

NEW ISSUE

PRELIMINARY LIMITED OFFERING MEMORANDUM DATED _____, 2020

THE BONDS ARE INITIALLY OFFERED ONLY TO “ACCREDITED INVESTORS” (AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933) AND “QUALIFIED INSTITUTIONAL BUYERS” (AS DEFINED IN RULE 144A UNDER THE SECURITIES ACT OF 1933). SEE “LIMITATIONS APPLICABLE TO INITIAL PURCHASERS.”

In the opinion of McCall, Parkhurst & Horton L.L.P., Bond Counsel, interest on the Bonds is excludable from gross income for federal income tax purposes under existing statutes, regulations, published rulings and court decisions existing on the date of such opinion, subject to the matters described under “TAX MATTERS”.

\$14,075,000*

CITY OF SAN MARCOS, TEXAS

(a municipal corporation of the State of Texas located in Hays, Caldwell and Guadalupe Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2020

(WHISPER PUBLIC IMPROVEMENT DISTRICT)

Dated Date: Date of Delivery

Due: September 1, as shown on the inside cover

The City of San Marcos, Texas, Special Assessment Revenue Bonds, Series 2020 (Whisper Public Improvement District) (the “Bonds”), are being issued by the City of San Marcos, Texas (the “City”). The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$100,000 of principal amount and any integral multiple of \$5,000 in excess thereof. The Bonds will bear interest at the rates set forth on the inside cover hereof, calculated on the basis of a 360-day year of twelve 30-day months, payable on each March 1 and September 1, commencing September 1, 2020* 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 UMB Bank, N.A., Austin, Texas, as trustee (the “Trustee”), to DTC as the registered owner thereof. See “BOOK-ENTRY-ONLY SYSTEM.”

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), an ordinance expected to be adopted by the City Council of the City (the “City Council”) on June 2, 2020, and an Indenture of Trust, dated as of June 2, 2020 (the “Indenture”), entered into by and between the City and the Trustee.

Proceeds of the Bonds will be used to provide funds for (i) paying or reimbursing all or a portion of the costs of the Major Improvements (as defined herein), (ii) paying a portion of the interest on the Bonds during and after the period of acquisition and construction of the Major Improvements, (iii) funding a reserve fund for payment of principal of and interest on the Bonds, (iv) paying a portion of the costs incidental to the organization of the Whisper Public Improvement District (the “District”), and (v) paying the costs of issuance of the Bonds ((ii)-(v) collectively are also referred to as “District Formation and Bond Issuance Costs”). See “AUTHORIZED IMPROVEMENTS” and “APPENDIX B — 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, limited obligations of the City payable solely from and secured by the Pledged Revenues (as defined herein), consisting primarily of the Assessments (as defined herein) levied against assessable properties in the District in accordance with a Service and Assessment Plan (as defined herein) and other funds comprising the Trust Estate (as defined herein), all to the extent and upon the conditions described herein. The Bonds are not payable from funds raised or to be raised from taxation. See “SECURITY FOR THE BONDS.” The Bonds are subject to redemption at the times, in the amounts, and at the redemption price more fully described herein under the subcaption “DESCRIPTION OF THE BONDS — Redemption Provisions.”

The Bonds involve a significant degree of risk and are not suitable for all investors. 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 on the Bonds.

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

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

The Bonds are offered for delivery when, as, and if issued by the City and accepted by the Underwriter (identified below), subject to, among other things, the approval of the Bonds by the Attorney General of Texas and the receipt of the opinion of McCall, Parkhurst & Horton 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 D — Form of Opinion of Bond Counsel.” Certain legal matters will be passed upon for the City by the City Attorney, Michael Cosentino, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe LLP, and for the Developer (as defined herein) by its counsel, McLean & Howard, LLP. It is expected that the Bonds will be delivered in book-entry form through the facilities of DTC on or about June 30, 2020 (the “Date of Delivery”).

FMSbonds, Inc.

* Preliminary; subject to change.

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

CUSIP Prefix: ^(a)

\$14,075,000*

CITY OF SAN MARCOS, TEXAS

(a municipal corporation of the State of Texas located in Hays, Caldwell and Guadalupe Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2020

(WHISPER PUBLIC IMPROVEMENT DISTRICT)

\$[] % Term Bonds, Due , 20__, Priced to Yield %; CUSIP No. ^{(a) (b) (c)}

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-
- (a) CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence 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 City's Financial Advisor or the Underwriter takes any responsibility for the accuracy of such numbers.
- (b) The Bonds are subject to redemption, in whole or in part, prior to stated maturity, at the option of the City, on any date on or after , 20__, at the redemption price set forth herein under "DESCRIPTION OF THE BONDS — Redemption Provisions."
- (c) The Bonds are also subject to mandatory sinking fund redemption and extraordinary optional redemption as set forth herein under "DESCRIPTION OF THE BONDS — Redemption Provisions."

* Preliminary; subject to change.

CITY OF SAN MARCOS, TEXAS

Elected Officials

<u>City Council</u>	<u>Length of Service</u>	<u>Term Expires</u>
Jane Hughson ⁽¹⁾ Mayor	6 Years	November 2020
Maxfield Baker ⁽²⁾ Councilmember, Place 1	< 1 Year	November 2022
Saul Gonzales Councilmember, Place 2	3 Years	November 2022
Ed Mihalkanin ⁽³⁾ Councilmember, Place 3	3 Years	November 2020
Mark Rockeymoore Councilmember, Place 4	1 Year	November 2020
Jocabed “Joca” Marquez Councilmember, Place 5	1 Year	November 2021
Melissa Derrick Councilmember, Place 6	4 Years	November 2021

⁽¹⁾ Elected as Mayor on November 6, 2018. Prior to being elected as Mayor, Ms. Hughson served as a City Councilmember for five years. She additionally served as a City Councilmember from 1996 to 2002.

⁽²⁾ Newly elected as of November 5, 2019.

⁽³⁾ Mr. Mihalkanin also previously served as a City Councilmember from 1996 to 2000 and from 2001 to 2006.

Selected Administrative Staff

<u>Name</u>	<u>Position</u>
Bert Lumbreras	City Manager
Joe Pantalion	Assistant City Manager
Stephanie Reyes	Assistant City Manager
Melissa Neel	Assistant Director of Finance ⁽¹⁾
Tammy Cook	Interim City Clerk
Michael Cosentino	City Attorney

⁽¹⁾ The City is currently searching for a Director of Finance to replace the prior Director of Finance who resigned in March of 2020.

