7
2002	18,716	1.8%	\$197,500	2.1%	\$154,500	2.6%	8,831	5.6
2003	19,793	5.8%	\$197,000	-0.3%	\$154,800	0.2%	10,340	6.6
2004	22,567	14.0%	\$198,900	1.0%	\$154,100	-0.5%	10,394	5.9
2005	26,905	19.2%	\$210,400	5.8%	\$161,300	4.7%	8,965	4.3
2006	30,284	12.6%	\$229,900	9.3%	\$172,200	6.8%	8,695	3.6
2007	28,048	-7.4%	\$246,400	7.2%	\$184,200	7.0%	9,833	4.0
2008	22,440	-20.0%	\$243,800	-1.1%	\$188,200	2.2%	11,585	5.5
2009	20,747	-7.5%	\$237,300	-2.7%	\$186,000	-1.2%	10,803	6.4
2010	19,835	-4.4%	\$246,900	4.0%	\$189,400	1.8%	11,579	6.6
Compound Annually		5.2%		5.3%		4.9%	Average	5.2

Source: Real Estate Center at Texas A&M University and Austin Board of Realtors

A 21 year history is shown because the subject will be developed over a long term, and the additional data can help predict the long-term outlook. Although the short-term results have less meaning when

considering a project of the subject's scale, the 2010 sales volume shows a reversal of the declining direction that began in 2007. In 2007, the sales volume in the MLS area decreased for only the second time in the most recent 10 years. The last volume decrease, in 1997, was slight and was a pause in the rapidly expanding Austin market after the declines of the late 1980s. The 2000 to 2002 era was a correction period from the tech bust, and the periods between 2003 and 2006 were record-setting upswings. Although the 2007 pace lagged the 2006 record, 2007 was still more than the 2005 pace and higher than any year previous. The 2008, 2009, and projected 2010 volume is also above any year prior to 2004.

The average price rose in the 2010 estimate after dropping in 2009, but the median price has risen or fallen less than 2% over the last three years after peaking in 2008. Supply, as shown in the column labeled Months Inventory, increased in 2007 but only to a normal level compared to most years since 1998 and jumped in 2009 and 2010 to the highest supply since 2003. The 21 year historic average of 5.2 months inventory is well below the critical point of nine months that private mortgage insurers perceive as a warning.

Interest rates have been historically low, which has resulted in increased debt and a surge in home purchasing during the past several years. It is noteworthy, however, that the U.S. Federal Reserve increased the federal funds target rate 17 times (one quarter of a point each time) during consecutive FOMC meetings between June 2004 and June 2006 in an attempt to control consumer spending. The rate changed from 1.00% to 5.25% over this period. Since then, the rate has dropped in an effort to boost the financial markets to the present level of 0.25%. Mortgage interest rates are currently at historic lows as a result.

### **Absorption**

The following table summarizes the actual sales history of three sample developments.

<b>LOT UNIT SALES - MIXED USE DEVELOPMENTS</b>			
	Teravista	Falcon Pointe	Mueller
Developer	Newland	Newland	TPG/COA
SFR Units Planned	3,161	1,584	4,900
Lot Price Range	\$35-\$50K	\$37-\$45K	\$33-\$65K
Unit sales history by year			
2001	7	x	x
2002	99	x	x
2003	113	35	x
2004	92	80	x
2005	247	71	x
2006	352	107	x
2007	428	120	x
2008	139	47	x
2009	92	71	x
2010	183	92	x
Sales through 2010	1,752	623	650
Units per year*	194	84	217
<i>**Starting in the 2nd period or the first full year of production</i>			

The last decade included the end of a boom, a correction, an unprecedented rise, a collapse, and now a recovery period. The individual reasons for these cycles are unlikely to repeat, but cycles are a typical component of real estate trends, and a study of the entire period yields a reliable probability of future results. The table above shows three developments, two with histories during the cycles and one with influence from the City of Austin. All are mixed use developments that include commercial properties, and Teravista includes a golf course owned and operated by the developer. Teravista and Falcon Pointe have

infrastructure financed through MUD taxes, and Mueller's infrastructure is provided by the City of Austin and has a city property tax. The sales experience of these developments provides one measure of the subject's absorption probability over the long term.

Teravista has been under construction since 2001 and includes both commercial and residential sites as well as a 7,200-yard public golf course with a café. New homes are priced from \$169,990 to \$339,990 and higher. The project is surrounded by extensive new retail development including the Round Rock Premium Outlets Mall, IKEA, University Oaks, and the University Commons regional shopping centers. In addition, it contains or is located in close proximity to new hospitals, medical offices, and three university facilities. It will eventually contain over 3,000 single family homes and currently includes two apartment developments with 638 units. There is a proposed assisted living facility scheduled to be built in 2011 with 250 living units in two buildings plus 18 townhome-style buildings. This development is superior to the subject, and its rate of 194 sales per year is much higher than Whisper Valley can expect for several years.

Falcon Pointe has also been under construction since 2001 with the first sales appearing in MLS data in late 2002. The first 196 lots were sold in bulk to another developer and are not included in the table. The development includes both commercial and residential sites with over 1,584 residential lots planned. It is located on the north and south sides of Kelly Lane adjacent to the east of the T-shaped intersection of two major toll roads, SH-130 and SH-45. New homes are priced from \$151,990 to \$267,800.

The area is growing with new retail development including the Stone Hill Town Center, a one million square foot retail center at the southwest corner of SH-130 and SH-45 directly across the toll road from Falcon Pointe. Among the tenants are Home Depot, Super Target, and Dick's Sporting Goods. Within the development are an elementary school, a middle school, and a high school. Amenities include a residence center with a pool, tennis courts, sand volleyball, basketball courts, parks, hiking trails, and detention ponds built as small lakes.

Falcon Pointe's location is superior to the subject because it is in the shadow of the intersection of the two toll roads, but this was not the case until 2007 when the roads were completed. However, it was close to the growing Round Rock and Pflugerville markets since its beginning. Overall, this development provides the closest indicator for the subject because it began in a fringe market and preceded and drew other development to the area. The pace of 84 lots per year is viewed as the most likely starting pace for the subject.

The third development, Mueller, is included because it involves the planning influence of the City of Austin. The subject's developer notes that the intention of Whisper Valley is to develop in a similar manner with attached and detached homes in an urban setting. This is the Robert Mueller Airport redevelopment by The City of Austin that began construction in the mid-2000s. The development contains retail and office sites along with Dell Children's Hospital, supporting facilities including medical office buildings and a Ronald McDonald center, and a 380,000 square foot retail development at its entrance on IH-35. The commercial space in Mueller is projected to reach 3.8 million square feet, reasonable given its urban location near numerous business centers and a few miles from the central business district. The goal of the residential section is 4,900 lots, and approximately 650 have been built and sold since late 2007. The finished home price range is from \$120,000 to \$480,000, the former representing the city's affordable housing requirement. The starting level for non-affordable product is about \$240,000.

The yearly lot sales history is not known for Mueller, only the totals through the end of 2010. The pace of 217 lots per year is viewed as unattainable by the subject because Mueller's superior urban location is unmatched by any other residential development in the community. The sales pace could actually be much higher because the development has been out of inventory at times. Like Teravista, this sets the upper limit that might be expected in the subject's area once development progresses.

**SUMMARY OF RESIDENTIAL MARKET ANALYSIS**

The Austin residential market is relatively healthy when compared to national markets, and its strength is not recent or sporadic. The continuation of residential market stability can be reasonably expected based on Austin's long history of steady and consistent development. Whisper Valley is planning 2,800 single family detached units and 2,000 attached units (not including multifamily). The pace indicated by the projects outlined above is about 100 units per year at first and up to 200 per year eventually. Based on these projections, an absorption period of 24+ years to 48 years is indicated, and probably toward the latter because access will require the completion of several road projects before relocating to the area is acceptable to most commuters.

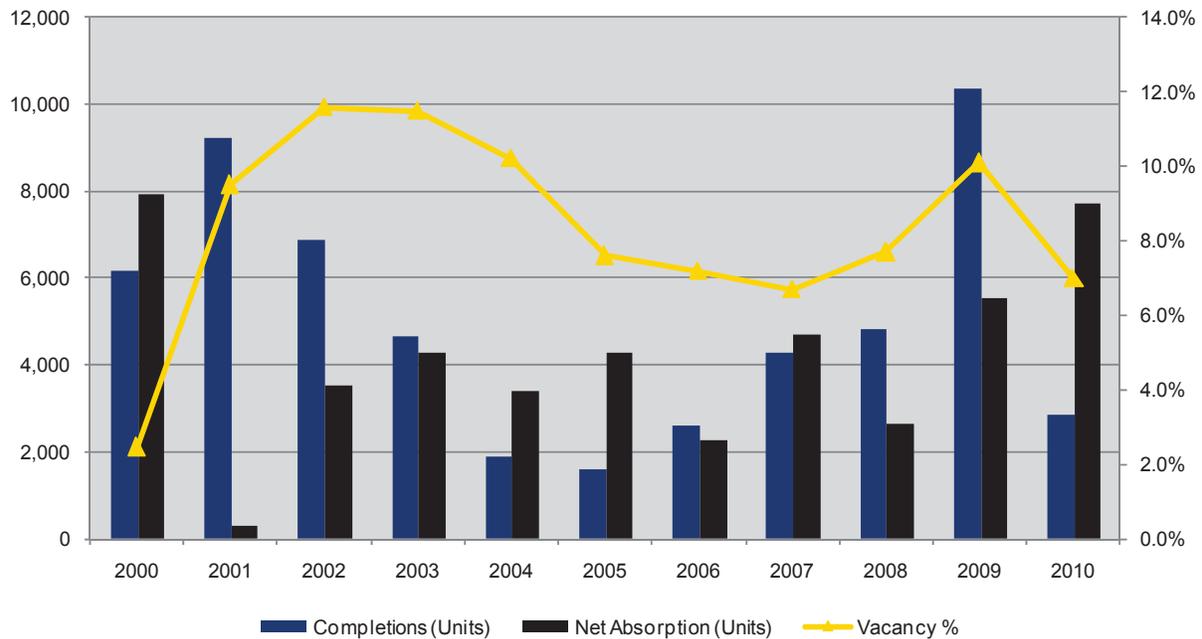
**MULTIFAMILY MARKET ANALYSIS**

Indian Hills estimates that 1,500 apartment units will be built in Tract 1, the north tract that contains about 90 acres, a ratio of 17 units per acre. Whisper Valley plans 2,600 multifamily units spread over its mixed use land. Since a typical garden style apartment normally includes 250 to 400 units, four to six projects might be built in Indian Hills, and six to ten projects in Whisper Valley. The following multifamily data was gathered from REIS pertaining to multifamily inventory in the Austin metropolitan market.

**METRO TRENDS - AUSTIN APARTMENT MARKET**

Year	Period (Qtr.)	Inventory (Units)	Completions (Units)	Vacancy %	Net Absorption (Units)	Asking Rental Rate	Effective Rental Rate	Annual Eff. Rent Growth
2000	Annual	115,265	6,164	2.5%	7,917	\$773	\$768	
2001	Annual	124,507	9,242	9.5%	292	\$807	\$767	-0.1%
2002	Annual	131,409	6,902	11.6%	3,518	\$784	\$712	-7.2%
2003	Annual	136,069	4,660	11.5%	4,287	\$769	\$686	-3.7%
2004	Annual	137,887	1,902	10.2%	3,405	\$758	\$669	-2.5%
2005	Annual	138,626	1,629	7.6%	4,287	\$769	\$685	2.4%
2006	Annual	140,568	2,609	7.2%	2,295	\$791	\$710	3.6%
2007	Annual	144,803	4,309	6.7%	4,704	\$835	\$754	6.2%
2008	Annual	149,243	4,836	7.7%	2,646	\$870	\$783	3.8%
2009	Annual	159,500	10,377	10.1%	5,560	\$871	\$781	-0.3%
2010	Annual	162,362	2,862	7.0%	7,721	\$885	\$801	2.6%
11 Year Average		140,022	5,045	8.3%	4,239	\$810	\$738	0.5%

Source: Reis, Inc.



The current vacancy rate has returned to the 7% range that has been consistent in the last five to six years. Over the long term, a sub-10% vacancy rate can be expected as evidenced by the 11 year average of 8.3%.

The average effective rental rate increased in 2010. Rents are expected to continue to increase in the near future as the multifamily market has been resilient to the economic downturn of the last three to four years.

Future market-wide demand will be increasing if the projected population growth summarized in the table on page 23 is achieved. Based on the growth of 64,000 people a year, a ratio of 39% renters, and an average household size of 2.62, there will be a need for approximately 9,500 new units per year in the entire Austin MSA. Although some of those renters will lease homes and not apartments, the indicated demand is much higher than the average yearly 4,239 unit absorption in the table above. However, a reasonable expectation is that the future will continue closer to the same path as the past, and about 4,500 to 5,000 units per year will be needed.

Four to six apartment projects with 1,500 units, along with six to ten projects with 2,600 units in the subject's sister development, will require other nearby development (retail, office, and industrial) to create a need for the additional units. Commercial development that brings job opportunities to the immediate area will need to be in place to generate demand at this level. Other competition in the area must be recognized, such as the 11,685 units in the planning stages in the general SH-130 corridor as outlined in the table of planned projects on page 25.

In Teravista, one of the large master planned communities described previously, 638 units were built in two projects completed in 2008, about six years after the development opened for lot sales. This is a pace of about 100 units per year in an already populated and developed area. In Falcon Pointe, another large mixed use project located along SH-130 in the Pflugerville area north of the subject, the land set aside for multifamily development is yet unused at the seven year point of project development.

The demand for this many units in a previously undeveloped submarket will eventually occur if the city's growth goal fills the eastern part of the county to the toll road and beyond. But a pace of 100 units per year as indicated by Teravista is not achievable for the first several years, and once the need for new development is established, a goal of 1,500 and 2,600 units will require a long time to be realized.

In summary, the multifamily goal of 1,500 units, or 4,100 units including the Whisper Valley sister project, is viewed as long term and will depend on other goals being reached to provide nearby employment opportunities. The absorption requirement is too distant to be reliably estimated, but a few projects totaling 600 to 800 units can be reasonably expected in the first 10 years.

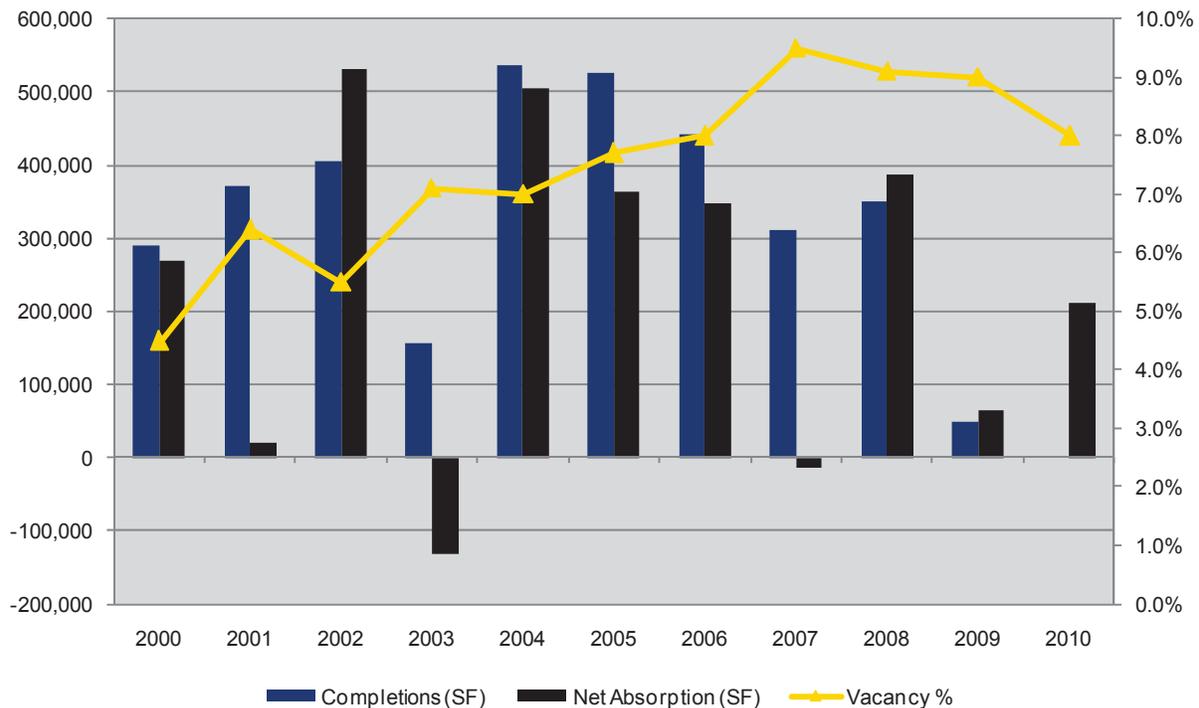
**RETAIL MARKET ANALYSIS**

The commercial property goal at Indian Hills is 2,651,000 square feet of general office, research and development facilities, and light industrial space. The LI zoning does not preclude the construction of retail space such as convenience stores and restaurants that might be necessary to support the multifamily section and the employees of the commercial spaces. An additional 131,000 square feet of neighborhood retail is planned. Whisper Valley plans 1.8 million commercial square feet including retail and office space. No division of retail and office allocation is presented in the information provided, but retail space is expected to be the bulk of the commercial space for reasons noted in the next section describing office space demand. The Austin retail picture is summarized in the table below.

**METRO TRENDS - AUSTIN RETAIL MARKET**

Year	Period (Qtr.)	Inventory (SF)	Completions (SF)	Vacancy %	Net Absorption (SF)	Asking Rental Rate	Effective Rental Rate	Annual Eff. Rent Growth
2000	Annual	17,113,000	292,000	4.5%	270,000	\$16.33	\$15.73	
2001	Annual	17,484,000	371,000	6.4%	22,000	\$16.48	\$15.51	-1.4%
2002	Annual	17,890,000	406,000	5.5%	532,000	\$17.08	\$15.82	2.0%
2003	Annual	18,046,000	156,000	7.1%	-132,000	\$17.41	\$15.90	0.5%
2004	Annual	18,584,000	538,000	7.0%	506,000	\$17.95	\$16.39	3.1%
2005	Annual	19,111,000	527,000	7.7%	364,000	\$18.50	\$16.84	2.7%
2006	Annual	19,553,000	442,000	8.0%	349,000	\$19.14	\$17.35	3.0%
2007	Annual	19,865,000	312,000	9.5%	-12,000	\$19.88	\$17.99	3.7%
2008	Annual	20,217,000	352,000	9.1%	388,000	\$20.61	\$18.71	4.0%
2009	Annual	20,266,000	49,000	9.0%	66,000	\$20.56	\$18.55	-0.9%
2010	Annual	20,266,000	0	8.0%	212,000	\$20.20	\$18.22	-1.8%
11 Year Average		18,945,000	313,182	7.4%	233,182	\$18.56	\$17.00	1.5%

Source: Reis, Inc.



The retail market has been the steadiest of the commercial real estate groups with high occupancy in spite of continuous new inventory. Rental rates increased every year since 2002 before falling slightly in 2009 and 2010. The steady rate of 300,000 to 500,000 square feet of new inventory every year paused in 2009 with only 49,000 square feet of new space followed by no completions in 2010. This helped to keep rental rates steady, and resulted in falling vacancies in 2008, 2009, and 2010 when other groups were unsteady.

The outlook for retail space continues to be optimistic for the Austin market as population growth persists and well planned projects lease up in a short time. Examples of this include the 380,000 square foot shopping center at Mueller that was 95% occupied two years after completion. Similarly, the University Oaks Shopping Center in Round Rock near Teravista reached nearly 100% occupancy in less than two years for 236,000 square feet of shopping space, and most of its pad sites were sold before construction of the center was completed.

REIS, the source of the metropolitan data in the table and chart on the previous page, divides the Austin retail market into three submarkets, the central and downtown area, Round Rock and Williamson County, and the south Austin submarket. It includes retail properties in complexes with 5,000 or more square feet in community or neighborhood shopping centers. Excluded are free-standing, mixed use, outlet center, power center, and regional properties. Also excluded is most of the area east of IH-35 from about SR-71 on the south to Round Rock on the north because there is little or no investment grade retail development in this area other than directly adjacent to IH-35. As development in the east Austin market progresses, this should change.

The Capitol Market Research December, 2010 report is referenced for a broader geographic view of the market, although it only includes properties in excess of 10,000 square feet. Like the REIS report, CMR excludes free standing properties. It includes the east Austin market as well as Hays County, two areas not found in the REIS data. In the CMR report, the total size of the Austin market, as defined, is 40,754,222 square feet. The December, 2010 vacancy for these properties is 9.6% compared to the 8.0% vacancy reported for the properties in REIS data. The average effective rent was \$19.43 compared to the REIS effective rent of \$18.22. The discrepancies are insignificant, and the trends in the two sources are parallel.

The relevant statistic for the purpose of estimating absorption is the same in the two sources as REIS reports 2010 net absorption to be 212,000 square feet and Capitol Market Research reports 211,639 square feet taken in the same period. Historic absorption in the 11 year period summarized in the REIS table shows an average annual absorption of just over 300,000 square feet.

Capitol Market Research reports that there are only two centers currently under construction in the Austin market. One is a 79,359 square foot center near Mopac Expressway and Slaughter Lane in the southwest submarket, and the other a 29,500 square foot strip center near Mopac Expressway on Steck Avenue in north central Austin. However, there is 5,795,000 square feet of planned retail development including a 700,000 square foot facility at US-290 and FM-973 in Manor four miles north of the subject. The subject's retail plans will not likely include a regional center in this size range.

The subject is located in the northeast submarket in the CMR report. This submarket has 868,399 square feet of retail space, or 2% of the total market. There were 424,361 square feet in the area before 1995. In 2006, another 64,038 square feet were added, and in 2007, 380,000 square feet were added. The trend of the retail market in the area reflects the lack of population growth and development.

The history of the subject submarket provides no clues for the growth of the future because of its lack of activity. Instead, other areas that have had recent growth were studied. One such area is the south central submarket of the CMR report, which is the area south of Ben White along IH-35 in south Austin. Until 2004, there were 3.4 million square feet of retail space in this submarket, and today the market size is 5.5 million square feet, or 13.4% of the market total. The additional two million square feet came online between 2005 and 2008. However, nothing was built in 2009 and 2010, and the 10 year average of new space is 219,318 square feet per year. Compared to the market-wide annual absorption of

300,000 over the 11 year period in the REIS data, this indicates a level of rapid growth for this submarket.

The growth in the south central Austin market was prompted by several new residential subdivisions in the early to mid-2000s, but mostly by the construction of a Cabela's outdoor store, a Wal-Mart Super Center, and an HEB grocery-anchored center built in north Hays County just south of the south central Austin submarket. These facilities created the rapid expansion in the south suburban communities of Buda and Kyle, then even more residential construction and a hospital. The SH-130 toll road connects to SH-45, which connects to IH-35 at the Hays County/Travis County line very near these retail centers. The south central Austin market was the logical place for substantial retail development because it could benefit from the growth in both directions. The subject's location is inferior compared to this market, which is located on the main interstate thoroughfare that splits Austin and draws from all sides. The 200,000+ square feet per year achieved in this submarket is higher than expected in the subject's area for several years.

The north central/Pflugerville submarket in the CMR report is another area that has seen new and rapid growth in the last 20 years during Austin's expansion period. This submarket currently has 10.7% of the overall market size. Since 2001, 2.6 million square feet were added, 60% of the current submarket total. This is a rate of 260,000 square feet per year, once again in a submarket located along the interstate that already had substantial infrastructure and drew from both the adjacent Austin market and the expanding Round Rock market to its north. The subject is inferior and should be expected to perform at a lower level.

