

**TERM SHEET
SAN MARCOS, TX
TRACE
TRACE PUBLIC IMPROVEMENT DISTRICT
8/28/2015**

The following limitations and performance standards shall apply to the Trace Public Improvement District ("PID") as agreed to by Highpointe Communities ("the Developer") and the City of San Marcos, Texas ("the City"):

FINANCING CRITERIA

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| 1. Maximum total indebtedness: | \$19,500,000 |
| 2. Maximum Authorized Improvements to be funded: | \$15,500,000 |
| 3. Maximum PID annual installment equivalent tax rate: | \$0.50 |
| 4. Minimum appraised value to lien ratio at date of each bond issue: | 3:1 |
| 5. Maximum annual permitted increase in annual installments: | 2.0% |
| 6. Maximum years of capitalized interest for each bond issue : | 1 |
| 7. Maturity for each series of bonds (to extent allowed by law): | 30 years |
| 8. The aggregate principal amount of bonds required to be issued shall not exceed an amount sufficient to fund: (i) the actual costs of the qualified public improvements (ii) required reserves and capitalized interest of not more than 12 months after the completion of construction 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. | |

PROJECT TIMETABLE

1. Construction Plans for the Public Improvements for the Residential Phase 1 Parcels (Planning Area 1 and portions of Planning Area 2, as shown on Exhibit B) of the Authorized Improvements shall be submitted to the City for review within nine months after City Council approval of the formation of the PID, subject to *force majeure*.
2. Authorized Improvements for the Residential Phase 1 shall be constructed within eighteen months of City approval of Public Improvements Construction Plans, subject to *force majeure*.

3. Construction Plans for the Public Improvements for the Multi-Family Parcels (Planning Areas 8 and 12, as shown on Exhibit B) of the Authorized Improvements shall be submitted to the City for review within nine months after City Council approval of the formation of the PID, subject to *force majeure*.
4. Authorized Improvements for the Multi-Family Parcels shall be constructed within eighteen months of City approval of Public Improvements Construction Plans, subject to *force majeure*.
5. Construction Plans for the Public Improvements for the Commercial Parcels (Planning Areas 3, 9, 10, and 11, as shown on Exhibit B) of the Authorized Improvements shall be submitted to the City for review within nine months after City Council approval of the formation of the PID, subject to *force majeure*.
6. Authorized Improvements for the Commercial Parcels shall be constructed within eighteen months of City approval of Public Improvements Construction Plans, subject to *force majeure*.
7. Construction Plans for the Water and Wastewater Public Improvements in the future Right of Way of Road Segment D for a portion of Residential Phase 2 Parcels that serve Planning Areas 7 and 13 as shown on Exhibit B of the Authorized Improvements that are to be constructed concurrent with the Residential Phase 1 Parcels shall be submitted to the City for review within nine months after City Council approval of the formation of the PID, subject to delays outside the control of the Developer.
8. Water and Wastewater Public Improvements for a portion of the Residential Phase 2 Parcels that are to be constructed concurrent with the Residential Phase 1 Parcels as described in #7 above shall be constructed within eighteen months of City approval of Public Improvements Construction Plans, subject to *force majeure*.

TERMS AND CONDITIONS

1. Authorized Improvements to be funded with the PID are provided in Exhibit C.
2. No PID bonds shall be issued without the approval by the City of a Service and Assessment Plan for the District.
3. No General Obligation or Certificate of Obligation bonds shall be utilized by the City to fund the PID.
4. The Appraiser preparing the appraisal required in connection with the PID Bonds shall be selected by the City in consultation with the Developer and all reasonable fees shall be paid by the Developer.

5. It is the intent of the Developer to request the issuance of at least three but no more than four PID bonds, with each bond issue permitted to include more than one series of bonds as allocated to a separate component of the Project, to provide the agreed upon reimbursements. However, the Developer retains the right to request the agreed upon reimbursements through additional PID Bond issues subject to the condition that the maximum cost of Authorized Improvements to be reimbursed shall not exceed the amount described in Financing Criteria #2.
6. The Developer and the City agree that each PID Bond issue shall be subject to approval by the City Council but that the terms outlined in this term sheet shall apply.
7. Special assessments on any given portion of the property may be adjusted in connection with subsequent bond issues as long as the maximum annual PID annual installment equivalent tax rate, as described in Financing Criteria #3, is not exceeded, and the special assessments are determined in accordance with the Service and Assessment Plan. Special assessments on any portion of the property shall bear a direct proportionate relationship to the special benefit of the Authorized Improvements to that improvement area.
8. The City shall not be obligated to provide funds for any Authorized Improvements except from the proceeds of the bonds; however, the City and the Developer may enter into an Oversize Participation Agreement under which the City will agree to fund the costs of additional public infrastructure.
9. Each PID Bond Indenture shall contain language precluding the City from making any debt service payments for the PID Bonds other than from available special assessment revenues.
10. The PID shall be responsible for payment of all of the City's reasonable and customary costs and expenses including, but not limited to, administration, collection services and legal representation as necessary.
11. The Developer consents to the annexation to the City that portion of the Project currently located within the extraterritorial jurisdiction of the City.
12. It is agreed that the PID shall be exempt from any public bidding or other purchasing and procurement policies per Texas Local Government Code Section 252.022(a) (9) which states that a project is exempt from such policies if "paving drainage, street widening, and other public improvements, or related matters, if at least one-third of the cost is to be paid by or through special assessments levied on property that will benefit from the improvements."
13. No additional security or surety shall be provided by the Developer, or its assignees, for the construction of the Authorized Improvements beyond typical performance bond or other similar surety agreements for those costs not being funded by the PID bonds.

14. It is agreed that the Developer, or its subsequent assignees, shall be obligated to petition the City to dissolve the PID if no PID Bonds are issued within a period of seven (7) years from the date of the formation of the PID by the City Council.
15. It is agreed that all principal landowners shall provide any required continuing disclosure obligations associated with the issuance of PID Bonds as required under the Indenture or any other regulatory agreement or regulatory agency.
16. PID bonds shall be issued and Proceeds made available by the City upon request by the Developer immediately upon completion and acceptance by the City of the Authorized Improvements as described in the Project Timetable. Proceeds from the issuance of the PID bonds shall be used to reimburse the Developer for the costs to construct the Authorized Improvements. The planning and documentation of a PID bond issue shall begin no later than 120 days in advance of the expected completion date of the construction of the Authorized Improvements.
17. The assignment provision of the PID Finance Agreement shall read as follows: Owner may, in its sole and absolute discretion, transfer or assign its rights or obligations under this Agreement with respect to all or part of the Project from time to time to any Affiliate without the consent of the City. Prior to the completion of the Bond Series #1 Authorized Improvements; however, Owner shall not transfer or assign its rights or obligations under this Agreement with respect to all or part of the Project to a non-affiliated entity without the prior consent of the City. . After the completion of the Bond Series #1 Authorized Improvements, the Owner may transfer or assign its rights or obligations under this Agreement to any Party without the City's consent. Owner shall provide the City thirty (30) days prior written notice of any such assignment. Upon such assignment or partial assignment, Owner shall be fully released from any and all future obligations under this Agreement and shall have no liability for such obligations with respect to this Agreement for the part of the Project so assigned.

EXHIBITS

- A. Legal Description
- B. Concept Plan
- C. Authorized Improvements
- D. Phasing Plan / PID Phases
- E. Value to Lien Bond Capacity Analysis
- F. Estimated Asset Value at Build Out / Assessment Allocation at Build Out Analysis
- G. Bond Sizing Analysis