BOND COUNSEL
McCall, Parkhurst & Horton L.L.P.
Austin, Texas

FINANCIAL ADVISOR
Specialized Public Finance Inc.
Austin, Texas

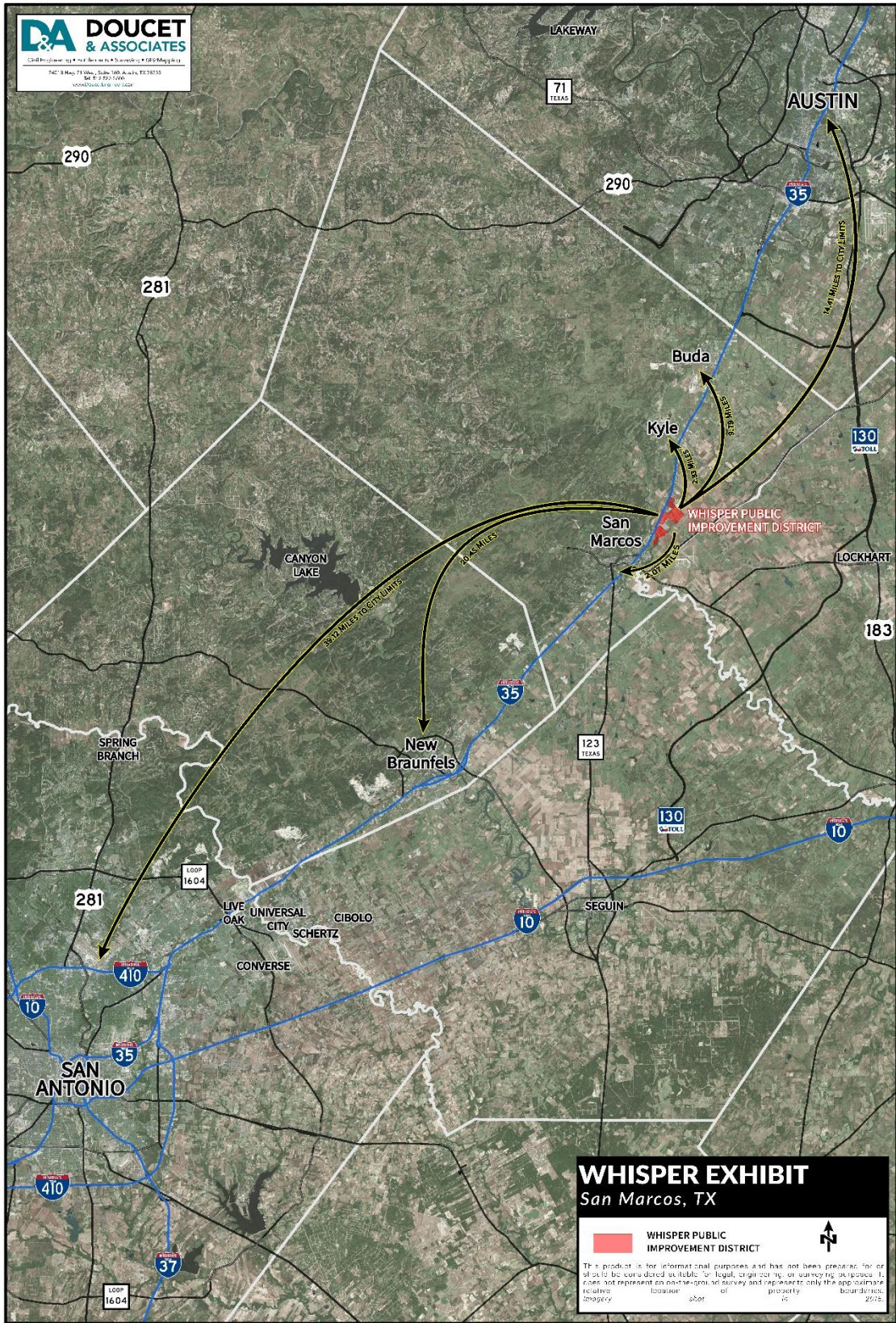
PID ADMINISTRATOR
P3Works, LLC
Austin and North Richland Hills, Texas

For additional information regarding the City, please contact:

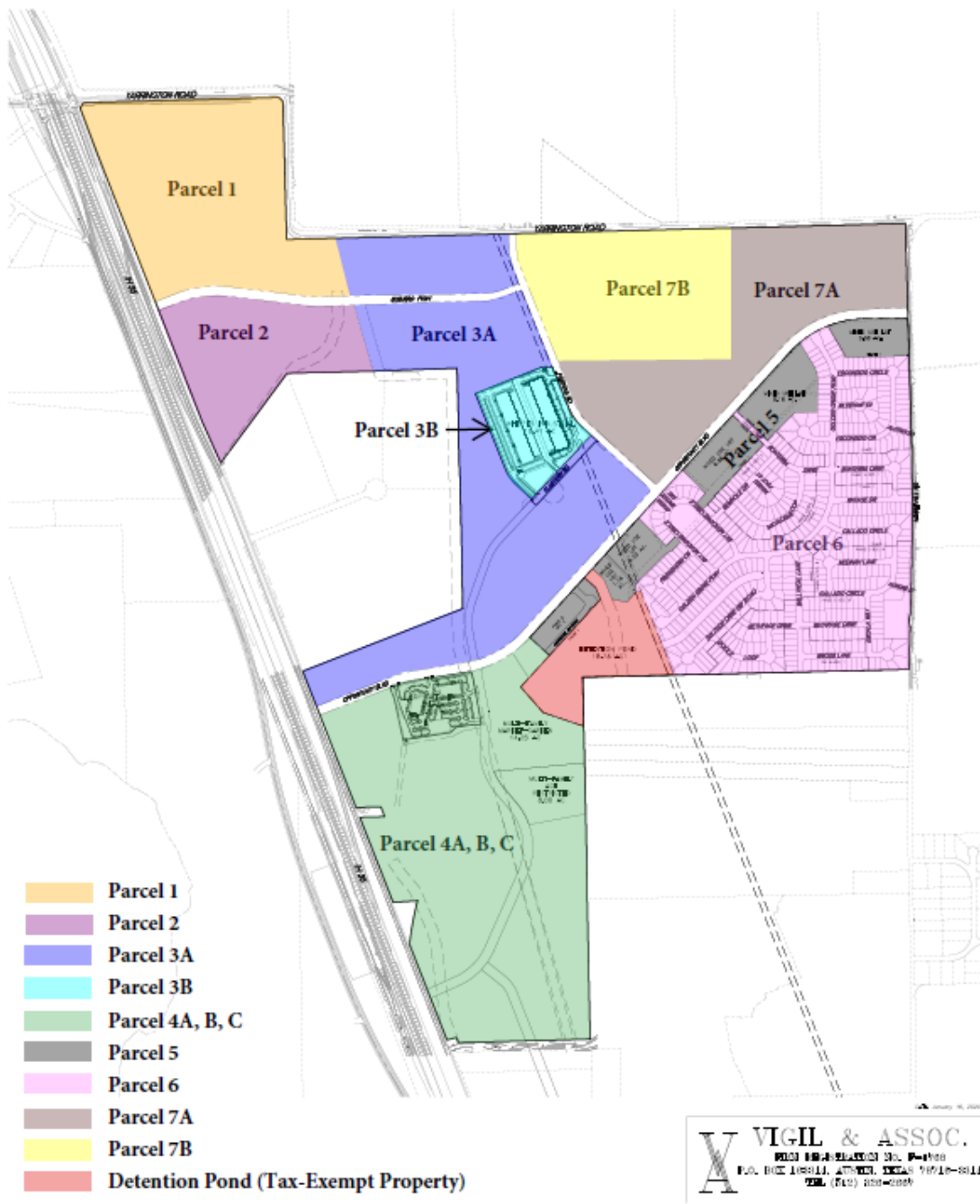
Ms. Melissa Neel
Assistant Director of Finance
City of San Marcos, Texas
630 East Hopkins
San Marcos, Texas 78666
(512) 393-8126