The Round Rock market grew exponentially in the 1990s because of Dell Computer. The submarket has 11.7% of the market's retail space. There was no new construction in 2010, but from 2000 to 2009, 2,506,789 square feet was added. This is 250,000 square feet per year, once again similar to the other fast growing markets in view of the annual pace of 219,000 in south central Austin and 260,000 in the north central/Pflugerville submarket. This submarket is located on both IH-35 and SH-130, and had the one-time experience of a phenomenal growth company in Dell Computer. Thus, it is a superior setting, and the subject submarket is inferior.

The subject is located near the toll road, but the south central, north central/Pflugerville, and Round Rock submarkets are located on IH-35, the spine of Austin arterials. In addition to high daily traffic counts, these submarkets had the benefit of other major linkages within their boundaries or nearby. The north residential markets began to grow in the 1990s, and the bulk of the retail reaction was 10 years later. The south market had residential and retail growth contemporaneously.

If the subject's area has similar market acceptance and rapid residential growth is experienced, the rate of expansion in retail activity can be expected to follow after three to five years. However, the subject is inferior in its location compared to the submarkets reviewed, so the demand for new retail space is not expected to be in the same range as these submarkets. A pace of 100,000 to 150,000 square feet per year in the subject submarket is expected to be attainable after three to five years if initial development of the residential properties is successful. Like the other property types, competition has to be considered because the subject of several new retail sources in the submarket. If Whisper Valley's 1.8 million square feet was the only new space in the submarket, an absorption period of 15 to 20 years is indicated. Indian Hills will not be a major retail player in the submarket, likely only supplying supporting retail operations such as convenience stores and restaurants and occupying only a small portion of the total commercial space planned.

**OFFICE MARKET ANALYSIS**

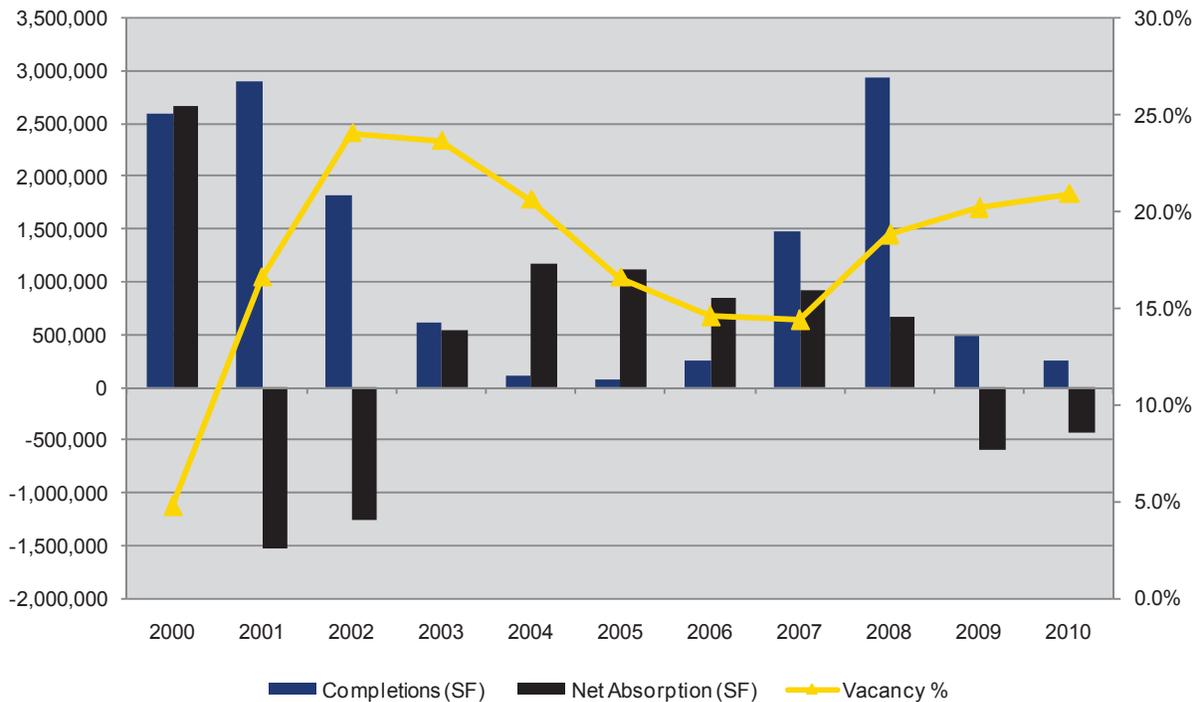
The need for office properties in outlying locations is limited. Besides the Austin CBD, there are only a few submarkets where office demand exists. One is the south and southwest submarkets from downtown along IH-35 and Mopac Expressway to the Oak Hill area. The other is the central, north and northwest submarkets along IH-35, Mopac Expressway, US-183, and Loop 360. These areas and the CBD account for 83% of the Austin office space. These are not the type of office to be built in Indian Hills, which seeks to supply the industrial-related office market. This category is addressed in the next section.

The 11 year trend of the Austin metro office market is as follows.

**METRO TRENDS - AUSTIN OFFICE MARKET**

Year	Period (Qtr.)	Inventory (SF)	Completions (SF)	Vacancy %	Net Absorption (SF)	Asking Rental Rate	Effective Rental Rate	Annual Eff. Rent Growth
2000	Annual	31,863,000	2,603,000	4.8%	2,675,000	\$25.92	\$23.44	
2001	Annual	34,527,000	2,898,000	16.6%	-1,527,000	\$25.10	\$21.56	-8.0%
2002	Annual	36,296,000	1,819,000	24.1%	-1,262,000	\$21.86	\$18.75	-13.0%
2003	Annual	36,808,000	621,000	23.7%	543,000	\$19.72	\$16.50	-12.0%
2004	Annual	36,857,000	123,000	20.6%	1,181,000	\$19.32	\$16.11	-2.4%
2005	Annual	36,427,000	73,000	16.6%	1,131,000	\$20.09	\$16.93	5.1%
2006	Annual	36,594,000	257,000	14.6%	845,000	\$22.15	\$19.11	12.9%
2007	Annual	37,596,000	1,483,000	14.4%	932,000	\$25.40	\$22.00	15.1%
2008	Annual	40,463,000	2,947,000	18.8%	677,000	\$26.35	\$22.34	1.5%
2009	Annual	40,432,000	498,000	20.2%	-582,000	\$25.68	\$20.97	-6.1%
2010	Annual	40,281,000	256,000	20.9%	-420,000	\$25.21	\$20.39	-2.8%
11 Year Average		37,104,000	1,234,364	17.8%	381,182	\$23.35	\$19.83	-1.0%

Source: Reis, Inc.



Around 2007, the Round Rock and far northwest suburban submarkets had several new projects arrive on the market. According to REIS, they had 45.8% and 60.1% vacancy rates respectively in the 4<sup>th</sup> quarter of 2010 compared to the overall office vacancy rate of 20.9%. This is in spite of the popularity and growth of the Round Rock and far northwest submarkets where residential, multifamily, and retail development has flourished.

Offices in outlying locations are usually limited to medical services and neighborhood services such as insurance. As subdivided by REIS data, the subject is located in the northeast submarket that contains 4% of the Austin office space. However, it is very near the dividing line of the southeast submarket where another 4% of the office inventory is located. In the northeast submarket, 67,000 square feet of new space was added in 2001, and 156,000 square feet were added in 2009. These are the only years that new office space was added in the northeast submarket. In the southeast submarket, only 97,000 square feet have been added since 2000.

Realistically, only 5% to 10% of the 1.8 million square feet of projected commercial space at Whisper Valley is expected to be office space, or 90,000 to 180,000 square feet. The absorption projection is the same as concluded in the retail section as the allocation of retail and office space is undeterminable until construction begins and demand preferences present themselves. In summary, the 30 to 40 year range will apply to this category also. For Indian Hills, the next section pertaining to industrial properties is more applicable.

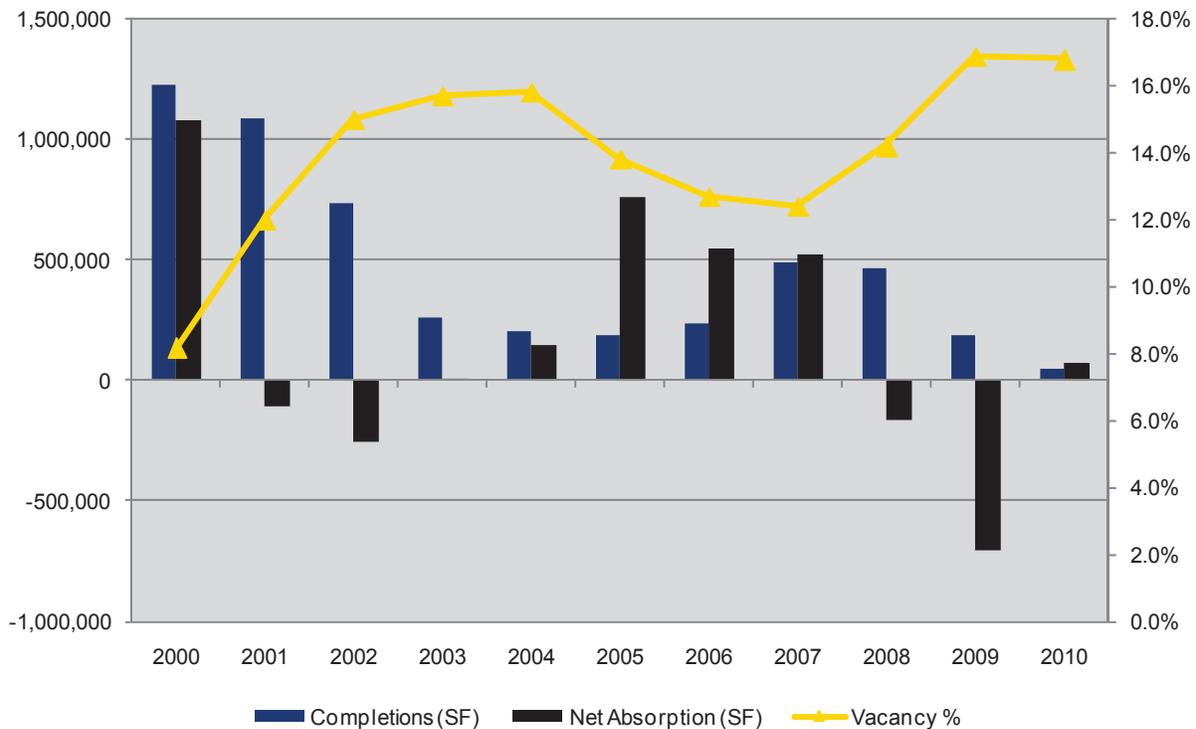
**INDUSTRIAL MARKET ANALYSIS**

An industrial market analysis is presented because office flex space, an industrial category, is a major component of the plans at Indian Hills. The following data from REIS follows the pattern of the previous property types. Industrial market data is updated annually encompassing the entire metropolitan area and is not divided into submarkets. Supply and demand indicators for industrial space in the Austin market are summarized in the following table.

**METRO TRENDS - AUSTIN INDUSTRIAL MARKET**

Year	Period (Qtr.)	Inventory (SF)	Completions (SF)	Vacancy %	Net Absorption (SF)	Asking Rental Rate	Effective Rental Rate	Annual Eff. Rent Growth
2000	Annual	28,132,000	1,228,000	8.2%	1,080,000	\$5.79	\$5.58	
2001	Annual	29,224,000	1,092,000	12.0%	-105,000	\$5.68	\$5.35	-4.1%
2002	Annual	29,962,000	738,000	15.0%	-249,000	\$5.54	\$5.14	-3.9%
2003	Annual	30,228,000	266,000	15.7%	14,000	\$5.43	\$4.98	-3.1%
2004	Annual	30,431,000	203,000	15.8%	153,000	\$5.39	\$4.94	-0.8%
2005	Annual	30,625,000	194,000	13.8%	764,000	\$5.45	\$5.05	2.2%
2006	Annual	30,867,000	242,000	12.7%	548,000	\$5.60	\$5.22	3.4%
2007	Annual	31,357,000	490,000	12.4%	522,000	\$5.80	\$5.38	3.1%
2008	Annual	31,827,000	470,000	14.2%	-160,000	\$5.85	\$5.40	0.4%
2009	Annual	32,019,000	192,000	16.9%	-701,000	\$5.65	\$5.13	-5.0%
2010	Annual	32,070,000	51,000	16.8%	74,000	\$5.53	\$4.97	-3.1%
11 Year Average		30,612,909	469,636	14.0%	176,364	\$5.61	\$5.19	-1.1%

Source: Reis, Inc.



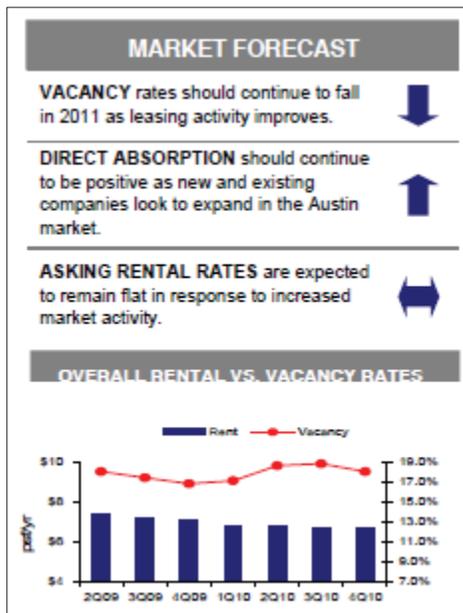
Additional and more specific information can be found in local studies that separate the industrial space into categories. Reports from NAI, Grubb & Ellis, and Cushman Wakefield are presented next. Due to



differences in methods used by independent companies to determine their criteria for study, there is a significant variation in inventory levels reported by these companies and REIS. However, the general trends that are extracted from these data are still consistent and statistically significant.

The information at the right is from the 4<sup>th</sup> quarter 2010 Cushman Wakefield Austin Industrial Report. The graph shows that vacancy has hovered in the 17% to 19% range for the last two years while rents have steadily declined. This information is for all industrial property types. The market forecasts generally state that high vacancies should subside as absorption increases during the next cycle, but rents are to remain flat. Rent stability is indicated, however, as the falling rent trend of the past is projected to cease.

In the report, C&W notes that vacancy is currently at 18.1%, down from 19.2% in the third quarter. This is higher than indicated in the REIS data, but since the C&W report includes 14M more square feet in its report, this is a broader picture of the overall market. However, the current rate is not as relevant compared to the change over the 11 year period shown in the REIS report. For future development forecasts, the data indicates that Austin is at the end of a down market and entering an up cycle. The REIS vacancy chart shows this graphically with the yellow vacancy line moving in a relatively consistent wave since 2000.



The table below shows statistics in each submarket within Austin. The subject is located in the southeast submarket, which is highlighted.

**INDUSTRIAL SUBMARKET STATISTICS 4Q2010**

Submarket	Inventory	Vacancy	Under Constr.	YTD Direct Absorption	YTD Overall Absorption	Rent per SF/Mo*		
						RD	MF	WD
CBD	231,731	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Central	18,900	0.0%	0	0	0	\$0.00	\$0.00	\$0.00
Far Northwest	4,452,759	12.5%	0	4,752	22,993	\$0.83	\$0.00	\$0.40
North Central	9,508,783	19.8%	0	(159,761)	(98,022)	\$0.64	\$0.38	\$0.42
Northeast	11,913,056	21.8%	0	(170,377)	(134,307)	\$0.61	\$0.53	\$0.50
Northwest	4,296,671	8.5%	0	11,145	95,864	\$0.68	\$0.00	\$0.48
South Central	1,597,649	2.7%	0	20,000	17,169	\$1.63	\$0.30	\$0.00
<b>Southeast</b>	<b>9,139,687</b>	<b>22.2%</b>	<b>0</b>	<b>291,850</b>	<b>314,985</b>	<b>\$0.71</b>	<b>\$0.47</b>	<b>\$0.43</b>
Southwest	274,077	8.9%	0	(2,250)	34,960	\$1.04	\$0.00	\$0.00
Round Rock	3,234,193	18.3%	0	65,345	91,745	\$0.60	\$0.60	\$0.52
<b>Total</b>	<b>44,667,506</b>	<b>18.1%</b>	<b>0</b>	<b>60,704</b>	<b>345,387</b>	<b>\$0.66</b>	<b>\$0.51</b>	<b>\$0.45</b>

Source: Cushman & Wakefield/Oxford Commercial Austin,

\*Rent abbreviations: RD Reseach & Development, MF Manufacturing, WD Warehouse Distribution

The southeast market is one of the largest industrial markets in Austin. Last year’s absorption in this market is primarily due to two large leases of 124,275 and 76,800 square feet, or 63% to 69% of the annual absorption in the southeast submarket. Still, this submarket leads the city in vacancy rate.

Similar results are found in a report issued by NAI REOC Austin at the end of 2010. In this report, the property type is broken down between Flex/R&D, and Office/Warehouse. It indicates that only 7% of the

2010 absorption was for Flex/R&D space and 93% for Office/Warehouse space. The next two graphs show the historic vacancy and absorption according to the NAI report.



This coincides with the REIS data and again shows that the market should be nearing an exit to the recent declines.

The vacancy rate had been increasing since 2007. The vacancy rate is expected to stabilize in the near future as speculative construction continues to decline. The average effective rental rate decreased in 2009 and 2010, but had been increasing annually since 2004. Rents are expected to remain stable in the near future as the vacancy rate is not significant and there is less downward pressure on rents compared to the oversupplied office market. Overall, industrial market conditions are stabilizing, and this is expected to have a favorable impact on absorption of the subject sites that have industrial possibilities. Still, the plans for Indian Hills are aggressive with 2,651,000 square feet of new space, and a lengthy development and absorption period is expected.

**SUMMARY OF COMMERCIAL MARKET ANALYSIS**

Expected new supply for Whisper Valley and Indian Hills is aggressive when compared to the development history of the Austin market. This history occurred over a period with unique peaks and valleys like September 11<sup>th</sup>, the tech bust, a housing bubble, and the subprime debacle. However, overall results are not unlike most market cycles.

The table below summarizes changes in the Austin inventories for the major commercial property types, along with a summary of the new supply being brought by the subject and its sister project.

<b>INVENTORY - MARKET AND SUBJECT</b>				
Description	Multifamily (Units)	Retail (Square Ft)	Office (Square Ft)	Industrial (Square Ft)
2000 Austin metro year end inventory	115,265	17,113,000	31,863,000	28,132,000
2010 Austin metro year end inventory	162,362	20,266,000	40,281,000	32,070,000
New supply over 10 years	47,097	3,153,000	8,418,000	3,938,000
Average new supply per year	4,710	315,300	841,800	393,800
Average inventory during period	138,814	18,689,500	36,072,000	30,101,000
Percent new supply to average inventory	3.4%	1.7%	2.3%	1.3%
Whisper Valley new supply*	2,600	1,656,000	144,000	0
Indian Hills new supply	1,500	131,000	0	2,651,000
Total new supply subject projects	4,100	1,787,000	144,000	2,651,000
2010 year end inventory (total market)	162,362	20,266,000	40,281,000	32,070,000
Subject percent of market total	2.53%	8.82%	0.36%	8.27%

*\*Whisper Valley proposes to add 1.8M square feet of retail and office, allocated at 92% retail, 8% office*

The subject projects are long-term developments that are expected to be built over an extended period. Based on the analysis outlined in this section, a total sell out period of 30 to 40 years is likely for multifamily and commercial properties in a successful scenario. This corresponds to the findings in the residential analysis.

**SITE DESCRIPTION AND ANALYSIS**

The subject is divided into two parcels out of a parent tract containing 239.858 acres. There are approximately 8 acres of land in the flood plain located on the north end of Tract 1, and 5.56 acres will be used for the extension of Decker Lake Road. Tract 1 is zoned MF-3, Multifamily Residence Medium Density, and Tract 2 is zoned LI-CO, Limited Industrial Service-Conditional Overlay Combining District. The zoning permits development and uses to conform to the limitations and conditions set forth in COA Ordinance No. 20100826-065 and in the accompanying Land Use Plan. MF-3 zoning allows a maximum of 36 units per acre. Prohibited uses of Tract 2 include automotive and equipment sales, rental, and repair, vehicle storage, commercial off-street parking, campground, exterminating services, monument and funeral services, basic industry, general warehousing and distribution, recycling, and resource extraction. The site is located in the Austin limited purpose annexation zone and has an approved Public Improvement District (PID) that will reimburse the developer for certain infrastructure and other costs.

<b>LAND AREA SUMMARY</b>			
Area	Gross Acres (As is)	Usable Acres (When Complete)	Decker Lk Rd ROW
Tract 1 North	89.907	87.127	2.780
Tract 2 South	149.951	147.171	2.780
<b>Total</b>	<b>239.858</b>	<b>234.298</b>	<b>5.560</b>

*Source: Bury+Partners Survey June 8, 2010*

- Location: The site is located east of FM-973 and west of SH-130 in Austin, Travis County, Texas. It is generally located in far eastern Travis County approximately four miles west of the Travis/Bastrop County line. It adjoins the west frontage ROW of SH-130 toll road between FM-969 on the south and US-290 East on the north.
  
- Map Reference: Mapsco Map Page 589
  
- Site Area: 239.858 acres gross, 234.298 usable after Decker Lake Road right-of-way, approximately 8 acres in the flood plain
  
- Shape: The overall site and the individual parcels are irregular in shape. Since the individual sections, or phases, are large enough to be configured in a variety of ways, site utility based on shape and dimensions is not an issue. A site plan displaying the preliminary layout of the project is located at the end of this section.
  
- Access/Visibility: Access to the site is provided via SH-130 to FM-973. The property has good visibility from both FM-973 and the SH-130 toll road.

Frontage and Roadway: 5.731 feet East side of FM-973, a two lane, asphalt road  
 2,864 feet West side of SH-130 frontage, a 1-lane, asphalt road  
 2,075 feet Approximate north and south side of Decker Lake Road, the proposed spine road extension

Individual Frontages

FRONTAGES			
	FM-973 ES	SH-130 WS	Total Parcel
Tract 1 (North)	2,263.81	80.83	2,344.64
Tract 2 (South)	3,466.73	2,783.30	6,250.03
<b>Total</b>	<b>5,730.54</b>	<b>2,864.13</b>	<b>8,594.67</b>

*\*Note: Frontages include proposed Decker Lake Road ROW*

Subsoil Conditions and Drainage:

An engineering study to determine the soil and subsoil conditions was not provided. The soil and subsoil conditions are assumed to be typical of those found in this area. We are not qualified to render an opinion as to the quality of the soils or feasibility for development. Upon inspection of the subject and surrounding improvements, soil conditions appear adequate to support development of the subject property with adequate engineering. The opinions of value stated herein are contingent upon the soils providing a stable base for improvements.

Topography:

The site is sloping and rolling with elevations rising to approximately 575 feet above MSL and valleys of approximately 470 feet at the Decker Creek bed that crosses the northwest corner of Tract 1. The topography does not result in any particular development limitations and is an appealing feature for multifamily residential development.

Flood Plain:

According to FEMA flood hazard map 48453C0490H dated September 26, 2008, the site is in Zone A and X. Approximately 8 acres or 3.3% of the total site is within Zone A, an area determined to be within the 100-year flood plain.

Tract	Usable Acres	Apx. Flood Plain Acres	Percent Flood Plain
Tract 1 North	87.127	8	9.2%
Tract 2 South	147.171	0	0.0%
<b>Total</b>	<b>234.298</b>	<b>8</b>	<b>3.4%</b>

Drainage:

Decker Creek traverses the site on its north side. Drainage appears to be toward the creek from the connection boundary of the two tracts, and toward the east to SH-130 on the south tract based on elevations. No particular drainage problems were observed or disclosed. It is assumed that there are no unusual drainage issues that would affect the development of the site.