Mr. Dan Wegmiller
Managing Director
Specialized Public Finance Inc.
248 Addie Roy Road, Suite B-103
Austin, Texas 78746
(512) 275-7300

REGIONAL LOCATION MAP OF THE DISTRICT



WHISPER LAND USE PLAN



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

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

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

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

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

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS LIMITED OFFERING MEMORANDUM CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE SECURITIES

ACT. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED, SUCH AS “PLAN,” “EXPECT,” “ESTIMATE,” “PROJECT,” “ANTICIPATE,” “BUDGET” OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH FORWARD-LOOKING STATEMENTS INVOLVE KNOWN AND UNKNOWN RISKS, UNCERTAINTIES AND OTHER FACTORS WHICH MAY CAUSE ACTUAL RESULTS, PERFORMANCE OR ACHIEVEMENTS DESCRIBED TO BE MATERIALLY DIFFERENT FROM ANY FUTURE RESULTS, PERFORMANCE OR ACHIEVEMENTS EXPRESSED OR IMPLIED BY SUCH FORWARD-LOOKING STATEMENTS. 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.

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

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PRELIMINARY LIMITED OFFERING MEMORANDUM

\$14,075,000*

CITY OF SAN MARCOS, TEXAS

(a municipal corporation of the State of Texas located in Hays, Caldwell and Guadalupe Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2020

(WHISPER PUBLIC IMPROVEMENT DISTRICT)

INTRODUCTION

The purpose of this Limited Offering Memorandum, including the cover page, and appendices hereto, is to provide certain information in connection with the issuance and sale by the City of San Marcos, Texas (the “City”), of its \$14,075,000* aggregate principal amount of Special Assessment Revenue Bonds, Series 2020 (Whisper Public Improvement District) (the “Bonds”).

INITIAL PURCHASERS ARE ADVISED THAT THE BONDS BEING OFFERED PURSUANT TO THIS LIMITED OFFERING MEMORANDUM ARE BEING OFFERED INITIALLY TO AND ARE BEING SOLD ONLY TO “ACCREDITED INVESTORS” AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT OF 1933”) AND “QUALIFIED INSTITUTIONAL BUYERS” AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OF 1933. 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 “LIMITATIONS APPLICABLE TO INITIAL PURCHASERS,” “BONDHOLDERS’ RISKS,” AND “SUITABILITY FOR INVESTMENT.”

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), the ordinance authorizing the issuance of the Bonds expected to be adopted by the City Council of the City (the “City Council”) on June 2, 2020 (the “Bond Ordinance”), and an Indenture of Trust, dated as of June 2, 2020 (the “Indenture”), entered into by and between the City and UMB Bank, N.A., Austin, Texas, as trustee (the “Trustee”). The Bonds will be secured by a pledge of and lien upon the Trust Estate (as defined in the Indenture) consisting primarily of revenue from special assessments (the “Assessments”) levied pursuant to a separate ordinance adopted by the City Council on June 2, 2020 (the “Assessment Ordinance”) against assessable parcels (the “Assessed Property”) located within the Whisper Public Improvement District (the “District”) all to the extent and upon the conditions described in the Indenture.

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

Set forth herein are brief descriptions of the City, the District, the Assessment Ordinance, the Bond Ordinance, the Service and Assessment Plan (as defined herein), the Developer (as defined herein), P3Works, LLC (the “PID Administrator”), the Reimbursement Agreement (as defined herein) and the Financing Agreement (as defined herein), together with summaries of terms of the Bonds and the Indenture and certain provisions of the PID Act. All references herein to such documents and the PID Act are qualified in their entirety by reference to such documents or such PID Act and all references to the Bonds are qualified by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Copies of these documents may be obtained during the period of the offering of the Bonds from the Underwriter, FMSbonds, Inc., 5 Cowboys Way, Suite 300-V, Frisco, Texas 75034, Phone: (214) 302-2246. The form of Indenture appears in “APPENDIX B — Form of Indenture” and the form of Service and Assessment Plan, as updated, appears as “APPENDIX C — Form of Service and Assessment Plan.” The information provided under this caption “INTRODUCTION” is intended to provide a brief

* Preliminary; subject to change.

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

Development Plan

Whisper Master Community Limited Partnership, a Texas limited partnership (the “Developer”), is developing the land within the District as a master planned, mixed-use development known as Whisper Master Community (the “Development”), which is zoned to allow single-family residential, multi-family residential, industrial, office/business park, retail and other uses. The District consists of approximately 706.349 acres. The Developer purchased approximately 590.663 of the 706.349 acres within the District (the “Original Developer Land”) in two separate transactions from the Texas General Land Office and Yarrington Partners, Ltd., a Texas limited partnership (“Yarrington”). Additionally, Yarrington retained ownership of the remaining approximately 115.686 acres of land within the District (the “Yarrington Land”). McDonald Development Group, LLC, a Texas limited liability company (“McDonald Development”), the general partner of the Developer, has an ownership interest in Yarrington. Subsequently, the Developer sold approximately 130.641 acres within the District to Harris Hill Investments, LP, a Texas limited partnership (“Harris Hill”), which in turn conveyed such land to 135 Residential Development, LLC, a Texas limited liability company (“135 Residential”). Both Harris Hill (the investment holding company) and 135 Residential (the dealer entity) are affiliates of the Developer and have identical ownership composition. The approximately 131 acres owned by 135 Residential is expected to be developed as single-family residential (the “Single-Family Parcel”). The Original Developer Land less the Single-Family Parcel is hereinafter referred to as the “Developer Land.”

The Developer’s development plans for the District consist of the initial construction of certain public improvements that benefit the entire District (the “Major Improvements”) followed by the phased construction of additional roadway, utility and drainage improvements necessary to serve future platted lots within the District (the “Additional Improvements”). The Developer, and/or its successors in interest, is responsible for the construction of all of the Major Improvements within the District and will construct or cause to be constructed all of the Additional Improvements necessary to serve the Developer Land, excluding the Whisper Industrial Parcel (as defined herein). Yarrington, and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Yarrington Land. Whisper Industrial (as defined herein), and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Whisper Industrial Parcel. 135 Residential and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Single-Family Parcel. The Developer expects that the construction of the Additional Improvements within the District will progress based on absorption and market demand.

The Development is expected to include approximately 581 single-family residential lots, approximately 1,300 units of multi-family housing (conventional and age-restricted), and approximately 4,200,000 square feet of industrial/business park and general commercial space. The Single-Family Parcel is also planned to include an approximately 2-acre private amenity center, consisting of a pool, playscape, basketball court, open-air pavilion, parks and landscaping (the “Amenity Center”). See “MAP SHOWING CONCEPT PLAN OF THE DISTRICT” on page iv and “THE DEVELOPMENT.”

The total cost of all of the Major Improvements is expected to be approximately \$11,733,710*. A portion of the costs of the Major Improvements, in the approximate amount of \$10,938,988*, are expected to be reimbursed to the Developer with proceeds of the Bonds. The balance of the costs of the Major Improvements, in the total approximate amount of \$794,722*, were or will be financed by the Developer and will not be reimbursed by the City. The City and the Developer entered into the Whisper Public Improvement District Reimbursement Agreement, effective as of May 8, 2020 (the “Reimbursement Agreement”), which provides, in part, for the deposit of the Assessments and the proceeds from the issuance and sale of the Bonds, and the payment of the actual costs of the

* Preliminary; subject to change.

Authorized Improvements. See “SECURITY FOR THE BONDS — Pledged Revenue Fund,” “THE AUTHORIZED IMPROVEMENTS” and “APPENDIX H — Reimbursement Agreement.”

The City, the Developer and Yarrington entered into the Whisper Public Improvement District Financing Agreement dated as of September 5, 2017 (the “Original Financing Agreement”). The City, the Developer, 135 Residential, Whisper Industrial and Yarrington entered into an Amended and Restated Whisper Public Improvement District Financing Agreement effective as of May 8, 2020 (the “Financing Agreement”), which amended and restated the Original Financing Agreement in its entirety. The Financing Agreement provides, among other things, for the construction, acquisition and maintenance of the Major Improvements, the deposit of the Assessments and the proceeds from the issuance and sale of the Bonds, and the payment of the actual costs of the Major Improvements and the District Formation and Bond Issuance Costs (as defined herein). Collectively, the Major Improvements and the District Formation and Bond Issuance Costs are referred to herein as the “Authorized Improvements.” See “THE AUTHORIZED IMPROVEMENTS,” “THE DEVELOPMENT — Financing Agreement” and “APPENDIX G — Financing Agreement.”

Status of Major Improvements and Additional Improvements

The Developer substantially completed construction of the majority of the Major Improvements in January of 2020 and is currently in the process of obtaining the City’s final acceptance. The Developer anticipates that the remaining Major Improvements will be completed by the end of the second quarter of 2020. As of April 15, 2020, the Developer has spent approximately \$10,900,000* on the construction of the Major Improvements.

The Developer substantially completed the Additional Improvements (estimated to be approximately \$9,000,000) necessary to serve phase one of the Single-Family Parcel in March of 2020, which is expected to include approximately 318 single-family residential units. Whisper Industrial commenced construction of the Additional Improvements necessary to serve the Whisper Industrial Parcel in March of 2020. The Developer anticipates that construction of the Additional Improvements to serve an approximately 52 acre industrial/business park parcel, an approximately 8-acre general commercial parcel, and two multi-family sites will commence in the second quarter of 2020, the second or third quarter of 2020, and the fourth quarter of 2020, respectively. See “THE AUTHORIZED IMPROVEMENTS” and “THE DEVELOPMENT — Construction Plan and Status of Construction.”

Homebuilders and Status of Home Construction

135 Residential has executed lot purchase and sale agreements (the “Lot Purchase Agreements”) for all 581 lots within the Single-Family Parcel with merchant homebuilders, Continental Homes of Texas, L.P., a Texas limited partnership, d/b/a DR Horton (“DR Horton”) and Lennar Homes of Texas Land and Sale Construction, LTD., a Texas limited partnership (“Lennar” and together with DR Horton, the “Homebuilders”). As of May 1, 2020, no lots have been taken down by the Homebuilders. The Developer expects the Homebuilders to begin taking down lots in June of 2020. The Homebuilders, collectively, have put down \$881,500 in earnest money, of which \$508,000 was provided by DR Horton and \$373,500 was provided by Lennar. See “THE DEVELOPMENT — Single-Family Residential Development.”