Environmental/Toxic Waste:

We were not provided an environmental site assessment for the subject, and during our inspection we did not observe any evidence of recognized environmental conditions such as hazardous waste and/or toxic materials. We have no knowledge of the existence of any such substances on the property; however, we are not qualified to detect hazardous waste and/or toxic materials. An expert in these fields should

be consulted for opinions on these matters. The appraisal is predicated on the assumption that no environmental hazards or special resources exist within or on the subject property.

Utilities:

The City of Austin will supply water service to the site in an agreement with the developer. There are two lines in the first phase of the Development Agreement: Line 1 (affects Indian Hills and Whisper Valley Phase 1) will have a capacity of 6,414 LUEs in a 36" line that extends approximately 37,780 linear feet from Zachary Drive along Decker Lake Road, through Indian Hills, and under SH-130 to Whisper Valley. It terminates in Whisper Valley at the proposed Braker Lane spine road at the south tip of Parcel 8. Line 2 (affects Whisper Valley Phase 1 and not Indian Hills) will have a 3,486 LUE capacity in a 24" line extending approximately 7,620 linear feet from Lindell Lane and runs along Lindell to Blue Bluff Road, south to Bloor Road, under SH-130, and north on FM-973 along Parcel 11 in Whisper Valley, terminating near the development's proposed entrance. A map showing these locations is included at the end of this section.

Sewer will be provided by The City of Austin through extension of existing services and two new lift stations on the subject. Electricity is supplied by Austin Energy. Gas service is supplied by Texas Gas Service, and phone is supplied by AT&T and others.

Political Boundaries:

City of Austin, Travis County, State of Texas

Zoning:

The site is zoned MF-3 and LI-CO, Multifamily Residence Medium Density (Tract 1) and Limited Industrial Service-Conditional Overlay Combining District (Tract 2), by the City of Austin. This zoning is intended for development and uses to conform to the limitations and conditions set forth in COA Ordinance No. 20100826-065 and in the accompanying Land Use Plan. MF-3 zoning allows a maximum of 36 units per acre. Prohibited uses of Tract 2 include automotive and equipment sales, rental, and repair, vehicle storage, commercial off-street parking, campground, exterminating services, monument and funeral services, basic industry, general warehousing and distribution, recycling, and resource extraction.

School District

Del Valle Independent School District

Public Services:

The site is within the jurisdiction of the City of Austin after a limited purpose annexation in the fall of 2010. Police, emergency and fire protection is under the jurisdiction of the Travis County ESD #12 and the Travis County Sheriff's Department.

Land Use Restrictions:

A title policy issued in 2005 and a search of the Travis County Deed Records did not reveal adverse restrictions. We are not aware of any known deed restrictions, either public or private, that would limit the utilization of the property; however this statement should not be taken as a guarantee or warranty that no such restrictions exist. Deed and title examination by a competent attorney is recommended. We have assumed no adverse restrictions exist.

**Easements and Deed Restrictions:**

Based on a review of deed records and title information, there appear to be no restrictions or easements that would negatively impact development of the property other than the cell tower easement and land lease at the north end of Tract 2. Inspection of the subject site revealed no indications of easements that would be adverse to development of the site to its highest and best use. Normal public utility easements are assumed.

**Encroachments:**

No encroachments were noted. We assume that the site is free of encroachments that would negatively affect its use or marketability.

**Adjacent Properties**

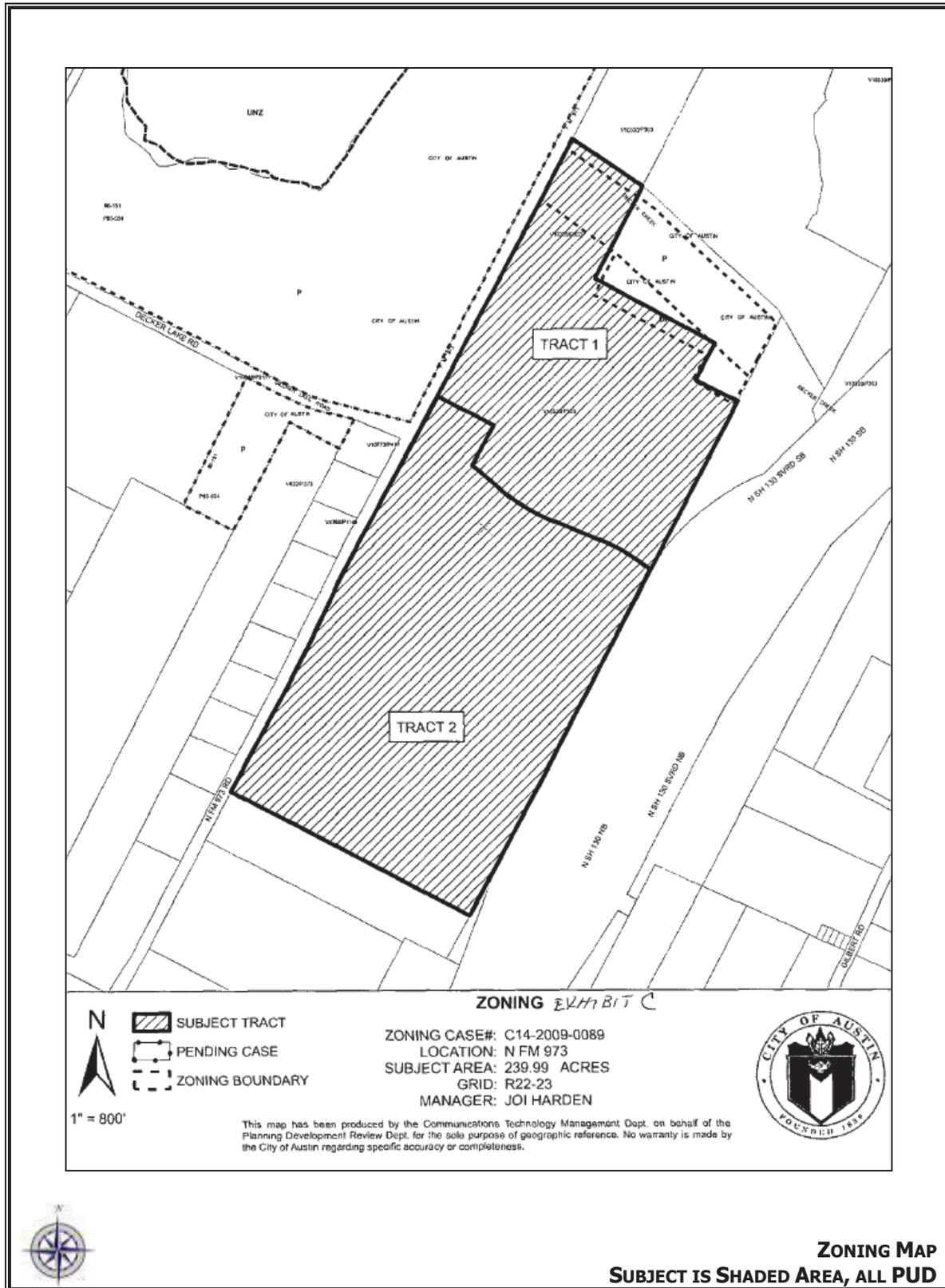
North: Decker Creek and vacant agricultural land

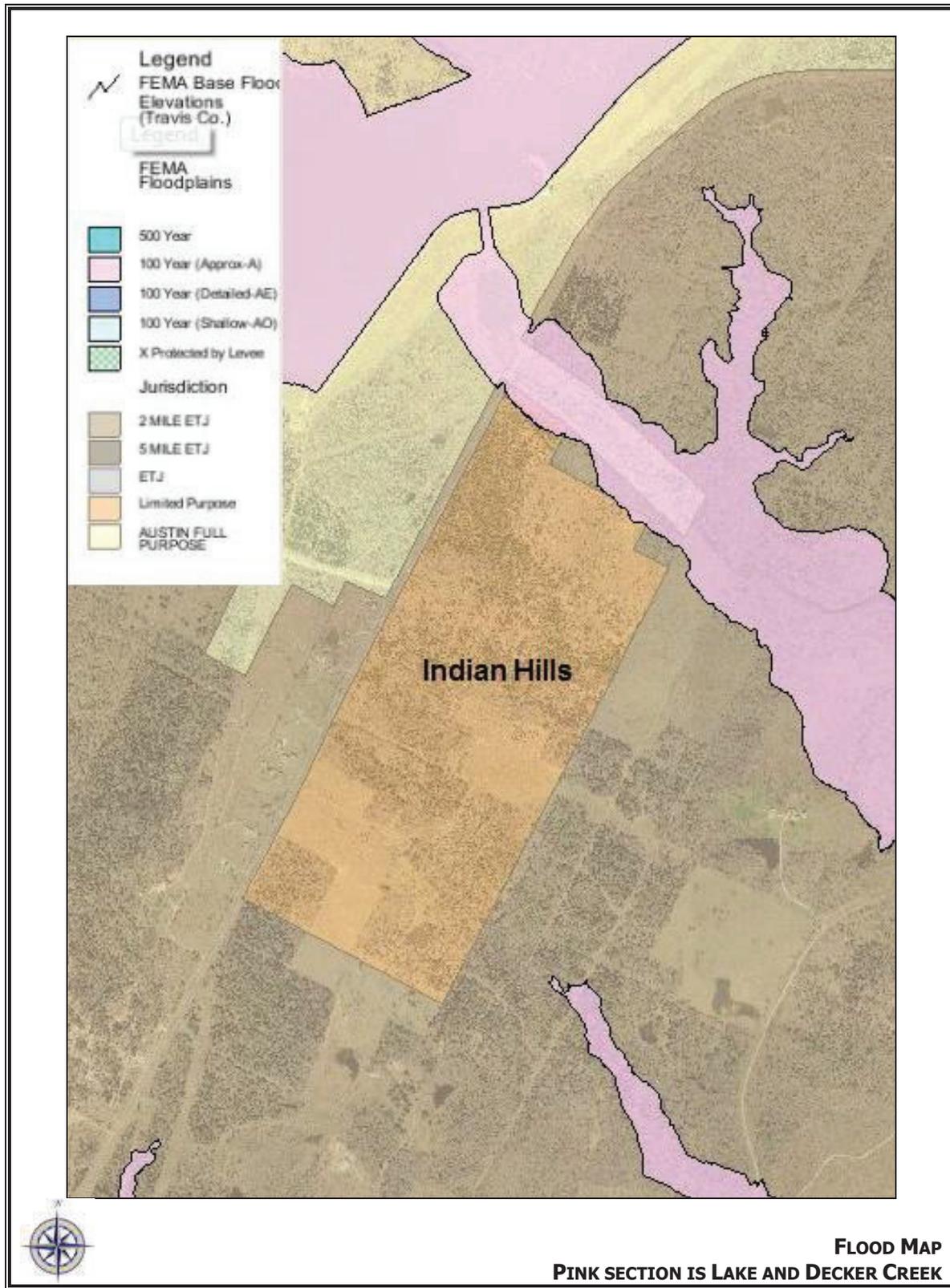
South: Vacant agricultural land

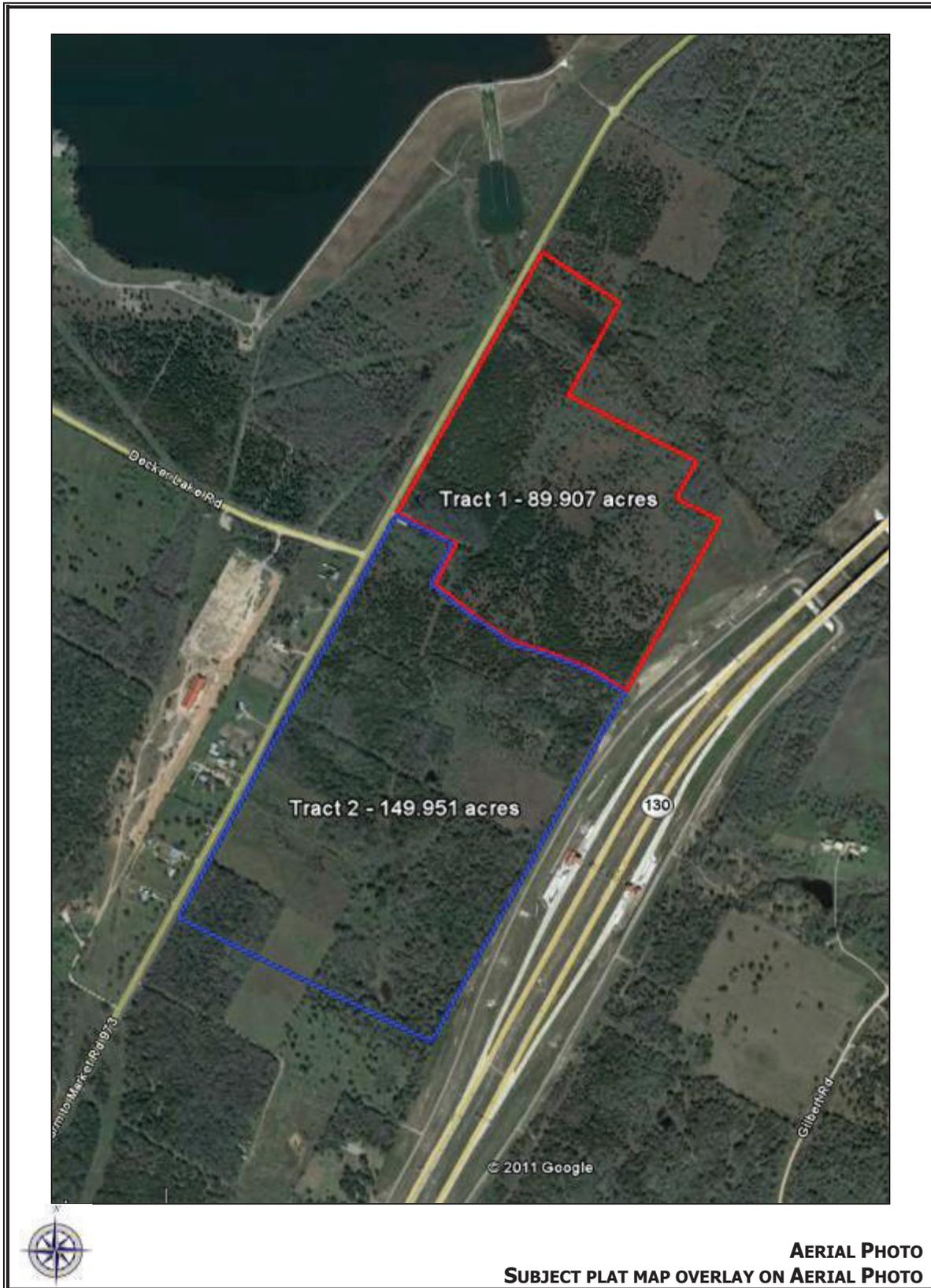
East: SH-130 toll road, toll booth plaza adjacent to subject

West: FM-973, sparse residential rural sites, and Walter E. Long Metropolitan Park beyond

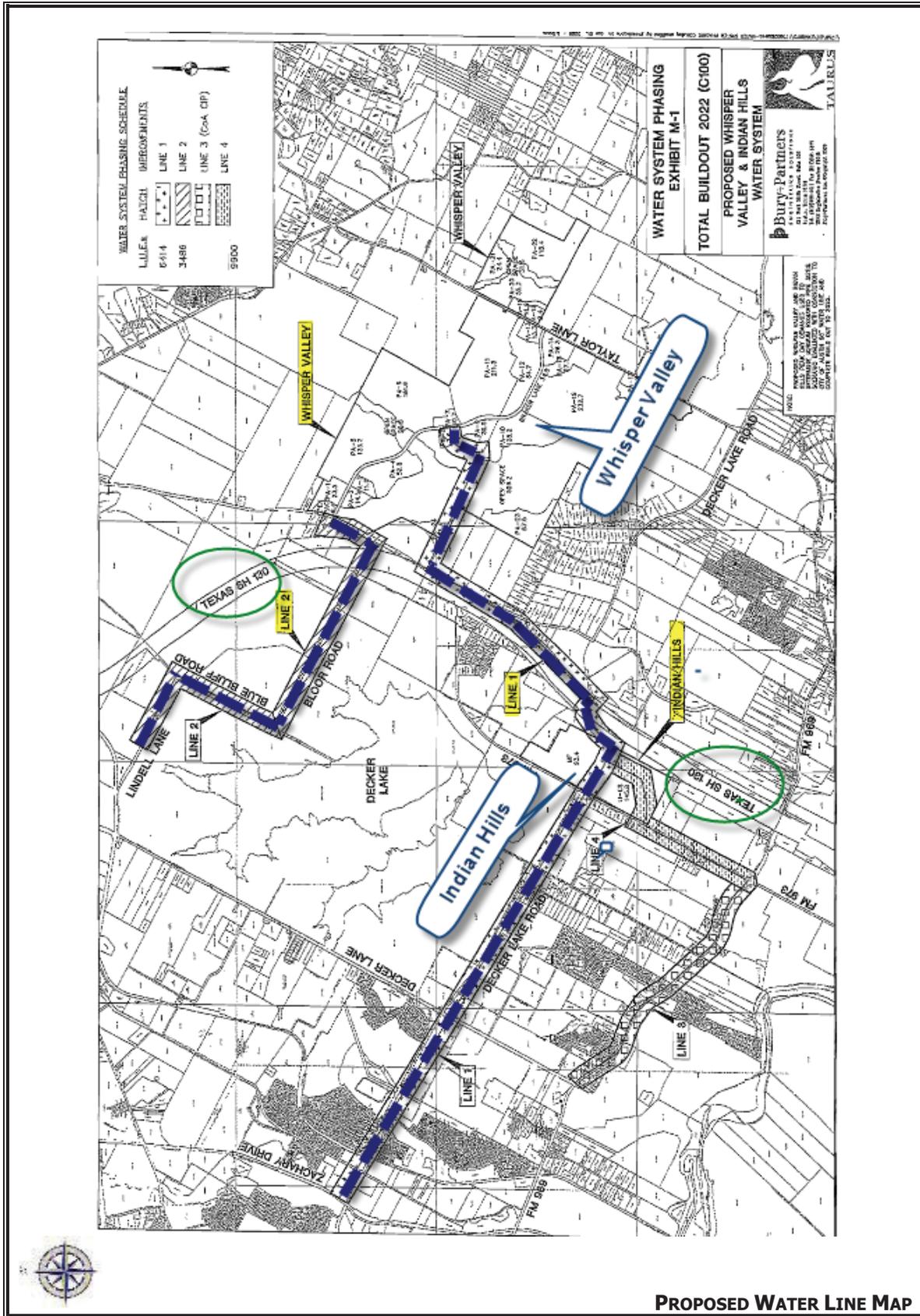








**AERIAL PHOTO**  
**SUBJECT PLAT MAP OVERLAY ON AERIAL PHOTO**



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## **HIGHEST AND BEST USE ANALYSIS**

### **Legally Permissible**

The subject's location, accessibility, and physical characteristics were discussed in the *Market Area Analysis* and *Site Description and Analysis*. The only permitted uses under the development agreement and ordinance, and the only uses that are consistent with prevailing and future land use patterns in the area, are a combination of multifamily and commercial (limited industrial) uses. To our knowledge, there are no other legal restrictions such as easements or deed restrictions that would effectively limit the use of the property as approved.

### **Physically Possible**

The physical characteristics of the sites do not appear to impose any unusual restrictions on multifamily or commercial development. The flood plain at Tract 1's northwest corner is in an area that could be utilized for drainage features or green space, so the flood plain does not limit the use of the overall site for its intended purpose. Overall, the physical characteristics of the tract, and the availability of utilities, results in functional utility suitable for a variety of uses allowed by zoning.

### **Financially Feasible**

Based on the market analysis, there is demand for additional residential development at the current time. Commercial development is not currently in demand in this area on a large scale, but the addition of residential development will create the need for supporting commercial development, especially neighborhood retail uses.

The PID agreement with the City of Austin will significantly offset the cost of infrastructure development. The development of multifamily and commercial lots should be at a competitive price due to the offset in costs for roads and utilities.

Not all of the site can be developed at the same time. Development of the areas closest to the proposed roadway is expected first, and orderly development of the remaining land will follow as demand presents. Consequently, continued agricultural use is the use that is financially feasible for future development sections.

### **Maximally Productive**

There does not appear to be any reasonably probable use of the sites that would generate a higher residual land value than a mixed use, multifamily and limited industrial community. Accordingly, developing the sections currently in demand and holding the remainder for future development based on the normal market density permitted by zoning is the maximally productive use of the property.

### **Conclusion**

The highest and best use of the land is to develop the sites in accordance with their zoning as demand dictates. The two tracts have similar physical, financial, and productivity attributes. The zoning designations indicate multifamily on the northerly Tract 1, and limited industrial on Tract 2. Continuing to use portions in an agricultural capacity is the highest and best use of the land that is not needed for immediate development.

**VALUATION OF THE PROPERTY**

## **SALES COMPARISON APPROACH**

### **Site Valuation**

The Sales Comparison Approach is utilized to estimate the value of the sites. In valuing property via this approach, land sales are gathered and the most comparable are used for comparison. Since properties are not identical, the comparable sales must be adjusted to the subject for differences in market conditions, location, and physical characteristics.

We researched the site's market area for sites that had sold or were under contract. Additionally, real estate brokers and property owners in the area were contacted for information pertaining to sites which would be in direct competition with the subject site if it were offered for sale in the open market. Those data which were considered most similar to the subject are presented on the following pages.

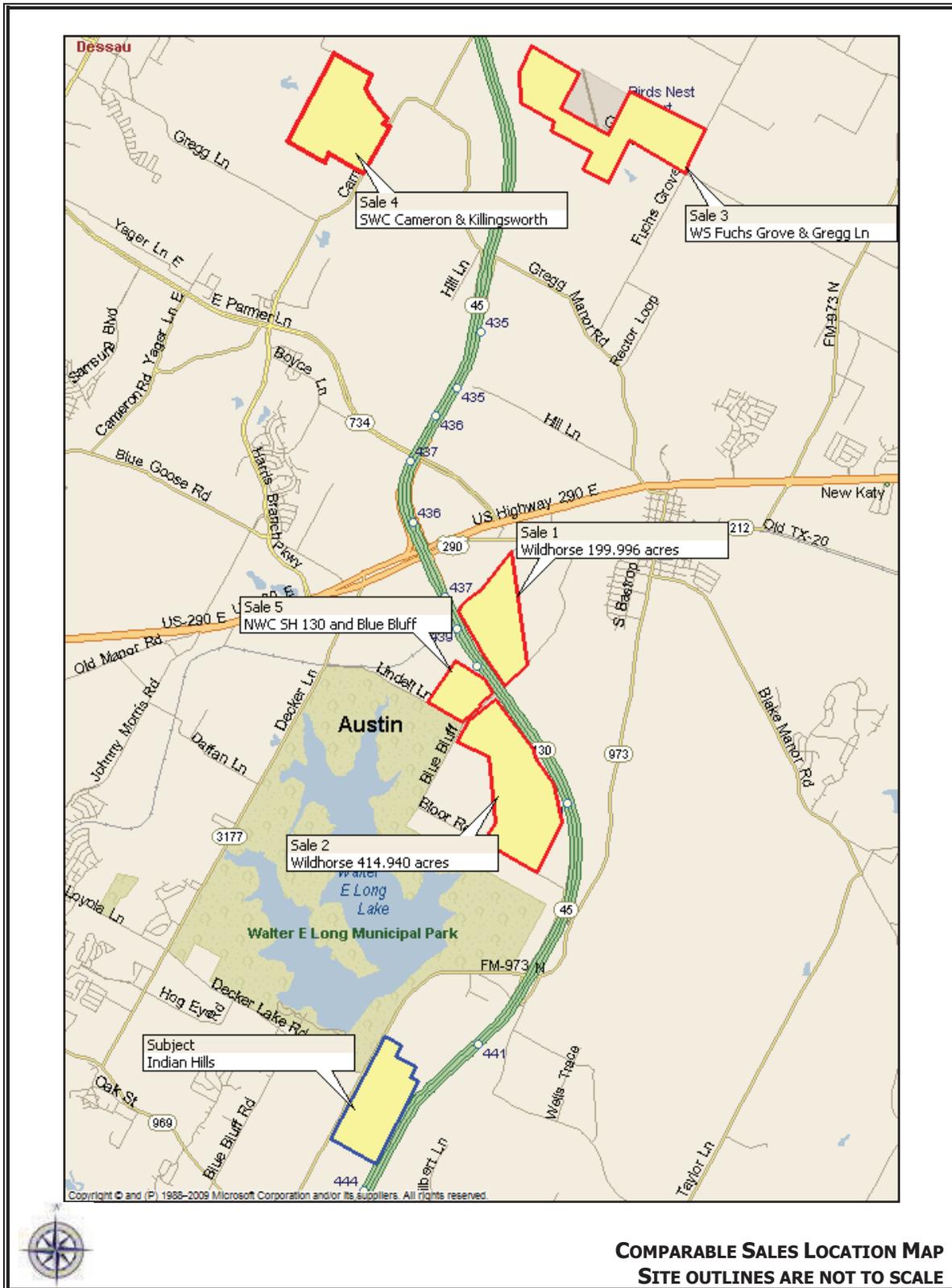
For the purpose of valuation, the site is divided into two saleable parcels as outlined in the map on page 49. These parcels are available to be sold individually or in portions as the development progresses. Per the client's instructions, the value is stated as a cumulative value, often called an aggregate of retail values<sup>7</sup>. The result is a retail market value that does not consider holding periods or carrying costs required to market numerous parcels, or units, in one location. Instead, it assumes that each parcel would be the first and/or only unit sold in the current market.

The sales comparison approach develops an indication of value by researching, verifying, and analyzing sales of similar properties. The tracts have similar appeal and marketability and are addressed in two adjustment grids, one for all transactional and most physical characteristics, and one that addresses each parcel's individual differences. Both tracts are available for development as soon as the spine road is completed.

The map on the next page shows the location of the comparable sales and their approximate boundaries. This provides visual information about each sale's location in relationship to the SH-130 toll road and surrounding rural highways.

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<sup>7</sup> Aggregate of Retail Values is defined as "The sum of the separate and distinct market value opinions for each of the units in a condominium, subdivision development, or portfolio of properties, as of the date of valuation. The aggregate of retail values does not represent an opinion of value; it is simply the total of multiple market value conclusions. Also called the *sum of the retail values*, *aggregate retail value*, or *aggregate retail selling price*. Source: Appraisal Institute, *The Dictionary of Real Estate Appraisal*, 5th ed. (Chicago: Appraisal Institute, 2010).



## Land Sale No. 1

Property Identification

Record ID	1444
Property Name	199.96 Acre Wildhorse
Address	Austin, Travis County, Texas 78653
Location	Northeast corner of SH-130 and Blue Bluff Road
Tax ID	730194

Sale Data

Grantor	Sky Station Holdings, I, LP
Grantee	Texas WH 200, LP
Sale Date	September 09, 2010
Deed Book/Page	2010134600
Property Rights	Fee Simple
Marketing Time	184 days on market
Financing	Cash to seller
Verification	Josh Hubka; 512-346-5180, January 26, 2010; Confirmed by CSS

Sale Price	\$3,000,000
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**Land Sale No. 1 (Cont.)**

Cash Equivalent                      \$3,000,000

Land Data

Zoning                                      Wildhorse PUD, PUD  
 Topography                                Rolling  
 Utilities                                    All available  
 Shape                                        Irregular  
 Flood Info                                 Less than 1% of the site  
 Easements                                 25' wide pipeline easement

Land Size Information

Gross Land Size                         199.996 Acres or 8,711,826 SF  
 Front Footage                            3866 ft SH-130;1126 ft Blue Bluff Road;3283 ft Southern Pacific  
 Railroad

Indicators

Sale Price/Gross Acre                    \$15,000  
 Sale Price/Gross SF                      \$0.34

Legal Description

199.996 acres out of the James Manor Survey No. 39, Abstract No. 528 and the William H. Sanders Survey No. 54, Abstract No. 690 Travis County, Texas being a portion of that 1242.15 acre tract conveyed to Wildhorse Investments, Ltd, by the deed recorded in Document No. 2000056534 of the Official Public Records of Travis County, Texas

Remarks

This is a lender sale that was confirmed at \$15,000 per acre. It had been acquired as part of a 367.523 acre tract for \$31,500 per acre in 2006, The original tract was split into three tracts, and this is the southern-most and largest of the three. According to the selling broker, the seller had multiple offers and chose the offer with consideration to factors other than the highest price. The purchaser had no immediate plans for development.

This property is located in the Wildhorse PUD that was annexed into the City of Austin's limited purpose jurisdiction. Approximately 50% of the site falls in an area of the PUD identified as Employment Center Industrial Park, 25% in an area identified as Commercial High Rise Industrial Park, 20% in Mixed Density Residential, and 5% in an area identified as Mixed Use Center. These designations are subject to change as demand dictates in any PUD agreement.

The tract is subject to utility easements for natural gas, water, wastewater and electrical lines. These are assumed to be typical and provide all utilities to the tract. It has access from Blue Bluff Road and limited access from SH-130, and is denied access from the main lanes of SH-130 with limited access from the existing frontage road and entrance ramp. Parmer Lane is expected to be extended along the eastern and southern boundaries. Approximately \$1,000,000 will be the buyer's cost participation in the extension of Parmer and a water line. When Parmer Lane is extended, the frontage along Blue Bluff Road will be eliminated, and the property will have ±5,368' along the west line of Parmer Lane.

## Land Sale No. 2

Property Identification

Record ID	1260
Property Type	Investment
Property Name	Wildhorse 414.94 acres
Address	Austin, Travis County, Texas 78653
Location	E line of Blue Bluff Rd., N/L of Bloor Rd. & SW/L of SH-130
Tax ID	740639
Map Reference	558 J , N & S

Sale Data

Grantor	International Bank of Commerce
Grantee	Titan HOM, LLC
Sale Date	February 27, 2009
Deed Book/Page	2009045512
Conditions of Sale	Cash to Seller
Date of Inspection	1/19/2011
Sale Price	\$9,128,680

**Land Sale No. 2 (Cont.)**Land Data

Zoning	Wildhorse PUD, PUD
Topography	Rolling
Utilities	All available via City of Austin
Shape	Irregular
Flood Info	No flood plain
Easements	Bisecting gas pipeline easement
Current/Intended Use	Vacant Land

Land Size Information

Gross Land Size	414.940 Acres or 18,074,787 SF
Front Footage	6293 ft SH-130, major arterial;;2259 ft Blue Bluff Road, secondary arterial;2700 ft Bloor Rd, secondary arterial

Indicators

Sale Price/Gross Acre	\$22,000
Sale Price/Gross SF	\$0.51

Legal Description

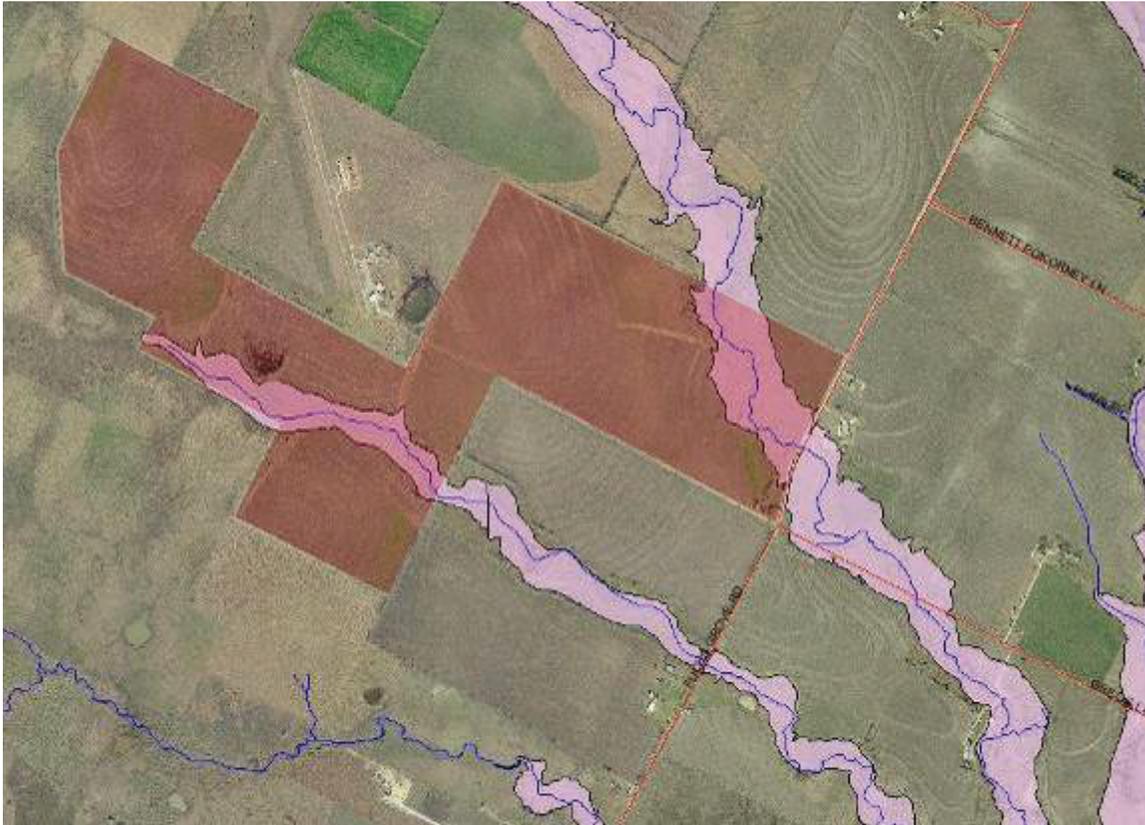
414.94 acres out of the William H. Sanders Survey No. 54 and the M. Castro Survey No. 43, Travis County, Texas.

Remarks

This property previously sold for \$30,503/acre in October 2006. It was foreclosed on by IBC and then subsequently resold. The site has access from Blue Bluff Road, and limited access from SH-130. The sale is denied access from the main lanes of SH-130 and has limited access from the existing frontage road/entrance ramp.

Parmer Lane is expected to be extended along its northwest boundary over Blue Bluff Road and Braker Lane is expected to be extended along Lindell Lane which terminates at the property's northwest boundary. Completion is contingent upon land owner agreement, as the construction of these roadways is funded 50% by the landowners and 50% by Travis County. Once Parmer Lane is extended, its frontage along Blue Bluff Road would be eliminated and the property will have 2,700' along the southeast line of Parmer Lane.

## Land Sale No. 3

Property Identification

Record ID	254
Property Type	Airport Expansion
Property Name	Austin Executive Airport Expansion Tract
Address	Travis County, Texas 78653
Location	NWC of Gregg Lane and Fuchs Grove Road
Tax ID	02-5150-01-04
Map Reference	499-L

Sale Data

Grantor	Allen Edward Zechiesche, et al
Grantee	Travis County Field, LLC
Sale Date	July 22, 2008
Deed Book/Page	2008133352
Financing	Cash to seller
Verification	Andy Perry, grantee representative; July 07, 2009; Confirmed by SGM

Sale Price	\$5,300,000
Cash Equivalent	\$5,300,000

Land Data

Zoning	Austin 5-mile ETJ, None, Travis County
Topography	Basically level to sloping

**Land Sale No. 3 (Cont.)**

Utilities	16" Manville water line at site, no sewer
Shape	Irregular
Flood Info	Approximately 13%
Current/Intended Use	Airport development

Land Size Information

Gross Land Size	371.036 Acres or 16,162,329 SF
Front Footage	1845 ft Fuchs Grove;2901 ft Gregg Lane

Indicators

Sale Price/Gross Acre	\$14,284
Sale Price/Gross SF	\$0.33

Legal Description

371.036 acres, out of the William Caldwell Survey, Abstract No. 132, in Travis County, being all of that called 370.180 acre tract of land described by deed estate of Raymond J. Zschiesche, recorded in Volume 945, Page 593, Deed Records, Travis County, Texas.

Remarks

This tract was purchased for construction of a new terminal and airport expansion around the Bird's Nest/Austin Executive Airport. The southeast property boundary, Gregg Lane, is currently a gravel road and the dividing line between the Manor and Pflugerville ISDs. According to the airport owner, the proposed extension of Wells Branch Parkway between SH-130 and Fuchs Grove Road is to run under SH-130 at Greg Manor Road and may not reach this site as originally planned. Reportedly, the proposed extension of this roadway was considered in the purchase price. The flood plain bisects the tract along the frontage with Fuchs Grove Road and also the south central portion of the tract aligned with the current runway. A 16" Manville water line was installed at the NWC of Gregg Lane and Fuchs Grove Road approximately two years ago. The site is situated within the boundaries of the Manor ISD. An access easement runs from SH-130 to the property's northwest corner.

Land Sale No. 4



Property Identification

Record ID	1487
Property Type	Investment
Property Name	SWC Cameron and Killingworth
Address	SWC Cameron and Killingworth, Austin, Travis County, Texas 78724
Location	SWC Cameron and Killingworth
Tax ID	258942 and 569341

Sale Data

Grantor	Limestone Springs Properties, LP
Grantee	Cameron and Killingsworth Pflugerville-292, LLP
Sale Date	May 27, 2008
Deed Book/Page	2008088656
Property Rights	Fee simple
Conditions of Sale	Typical
Verification	Confirmed by DJE

Sale Price	\$5,703,243
Cash Equivalent	\$5,703,243



**Land Sale No. 4 (Cont.)**Land Data

Zoning	None, 2-mile ETJ
Topography	Gently sloping to moderately sloping south of the creek
Utilities	Water Manville WSC 5" on Killingsworth, 2" on Cameron, Septic WW not avail
Shape	Irregular
Flood Info	Approximately 38 acres or 13%

Land Size Information

Gross Land Size	292.474 Acres or 12,740,168 SF
Front Footage	1183 ft NS Killingsworth Lane;3948 ft SS Killingsworth Lane;1735 ft WS Cameron Road

Indicators

Sale Price/Gross Acre	\$19,500
Sale Price/Gross SF	\$0.45

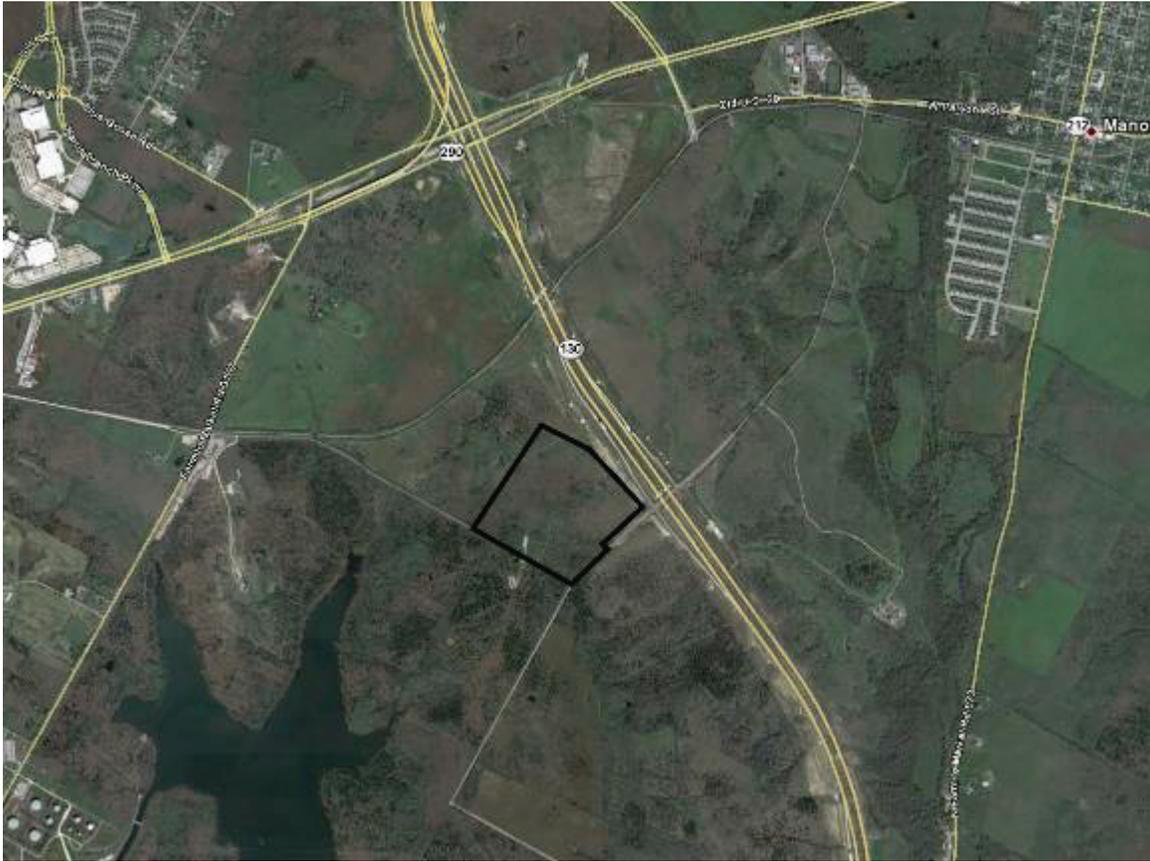
Legal Description

292.474 acres out of the Mariguita Castro Survey No. 50, Abstract No. 160, Travis County, Texas.

Remarks

Approximately 38 acres or 13% is located in the flood plain. At the time of sale there was a residential improvement built in 1928 and several outbuildings that had no contributive value. Site is located a mile west of SH-130 but is two miles by road. Water is available at the site from the Manville WSC, and no public wastewater service is available. Purchased for investment.

Land Sale No. 5



Property Identification

Record ID	1488
Property Type	Investment
Property Name	NWC SH-130 & Blue Bluff
Address	10208 Lindell Lane, Austin, Travis County, Texas 78724
Location	NWC SH-130 & Blue Bluff

Sale Data

Grantor	John S. Quarterman and Gretchen K. Phillips
Grantee	Eastbourne Blue Bluff, LLC
Sale Date	May 30, 2007
Deed Book/Page	2007101568
Property Rights	Fee simple
Conditions of Sale	Typical
Verification	Confirmed by DJE

Sale Price	\$1,880,496
Cash Equivalent	\$1,880,496

Land Data

Zoning	None, 2-mile ETJ
Topography	Rolling



**Land Sale No. 5 (Cont.)**

Utilities	COA water, wastewater
Shape	Irregular
Flood Info	None

Land Size Information

Gross Land Size	87.724 Acres or 3,821,258 SF
Front Footage	1691 ft NS Lindell Lane; 2131 ft NWS Blue Bluff Road; 1082 ft SWS SH-130 (access allowed, but no frontage road)

Indicators

Sale Price/Gross Acre	\$21,437
Sale Price/Gross SF	\$0.49

Legal Description

87.724 acres out of the William H. Sanders Survey No. 45, Abstract No. 690, Travis County, Texas.

Remarks

Two mobile homes on the property at the time of sale had no contributive value. This tract is located at the northwest corner of SH-130 and Blue Bluff Road with frontage also along Lindell Lane. The future extensions of Braker Lane along Lindell Lane and Parmer Lane from US-290 and under SH-130 on Blue Bluff Road would meet at the southwest corner of this tract and create frontage on both roads. It is across from a Wildhorse PUD tract but is not in the PUD. Water is supplied by the City of Austin through a 24" main along Lindell Lane, and wastewater is from the City of Austin through a 27" line along SH-130.

The market data below summarizes those transactions that are most comparable to the subject.

LAND SALES SUMMARY									
No.	Property Location	Transaction		Zoning	Land Size (Acres)	Sale Price	Price per Acre	Utilities	Intended Use
		Type	Date						
1	Wildhorse 199.96 acres	Sale	9/9/2010	PUD	199.996	\$3,000,000	\$15,000	All available	Mixed use
2	Wildhorse 414.94 acres	Sale	2/27/2009	PUD	414.940	\$9,128,680	\$22,000	All available	Mixed use
3	WS Fuchs Grove & Gregg Lane	Sale	7/22/2008	ETJ	371.036	\$5,300,000	\$14,284	Water, ww w/ext	Airport, mixed use
4	SWC Cameron & Killingsworth	Sale	5/27/2008	ETJ	292.474	\$5,703,243	\$19,500	Water, septic	Investment
5	NWC SH 130 & Blue Bluff	Sale	5/30/2007	ETJ	87.724	\$1,880,496	\$21,437	All available	Mixed use
Subj. Indian Hills				MF3, LI	234.298			Extension required	Mixed Use

Compiled by Paul Hornsby and Co.

In analyzing and comparing the market data to the subject property, each comparable was adjusted for dissimilar characteristics. Adjustments were applied as follows:

### ***Conditions of Sale/Financing***

Each sale was an arms-length transaction. Typical of today's market, some sales were the result of disposition of foreclosed properties; however, pricing in these transactions was not found to be abnormal compared to non-foreclosure sales. All of the sales were sold in cash equivalent terms, and no financing adjustments were necessary.

### ***Market Conditions***

The data do not indicate a material change in pricing between mid-year 2007 and the effective date. Market activity for development land has been light since the 2007 economic downturn, and although prices undoubtedly dropped at that time, they have remained level in the uncertain period since. Sale 5 closed in the second quarter of 2007 and is adjusted downward 5% because it occurred just before the downturn and was likely negotiated in the first quarter of 2007. No adjustments are applied to the other sales because they closed after the 2007 economic downturn.

### ***Location/Access***

The subject is located along SH-130 and is accessed via FM-973 and limited frontage along SH-130. In addition, by hypothetical condition, the tracts front Decker Lake Road; however, that property characteristic is recognized in the Equity Infrastructure category and the present value of the reimbursements. Sales 1, 2, and 5 are similarly located along SH-130. All have limited frontage nearby and require a short drive to reach the ingress or egress locations. There are ingress and egress ramps at FM-969 just south of the subject, and an entrance ramp in each direction at Blue Bluff Road where Sales 1, 2, and 5 meet.

Sales 3 and 4 are less than a straight mile from the toll road, but access requires two to three miles of travel across rural roads. Sale 3 has an extended easement to the SH-130 frontage road, but the frontage road is not funded, and may never be built. This is the most isolated of the sales, and a 15% adjustment is applied for location. Although Sale 4 is not adjacent to SH-130 either, it is located along the path of the Wells Branch extension expected across Killingsworth Lane. It is also proximate to Dessau Road and Parmer Lane nearer other development including new residential development a few miles south at Cameron/Harris Branch Parkway and Parmer Lane. Consequently, the location adjustment for Sale 4 is 5%.

***Size***

An inverse relationship often exists between site size and unit value. To account for the inverse relationship, the comparables are adjusted based on 10% per doubling. The adjustment is rounded to the nearest 5%.

Each is expected to be developed as part of the larger subdivision, but addressed individually for the purpose of this valuation. In order to address size adjustments appropriate to each parcel, the adjustment was applied after all common adjustments were considered. Property adjustments, those appearing in the bottom of the adjustment grid, are accumulative or additive; therefore, the adjustments can be made in any order without affecting the outcome.