Status of Multi-family, Industrial/Business Park and General Commercial

Approximately 575 acres (roughly 81.5 percent) of the District consists of multi-family, industrial/business park and general commercial sites. In 2019, the Developer sold an approximately 17-acre industrial/business park parcel (the “Whisper Industrial Parcel”) to Whisper Industrial 2019 QOZB, LLC, a Texas limited liability company (“Whisper Industrial”). McDonald Development has an ownership interest in Whisper Industrial.

The Developer has purchase contracts or letters of intent for approximately 24 of these 575 acres, consisting of an approximately 14-acre conventional multi-family development, an approximately 2-acre mixed-use parcel and an approximately 8-acre age-restricted senior multi-family development. Additionally, the Developer plans to construct an approximately 60,000 square foot office building on an approximately 8-acre parcel through an affiliated, to be formed, special purpose entity. See “THE DEVELOPMENT — Development Plan,” “— Construction Plan and Status of Construction” and “— Build-Out and Status of Lot Sales.”

The Bonds

Proceeds of the Bonds will be used to provide funds for (i) paying a portion of the costs of the Major Improvements, (ii) paying a portion of the interest on the Bonds during and after the period of acquisition and construction of the Major Improvements, (iii) funding a reserve fund for payment of principal of and interest on the Bonds, (iv) paying a portion of the costs incidental to the organization of the District, and (v) paying the costs of issuance of the Bonds ((ii)-(v) collectively are also referred to as “District Formation and Bond Issuance Costs”). See “AUTHORIZED IMPROVEMENTS” and “APPENDIX B — Form of Indenture.” Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Indenture.

Payment of the Bonds is secured by a pledge of and a lien upon the Trust Estate, consisting primarily of the Assessments, all to the extent and upon the conditions described herein and in the Indenture. See “SECURITY FOR THE BONDS” and “ASSESSMENT PROCEDURES.”

The Bonds shall never constitute an indebtedness or general obligation of the City, the State of Texas (the “State”) or any other political subdivision of the State, within the meaning of any constitutional provision or statutory limitation whatsoever, but the Bonds are limited and special obligations of the City payable solely from the Trust Estate as provided in the Indenture. Neither the full faith and credit nor the taxing power of the City, the State or any other political subdivision of the State is pledged to the payment of the Bonds.

LIMITATIONS APPLICABLE TO INITIAL PURCHASERS

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

1. The Investor has authority and is duly authorized to purchase the Bonds and to execute the investment letter and any other instruments and documents required to be executed by the Investor in connection with the purchase of the Bonds.
2. The Investor is an “accredited investor” under Rule 501 of Regulation D of the Securities Act of 1933 or a “qualified institutional buyer” under Rule 144A of the Securities Act of 1933, and therefore, has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Bonds.
3. The Bonds are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Bonds, and the Investor intends to hold the Bonds solely for its own account for investment purposes and for an indefinite period of time, and does not intend at this time to dispose of all or any part of the Bonds. However, the investor may sell the Bonds at any time the Investor deems appropriate. The Investor understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.
4. The Investor understands that the Bonds are not registered under the Securities Act of 1933 and that such registration is not legally required as of the date hereof; and further understands that the Bonds (a) are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) will not carry a rating from any rating service.
5. The Investor acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, and the Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the City, the Authorized Improvements, the Bonds, the security therefor, and such other information as the Investor has deemed necessary or desirable in connection with its decision to purchase the Bonds (collectively, the “Investor Information”). The Investor has received a copy of this Limited Offering Memorandum relating to the Bonds. The Investor acknowledges that it has

assumed responsibility for its review of the Investor Information and it has not relied upon any advice, counsel, representation or information from the City in connection with the Investor's purchase of the Bonds. The Investor agrees that none of the City, its councilmembers, officers, or employees shall have any liability to the Investor whatsoever for or in connection with the Investor's decision to purchase the Bonds except for gross negligence, fraud or willful misconduct. For the avoidance of doubt, it is acknowledged that the Underwriter is not deemed an officer or employee of the City.

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

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

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

DESCRIPTION OF THE BONDS

General Description

The Bonds will mature on the dates and in the amounts set forth on the inside cover page of this Limited Offering Memorandum. Interest on the Bonds will accrue from their date of delivery (the "Date of Delivery") to the Underwriter and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on each March 1 and September 1, commencing September 1, 2020* (each an "Interest Payment Date"), until maturity or prior redemption. UMB Bank, N.A., Austin, Texas 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 \$100,000 of principal and any integral multiple of \$5,000 in excess thereof (or such smaller amounts of not less than \$5,000 as authorized under the Indenture as a result of partial redemption) ("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 the Bonds maturing on or after _____, 20__ before their scheduled maturity dates, in whole or in part, on any date on or after _____, 20__, such redemption date or dates to be fixed by the City, at a redemption price equal to the principal amount to be redeemed plus the applicable premium if any, plus accrued and unpaid interest to the date fixed for redemption (the "Redemption Price").

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 any date, at the Redemption Price from amounts on deposit in the Redemption Fund as a result of Prepayments or any other transfers to the Redemption Fund under the terms of

* Preliminary; subject to change.

the Indenture. See “ASSESSMENT PROCEDURES — Prepayment of Assessments” for the definition and description of Prepayments.

Mandatory Sinking Fund Redemption. The Bonds maturing on September 1 in the years ____ and ____ (collectively, the “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 the Indenture, on the dates and in the respective Sinking Fund Installments as set forth in the following schedule:

\$ _____ Term Bonds due September 1, 20 _____

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
September 1, 20__	\$
September 1, 20__	
September 1, 20__	
September 1, 20__†	

† Stated maturity.

\$ _____ Term Bonds due September 1, 20 _____

<u>Redemption Date</u>	<u>Sinking Fund Installment</u>
September 1, 20__	\$
September 1, 20__	
September 1, 20__	
September 1, 20__†	

† Stated maturity.

At least 30 days prior to each mandatory sinking fund redemption date and subject to any prior reduction authorized by the Indenture, the Trustee will select for redemption by lot a principal amount of Bonds of such maturity equal to the Sinking Fund Installment of such Bonds to be redeemed, will call such Bonds for redemption on such scheduled mandatory sinking fund redemption date, and will 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 will be reduced, at the option of the City, by the principal amount of any Bonds of such maturity which, at least 30 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 Sinking Fund Installments of Term Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced in integral multiples of \$5,000 by any portion of such Bonds, which, at least 30 days prior to the mandatory sinking fund redemption date, shall have been redeemed pursuant to the optional redemption or extraordinary optional redemption provisions of the Indenture and not previously credited to a mandatory sinking fund redemption, as follows:

(i) if the Bonds to be redeemed are selected in accordance with the 10% or Greater Manner (as defined and described below), the Sinking Fund Installment of Term Bonds required to be redeemed for each mandatory sinking fund redemption date shall be reduced by the principal amount called for redemption and allocated to such Bond on a pro rata basis among the scheduled Sinking Fund Installments to be mandatorily redeemed on the mandatory sinking fund redemption dates; or

(ii) if the Bonds to be redeemed are selected in accordance with the Less Than 10% Manner (as defined and described below), the Sinking Fund Installment of Term Bonds required to be redeemed for

each mandatory sinking fund redemption date shall be reduced by the principal amount called for redemption and allocated to such Bond in the inverse order of mandatory sinking fund redemption dates.

Notice of Redemption. Upon notification by the City to the Trustee of the exercise of any redemption, the Trustee will give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than thirty (30) days before the date fixed for redemption, to the Owner of each Bond or portion thereof to be redeemed, at the address shown in the Register. The notice will state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed, any conditions to such redemption and that on the redemption date, if all conditions, if any, to such redemption have been satisfied, such Bond shall become due and payable. Any 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.

The City has the right to rescind any optional redemption or extraordinary optional redemption by written notice to the Trustee 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.

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 are not satisfied and sufficient funds are not received, the notice shall be of no force and effect, the City will not redeem the Bonds and the Trustee will give notice, in the manner in which the notice of redemption was given, that the Bonds have not been redeemed.

Additional Provisions with Respect to Redemption. If less than all of the Bonds are called for optional redemption or extraordinary optional redemption, the Bonds or portion of a Bond of any one maturity to be redeemed shall be selected in the following manner:

- (i) If the principal amount called for redemption is greater than or equal to ten percent (10%) of the original aggregate principal amount of the Bonds, the principal amount called for redemption shall be allocated on a pro rata basis among all Outstanding Bonds and a portion of all Outstanding Bonds shall be redeemed in the principal amount allocated to such Bond (the "10% or Greater Manner"); and
- (ii) If the principal amount called for redemption is less than ten percent (10%) of the original aggregate principal amount of the Bonds, the Outstanding Bonds shall be redeemed in inverse order of maturity (the "Less Than 10% Manner").

Bonds may be redeemed in minimum principal amounts of \$5,000 or any integral thereof. Each Bond shall be treated as representing the number of Bonds that is obtained by dividing the principal amount of such Bond by \$5,000.

A portion of an Outstanding Bond of any one maturity may be redeemed, but only in a principal amount equal to \$5,000 or any integral thereof. If a portion of an Outstanding Bond of a maturity is selected for redemption, the Trustee shall select the Outstanding Bonds of such maturity to be redeemed by lot or in any manner deemed fair by the Trustee. The Trustee shall treat each \$5,000 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 an Authorized Denomination; provided, however, if the amount of Outstanding Bonds is less than an Authorized Denomination after giving effect to such partial redemption, a Bond in the principal amount equal to the unredeemed portion, but not less than \$5,000, may be issued.

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, such exchange being without charge.

BOOK-ENTRY-ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by DTC while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Limited Offering Memorandum. 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 Limited Offering Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

To facilitate subsequent transfers, all Bonds deposited by Direct Participants with DTC are registered in the name of DTC's partnership nominee, Cede & Co., or such other name as may be requested by an authorized representative of DTC. The deposit of Bonds with DTC and their registration in the name of Cede & Co. or such other DTC nominee do not affect any change in beneficial ownership. DTC has no knowledge of the actual Beneficial Owners of the Bonds; DTC's records reflect only the identity of the Direct Participants to whose accounts such Bonds are credited, which may or may not be the Beneficial Owners. The Direct and Indirect Participants will remain responsible for keeping account of their holdings on behalf of their customers.

Conveyance of notices and other communications by DTC to Direct Participants, by Direct Participants to Indirect Participants, and by Direct Participants and Indirect Participants to Beneficial Owners will be governed by arrangements among them, subject to any statutory or regulatory requirements as may be in effect from time to time. Beneficial Owners of Bonds may wish to take certain steps to augment the transmission to them of notices of significant events with respect to the Bonds, such as redemptions, tenders, defaults, and proposed amendments to the Bond documents. For example, Beneficial Owners of Bonds may wish to ascertain that the nominee holding the Bonds for their benefit has agreed to obtain and transmit notices to Beneficial Owners. In the alternative, Beneficial Owners may wish to provide their names and addresses to the registrar and request that copies of notices be provided directly to them.

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's 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).

Principal, interest and all other payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on the payment 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 principal, interest and 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 none of the City, the City's Financial Advisor or the Underwriter take any responsibility for the accuracy thereof.

NONE OF THE CITY, THE TRUSTEE, THE PAYING AGENT, THE CITY'S FINANCIAL ADVISOR OR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE

PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC 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 LIMITED OFFERING MEMORANDUM. THE CURRENT RULES APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT PROCEDURES OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

SECURITY FOR THE BONDS SIMILARLY SECURED

The following is a summary of certain provisions contained in the Indenture. Reference is made to the Indenture for a full statement of the terms and provisions of the Bonds Similarly Secured. “Bonds Similarly Secured” means, collectively, any Outstanding Bonds and Refunding Bonds (as defined herein). Investors must read the entire Indenture to obtain information essential to the making of an informed investment decision. See “APPENDIX B — Form of Indenture.”

General

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

The principal of, premium, if any, and interest on the Bonds Similarly Secured are secured by a pledge of and a lien upon the pledged revenues (the “Pledged Revenues”), consisting primarily of Assessments expected to be levied against the Assessed Property and other funds comprising the Trust Estate, all to the extent and upon the conditions described herein and in the Indenture. In accordance with the PID Act, on June 2, 2020 the City Council expects to approve and adopt a Service and Assessment Plan (as may be updated and amended from time to time, the “Service and Assessment Plan”), which will describe the special benefit received by the property within the District, provide the basis and justification for the determination of special benefit on such property, establish the methodology for the levy of the Assessments and provide for the allocation of Pledged Revenues for payment of principal of, premium, if any, and interest on the Bonds Similarly Secured. The Service and Assessment Plan is reviewed and updated annually for the purpose of determining the annual budget for improvements and the Annual Installments (as defined below) 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 landowners within the District. See “APPENDIX C — Form of Service and Assessment Plan.”