***Flood, Parkland, and Configuration***

The subject's sister development, Whisper Valley, has 607 acres of parkland that is shared for density purposes with Indian Hills. This contributes to the developable areas because it allows development at a higher density since no additional land must be dedicated to green areas or common areas. A 5% adjustment is applied for the Whisper Valley parkland contribution to the value of Indian Hills.

Indian Hills Tract 1, the northern parcel, has approximately eight acres in the flood plain. This is about 9% of its size. Approximately 48 acres or 13% of Sale 3 is located in the flood plain. Approximately 38 acres or 13% of Sale 4 is also located in the flood plain. In comparison to a site with no flood plain, like Tract 2, these two sales are adjusted for flood plain at 10% because the area has limited use. In comparison to Tract 1, the adjustment is based on the difference and is rounded to 5%. Sales 1, 2, and 5 do not have measurable flood plain areas and are adjusted downward 5% in comparison to Tract 1, and receive no adjustment in comparison to Tract 2. These adjustments are shown in the second grid of individual adjustments.

***Utilities***

The subject's spine road utilities are presumed to be built in the near term according to a hypothetical condition. This characteristic is addressed in the Equity Infrastructure category and in the present value of the reimbursements. Consequently, in the adjustment grid, the subject is viewed as requiring extension for utilities. All sales have typical electrical and phone services, and natural gas is available in the area. Sales 1, 2, and 5 have all utilities available, and a downward 15% adjustment is applied since the subject is viewed without utilities in this category. Sales 3 and 4 have water but no sewer, although Sale 3 is within the City of Austin service area. A 5% downward adjustment is applied to Sale 3, while no adjustment is applied to Sale 4 because it is in a state similar to the subject's prior to utilities being extended.

***Equity Infrastructure***

When a developer buys land, the cost of providing utilities and access is factored into the price. Consequently, the infrastructure will typically increase the value of the property by an amount related to its cost, sometimes dollar for dollar, and, in weak markets, at a rate below the cost. In this case, the hard and soft costs of the infrastructure include developer's equity and private financing along with PID bonds, a portion of which is scheduled to be reimbursed by the City of Austin and Travis County.

The contribution of these components is addressed in two sections of this analysis. The present value of the cost reimbursements is calculated after the individual adjustments and is allocated to each parcel. The table outlining the costs, reimbursements, and present value calculation is shown and discussed on page 72. The developer's equity of \$5,276,525 is considered in the adjustment grid as it is non-reimbursable. The return on the infrastructure in a stagnant market is seldom 100%; instead, the equity expenditure is expected to add value to the land at approximately 50% or less of the cost. Based on 234.298 usable 234.298 acres in Indian Hills, 50% of \$5,276,525 is approximately \$11,260 per acre, or about 62% of the average adjusted unit price of the comparables. An adjustment of 60% is applied in the Equity Infrastructure row in the grid.

***Zoning, Entitlements***

Sale 1 and 2 are located in the Wildhorse PUD. Wildhorse was initially approved in 2002 as a 1,899 acre master planned community like the subject and its sister development, Whisper Valley. The development agreements outline similar requirements including parkland and various allowed uses. Sale 1 is in a section approved for industrial park, mixed density residential, and other mixed uses, and marketing materials indicate concepts of corporate campus and multifamily properties. Sale 2 is in a section that also includes residential uses. No adjustments are warranted because of the similarity to the subject. Sales 3, 4, and 5 are located in the Austin Extraterritorial Jurisdiction (ETJ), but had no entitlements at the time of their sale. An upward adjustment of 5% is applied to these sales for the time, expense, and risk associated with the entitlement process.

***Other Characteristics (PID)***

Development is not feasible without a mechanism to build infrastructure. This can be accomplished by purchasing land in an area within the city where the infrastructure is the responsibility of the municipality, or by establishing one of the bond financing methods available under Texas law. The most common is a Municipal Utility District (MUD) as outlined previously, but the subject will be the first Public Infrastructure District (PID) in the Austin market. The main difference is that the project developer, and any subsequent developer of the individual parcels, is reimbursed upon completion of qualifying components as opposed to waiting to collect proceeds over the sellout period and beyond. An additional benefit is that a PID allows reimbursement for roads and parkland improvements usually not included in MUD reimbursements.

None of the sales are located in a PID or a MUD. Past studies have shown that a sale of land with a MUD attached can carry a 25% to 30% premium over a sale of land with no mechanism in place. This level was supported by an interview with an active developer in the market. John Lloyd is a private developer who built many of the subdivisions in the fringe and suburban Austin market including in Westlake, Cedar Park, Leander, Pflugerville, Round Rock, Hutto, Manor, Elgin, and Dripping Springs. His development experience spans 20+ years and includes residential, commercial, and mixed use projects. He currently owns 20 subdivision developments at various stages. Lloyd obtains MUD approval for his developments before he sells the paper lots, which he claims increases the value by as much as 1.5 to two times due to the reimbursement for the development costs. However, in most cases, he notes that the buyers do not fully recognize the benefit of having a MUD in place, so the premium is usually in the 25% to 50% range, the latter usually associated with the higher priced projects. The subject is at the entry price level; hence, a starting point of 25% is applicable to sales with no district reimbursement mechanism in place. This would be the adjustment if the subject had a MUD program instead of its PID program in a feasible, ready market.

The subject's PID will allow the developer to recover costs at completion. As a result, an additional premium for a PID over a MUD is expected. Because of the time delay in collecting MUD reimbursements, the recipient recovers about 75% on a present value basis. This estimate is based on a five year reimbursement cycle at a 6% safe rate, the present value of which is \$0.75 on a dollar. This equates to a return of approximately 33% more for a PID than a MUD ( $1.0 \div .75 - 1$ ).

A PID should attract a premium of at least 33% over a MUD based on the present value of the reimbursement timing. As reconciled above, a MUD should enhance a site by 25% over a site with no reimbursement vehicle. Therefore, a PID should bring 66% more than a tract with no reimbursement vehicle ( $1.25 \times 1.33 - 1 = .66$ , or 66%). In markets that have immediate and significant demand, these levels might be attainable. However, this market is not operating at a peak at present as there is ample land available for development. Therefore, a 35% premium is applied when comparing the subject to sales with no reimbursement vehicle.

**Conclusion of Land Sales Analysis**

ADJUSTMENT GRID						
Comparable No.	Subject	1	2	3	4	5
Transaction Type	---	Sale	Sale	Sale	Sale	Sale
Transaction Date	---	9/9/2010	2/27/2009	7/22/2008	5/27/2008	5/30/2007
Zoning	MF3, LI	PUD	PUD	ETJ	ETJ	ETJ
Sale Price	---	\$3,000,000	\$9,128,680	\$5,300,000	\$5,703,243	\$1,880,496
Size (acres)	234.298	199.996	414.940	371.036	292.474	87.724
Unit Price	---	\$15,000	\$22,000	\$14,284	\$19,500	\$21,437
Property Rights		0%	0%	0%	0%	0%
Conditions of Sale/Financing		0%	0%	0%	0%	0%
Expenditures After Purchase		0%	0%	0%	0%	0%
Market Conditions		0%	0%	0%	0%	-5%
Adjusted Unit Price		\$15,000	\$22,000	\$14,284	\$19,500	\$20,365
Location/Access		0%	0%	+15%	+5%	0%
Size (see below, applied individually)		*	*	*	*	*
Flood Plain (see below), Parkland		+5%	+5%	+5%	+5%	+5%
Utilities		-15%	-15%	-5%	0%	-15%
Equity Infrastructure		+60%	+60%	+60%	+60%	+60%
Zoning		0%	0%	+5%	+5%	+5%
Other (PID)		+35%	+35%	+35%	+35%	+35%
Net Adjustment before size adjustment		+85%	+85%	+115%	+110%	+90%
<b>Indicated Value before individual adj.</b>		<b>\$27,751</b>	<b>\$40,700</b>	<b>\$30,711</b>	<b>\$40,950</b>	<b>\$38,693</b>

INDIVIDUAL ADJUSTMENT GRID							
Comparable No.		1	2	3	4	5	Reconciled Value per Acre
Acres		199.996	414.940	371.036	292.474	87.724	
Adjusted Unit Price		\$15,000	\$22,000	\$14,284	\$19,500	\$20,365	
Net Adjustment before		+85%	+85%	+115%	+110%	+90%	
<b>Tract 1 87.127 acres</b>	Size	+10%	+25%	+20%	+15%	0%	
	Flood plain	-5%	-5%	+5%	+5%	-5%	
	Net Adjustment	+90%	+105%	+140%	+130%	+85%	
	<b>Indicated Value</b>	<b>\$28,501</b>	<b>\$45,100</b>	<b>\$34,282</b>	<b>\$44,850</b>	<b>\$37,675</b>	<b>\$37,500</b>
<b>Tract 2 147.171 acres</b>	Size	+5%	+15%	+15%	+10%	-5%	
	Flood plain	0%	0%	+10%	+10%	0%	
	Net Adjustment	+90%	+100%	+140%	+130%	+85%	
	<b>Indicated Value</b>	<b>\$28,501</b>	<b>\$44,000</b>	<b>\$34,282</b>	<b>\$44,850</b>	<b>\$37,675</b>	<b>\$37,500</b>

**INFRASTRUCTURE COST AND REIMBURSEMENT**

As noted in the discussion of the Equity Infrastructure adjustment, an adjustment for the contribution of the PID reimbursements is also necessary. To a developer these reimbursements have a contribution of 100% because the amount received is equal to the amount spent. However, the reimbursements occur at a point in the future, so the contribution today is the present value of the future reimbursements.

The reimbursements for water and wastewater are scheduled to be paid in increments over the construction period. The road extension is to be paid within 30 days of invoicing and is included in the schedule of payments in the budget. The developer is scheduled to be finished with the initial construction, the condition in which the value is predicated, on July 30, 2013. Any delay until receipt of the payment is the basis for the term of the present value calculation shown in the table of reimbursements.

The discount rate is a function of risk. The reimbursement is from the municipality and the county, and the requirement for reimbursement is based on completion of the infrastructure with no contingency or additional holding period for continued development or sales to end users. This is a relatively low risk scenario for the developer, and a safe rate is applicable.

MUD receivables have been reported to sell in the 8% to 10% return range. Comparatively, a MUD receivable would be a higher risk instrument because it takes longer to recover the reimbursement, and it

is dependent on the success and sale of the subdivision's lots and improvements. The PID reimbursement is dependent only on the credit rating of the municipality that commits to make the reimbursement.

The Austin Water/Wastewater Utility has Moody's, Standard & Poor's, and Fitch ratings of Aa2, AA, and AA- respectively. According to information supplied by the city, the utility's 2016 and 2017 bonds yield from 2.3% to 2.64%. Since the transaction being considered involves real estate, which introduces a risk element as noted above, a rate of 3% is concluded based on these indicators.

Travis County is responsible for the road reimbursements, but this is a relatively small portion (11.8%) of the total. Travis County also has high bond rating, and the Country Commissioner stated in an April 26, 2011, newspaper story that the county achieved a 3.44% interest rate on recent bond sales. This rate covers a range of maturities, and as such, represents the upper end of indicators. A summary of recent Travis County transactions taken from Bloomberg indicates a tax exempt yield with 2017 maturities of 2.13%. This is lower than the city's yield above, but since Travis County's contribution is only 11.8% of the reimbursement total, the risk is highly dependent on the city's performance.

The 3% conclusion is based on tax-exempt investments, while the subject reimbursements are taxable in a sale scenario. Consequently, the rate must be adjusted to a taxable basis. Based on a 35% tax bracket, the equivalent taxable rate is 4.6%. Therefore, a discount rate rounded to 4.5% is used to calculate the present value of the reimbursements. The costs, reimbursements, and calculation of the present value of the reimbursements are shown in the next table.

<b>INDIAN HILLS INFRASTRUCTURE COST AND REIMBURSEMENT</b>				
<b>COSTS</b>	<b>Master PID</b>			<b>Total</b>
	<b>Reimb. Bonds</b>	<b>Bonds</b>	<b>Equity</b>	
Bond PAR Amount	\$2,790,365	\$2,676,554		\$5,466,919
Interest, Underwriting, etc.	-\$816,217	-\$1,240,670		-\$2,056,887
Developer Contribution			\$5,276,525	\$5,276,525
<b>Total Available Funds</b>	<b>\$1,974,148</b>	<b>\$1,435,884</b>	<b>\$5,276,525</b>	<b>\$8,686,557</b>

<b>REIMBURSEMENT AND PRESENT VALUE</b>				
	<b>Water</b>	<b>Wastewater</b>	<b>Decker Lk Rd</b>	<b>Total</b>
City of Austin Reimbursement	\$2,790,365			\$2,790,365
Travis County Reimbursement			\$1,416,265	\$1,416,265
<b>Total Reimbursed</b>	<b>\$2,790,365</b>	<b>\$0</b>	<b>\$1,416,265</b>	<b>\$4,206,630</b>

	<b>Scheduled (Semiannual)</b>	<b>Time after 7-30-2013</b>	<b>Total Reimburse</b>	<b>Present Value at 4.5%</b>
Wastewater, Decker Lake Rd	6/30/2011	0.0 years	\$55,901	\$55,901
Wastewater, Decker Lake Rd	12/30/2011	0.0 years	\$509,356	\$509,356
Wastewater, Decker Lake Rd	6/30/2012	0.0 years	\$851,009	\$851,009
Water/wastewater	10/31/2015	2.3 years	\$1,395,182	\$1,260,850
Water/wastewater	10/31/2016	3.3 years	\$1,395,182	\$1,206,555
<b>Total Reimbursed/Present Value</b>			<b>\$4,206,630</b>	<b>\$3,883,671</b>

The present value of the reimbursements is allocated by dividing by the acreage. Because the reimbursement is related to real estate but is an intangible component of the overall value, the reimbursement is shown separately from the individual aggregate of retail values in the next table.

<b>INDIVIDUAL PARCEL AND AGGREGATE OF RETAIL VALUES</b>				
<b>Parcel</b>	<b>Acres</b>	<b>Value Per Acre</b>	<b>Indicated Value (Real Estate)</b>	<b>Allocated Value (Reimb.)</b>
Tract 1 North	87.127	\$37,500	\$3,267,263	\$1,444,198
Tract 2 South	147.171	\$37,500	\$5,518,913	\$2,439,473
Total	234.298		\$8,786,176	\$3,883,671
<b>Aggregate of Retail Values (Rounded)</b>			<b>\$8,790,000</b>	<b>\$3,880,000</b>
Per Acre			\$37,516	

The retail value estimate does not take into consideration the expected holding period for each parcel, nor does it include holding costs and selling expenses. Additional steps would be necessary to provide an as-is market value estimate for all segments to one buyer in a single transaction.

**CONCLUSION**

Based on the preceding analysis, the individual market values and the aggregate of retail values as of March 31, 2011, are as follows.

<b>INDIVIDUAL PARCEL AND AGGREGATE OF RETAIL VALUES</b>				
<b>Parcel</b>	<b>Acres</b>	<b>Value Per Acre</b>	<b>Indicated Value (Real Estate)</b>	<b>Allocated Value (Reimb.)</b>
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<b>Aggregate of Retail Values (Rounded)</b>			<b>\$8,790,000</b>	<b>\$3,880,000</b>
Per Acre			\$37,516	

**QUALIFICATIONS, NOTICE TO PROCEED**



**QUALIFICATIONS OF PAUL HORNSBY, MAI, SRA, CRE®**

<p>Experience:</p>	<p>Since 1980, Mr. Hornsby has been a practicing real estate appraiser with an office in Austin, Texas, specializing in the valuation of complex commercial properties and in support of litigation proceedings.</p> <p>Mr. Hornsby often serves in the capacity of expert witness in cases involving eminent domain, bankruptcy, civil litigation and ad valorem tax appeal. He is qualified as an appraisal expert in numerous county courts, state district courts, Federal District Court, U.S. Bankruptcy Court, and various commissioners' courts and appraisal district review boards. Mr. Hornsby has given over 300 depositions, testified in over 200 special commissioners hearings and appeared in over 100 jury and bench trials.</p> <p>In addition to real property appraisal, Mr. Hornsby provides counseling services relating to real estate, tangible personal property, and intangible assets. He is a partner in dh Business Advisors, a business valuation firm specializing in the valuation of businesses, intangible assets, partnership interests, and machinery and equipment, and consulting for financial reporting and federal and local income tax purposes.</p>
<p>Licenses and Designations:</p>	<ul style="list-style-type: none"> <li>➤ MAI Designation - Appraisal Institute, Certificate No. 7305</li> <li>➤ SRA Designation - Appraisal Institute</li> <li>➤ CRE® Designation - The Counselors of Real Estate®</li> <li>➤ State Certified General Real Estate Appraiser #TX-1321761-G</li> <li>➤ Texas Broker License #283369-05</li> </ul>
<p>Associations and Activities:</p>	<ul style="list-style-type: none"> <li>➤ Past Chair, Central &amp; South Texas Chapter, The Counselors of Real Estate®</li> <li>➤ Past President, Director and Regional Committee Member-Austin Chapter of the Appraisal Institute</li> <li>➤ Member, International Right of Way Association</li> <li>➤ Member, American Association for the Advancement of Science</li> <li>➤ Member of The Association for Convenience and Petroleum Retailing (NACS)</li> <li>➤ Affiliate member, Texas Association of Appraisal Districts</li> <li>➤ Affiliate member, Texas Association of Property Tax Professionals</li> <li>➤ Instructor, Appraisal Institute- Standards of Professional Appraisal Practice</li> <li>➤ Appraisal Qualifications Board (AQB) Certified USPAP Instructor</li> <li>➤ REALTOR - National Association of Realtors</li> </ul>
<p>Education:</p>	<p>University of Texas at Austin, B.B.A. Degree in Finance, August 1977</p>
<p>Lectures and Publications:</p>	<ul style="list-style-type: none"> <li>➤ Equality and Uniformity-Commercial Properties, Appraisal Review Board, Travis Central Appraisal District, May 2009</li> <li>➤ Appraisal Values in an Unsettled Economy, Graves Dougherty Hearon &amp; Moody – Banking &amp; Real Estate Clients, October, 2008</li> <li>➤ Fee Simple Estate - How Many Sticks in the Bundle?, 22nd Annual Legal Seminar on Ad Valorem Taxation in San Antonio, 2008</li> <li>➤ Real Estate Appraisal Issues and Ethics, Eminent Domain for Attorneys in Texas, 2007</li> <li>➤ Contemporary Appraisal Issues, Central Texas Commercial Property Exchange, 2007</li> <li>➤ Capitalization Theory &amp; Techniques, Chartered Financial Analysts, 2007</li> <li>➤ Material and Substantial Impairment of Access, CLE International, 2003</li> <li>➤ Fee Simple Versus Leased Fee Valuation: A Study of Appraisal Models, Downtown Austin Alliance, Institute of Real Estate Management, 2001</li> <li>➤ Regulatory Takings, International Right of Way Association, 2000</li> <li>➤ The Schmidt Opinion From the Appraiser's Perspective, Office of the Attorney General, State of Texas, 1993</li> <li>➤ Asbestos Abatement and Lead Paint: Effects on Real Estate Value, Texas Association of Appraisal Districts, 1992</li> <li>➤ The Endangered Species Act and Its Impact on Property Value, Texas Savings and Loan League, 1989</li> <li>➤ Valuation Theory, Real Estate Symposium, University of Texas, 1984</li> </ul>

**QUALIFICATIONS OF DAVID J. ENGLUND, MAI, SRA**



<p>Experience:</p>	<p>Currently a commercial real estate appraiser at Paul Hornsby &amp; Company, Mr. Englund has been involved in the appraisal and consultation of real property since 1986. Prior to becoming associated with Paul Hornsby &amp; Company, he held the Senior Appraiser position at the Austin office of Grubb &amp; Ellis Landauer Valuation Advisory Service, and previously was a Senior Analyst at Integra Realty Resources-Austin, a national commercial appraisal firm. From 1986 to 2006, Mr. Englund was an independent fee appraiser specializing in single and multifamily residential properties with offices in Baton Rouge and Austin. Valuations have been performed on various property types including single family residential, 1-4 family, multifamily apartment properties, residential subdivision developments, condominium developments, office and retail buildings, industrial buildings, mixed use facilities, marinas, and vacant land.</p> <p>His clients at various times have included financial institutions, REITs, insurance companies, law firms, governmental entities, developers, estates, and private property owners. Assignments have been completed for purposes of loan underwriting, portfolio valuation analysis, asset valuation, tax assessment purposes, property acquisition and disposition, estate tax and planning purposes, life estates, and due diligence support.</p>
<p>Licenses and Designations:</p>	<ul style="list-style-type: none"> <li>➤ MAI Designation - Appraisal Institute</li> <li>➤ SRA Designation - Appraisal Institute</li> <li>➤ State Certified General Real Estate Appraiser #TX-1326764-G</li> </ul>
<p>Associations and Activities:</p>	<ul style="list-style-type: none"> <li>➤ Regional Ethics and Counseling Panel – Appraisal Institute</li> <li>➤ Chairman/President – Baton Rouge Chapter of the Appraisal Institute</li> <li>➤ Board of Directors – Louisiana Chapter of the Appraisal Institute</li> <li>➤ Nominating Committee – Louisiana Chapter of the Appraisal Institute</li> <li>➤ Vice President – Baton Rouge Chapter of the Appraisal Institute</li> <li>➤ Admissions Committee – Louisiana Chapter of the Appraisal Institute</li> <li>➤ Board of Directors – Baton Rouge Chapter of the Appraisal Institute</li> <li>➤ Chairman of Education Committee – Baton Rouge Chapter of the Appraisal Institute</li> <li>➤ Young Advisory Council – Appraisal Institute</li> <li>➤ Treasurer – Baton Rouge Chapter of the Appraisal Institute</li> </ul>
<p>Education:</p>	<p>Successfully completed numerous real estate related courses and seminars sponsored by the Appraisal Institute, accredited universities, and others, as well as general studies at Louisiana State University</p>

**NOTICE TO PROCEED**

City of Austin  
**Office of Real Estate Services**  
 P.O. Box 1088, Austin, Texas 78767  
 (512) 974-7090, Fax (512) 974-7088

February 4, 2011

Mr. Paul Hornsby, MAI, SRA, CRE  
 Paul Hornsby & Company  
 2100 Kramer Lane, Suite 550  
 Austin, TX 78758

Project Name:	Whisper Valley/Indian Hills
File #:	4708.01A
Assignment Number:	52-102A
Property Owner:	Club Deal 120 Whisper Valley LP / Club Deal 116 Indian Hills TX
TCAD Parcel Number:	02-1060-0101; 02-01070-0105; 02-1050-0944
Legal Description:	1,819.287 ACS out of Abs. 60, O. Buckman Sur. 40 & Abs. 5, J. Burleson Sur. 33; 247.156 ACS out of Abs. 12 J. Gilleland Sur. 13 / 239.99 ACS out of Abs. 15, R. Hornsby Sur. 17, Travis County, Texas

Dear Mr. Hornsby,

As per our discussion, please proceed on the appraisal assignment regarding the above referenced parcels. The purpose of this assignment is to develop opinion of values for the Whisper Valley and Indian Hills planned mixed-use developments in two separate reports.