Pledged Revenues

The City is authorized by the PID Act, the Assessment Ordinance and other provisions of applicable law to finance the Authorized Improvements by levying Assessments upon the Assessed Property 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 C — Form of Service and Assessment Plan.”

Pursuant to the Indenture, “Pledged Revenues” are collectively, the sum of (i) Assessment Revenues (excluding the portion of Annual Installments collected for the payment of Annual Collection Costs and Delinquent Collection Costs, as set forth in the Service and Assessment Plan); (ii) the moneys held in any of the Pledged Funds; and (iii) any additional revenues that the City may pledge to the payment of the Bonds Similarly Secured. “Assessment Revenues” means the revenues received by the City from the collection of Assessments, including Prepayments, Annual Installments and Foreclosure Proceeds. “Annual Installment” means, with respect to each Parcel in the District, each annual payment of: (i) the Assessments (including the principal and interest thereon) as shown on the Assessment Roll, and calculated as provided in the Service and Assessment Plan; (ii) Annual Collection Costs; and (iii) the Additional Interest. “Additional Interest” means the amount collected by application of the Additional Interest Rate (as defined below). The City will covenant in the Indenture that it will take and pursue all reasonable actions permissible under Applicable Laws to cause the Assessments to be collected and the liens thereof to be enforced continuously. See “— Pledged Revenue Fund” and “APPENDIX C — Form of Service and Assessment Plan.”

Collection and Deposit of Assessments

The Assessments on each parcel, tract or lot which are to be collected in each year during the term of the Bonds Similarly Secured are shown on the Assessment Roll. The Assessments, together with the interest thereon, will be deposited in the Pledged Revenue Fund for the payment of the principal of and interest on the Bonds Similarly Secured, as and to the extent provided in the Service and Assessment Plan and the Indenture. See “SECURITY FOR THE BONDS — Pledged Revenue Fund.”

The Assessments assessed to pay debt service on the Bonds Similarly Secured 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 Similarly Secured. An Annual Installment of an Assessment has been made payable in the Assessment Ordinance in each City fiscal year preceding the date of final maturity of the Bonds Similarly Secured which, if collected, will be sufficient to first pay debt service requirements attributable to the Assessments in the Service and Assessment Plan. Each Annual Installment is payable as provided in the Service and Assessment Plan and the Assessment Ordinance.

The portions of the Annual Installments of Assessments collected to pay Annual Collection Costs (as defined herein) and Delinquent Collection Costs will be deposited in the Administrative Fund and shall not constitute Pledged Revenues.

Unconditional Levy of Assessments

The City is expected to impose Assessments on the property within the District sufficient to pay the principal of and interest on the Bonds Similarly Secured scheduled for payment from Pledged Revenues as described in the Indenture and in the Service and Assessment Plan and coming due during each fiscal year. The Assessments will 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 Similarly Secured, which installments shall include interest on the Assessments. Pursuant to the Assessment Ordinance, interest on the Assessments will be calculated at the rate of interest on the Bonds Similarly Secured plus the 0.50% additional interest charged on Assessments pursuant to Section 372.018 of the PID Act (the “Additional Interest Rate”) calculated on the basis of a 360-day year of twelve 30-day months. Such rate may be adjusted as described in the Service and Assessment Plan. Each Annual Installment, including the interest on the unpaid amount of an Assessment, will be calculated annually during the Annual Service Plan Update and will be due on or about October 1 of each year. Each Annual Installment together with interest thereon shall be delinquent if not paid prior to February 1 of the following year.

As authorized by Section 372.018(b) of the PID Act, the City will calculate and collect each year while the Bonds Similarly Secured are Outstanding and unpaid, an assessment to pay the annual costs incurred by the City in the administration and operation of the District (the “Annual Collection Costs”). The portion of each Annual Installment of an Assessment used to pay Annual Collection Costs will remain in effect from year to year until all Bonds Similarly Secured are finally paid or until the City adjusts the amount of the levy after an annual review in any year pursuant to Section 372.013 of the PID Act. The amount collected to pay Annual Collection Costs will be due in the manner set forth in the Assessment Ordinance on October 1 of each year and will be delinquent if not paid by

February 1 of the following year. **Amounts collected for Annual Collection Costs do not secure repayment of the Bonds Similarly Secured.**

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

The PID Act provides that the Assessments (including any reassessment, with interest, the expense of collection and reasonable attorney's fees, if incurred) are a first and prior lien (the "Assessment Lien") against the Assessed Property, superior to all other liens and claims, except liens and claims for the State, county, school district, or municipality for ad valorem taxes and are a personal liability of and charge against the owners of property, regardless of whether the owners are named. Pursuant to the PID Act, the Assessment Lien is effective from the date of the Assessment Ordinance until the Assessments are paid (or otherwise discharged) and is enforceable by the City Council in the same manner that an ad valorem property tax levied against real property may be enforced by the City Council. See "ASSESSMENT PROCEDURES" herein. The Assessment Lien is superior to any homestead rights of a property owner that were properly claimed after the adoption of the Assessment Ordinance. However, an Assessment Lien may not be foreclosed upon if any homestead rights of a property owner were properly claimed prior to the adoption of the Assessment Ordinance ("Pre-existing Homestead Rights") for as long as such rights are maintained on the property. See "BONDHOLDERS' RISKS — Assessment Limitations."

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

Perfected Security Interest

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

Pledged Revenue Fund

The City will create under the Indenture a Pledged Revenue Fund to be held by the Trustee. Immediately upon receipt thereof, the City will transfer to the Trustee for deposit to the Pledged Revenue Fund the Pledged Revenues, as set forth in the Service and Assessment Plan. Specifically, the Trustee will deposit or cause to be deposited the foregoing amounts as follows: (i) *first*, to the Bond Pledged Revenue Account of the Pledged Revenue Fund in an amount sufficient to pay debt service on the Bonds Similarly Secured next coming due, (ii) *second*, to the Reserve Account of the Reserve Fund in an amount to cause the amount in the Reserve Account to equal the Reserve Account Requirement, (iii) *third*, to pay other Actual Costs of the Major Improvements, and (iv) *fourth*, to pay other costs permitted by the PID Act. Notwithstanding the foregoing, the Additional Interest will only be utilized for the purposes set forth in the Indenture and, on each _____, beginning _____, 20__, and on any other day set forth in a City Certificate, the amount of Additional Interest of the Annual Installments, confirmed by the City pursuant to a City Certificate, will be deposited into the Delinquency and Prepayment Reserve Account and/or the Redemption Fund, as applicable.