In addition to two appraisal reports, the scope of the assignment will include extraordinary assumptions and hypothetical conditions to be made in this valuation as follows:

- 1) "Basic Infrastructure" components: water/wastewater facilities providing sufficient capacity for development, to the extent provided in the Water and Wastewater Reimbursement Agreements and primary arterial roadway access via the extension of Braker Lane and Decker Lake Road are completed and connected to the subject developments.
- 2) The larger developments are divided into sub-parcels that can be sold independently. This division will be taking place simultaneously with your report development and illustrations of the division with areas will be supplied to your office prior to final appraisal report completion.
- 3) The value conclusion will reflect a cumulative value of the sub-parcels.
- 4) The effective date of the appraisal is a current date with infrastructure completed.
- 5) All infrastructure cost, cash flow, reimbursement agreement, Planned Unit Development (PUD) and other development agreement information supplied to your office are true and correct.
- 6) All approved entitlements, zoning and PUD use allowances (including parkland, trails and other open space) for each development are to be considered in their entirety.
- 7) The Public Improvement District (PID) bonds will finance the basic infrastructure improvements to be constructed with reimbursement by the City (utilities) and Travis County (roadways) for a portion of the infrastructure as set forth in the cash flow models and reimbursement agreements. The PID bonds will be special assessment revenue bonds with the debt service paid for by special assessments on the real property within the PID. No City taxes will be imposed on the property until the bonds are retired so that no undue burden is placed on future landowners.

Page 2

The intended use of the appraisal is to assist the City of Austin, underwriters and investors (and will be included in the POS for the bonds) in the issuance of PID bonds. The City of Austin is the client and the intended user(s) of the appraisal reports are the City of Austin and Piper Jaffray & Co.

The appraisal assignments should be reported in a Self Contained Appraisal Report format in compliance with current Uniform Standards of Professional Appraisal Practice (USPAP) and the attached Supplemental Appraisal Requirements for the City of Austin. An unsigned draft report should be provided for my review. Upon approval, please provide *six (6) copies* of the finalized appraisal report as well as an electronic copy.

The property owner(s) representative is Mr. Steve Metcalf (512-961-8843) of Metcalf Williams LLP and can be contacted for information regarding the subject properties and for a physical inspection of the properties. Please contact me when an inspection date and time have been determined, as I will also attend. If there are difficulties contacting Mr. Metcalf or if preferred, contact me for needed property or other clarifying information. A copy of this Notice to Proceed should be included in your report.

The following definition of market value should be used:

"The price which the property would bring when it is offered for sale by one who desires, but is not obligated to sell, and is bought by one who is under no necessity of buying it, taking into consideration all of the uses to which it is reasonably adaptable and for which it either is or in all reasonable probability will become available within the reasonable future." (City of Austin vs. Cannizzo, et al., 267 S.W.2d 808,815[1954])

We have agreed on a fee not to exceed [REDACTED] and a delivery date of 26 working days from the date of engagement on this Notice to Proceed. No one other than the undersigned is authorized to alter the scope of this assignment. If it becomes apparent during the course of the assignment that the fee will exceed this amount, Real Estate Services is to be notified in writing for written authorization to amend the fee.

Regarding items of an administrative nature, your invoice for requested services and the letter of transmittal should contain the following information:

Address Report to:	Ronald L. Olderog, MAI, SR/WA
Assignment Number:	52-102A
File Number:	4708.01A
Project Name:	Whisper Valley/Indian Hills
Property Owner:	Club Deal 120 Whisper Valley LP / Club Deal 116 Indian Hills TX
TCAD Parcel Number:	02-1060-0101; 02-01070-0105; 02-1050-0944
Legal Description:	1,819.287 ACS out of Abs. 60, O. Buckman Sur. 40 & Abs. 5, J. Burleson Sur. 33; 247.156 ACS out of Abs. 12 J. Gilleland Sur. 13 / 239.99 ACS out of Abs. 15, R. Hornsby Sur. 17, Travis County, Texas

Should you have any questions or need additional information, please contact me at 974-7193 or 802-3374 (digital pager).

Sincerely,



Ronald L. Olderog, MAI, SR/WA  
Office of Real Estate Services  
Sent by email; original with attachments sent via regular mail

City of Austin Supplemental Appraisal Guidelines

1. Subject property inspections should be arranged within 7 to 10 days of the notice to proceed. If any property/owner issues arise, please contact COA Appraisal staff as soon as possible so that they can be addressed in a timely manner.
2. An on-site inspection of the subject property must be completed, except in cases where access has been denied by the property owner.
3. When providing a fee estimate on a property, analyze if, in your opinion, the improvements will be impacted by the acquisition. If the improvements are considered to be impacted, then a valuation of the property as improved is to be undertaken. If your analysis indicates that the improvements are not impacted, then a valuation of only the land component is a complete appraisal assignment.

The subject of the appraisal assignment is the property interest to be acquired. (For example, the proposed easement area and the rights included in the easement represent the subject property for the acquisition of a permanent easement.)

4. All comparable sales must be inspected.
5. Photographs of improved sales and rentals must be included in the report.
6. Plat maps must be included for all comparable sales, as well as the subject property.
7. All comparables must be confirmed in-house.
8. Comparable sale data sheets must include:
  - Name of confirmation source and confirmation date.
  - Inspection date of the comparable sale.
  - The date when the deeds were read.
9. Transactions where the City of Austin, or other condemning authority, is a party are not to be utilized.
10. Appraisers will read all deeds, including deeds pertaining to the subject property history (3 Years per USPAP) as well as those pertaining to the comparable sales, most recent.
11. A brief written description must accompany all adjustments made to the comparable sales as well as an adjustment grid.
12. When contacted by the review appraiser, you will have 7 working days to provide a response to the review. Once the draft has been approved, you will have 5 working days to provide final reports to COA.
13. SFR Appraisals may use URAR forms with supplemental pages addressing the partial acquisition and additional information.

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APPENDIX F

FORM OF FINANCING AGREEMENT

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INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT  
FINANCING AGREEMENT

BETWEEN

CLUB DEAL 116 INDIAN HILLS TX, LIMITED PARTNERSHIP

AND

THE CITY OF AUSTIN, TEXAS

INDIAN HILLS PUBLIC IMPROVEMENT DISTRICT  
FINANCING AGREEMENT

This Indian Hills Public Improvement District Financing Agreement (this “**Agreement**”), dated as of \_\_\_\_\_, 2011 (the “**Effective Date**”), is entered into between Club Deal 116 Indian Hills TX, Limited Partnership, a Delaware limited partnership (including its successors, assigns, or transferees, the “**Developer**”), and the City of Austin, Texas (the “**City**”), a municipal corporation, acting by and through its duly authorized representative.

Recitals:

WHEREAS, Developer owns a total of approximately 234 acres of land located in the City of Austin, Travis County, Texas, contained within the area described in the attached Exhibit “B” (the “**Property**”). The Property is located in the City’s extraterritorial jurisdiction (“**ETJ**”) and has been annexed by the City for limited purposes.

WHEREAS, the Developer desires to develop the Property with a mixed-use multifamily residential, general office, light industrial, R&D and neighborhood retail (the “**Project**”);

WHEREAS, the Project is located along State Highway 130. The City has identified the SH 130 Corridor (herein so called) as one of its “**Desired Development Zones**”. In an effort to ensure that development along the SH 130 Corridor would meet the City’s overall vision and plan, the City supported House Bill No. 3719 and Senate Bill No. 1688 (the “**SH 130 Legislation**”) during the 80<sup>th</sup> Texas Legislative Session. The City’s main goals with the SH 130 Legislation were as follows (collectively, the “**Goals**”): (i) to obtain land use and planning controls over the SH 130 Corridor, the majority of which is within the City’s ETJ; (ii) to provide for dense growth and mixed use development along the SH 130 Corridor; (iii) to create a funding mechanism that would encourage the extension of public infrastructure along the SH 130 Corridor; and (iv) to maintain control over the governing body of any “infrastructure districts” created pursuant to the SH 130 Legislation;

WHEREAS, the SH 130 Legislation was not enacted. In order to accomplish the Goals contemplated by the SH 130 Legislation, Developer, CLUB DEAL 120 WHISPER VALLEY, LIMITED PARTNERSHIP (“**WV Developer**”) and the City executed that certain WHISPER VALLEY AND INDIAN HILLS ANNEXATION AND DEVELOPMENT AGREEMENT (“**Development Agreement**”) dated effective as of June 18, 2009, wherein the parties established goals and a process for limited purpose annexation of the Property to give the City land use controls and zoning using the City’s PID Policy adopted on December 18, 2008, (“**PID Policy**”) to allow City financing of the infrastructure via public improvement districts to finance the Developer’s infrastructure for development of the Property;

WHEREAS, pursuant to the Development Agreement, the City has (i) adopted Ordinance No. 20100826-\_\_\_\_\_ establishing zoning for the Project, (ii) limited purposed annexed the Property and (iii) authorized the formation of the Indian Hills Public Improvement District (the “**District**”) in accordance with the PID Act (as hereinafter defined);

WHEREAS, the City acknowledges that Developer's cooperation in this endeavor enables the City to establish, define, and protect the City's jurisdiction and regulatory authority over the Property, and that Developer would not have consented to the limited purpose annexation and zoning of the Property but for the intention to enter into this Agreement;

WHEREAS, the Developer proposes to construct certain improvements over time to serve property located in the District (or portions thereof) and transfer some of those improvements to the City or County in accordance with the terms and provisions of this Agreement;

WHEREAS, contemporaneously herewith the City intends to (upon satisfaction of the conditions and in accordance with the terms set forth in this Agreement), at the request, and with the consent, approval and agreement of the Developer, adopt the Assessment Ordinance (as defined herein) and adopt the Assessment Plan (as defined herein) that provides for the construction and financing of certain improvements within the District pursuant to the Assessment Plan, payable in whole or in part, by and from assessments levied against property within the District, as more specifically provided for in the Assessment Plan;

WHEREAS, the City intends to (upon satisfaction of the conditions and in accordance with the terms set forth in this Agreement) levy assessments on all or a portion of the property located within the District and issue, in one or more series, bonds for payment of costs associated with construction and/or acquisition of the Public Improvements (as defined herein) included in the Assessment Plan, as such plan may be amended from time to time;

WHEREAS, the City has determined that it is in its best interests to contract with the Developer for the construction of the Public Improvements, which will result in the efficient and effective implementation of the Assessment Plan;

WHEREAS, from the proceeds of the bonds the City issues in connection with the Public Improvements in the District, the City will, upon satisfaction of the conditions and in accordance with the terms set forth in this Agreement, construct or cause to be constructed or acquire those certain Public Improvements provided for in this Agreement and the Developer will be paid or reimbursed for all or a portion of the costs of acquisition, construction, and improvement of the Public Improvements at the time the Public Improvements are complete and operative or certain Segments are complete and operative and have been accepted by the City;

NOW, THEREFORE, for and in consideration of the mutual agreements, covenants, and conditions contained herein, and other good and valuable consideration, the parties hereto agree as follows:

## ARTICLE I. SCOPE OF AGREEMENT

### Section 1.01. Outline of Agreement

This Agreement establishes provisions for the apportionment, levying, and collection of Assessments on the Property (Article II), the Construction of Public Improvements to be Acquired by the City (Article III), advancement of construction funds for the Master PID Bonds, City's acquisition and maintenance of Public Improvements within the District (Article IV), and the issuance of bonds for the financing of CRA and Non-CRA Improvements (Article V). Definitions used herein are set forth in Exhibit "A" attached hereto and made a part hereof and in the Assessment Plan.

### Section 1.02. Agreement Does Not Supersede CRA

This Agreement sets forth the terms and conditions concerning the construction, financing, and City's acquisition (where applicable) of Non-CRA Improvements. In addition, this Agreement provides the terms and conditions concerning the construction, financing, and City's acquisition (where applicable) of CRA Improvements, but only to the extent indicated in this Agreement and if such terms are not otherwise addressed in the CRA. The Parties do not intend for this Agreement to supersede, replace, or conflict with the CRA. The terms and provisions of the CRA shall control the terms and conditions for constructing any infrastructure to be constructed pursuant to the CRA.

### Section 1.03 Annexation

Timing of the City's full purpose annexation of the Project shall be in accordance with Article V of the Development Agreement.

## ARTICLE II. APPORTIONMENT, LEVY AND COLLECTION OF ASSESSMENTS

### Section 2.01. Preliminary Matters

(a) On August 26, 2010, the City authorized the formation of the District in Resolution No. 20100826-023. The District includes all of the Property.

(b) The Developer shall develop the Property in phases. It is anticipated that some Public Improvements will benefit only a portion of the Property while other Public Improvements will benefit the entire District. As a result, Special Assessments will be levied on all or portions of the Property from time to time. It is currently contemplated that there will be three different types of bonds issued:

(i) Senior Master PID Bonds will be issued at the beginning of the Project in order to fund a portion of the construction of the Master PID Bond Authorized Improvements and other improvements specified in the Assessment Plan, which will benefit all of the Property and result in Special Assessments levied against the entire Property.

(ii) Subordinate Master PID Bonds will also be issued at the beginning of the Project contemporaneously with the Senior Master PID Bonds and will fund a portion of the costs to construct the CRA Improvements as specified in the Assessment Plan, which therefore will result in additional Special Assessments being levied on the entire Property. In addition to the Special Assessments, the Subordinate Master PID Bonds will also be secured by the Developer's pledge of (and are expected to be fully repaid by) a portion of the reimbursements due to the Developer under the CRA pursuant to the CRA Pledge Agreement. There will only be one combined Special Assessment for the Master PID Bonds and the method by which the Special Assessment will be applied to the obligations under the Master PID Bonds will be provided in the Initial Indentures and the Assessment Plan. The use of the Special Assessments to pay the Subordinate Master PID Bonds will be subject and subordinate to the use of the Special Assessments to pay the Senior Master PID Bonds.

(iii) Phased PID Bonds will be issued periodically in the future as individual Improvement Areas of the Project are developed and will fund micro infrastructure improvements within each given Improvement Area. In connection with the Phased PID Bonds, Special Assessments will be levied only on Property located in the Improvement Area in question.

(c) The initial Assessment Plan for the Property is attached hereto as Exhibit "C." The Developer acknowledges and agrees that the Assessment Plan must meet the requirements of Texas Local Government Code §§ 372.013 and 372.014 and be presented to the City Council for review and approval prior to Bonds being issued. Thereafter, the Assessment Plan will be updated and amended by the Administrator at least once per year, and submitted for the City Council's review and approval. Notwithstanding the above, it is hereby understood and acknowledged by the Parties that the Special Assessments associated with the Master PID Bonds are the only Special Assessments that can be addressed with reasonable certainty in the Assessment Plan. As a result, the Assessment Plan will need to be amended over time as subsequent Improvement Areas are developed (and corresponding Phased PID Bonds are issued) in accordance with the terms set forth in this Agreement. Nevertheless, the basic terms and methodology described in the Assessment Plan will generally apply to the Phased PID Bonds.

(d) Special Assessments on any portion of the Property will bear a direct proportional relationship to the special benefit of the Public Improvements to that Improvement Area.

(e) Special Assessment on any given portion of the Property may be adjusted in connection with subsequent Bond issues as long as the Maximum Annual Assessment rate is not exceeded, and so long as the Special Assessments are determined in accordance with the Assessment Plan.

(f) Prior to the levy of Special Assessments, the Developer shall provide a Feasibility and Market Study Analysis to the City for the City's review and approval, as described in Section 5.01 hereof.

(g) The Property may be subject to an Owner's Association assessment or a PID Maintenance and Operation assessment for the provision of public services, including but not limited to maintaining public areas (e.g. parks and open space) within the District.

(h) Promptly following submission to the City of the initial Assessment Plan (or any subsequent amendment to the Assessment Plan) acceptable to Developer and the City in form and substance, the City Council shall consider an Assessment Ordinance relating to the applicable plan or amendment. If the ordinance is adopted, the City shall use reasonable, good faith efforts to expeditiously initiate and approve all necessary documents and orders required to effectuate the Assessment Plan and Assessment Ordinance.

**Section 2.02. Apportionment and Levy of Assessments.**

The City intends to levy Special Assessments on property in the District in accordance herewith and with the Assessment Plan (as such plan is amended from time to time) at such time as Bonds are issued in accordance with Article IV hereof. The City's apportionment and levy of assessments shall be made in accordance with the PID Act.

**Section 2.03. Collection of Assessments.**

The City covenants and agrees that it shall, as authorized by the PID Act and other applicable law, continuously collect or cause to be collected Special Assessments levied pursuant to the Assessment Plan during the term of this Agreement in the manner and to the maximum extent permitted by applicable law. The City covenants and agrees that to the extent permitted by applicable law, it will not permit a reduction, abatement, or exemption in the Special Assessments due on any portion of the Property until the Bonds related to that particular portion of the Property are no longer outstanding, whether as a result of payment in full, defeasance or otherwise. The City shall use good and sound practices to collect the Special Assessments consistent with the City's policies and standard practices applicable to the collection of City taxes and assessments.

**Section 2.04. Approval and Recordation of Special Assessments through Landowner Agreement.**

Prior to or concurrently with the levy of the Special Assessments for any portion of the Property, the Developer shall execute (and shall cause any other owner of any of the Property that will be subject to the future special assessments to execute) a Landowner Agreement (herein so called) in which the Landowner shall approve and accept the apportionment of assessments in the Assessment Plan and the levy of the Special Assessments by the City. The Landowner Agreement further shall (a) evidence the Developer's intent that the Special Assessments be covenants running with the land that (i) will bind any and all current and successor owners of the Property to the Special Assessments, including applicable interest thereon, as and when due and payable thereunder and (ii) provide that subsequent purchasers of such land take their title subject to and expressly assume the terms and provisions of the Special Assessments; and (b) provide that the liens created by the levy of the Special Assessments are a first and prior lien on the Property, subject only to liens for ad valorem taxes of the State or any municipality (if any), county, school district, special district or other political subdivision.

### ARTICLE III. CONSTRUCTION AND ACQUISITION

#### **Section 3.01.** Acquisition of Public Improvements

Some of the Public Improvements are intended to be acquired by the City and/or County, and some will be retained by the Developer. The Public Improvements to be acquired by the City shall be determined through mutual agreement of the Parties before construction of such Public Improvements is initiated. Construction of the Master PID Bond Authorized Improvements has been agreed to by the Parties and is described in the Assessment Plan. Each acquisition of Public Improvements not paid for simultaneously with conveyance of said Public Improvements (e.g., a portion of the price is being paid over time) shall be evidenced by an Acquisition Agreement. For any such improvements that will ultimately be accepted and maintained by the County, the City and Developer shall enter into an Acquisition Agreement and then the City shall assign its rights to receive the Public Improvement to the County (provided the County agrees to maintain such Public Improvement), but the Developer shall retain the right to receive future Bond proceeds as payment for said Public Improvement.

#### **Section 3.02.** Designation of Construction Manager, Construction Engineers

(a) The City hereby designates the Developer as the Construction Manager with full responsibility for the design, the designation of easement locations, facilities site designations and acquisitions, supervision of construction, and the bidding and letting of construction contracts for the construction of the Public Improvements in accordance with the provisions of this Article III.

(b) Inspection of all Public Improvements construction shall be by City inspectors. If the Bonds have not been issued, the Developer shall pay the inspection fee which shall be included in the Actual Cost and may later be reimbursed to Developer when Bonds are issued. If the Bonds have been issued, the Developer may collect the inspection fee out of Bond proceeds.

(c) The Developer shall be entitled to a separate construction management fee of 4% of the costs incurred by or on behalf of Developer for the construction of each Segment.

(d) The City shall cooperate with the Developer in connection with its services as Construction Manager.

(e) The Developer shall designate the consulting engineers for the Public Improvements for the compensation specified by the Developer.

#### **Section 3.03.** Designation of Construction Manager

The Developer may change its designated "Construction Manager" for the Project or any phase thereof at any time (except during the first six months of this Agreement during which the Developer may only change its designated "Construction Manager" for cause) upon written notification to the City and subject to the approval of the Director of Public Works, whose approval shall not be unreasonably withheld. Only the designated Construction Manager may

receive a construction management fee, and only for the period of time during that designation; further, the total fee shall not exceed the amount provided for in the definition of “Actual Costs” in this Agreement. The Parties hereby acknowledge that the Construction Manager may be an individual, company, or partnership, or other entity, as reasonably determined by Developer.

#### **Section 3.04. Performance Bonds**

If there are funds in a segregated account within the Project Fund of an Indenture sufficient both to pay for completion of a Public Improvement and to meet all other obligations of the Public Improvement, it is intended that Developer not be required to post fiscal security for the applicable Public Improvement. For example, if a separate account is formed within the Project Fund under the Initial Indenture for the Subordinate Master PID Bonds for Waterline 1 to be built by the Developer pursuant to the Water Cost Reimbursement Agreement, then no fiscal security will be required for Waterline 1, so long as there are sufficient funds in the account to construct Waterline 1. The City acknowledges that it will accept fiscal security for the Public Improvements in the form of an irrevocable letter of credit, surety bond, cash deposit, or other security acceptable to the City. If no such account exists or such account is not appropriately funded, then the Developer shall be required to post fiscal security for CRA Improvements in accordance with the CRA and for Non-CRA Improvements in accordance with Section 3.07 (a) below.

#### **Section 3.05. Maintenance of Project, Warranties**

Unless otherwise provided for, the Developer shall maintain each Non-CRA Improvement (or Segment thereof) in good and safe condition until such Non-CRA Improvement (or Segment thereof) is accepted by the City. The City’s acceptance of Non-CRA Improvements shall be in accordance with the City standard rules and procedures for the type of improvements being constructed. Prior to such acceptance, the Developer shall be responsible for performing any required maintenance on such Non-CRA Improvement. Notwithstanding the above, the Parties acknowledge and agree that the CRA Improvements shall be maintained in accordance with the CRA. On or before the acceptance by the City of a Non-CRA Improvement (or Segment thereof), the Developer shall assign to the City all of the Developer’s rights in any warranties, guarantees, maintenance obligations or other evidences of contingent obligations of third persons with respect to such Non-CRA Improvement (or Segment thereof).

#### **Section 3.06. Sales and Use Tax Exemptions.**

(a) The parties agree that, as municipally and publicly owned and acquired properties, all costs of materials, other properties and services used in constructing the Public Improvements to be acquired by the City are exempt under the Tax Code from sales and use taxes levied by the State of Texas, or by any city, county, special district, or other political subdivision of the State, as set forth in 34 Tex. Admin. Code, sec. 3.291.

(b) Subject to the terms of the Acquisition Agreement(s), but in furtherance of and to assure such exemptions, title to all property, materials, and services associated with and used in connection with or related to the construction of the Public Improvements shall vest in the City

immediately upon delivery at the site of such construction, and before they are incorporated into the realty or used by the contractor or any other person.

(c) The City Manager (or such other duly authorized representative of the City) is directed to provide such certifications to the Developer and/or to suppliers and contractors as may be required to assure the exemptions claimed herein.

(d) The City Manager (or such other duly authorized representative of the City) and the Developer shall cooperate in structuring the construction contracts for the Public Improvements to comply with requirements (including those set forth in 34. Tex. Admin. Code, sec. 3.291) for exemption from sales and use taxes.

**Section 3.07. Regulatory Requirements.**

(a) The Non-CRA Improvements shall be designed, constructed, installed, and operated, using the City's construction, bidding, and contract documents, in accordance with and subject to compliance with commercially accepted construction practices, applicable City policies, rules and ordinances, and any other Regulatory Requirements, including valid requirements that are uniformly applicable within the City and promulgated by the City, as such requirements may have been modified, varied or waived in the Development Agreement. For those Non-CRA Improvements for which the City does not have bid specifications, Developer and the City shall work together in good faith to develop bid specifications.

(b) Notwithstanding the foregoing, Decker Lake Road shall be designed, constructed, installed and operated in accordance with the Decker Lake Road Agreement. In the event of omissions or errors in the Decker Lake Road Agreement, the most current City standards and requirements will be applied.

(c) The CRA Improvements shall be designed, constructed, installed and operated in accordance with the CRA.

**Section 3.08. Additional Requirements for CRA Improvements**

The following additional requirements shall be applicable to CRA Improvements funded by the Subordinate Master PID Bonds:

(a) Prior to commencing construction of any such CRA Improvements, the Project Engineer shall review all plans and specifications, construction contract and related materials for the applicable CRA Improvement, and shall certify to the Developer, City, Underwriter, Financial Advisor and Trustee that the amount of funding under the Master PID Bonds (as specified in the Assessment Plan and Indenture) is sufficient to fund the full cost of design and construction of the applicable CRA Improvements.

(b) The Construction Manager will maintain an ongoing monthly updated accounting of funds dispersed, work progress and remaining funding needed to complete each applicable CRA Improvement. Such accounting to include a reconciliation of any unadvanced amounts out of the segregated accounts in the Project Fund under the Initial Indentures as compared to the

remaining costs to complete each applicable CRA Improvement. The Construction Manager will provide such monthly reports to the Developer, the City's Director, the Underwriter, the Financial Advisor and the Trustee. Furthermore, the Construction Manager will maintain a website (that may be accessed by the City, the Trustee, the Financial Advisor and the Underwriter) which will include updates of such monthly accounting.

(c) All change orders or costs increases for applicable CRA Improvements must be approved by the Developer, Construction Manager and the Director, to the extent any such change order is in excess of \$100,000.00. The Construction Manager shall provide copies of all approved change orders to the Financial Advisor, Underwriter and Trustee within ten (10) days after approval. Notwithstanding the foregoing, it is hereby acknowledged that the City is not required to increase the amount of reimbursement due under any CRA to the extent such reimbursement would cause the amount of reimbursement to exceed the maximum reimbursement provided in the CRA. Any increase of the amount of reimbursement above the maximum reimbursement provided in the applicable CRA must be approved by the City Council.

(d) All construction contracts for applicable CRA Improvements must include completion bonds for the amount of all work funded by the proceeds of the Subordinate Master PID Bonds, and each such contract shall contain provisions for liquidated damages in the event the contractor does not meet completion schedules for the CRA Improvements as required to allow the Construction Manager to complete the applicable CRA Improvement and to enable the City to fund the reimbursement payments under the CRA within the timeframe necessary to timely pay off the Subordinate Master PID Bonds.

(e) Each construction contract for applicable CRA Improvements shall include a provision requiring 10% retainage to be dispersed only upon completion and acceptance by the City of applicable CRA Improvement, subject however to early disbursement for subcontractors whose work has been completed.

(f) Upon completion of each applicable CRA Improvement and acceptance thereof by the City, which acceptance shall not be unreasonably withheld, conditioned, or delayed, the City will notify the Developer, Financial Advisor, Underwriter and Trustee that the conditions for funding the reimbursement payment due under the CRA for such CRA Improvement have been met and will timely pay the respective dollar amount of the reimbursement.

#### **ARTICLE IV. PAYMENT FOR PUBLIC IMPROVEMENTS**

##### **Section 4.01. Payments for Master PID Bonds**

(a) With respect to those Public Improvements funded by the Master PID Bonds, Developer shall deliver and the City shall accept the given Public Improvements. The net Bond Proceeds from the issuance of the Master PID Bonds will be held by the Trustee in various segregated accounts under the Project Funds for each of the Initial Indentures. Those sums held in the various segregated accounts will be advanced to the Developer by the Trustee to fund the costs of design and construction, including project management, City inspection and

administrative costs, and other soft costs (as more specified in the Assessment Plan) upon receipt of a completed Certification for Payment. Payments will be made to Developer periodically as design and construction progresses. The procedures for such progress payments are contained in this Section 4.01 and the Initial Indentures. Such payments shall be made by Trustee on a monthly basis and within five (5) business days of the Trustee's receipt of the completed Certification for Payment from the Director. The Director or its designee shall deliver his concurrence to pay pursuant to a completed Certification for Payment within fifteen (15) calendar days after its receipt of the required submittal items pursuant to either subpart (b) or (c) below, as applicable. Notwithstanding anything to the contrary contained herein, the Director shall not be obligated to authorize payments of funds for any given Public Improvement if the monthly reconciliation provided by the Construction Manager pursuant to Section 3.08(b) above for that given Public Improvement shows there are not enough funds in the segregated account (including the CRA Holdback under the Projects Fund in the Master PID Bonds) to fund the remaining design and construction costs of that Public Improvement after taking into consideration any contingencies, until funds sufficient to cover the costs overruns are provided to secure such overruns by the Developer or otherwise.

(b) During the design phase for any Public Improvement to be funded by the Master PID Bonds, payments for design costs shall be made by the Trustee on a monthly basis; provided, however, in no event shall the Developer be entitled to aggregate draws equal to more than 30%, 60%, 90% or 100% of the total design costs until such time as the City has approved the design plans for the applicable level of completion (i.e., either 30%, 60%, 90% or 100%). For example, Developer shall be entitled to receive monthly draws based on the percentage of design work completed up to the date of the draw until 30% of the design is complete, but shall not be entitled to any draws past 30% until the City approves the 30% design drawings after which the Developer will be entitled to additional draws up to the 60% design complete date and so on. The Director shall not be required to authorize any design draws until such time as the applicable contract for the design services (including the costs thereof) have been approved by the City, such approval not to be unreasonably withheld, conditioned or delayed. The submittal items necessary for a design payment are as follows:

(i) A Certification for Payment executed by the Construction Manager specifying the percentage of design that has been completed on the applicable Public Improvement;

(ii) A Bills Paid Affidavit from the contractor;

(iii) Copies of all supporting invoices with respect to such design payment.

(iv) Evidence of the City's acceptance of the design phase documents.

(c) During the construction phase for any Public Improvements to be funded by the Master PID Bonds, payments shall be made by the Trustee based on the Actual Cost of the construction completed and the receipt of a completed Certification for Payment. The City is not obligated to authorize any construction payments until such time the City has approved the plans, specifications and the construction contract (including a Construction timeline) for the applicable

Public Improvement. The items required for a construction payment are as follows:

(i) A Certification for Payment executed by the Project Engineer and Construction Manager specifying the amount of work that has been performed and the cost thereof;

(ii) A Bills Paid Affidavit from the contractor;

(iii) Waivers of liens for work on the applicable Public Improvements through the previous Certification for Payment and receipts for payment from the contractor and, if requested by the City, any subcontractors for the current Certification for Payment.

(d) In addition to the submitted items required in 4.01(c) above, in order to obtain the final payment for a Public Improvement funded by the Master PID Bonds, the following are required:

(i) With respect to any CRA Improvement, all requirements for acceptance of such improvement by the City as provided in the applicable CRA shall have been complied with;

(ii) The Developer shall have provided to the City an assignment of the warranties and guaranties, if applicable, for such CRA Improvement;

(iii) After the final Certification for Payment is submitted to the City, the Project Engineer shall conduct a review for the City to confirm that such Public Improvement was constructed in accordance with the plans therefor and the Project Engineer will verify and approve the Actual Cost of such Public Improvement specified in such Certification for Payment. The City agrees to instruct the Project Engineer to conduct each such review in an expeditious manner not to exceed 15 calendar days after the Certification for Payment is submitted to the City and the Developer agrees to cooperate with the Project Engineer in conducting each such review and to provide the Project Engineer with such additional information and documentation as is reasonably necessary for the Project Engineer to conclude each such review. Upon confirmation by the Project Engineer to the City that such Public Improvement has been constructed in accordance with the plans therefor, and verification and approval of the Actual Cost of such Public Improvement, the City shall within fifteen (15) calendar days thereafter accept such Public Improvement and the Director shall sign the Certification for Payment and forward the same to the Trustee. The time period for the Director to sign the Certificate for Payment and forward the same to the Trustee in this Section 4.01(d)(iii) will control over the time period specified in Section 4.01(a) hereof.

(e) The terms, conditions and procedures set forth in Section 4.01(a) – (c) shall also apply to Decker Lake Road, except as follows:

(i) The City will not be purchasing Decker Lake Road. The City will assign its right to purchase Decker Lake Road to the County.

- (ii) The County will be approving the plans, specifications and the construction contract for Decker Lake Road, not the City.
- (iii) No material changes to Decker Lake Road Agreement will be made without the City's consent.

In addition to the submitted items required in 4.01(c) above, in order to obtain the final payment for Decker Lake Road a written acknowledgement from the County that all requirements for acceptance of Decker Lake Road as provided in the Decker Lake Road Agreement have been complied with shall be provided to the City. Upon receipt of such written acknowledgement from the County, the City shall, within fifteen (15) days thereafter, and the Director of the City shall sign the Certification for Payment and forward the same to the Trustee.

**Section 4.02. Payments for Phased PID Bonds**

(a) The City shall not be obligated to provide funds for any Non-CRA Improvement except from the proceeds of the Bonds. The City makes no warranty, either express or implied, that the proceeds of the Bonds available for the payment of the Actual Cost of the Non-CRA Improvements to be constructed for or acquired by the City or County will be sufficient for the construction or acquisition of all of those particular Non-CRA Improvements. The Parties anticipate that the cost to construct the Non-CRA Improvements will be greater than the proceeds of the Bonds available for Non-CRA Improvements.

(b) Subject to the terms and conditions of any applicable Acquisition Agreement, the Developer shall convey, and the City shall acquire the given Public Improvement for the Actual Cost, when such Public Improvement is completed and has been accepted by the City; provided, however, if the City assigns its rights to receive any such Public Improvement to the County pursuant to Section 3.01 above, then the County shall actually obtain title to such Public Improvement in accordance with the applicable Acquisition Agreement.

(c) To receive the Actual Cost for a Public Improvement under the Phased PID Bonds, the Developer shall deliver to the City and the Project Engineer (x) documentation evidencing the Actual Cost, (y) an assignment of the warranties and guaranties, if applicable, for such Non-CRA Improvement, in form reasonably acceptable to the City. Nothing herein or in subparagraph and (d) below shall prohibit Developer from being reimbursed for design costs associated with a Non-CRA Improvement prior to the completion of construction of said Non-CRA Improvement.

(d) Upon receipt of a Payment Request (and accompanying documentation) for a Segment, the City shall instruct the Project Engineer to conduct a review in order to confirm that such Segment was constructed in accordance with the Plans therefore and to verify and approve the Actual Cost of such Segment specified in such Payment Request. The City agrees to instruct the Project Engineer to conduct each such review in an expeditious manner not to exceed 30 calendar days and the Developer agrees to cooperate with the Project Engineer in conducting each such review and to provide the Project Engineer with such additional information and documentation as is reasonably necessary for the Project Engineer to conclude each such review. Upon confirmation that such Segment has been constructed in accordance with the Plans

therefore, and verification and approval of the Actual Cost of such Segment, the City shall, within thirty (30) days thereafter accept such Segment and the Project Engineer and Director of the City shall sign the Payment Request and forward the same to the Finance Director of the City and payments will be made to Developer, or other person as applicable, within thirty (30) days after receipt by the Finance Director.

**Section 4.03. Payments to Co-Developer**

The Developer may enter into agreements with one or more real estate developers or builders (commercial or residential) to sell or develop a portion of the Property and/or to construct certain Public Improvements (each such developer, a “**Co-Developer**”). The Developer may submit Actual Costs paid for by a Co-Developer and obtain reimbursement of such Actual Costs (or in the case of certain CRA Improvements, the costs eligible for reimbursement) on behalf of and to be paid to such Co-Developer.

**Section 4.04. Acceptance and Maintenance of Improvements.**

Upon written acceptance of a Non-CRA Improvement, and subject to any applicable maintenance-bond period, the City shall be responsible for all operation and maintenance of such Non-CRA Improvement, including all costs thereof and relating thereto. Notwithstanding the foregoing, if the City assigns its right to receive a Non-CRA Improvement to the County as provided in Section 3.01 above, then the County shall be responsible for operation and maintenance as provided in the applicable Acquisition Agreement. Operation and maintenance of CRA Improvements shall be in accordance with the CRA.

**Section 4.05 PID Bond Reimbursements to City.**

The Parties hereby acknowledge and agree that the Developer will reimburse the City for funds advanced by the City under the CRA according to the schedule and amounts and otherwise in accordance with the terms more particularly described in the CRA.

**ARTICLE V. BONDS**

**Section 5.01. Issuance of Bonds.**

(a) Subject to the terms and conditions set forth in this Section V, the City intends to pay for the Public Improvements, by issuing Bonds in one or more series. The City will use reasonable and good faith efforts to sell Bonds after receiving a Bond Issuance Request from the Developer, provided that the Developer can reasonably demonstrate to the City and its financial advisors via a Feasibility and Market Study Analysis (or such other similar documentation) that there is sufficient security for the Bonds, based upon the bond market existing at the time of such proposed sale. Notwithstanding the foregoing, the City intends to issue the Master PID Bonds and in connection with such Bonds no Bond Issuance Request is required. The Public Improvements to be constructed and funded in connection with the Master PID Bonds (as well as the projected costs and timing of their construction) are detailed on the chart attached hereto as

Exhibit “D”. The chart also shows projected dates for reimbursement by the City pursuant to the CRA. The Phased PID Bonds will be issued in the future subject to the terms hereof and the Assessment Plan (as the same is amended and updated).

(b) In the event there are cost overruns and the proceeds of the Subordinate Master PID Bonds and the funds in the CRA Holdback (defined below) are not sufficient to fund the Public Improvements specified in the Assessment Plan, the Developer waives the right to protest the City’s reasonable decision to issue an additional amount of debt sufficient to cover the overruns (not to exceed \$750,000) of Bonds commencing in year 2012 with the first assessments to occur in 2014 to provide additional contingency funding. While the City cannot pre-approve the issuance of these Bonds and hence bind a future City Council, the City hereby notes its willingness to consider the issuance of additional Bonds, as needed in a manner consistent with City policy, to make certain that the CRA Improvements funded by the Subordinate Master PID Bonds can be managed and/or completed should the other contingencies be exhausted.

(c) The aggregate principal amount of Bonds required to be issued hereunder shall not exceed an amount sufficient to fund: (i) the Actual Costs of the Public Improvements (ii) required reserves and capitalized interest during the period of construction and not more than 12 months after the completion of construction and in no event for a period greater than 3 years from the date of the initial delivery of the Bonds and (iii) any costs of issuance. Provided, however that to the extent the law(s) which limit the period of capitalized interest to 12 months after completion of construction change, the foregoing limitation may be adjusted to reflect the law(s) in effect at the time of future Bond issuances.

(d) To the extent permitted by law, the final maturity for each series of Bonds shall occur no later than 30 years from the issuance date of said Bonds.

(e) Bonds are not required to be issued under this Article V unless (1) the statutory requirements set forth in Chapter 372 of the Texas Local Government Code have been satisfied; (ii) the City shall receive at the time of issuance an opinion of counsel selected by the City stating in effect that the Bonds are legal and valid under Texas law and that all preconditions to their issuance under State law have been satisfied; and (iii) the approving opinion of the Attorney General of the State of Texas as required by the PID Act.

(f) If proceeds from Senior Master PID Bonds are still available after all the Master PID Bond Authorized Improvements are accepted by the City or County, as applicable, the proceeds may be utilized to finance other Public Improvements.

**Section 5.02. Public Improvement Fund and CRA Holdback**

(a) The City hereby covenants and agrees that if Bonds are issued, the applicable Indenture will establish a Project Fund as a separate fund to be held by the Trustee under the Indenture. The City agrees that the portion of the proceeds of the Bonds not used to pay the costs of issuance associated with the Bonds (but used to provide capitalized interest or to fund a reserve fund or to fund other lawful purposes related to the Project as detailed in the applicable Indenture shall be deposited upon issuance into the Project Fund as specified in the Indenture,

which amounts shall be used to pay for Project Costs. The Indenture may establish separate accounts within the Project Fund.

(b) The Developer hereby covenants and agrees to use commercially reasonable efforts to first expend proceeds from the Senior Master PID Bonds to construct Waterline 1 before expending proceeds from the Subordinate Master PID Bonds to construct Waterline 1.

(c) An additional contingency amount (maintained from the proceeds of the Senior Master PID Bonds) will be held back based on the aggregate estimated cost of unfunded work on the Public Improvements that also qualifies as CRA Improvements to be completed with funds from the Subordinate Master PID Bonds (the “**CRA Holdback**”). This CRA Holdback will be held in a separate account by the Trustee. This amount will initially be \$\_\_\_ million which is \_\_\_% (the “**Requisite Percentage**”) of the estimated aggregate cost of the CRA Improvements to be completed with funds from the Subordinate Master PID Bonds. The amount held in the CRA Holdback will decrease on a prorata basis as Public Improvements that also qualifies as CRA Improvements funded by the Subordinate Master PID Bonds are completed and funded (i.e., only the Requisite Percentage of the estimated aggregate cost necessary to complete the CRA Improvements to be funded by Subordinate Master PID Bonds shall remain in the CRA Holdback. Amounts no longer required to maintain the Requisite Percentage in the CRA Holdback can then be used to complete Master PID financed Public Improvements that are Non-CRA Improvements. Once the CRA Improvements to be funded by Subordinate Master PID Bonds are completed, any remaining funds in the CRA Holdback will be disbursed to complete Master PID financed Non-CRA Improvements and then to reimburse the Developer for qualifying Project Costs advanced by the Developer to complete Master PID financed Improvements.

#### **Section 5.03. Denomination, Maturity, Interest, and Security for Bonds**

(a) Each series of Bonds shall be finally authorized by the City Council and shall be issued in the denominations, shall mature and be prepaid, shall bear interest, and shall be secured by and payable solely from the Bond Security, all to be as described and provided in the Bond Ordinance or Indenture, as applicable.

(b) The final and adopted versions of the Bond Ordinance and the Indenture (and all documents incorporated or approved therein) shall contain provisions relating to the withdrawal, application, and uses of the proceeds of the Bonds when and as issued and delivered and otherwise contain such terms and provisions as are mutually approved by the City and the Developer.

#### **Section 5.04. Sale of Bonds.**

The Bonds shall be issued by the City and shall be marketed and sold through negotiated sale to an approved third party with the cooperation and assistance of the Developer in all respects with respect to the preparation of marketing documents, such as preliminary and final

official statements or in such other marketing and/or sales method mutually agreed upon by the City and the Developer.

## ARTICLE VI. REPRESENTATIONS AND WARRANTIES

### Section 6.01. Representations and Warranties of City

The City makes the following representation and warranty for the benefit of the Developer:(a) that the City is a municipal corporation and political subdivision of the State of Texas, duly incorporated, organized and existing under the Constitution and general laws of the State, and has full legal right, power and authority under the PID Act and other applicable law (i) to enter into, execute and deliver this Agreement, (ii) to adopt the Assessment Ordinance, and (iii) to carry out and consummate the transactions contemplated by this Agreement.

### Section 6.02. Representation and Warranties of Developer

The Developer makes the following representations, warranties and covenants for the benefit of the City:

(a) The Developer represents and warrants that the Developer is a limited partnership duly organized and validly existing under the laws of the State of Delaware, is qualified to do business in and is in good standing under the laws of the State of Texas, is in compliance with the laws of the State of Texas, and has the power and authority to own its properties and assets and to carry on its business as now being conducted and as now contemplated.

(b) The Developer represents and warrants that the Developer has the power and authority to enter into this Agreement, and has taken all action necessary to cause this Agreement to be executed and delivered, and this Agreement has been duly and validly executed and delivered on behalf of the Developer.

(c) The Developer represents and warrants that this Agreement is valid and enforceable obligation of the Developer and is enforceable against the Developer in accordance with its terms, subject to bankruptcy, insolvency, reorganization, or other similar laws affecting the enforcement of creditors' rights in general and by general equity principles.

(d) The Developer covenants that it will use its reasonable and diligent efforts to do all things which may be lawfully required of it in order to cause the Public Improvements to be completed in accordance with this Agreement.

(e) The Developer covenants that it will not commit, suffer, or permit any act to be done in, upon or to the Property or the Project in violation of the any law, ordinance, rule, regulation, or order of any governmental authority or any covenant, condition or restriction now or hereafter affecting the Property or the Project.

(f) The Developer represents and warrants that (i) it will not request payment from the City for the acquisition of any Public Improvements that are not part of the Project, and (ii) it will diligently follow all procedures set forth in this Agreement with respect to Payment Requests.

(g) Until the final Acceptance Date of all Segments, the Developer covenants to maintain proper books of record and account for the Project and all costs related thereto. The Developer covenants that such accounting books will be maintained in accordance with generally accepted accounting principles, and will be available for inspection by the City or its agent at any reasonable time during regular business hours upon at least 72 hours notice.

## ARTICLE VII. DEFAULT AND REMEDIES

(a) A Party shall be deemed in default under this Agreement (which shall be deemed a breach hereunder) if such Party fails to materially perform, observe or comply with any of its covenants, agreements or obligations hereunder or breaches or violates any of its representations contained in this Agreement.

(b) Before any failure of any Party to perform its obligations under this Agreement shall be deemed to be a breach of this Agreement, the Party claiming such failure shall notify, in writing, the Party alleged to have failed to perform of the alleged failure and shall demand performance. No breach of this Agreement may be found to have occurred if performance has commenced to the reasonable satisfaction of the complaining Party within thirty (30) days of the receipt of such notice (or five (5) days in the case of a monetary default), subject, however, in the case of non-monetary default, to the terms and provisions of subparagraph (c). Upon a breach of this Agreement, the non-defaulting Party in any court of competent jurisdiction, by an action or proceeding at law or in equity, may secure the specific performance of the covenants and agreements herein contained (and/or an action for mandamus as and if appropriate). Except as otherwise set forth herein, no action taken by a Party pursuant to the provisions of this Article VII or pursuant to the provisions of any other Section of this Agreement shall be deemed to constitute an election of remedies and all remedies set forth in this Agreement shall be cumulative and non-exclusive of any other remedy either set forth herein or available to any Party at law or in equity. Each of the Parties shall have the affirmative obligation to mitigate its damages in the event of a default by the other Party. Notwithstanding any provision contained herein to the contrary, the Owner shall not be required to construct any portion of the Project (or take any other action related to or in furtherance of same) while the City is in default under this Agreement).

(c) Notwithstanding any provision in this Agreement to the contrary, if the performance of any covenant or obligation to be performed hereunder by any Party is delayed as a result of circumstances which are beyond the reasonable control of such Party (which circumstances may include, without limitation, pending litigation, acts of God, war, acts of civil disobedience, widespread pestilence, fire or other casualty, shortage of materials, adverse weather conditions such as, by way of illustration and not limitation, severe rain storms or tornadoes, labor action, strikes, changes in the law affecting the obligations of the Parties hereunder, or similar acts), the time for such performance shall be extended by the amount of time of the delay directly caused by and relating to such uncontrolled circumstances. The Party claiming delay of performance as a result of any of the foregoing “force majeure” events shall deliver written notice of the commencement of any such delay resulting from such force majeure event not later than seven (7) days after the claiming Party becomes aware of the same, and if the claiming Party fails to so notify the other Party of the occurrence of a “force majeure” event

causing such delay, the claiming Party shall not be entitled to avail itself of the provisions for the extension of performance contained in this Article.

(d) In addition to the foregoing remedies, the CRA contains provisions dealing with the City's options to complete CRA Improvements if the Developer fails to timely do so. Furthermore, the CRA contains additional consequences if the Developer is in default under the CRA. This subparagraph (d) controls over any contrary provisions contained in this Agreement.

## ARTICLE VIII. GENERAL PROVISIONS

### Section 8.01. Notices.

Any notice, communication or disbursement required to be given or made hereunder shall be in writing and shall be given or made by facsimile, hand delivery, overnight courier, or by United States mail, certified or registered mail, return receipt requested, postage prepaid, at the addresses set forth below or at such other addresses as any be specified in writing by any Party hereto to the other parties hereto. Each notice which shall be mailed or delivered in the manner described above shall be deemed sufficiently given, served, sent and received for all purpose at such time as it is received by the addressee (with return receipt, the delivery receipt or the affidavit of messenger being deemed conclusive evidence of such receipt) at the following addresses:

If to City:                   City of Austin  
                                  PO Box 1088  
                                  Austin, Texas 78767  
                                  Attn: City Treasurer  
                                  Facsimile: 512.370.3838

With copies to:           City of Austin  
                                  PO Box 1088  
                                  Austin, Texas 78767  
                                  Attn: City Attorney  
                                  Facsimile: 512.974.6490

Director of Public Works  
City of Austin  
505 Barton Springs Road, Suite 1300  
Austin, TX 78704  
Facsimile: 512.974.7084\_

Director of Austin Water Utility  
PO Box 1088  
Austin, Texas 78767  
Facsimile: 512.972.0111

If to Developer:           Taurus of Texas  
                                  c/o Douglas H. Gilliland  
                                  9285 Huntington Square

North Richland Hills, Texas 76180  
Facsimile: 817.788.1670

With a copy to: Metcalfe Williams, LLP  
Attn: Steven C. Metcalfe  
301 Congress Avenue, Suite 1075  
Austin, Texas 78701  
Facsimile: 512.551-4943

### **Section 8.02. Fee Arrangement**

The Developer agrees that it will pay all of the City's costs and expenses (including legal fees and financial advisory fees) related to the creation and administration of the District. The City's advisors shall submit to the City their fees relating to the establishment and administration of the District, including legal fees relating to the development and review of the Assessment Plan and the Developer will pay these fees on behalf of the City in accordance with the terms of that certain Amended and Restated City of Austin, Texas Deposit and Reimbursement Agreement Proposed Public Improvement District Agreement dated June 10, 2010, or such additional agreements subsequently entered into by the City and Developer. In addition to any fees paid by the Developer pursuant to the preceding sentence, all fees of legal counsel related to the issuance of the Bonds, including fees for the preparation of customary bond documents and the obtaining of Attorney General approval for the Bonds, will be paid at closing as mutually agreed to by the City and the Developer.

### **Section 8.03. Assignment**

(a) Subject to subparagraph (b) below, Developer may, in its sole and absolute discretion, assign this Agreement with respect to all or part of the Project from time to time to any party so long as the assignee has demonstrated to the City's satisfaction that the assignee has the financial, technical, and managerial capacity, the experience, and expertise to perform any duties or obligations so assigned and so long as the assigned rights and obligations are assumed without modifications to this Agreement. Developer shall provide the City thirty (30) days prior written notice of any such assignment. Upon such assignment or partial assignment, Developer shall be fully released from any and all obligations under this Agreement and shall have no further liability with respect to this Agreement for the part of the Project so assigned.

(b) Upon any assignment to its Designated Successors and Assigns, Developer may request the City to approve the release of Developer from the rights and obligations assigned to any Designated Successor and Assigns, such approval not be unreasonably withheld, conditioned or delayed. Upon such approval by the City, Developer shall no longer be liable for the assigned rights and obligations and the City shall look solely to the Designated Successors and Assigns for performance timing. Any sale of a portion of the Property or assignment of any right hereunder shall not be deemed a sale or assignment to a Designated Successor or Assign unless the conveyance or transfer instrument effecting such sale or assignment expressly states that the sale or assignment is to a Designated Successor or Assign.

#### **Section 8.04. Term of Agreement**

This Agreement shall terminate on the date on which the City and Developer discharge all of their obligations hereunder; provided, that this Agreement shall automatically terminate on January 1, 2015, if the first series of Bonds is not issued by such date. In the case of any termination of this Agreement and/or dissolution of the District, the obligation of any Party to pay any Project Costs expended prior to the termination of this Agreement and/or dissolution of the District and remaining unpaid shall survive such termination and/or dissolution.

#### **Section 8.05. Construction of Certain Terms**

For all purposes of this Agreement, except as otherwise expressly provided or unless the context otherwise requires, the following rules of construction shall apply:

- (a) Words importing a gender include either gender.
- (b) Words importing the singular include the plural and vice versa.
- (c) A reference to a document includes an amendment, supplement, or addition to, or replacement, substitution, or novation of, that document but, if applicable, only if such amendment, supplement, addition, replacement, substitution, or novation is permitted by and in accordance with that applicable document.
- (d) Any term defined herein by reference to another instrument or document shall continue to have the meaning ascribed thereto whether or not such other instrument or document remains in effect.
- (e) A reference to any Party includes such Party's permitted successors and assigns, and reference to any Party in a particular capacity excludes such Party in any other capacity or individually.
- (f) All references in this Agreement to designated "Articles," "Sections," and other subdivisions are to the designated Articles, Sections, and other subdivisions of this Agreement. All references in this Agreement to "Exhibits" are to the designated Exhibits to this Agreement.
- (g) The words "herein," "hereof," "hereto," "hereby," "hereunder," and other words of similar import refer to this Agreement as a whole and not to the specific Section or provision where such word appears.
- (h) The words "including" and "includes," and words of similar import, are deemed to be followed by the phrase "without limitation."
- (i) Unless the context otherwise requires, a reference to the "Property," the "Public Improvements," or the "District" is deemed to be followed by the phrase "or a portion thereof."

(j) Every "request," "order," "demand," "direction," "application," "appointment," "notice," "statement," "certificate," "consent," "approval," "waiver," "identification," or similar action under this Agreement by any Party shall, unless the form of such instrument is specifically provided, be in writing duly signed by a duly authorized representative of such Party.

(k) The Parties hereto acknowledge that each such party and their respective counsel have participated in the drafting and revision of this Agreement. Accordingly, the Parties agree that any rule of construction that disfavors the drafting party shall not apply in the interpretation of this Agreement.

#### **Section 8.06. Table of Contents; Titles and Headings**

The titles of the articles, and the headings of the sections of this Agreement are solely for convenience of reference, are not a part of this Agreement, and shall not be deemed to affect the meaning, construction, or effect of any of its provisions.

#### **Section 8.07. Amendments.**

This Agreement may be amended, modified, revised or changed by written instrument executed by the Parties.

#### **Section 8.08. Time**

In computing the number of days for purposes of this Agreement, all days will be counted, including Saturdays, Sundays, and legal holidays; however, if the final day of any time period falls on a Saturday, Sunday, or legal holiday, then the final day will be deemed to be the next day that is not a Saturday, Sunday, or legal holiday.

#### **Section 8.09. Counterparts**

This Agreement may be executed in any number of counterparts, each of which will be deemed to be an original, and all of which will together constitute the same instrument.

#### **Section 8.10. Entire Agreement**

This Agreement contains the entire agreement of the Parties.

#### **Section 8.11. Severability; Waiver**

If any provision of this Agreement is illegal, invalid, or unenforceable, under present or future laws, it is the intention of the parties that the remainder of this Agreement not be affected and, in lieu of each illegal, invalid, or unenforceable provision, a provision be added to this Agreement which is legal, valid, and enforceable and is as similar in terms to the illegal, invalid, or enforceable provision as is possible.

Any failure by a Party to insist upon strict performance by the other party of any material provision of this Agreement will not be deemed a waiver or of any other provision, and such

Party may at any time thereafter insist upon strict performance of any and all of the provisions of this Agreement.

**Section 8.12. Effective Date**

This Agreement shall become and be effective as of the later of the date stated in the recitals to this Agreement and the date of final execution by each of the Parties and shall be valid and enforceable on said date and thereafter.

**Section 8.13. Developer as Independent Contractor**

In performing under this Agreement, it is mutually understood that the Developer is acting as an independent contractor, and not an agent of the City.

**Section 8.14. Supplemental Agreements**

Other agreements and details concerning the obligations of the Parties under and with respect to this Agreement are included in the Assessment Plan, the Assessment Ordinances, Bond Ordinances and Indentures.

**Section 8.15. Exhibits**

The following exhibits are attached to and incorporated into this Agreement for all purposes:

- Exhibit A - Definitions
- Exhibit B - Property
- Exhibit C - Assessment Plan
- Exhibit D - Bond Chart
- Exhibit E - Form of Certification for Payment

Date: \_\_\_\_\_

CITY OF AUSTIN,  
a home rule city and Texas municipal corporation

By: \_\_\_\_\_  
Name: \_\_\_\_\_  
Title: \_\_\_\_\_

ATTEST:

---

City Clerk

Approved as to Form:

---

City Attorney

**Date:** \_\_\_\_\_

**CLUB DEAL 116 INDIAN HILLS TX, LIMITED PARTNERSHIP**, a Delaware limited partnership qualified to do business in Texas

By: CD116 Indian Hills TX, LLC, a Delaware limited liability company qualified to do business in Texas

Its: General Partner

By: \_\_\_\_\_  
Douglas H. Gilliland, Manager

## Exhibit “A”

### DEFINITIONS

#### Section 8.15. Defined Terms

Unless the context requires otherwise, and in addition to the terms defined above, each of the following terms and phrases used in this Agreement has the meaning ascribed thereto below:

“**Acceptance Date**” means, with respect to a Segment, the date that the Actual Cost thereof is paid to the Developer pursuant to the terms hereof.

“**Actual Cost(s)**” means, with respect to a Segment, the Developer’s demonstrated, reasonable, allocable, and allowable costs of constructing such Segment, as specified in a Payment Request that has been reviewed and approved by the City and the Project Engineer and in an amount not to exceed the amount for each Segment as set forth in the Assessment Plan. Actual Cost may include (a) the costs incurred by or on behalf of the Developer (either directly or through affiliates) for the design, planning, financing, administration/management, acquisition, installation, construction and/or implementation of such Segment, (b) if the Developer has acted as general contractor with respect to such Segment, or a portion thereof, a contractor’s fee of 5.5% of the costs incurred by or on behalf of the Developer for the construction of such Segment or portion thereof, (c) the costs incurred by or on behalf of the Developer in preparing the Plans for such Segment, (d) the fees paid for obtaining permits, licenses or other governmental approvals for such Segment, (e) a construction management fee of 4% of the costs incurred by or on behalf of the Developer for the construction of such Segment if the Developer is serving as the Construction Manager, (f) the costs incurred by or on behalf of the Developer for external professional costs, such as engineering, geotechnical, surveying, land planning, architectural landscapers, advertising, marketing and research studies, appraisals, legal, accounting and similar professional services, taxes (property and franchise) related to the Segment receiving the benefits of the assessments and the Public Improvements (g) all labor, bonds and materials, including equipment and fixtures, by contractors, builders and materialmen in connection with the acquisition, construction or implementation of the Public Improvements, (h) all related permitting, zoning and public approval expenses, architectural, engineering, and consulting fees, financing charges, taxes, governmental fees and charges (including inspection fees, County permit fees and development fees), insurance premiums, interest cost charged by the City of Austin pursuant to the Water Cost Reimbursement Agreement, and miscellaneous expenses, and all payments for Administrative Expenses after the date of a resolution authorizing such reimbursement, plus interest, if any, at the lower of (x) Prime plus 5% or (y) the interest rate borne by the Bonds, in either case calculated from the respective dates of the expenditures until the date of reimbursement therefore.

Actual Costs shall not include general contractor’s fees in an amount that exceeds a percentage equal to the percentage of work completed and accepted or construction management fees in an amount that exceeds an amount equal to the construction management fee amortized in equal monthly installments over the term of the appropriate construction management agreement. The amounts expended on legal costs, taxes, governmental fees, insurance premiums, permits, financing costs, and appraisals shall be excluded from the base upon which the general

contractor and construction management fees are calculated. Actual Costs also may be paid to the Developer only in the capacity of construction manager or only in the capacity of general contractor but not both.

**“Acquisition Agreement”** means (whether one or more) an agreement that provides for dedication of a Public Improvement (or Segment) to the City prior to the Developer being paid in full out of the applicable Phased PID Bond proceeds, whereby all or a portion of the Actual Costs will be paid to Developer from future Phased PID Bond issuances to reimburse the Developer for actual costs paid by the Developer that are eligible to be paid with Bond proceeds. The form of Acquisition Agreement shall be reasonably acceptable to both City and Developer.

**“Administrator”** means employee or designee of the City who shall have the responsibilities provided for herein and in the Assessment Plan.

**“Administrative Expenses”** means the administrative, organization, maintenance and operation costs and expenses associated with, or incident to, the administration, organization, maintenance and operation of the District, including, but not limited to, the costs of (i) legal counsel, engineers, accountants, financial advisors, investment bankers or other consultants and advisors, (ii) creating and organizing the District and preparing the assessment roll, (iii) computing, levying, collecting and transmitting the Special Assessments or the installments thereof, (iv) maintaining the record of installments, payments and reallocations and/or cancellations of the Special Assessments, (v) issuing, paying and redeeming the Bonds, (vi) investing or depositing the Special Assessments, (vii) complying with the PID Act with respect to the Bonds, (viii) paying the paying agent/registrar’s and trustee’s fees and expenses (including the fees and expenses of its legal counsel), and (ix) administering the construction of the Public Improvements, in accordance with the terms of this Agreement.

**“Agreement”** has the meaning given in the recitals to this Agreement.

**“Assessment Ordinance”** means each ordinance adopted by the City Council approving the Assessment Plan (or such amendments to the Assessment Plan) and levying the Special Assessments, as required by Article II of this Agreement. The Parties hereby acknowledge that the Assessment Plan will be amended from time to time as additional Bonds are sold and Improvement Areas are developed.

**“Assessment Plan”** means the Indian Hills Public Improvement District Service and Assessment Plan (as such plan is amended from time to time), to be initially adopted by the City Council in the first Assessment Ordinance for the purpose of assessing allocated costs against property located within the boundaries of the District having terms, provisions and findings approved and agreed to by the Developer, as required by Article II of this Agreement. The Parties hereby acknowledge that the Assessment Plan will be amended from time to time as additional Bonds are sold and Improvement Areas are added to the Project.

**“Attorney General”** means the Texas Attorney General’s Office.

**“Bond Issuance Request”** means written request made by Developer to the City Manager and City’s Chief Financial Officer in good faith as evidenced by the Developer’s

expenditure of necessary amounts for market studies, financial analysis, legal counsel, and other professional services and due diligence necessary to support the request.

“**Bond Ordinance**” means and refers to the ordinance or ordinances of the City Council that will authorize and approve the issuance and sale of the Bonds and provide for their security and payment, either under the terms of the Bond Ordinance or a trust indenture related to the Bonds.

“**Bond Security**” means the funds that are to be pledged in or pursuant to the Bond Ordinance or the Indentures to the payment of the debt service requirements on the Bonds, consisting primarily of the Special Assessments, including earnings and income derived from the investment or deposit of Special Assessments in the special funds or accounts created and established for the payment and security of the Bonds, unless such earnings are required to be deposited into a rebate fund for payment to the federal government. Notwithstanding the foregoing, with respect to the Subordinate Master PID Bonds, the “Bond Security” shall also include the reimbursements under the CRA assigned pursuant to the CRA Pledge Agreement.

“**Bonds**” means the bonds to be issued by the City, in one or more series, plus any required reserves and amounts necessary to pay the costs of issuance, and to be secured by a pledge of the Bond Security pursuant to the authority granted in the PID Act, and as required by this Agreement for the purposes of (i) financing the costs of the Public Improvements and related costs, and (ii) reimbursing the Developer for Actual Costs paid prior to the issuance of and payment for the Bonds.

“**Certification for Payment**” means the certificate so defined in the Initial Indentures.

“**City**” has the meaning given in the recitals to this Agreement.

“**City Council**” means the duly elected governing body and council of the City.

“**City Manager**” means the City Manager of the City or his designee(s).

“**Co-Developer**” has the meaning given in Section 4.02 of this Agreement.

“**Construction Manager**” means initially the Developer, and thereafter subject to change in accordance with Section 3.03 of this Agreement. The City acknowledges and agrees that (i) the Developer intends to subcontract out the duties of Construction Manager to a third party and (ii) Developer’s hiring of the initial subcontractor to serve as the Construction Manager shall not be deemed a change in the Construction Manager pursuant to the terms and conditions of Section 3.03.

“**County**” means Travis County, Texas.

“**CRA**” means the Water Cost Reimbursement Agreement. It is hereby acknowledged that a portion of Water Line 1 is being funded by the Whisper Valley Public Improvement District.

“**CRA Improvements**” means Water Line 1 intended to be constructed pursuant to that certain Water Cost Reimbursement Agreement.

“**CRA Pledge Agreement**” means that certain Security, Assignment and Pledge Agreement dated of even date herewith by and between the City, Developer, WV Developer and Deutsche Bank National Trust Company.

“**Debt**” means any bond, note, or other evidence of indebtedness incurred, entered into, or issued by the City related exclusively to the District.

“**Decker Lake Road**” means the extension of Decker Lake Road as depicted in the Decker Lake Road Agreement.

“**Decker Lake Road Agreement**” means that certain Decker Lake Road Participation Agreement dated executed as of November 30, 2006 by and between Developer and the County, as amended from time to time.

“**Designated Successors and Assigns**” shall mean (i) an entity to which Developer assigns (in writing) its rights and obligations contained in this Agreement pursuant to Section 8.03 related to all or a portion of the Property, (ii) any entity which is the successor by merger or otherwise to all or substantially all of Developer’s assets and liabilities including, but not limited to, any merger or acquisition pursuant to any public offering or reorganization to obtain financing and/or growth capital; or (iii) any entity which may have acquired all of the outstanding stock or ownership of assets of Developer.

“**Developer**” has the meaning given in the recitals to this Agreement.

“**Director**” means (i) the Director of Austin Water for water and wastewater related infrastructure and (ii) the Director of Public Works for all other infrastructure, or the designee of such applicable Director.

“**District**” has the meaning given in the recitals to this Agreement.

“**Effective Date**” has the meaning given in the recitals to this Agreement.

“**Feasibility and Market Study Analysis**” means a new study or update to a prior study that is prepared by a third party consultant acceptable to the City prior to each Bond issuance that analyzes the pricing and absorption assumptions included in the Assessment Plan for a particular Improvement Area in order to determine that such assumptions are consistent with the proposed assessments that will be levied against the property located within that particular Improvement Area. It is hereby agreed that the appraisal dated April 27, 2011 prepared by Paul Hornsby & Company shall serve as the “Feasibility and Market Study Analysis” for the Master PID Bonds.

“**Financial Advisor**” means PFM Group.

“**Indenture**” means any trust indenture by and between the City and the Trustee, as it may be amended from time to time.

“**Initial Indentures**” means those certain Indentures of Trust each dated as of August 1, 2011, between the City and Trustee covering the Master PID Bonds.

“**Issue Date**” means the date of the initial delivery of the Bonds.

“**Master PID Bonds**” means collectively the Senior Master PID Bonds and the Subordinate Master PID Bonds.

“**Maximum Annual Assessment**” means for the first year assessments are levied for any particular parcel of land within the Project, an amount that does not exceed 125% of such parcel’s anticipated buildout value (as determined by the Feasibility and Market Study Analysis) times the City’s tax rate in the fiscal year the assessment is determined. For each year after the first year assessments are levied for any particular parcel of land within the Project, the Maximum Annual Assessment for that particular parcel cannot increase by more than two percent (2%) annually.

“**Non-CRA Improvements**” means any improvements included in the Assessment Plan save and except the CRA Improvements.

“**Notice**” means any notice, writing, or other communication given under this Agreement.

“**Party**” means the Developer or the City, as parties to this Agreement, and “**Parties**” means collectively, the Developer and the City.

“**Payment Request**” means the document to be provided by the Developer to substantiate the Actual Cost of one or more Segments.

“**Phase**” means the portion of the Project to which assessments will be levied pursuant to that certain Bond issuance.

“**Phased PID Bonds**” shall have the meaning ascribed in Section 2.01(b).

“**PID Act**” means Chapter 372, Local Government Code, as amended.

“**PID Policy**” has the meaning given in the recitals to this Agreement.

“**Prime**” means the prime rate as reported by *The Wall Street Journal*.

“**Project**” has the meaning given in the recitals to this Agreement.

“**Project Costs**” means the total of all Actual Costs.

“**Project Engineer**” means the civil engineer or firm of civil engineers selected by the Developer to perform the duties set forth herein, which is currently Bury + Partners.

“**Project Fund**” means the separate and unique fund established by the City under such name pursuant to the Indenture as described in Section 5.02 hereof.

“**Property**” has the meaning given in the recitals to this Agreement.

“**Public Improvements**” means collectively the Non-CRA Improvements, the CRA Improvements and any other improvements which may be included in the Assessment Plan as such plan is amended and updated from time to time.

“**Regulatory Requirements**” means the requirements and provisions of any state or federal law, and any permits, rules, orders or regulations issued or adopted from time to time by any regulatory authority, state, federal or other, having jurisdiction over the Public Improvements, as adjusted by the Development Agreement.

“**Segments**” means the discrete portions of the Public Improvements identified as such.

“**Senior Master PID Bonds**” shall mean those certain City of Austin, Texas Special Assessment Revenue Bonds, Senior Series 2011 (Indian Hills Public Improvement District).

“**Special Assessment Revenues**” means the monies collected from Special Assessments, including supplemental assessments and reassessments, interest, expenses, or penalties on Special Assessments, prepayments, foreclosure proceeds, and proceeds from a guarantor, if any, of the Special Assessments.

“**Special Assessments**” means the assessments levied against properties in the District, as provided for in the applicable Assessment Ordinance and in the Assessment Plan, including any supplemental assessments or reallocation of assessments levied in accordance with Sections 372.019 and 372.020 of the PID Act.

“**State**” means the State of Texas.

“**Subordinate Master PID Bonds**” shall mean those certain City of Austin, Texas Special Assessment Reserve Bonds, Subordinate Series 2011 (Indian Hills Public Improvement District) issued contemporaneously herewith.

“**Trustee**” means as trustee under the Initial Indentures, and any successor thereto permitted under the Initial Indentures and any other Trustee under a future Indenture.

“**Underwriter**” means Piper Jaffray.

“**Water Cost Reimbursement Agreement**” means that certain Restated Cost Reimbursement Agreement (Water) and Second Amendment to the Cost Reimbursement Agreement (Wastewater) Indian Hills and Whisper Valley Subdivisions dated November 1, 2010 by and between Developer, WV Developer and the City, as amended by that certain First Amendment to the Restated Cost Reimbursement Agreement (Water) and Second Amendment to the Cost Reimbursement Agreement (Wastewater) - Indian Hills and Whisper Valley Subdivisions dated of even date herewith, and otherwise as further amended from time to time.

**Exhibit “B”**

PROPERTY DESCRIPTION

[See Attached]

**Exhibit “C”**

ASSESSMENT PLAN

[See Attached]

**Exhibit “D”**

BOND CHART

<b>Improvement</b>	<b>\$</b>	<b>CRA</b>	<b>Bond/Invest or Capital</b>	<b>End Construction</b>	<b>Reimbursement Date from City</b>
Water Line 1	\$2.8	W	Senior Master PID Bonds/Subor dinate Master PID Bonds	5/30/2013	10/31/2015 10/31/2016
Wastewater Lines	\$3.1	N/A	Future Phase PID Bonds/ Investor Capital	5/30/2013	N/A
N. Lift Station	\$1.1	N/A	Future Phase PID Bonds/ Investor Capital	5/30/2013	N/A
S. Lift Station	\$0.7	N/A	Future Phase PID Bonds/ Investor Capital	7/30/13	N/A
Decker	\$2.8	County/ City	Senior Master PID Bonds/Invest or Capital	4/30/2012	6/30/2012
Indirect Costs	\$0.7	N/A	Investor Capital	N/A	N/A

**Exhibit “E”**

FORM OF CERTIFICATION FOR PAYMENT

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FOR ADDITIONAL BOOKS: [ELABRA.COM](http://ELABRA.COM) OR (888) 935-2272