From time to time as needed to pay the obligations relating to the Bonds Similarly Secured, but no later than five (5) Business Days before each Interest Payment Date, the Trustee will withdraw from the Bond Pledged Revenue Account of 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 Improvement 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 Similarly Secured on the next Interest Payment Date.

If, after the foregoing transfers and any transfer from the Reserve Fund as provided in the Indenture, there are insufficient funds to make the payments provided in the preceding paragraph, the Trustee will 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 Similarly Secured.

The Trustee will transfer the amounts determined in writing by the City as Prepayments to the Redemption Fund promptly after deposit of such amounts into the Pledged Revenue Fund.

Upon receipt, the Trustee will deposit Foreclosure Proceeds to the Pledged Revenue Fund and promptly after such deposit will transfer such amount of Foreclosure Proceeds determined in writing by the City, *first*, to the Accounts within the Reserve Fund to restore any transfers from the Reserve Fund to which the Foreclosure Proceeds relate (first, to replenish the Reserve Account Requirement and second, to replenish the Delinquency and Prepayment Reserve Requirement), and *second*, to the Redemption Fund.

After satisfaction of the requirement to provide for the final payment of the principal and interest on the Bonds Similarly Secured and to fund any deficiency that may exist in the accounts within the Reserve Fund, the Trustee will, at the written request of the City, transfer any Pledged Revenues remaining in the Pledged Revenue Fund to the City, which moneys may be used for any lawful purpose for which assessments may be used under the PID Act. The Trustee may rely upon any such request of the City and will have no obligation to determine the lawful purposes permitted under the PID Act.

Bond Fund

On each Interest Payment Date, the Trustee will 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 Similarly Secured, less any amount to be used to pay interest on the Bonds Similarly Secured on such Interest Payment Date from the Capitalized Interest Account as provided below.

If, after the foregoing transfers and any transfer from any account of the Reserve Fund (as described under the subcaptions “Reserve Account of the Reserve Fund” and “Delinquency and Prepayment Reserve Account of the Reserve Fund” below), there are insufficient funds to make the payments provided in the preceding paragraph, the Trustee will 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 Similarly Secured.

Moneys in the Capitalized Interest Account will be used for the payment of all interest due on the Bonds Similarly Secured on _____, 20__* and _____, 20__*. Not later than five Business Days prior to the Interest Payment Date specified above, the Trustee will withdraw from the Capitalized Interest Account and transfer to the Principal and Interest Account of the Bond Fund all interest due on the Bonds on such Interest Payment Dates. Any amounts on deposit in the Capitalized Interest Account after the payment of interest on the dates and in the amounts listed above will be transferred to the Improvement Account of the Project Fund, or if the Improvement Account of the Project Fund has been closed as provided in the Indenture, such amounts will be transferred to the Redemption Fund to be used to redeem Bonds Similarly Secured and the Capitalized Interest Account will be closed.

Project Fund

Pursuant to the Indenture, a Project Fund will be created to be used for the purposes described in “PLAN OF FINANCE — The Bonds.”

Disbursements from the Costs of Issuance Account of the Project Fund will be made by the Trustee to pay costs of issuance of the Bonds Similarly Secured pursuant to one or more City Certificates. Disbursements from the

* Preliminary; subject to change.

Improvement Account of the Project Fund to pay Actual Costs will be made by the Trustee upon receipt by the Trustee of a properly executed and completed Certification for Payment.

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

Upon the Trustee's receipt of a written determination by the City Representative that all costs of issuance of the Bonds Similarly Secured have been paid and the appropriate portion of the costs incidental to the organization of the District have been paid, any amounts remaining in the Costs of Issuance Account will be transferred to the Improvement Account of the Project Fund and used to pay Actual Costs or to the Principal and Interest Account and used to pay interest on the Bonds Similarly Secured, as directed in a City Certificate filed with the Trustee, and the Costs of Issuance Account will be closed.

Reserve Account of the Reserve Fund

Pursuant to the Indenture, a Reserve Account will be created within the Reserve Fund for the benefit of the Bonds Similarly Secured and held by the Trustee and will be funded with proceeds of the Bonds Similarly Secured in the amount of the Reserve Account Requirement. Pursuant to the Indenture, the "Reserve Account Requirement" for the Bonds Similarly Secured will be an amount equal to the least of (i) Maximum Annual Debt Service on the Bonds Similarly Secured as of their date of issuance, (ii) 125% of average Annual Debt Service on the Bonds Similarly Secured as of their date of issuance, and (iii) 10% of the proceeds of the Bonds Similarly Secured; provided, however, that such amount will be reduced by the amount of any transfers made to the Redemption Fund as a result of Prepayments; and provided further that as a result of a mandatory sinking fund redemption, an optional redemption, or an extraordinary optional redemption, the Reserve Account Requirement will be reduced by a percentage equal to the pro rata principal of Bonds Similarly Secured redeemed by such redemption divided by the total principal amount of the Outstanding Bonds Similarly Secured prior to such redemption. As of the Date of Delivery of the Bonds, the Reserve Account Requirement is \$_____ which is an amount equal to Maximum Annual Debt Service on the Bonds as of the date of issuance.

Whenever, on any Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service on the Bonds Similarly Secured due on such date, the Trustee will, as further set forth in the Indenture, transfer *first* from the Delinquency and Prepayment Reserve Account of the Reserve Fund (described below), and *second* from the Reserve Account of the Reserve Fund to the Bond Fund in the amount necessary to cure such deficiency.

In the event of an extraordinary optional redemption of Bonds Similarly Secured as a result of a Prepayment pursuant to the Indenture, the Trustee, pursuant to written directions from the City, will transfer from the Reserve Account of the Reserve Fund to the Redemption Fund the amount specified in such directions, which will be an amount equal to the principal amount of Bonds Similarly Secured to be redeemed multiplied by the lesser of: (i) the amount required to be in the Reserve Account of the Reserve Fund divided by the principal amount of Outstanding Bonds Similarly Secured prior to the redemption, and (ii) the amount actually in the Reserve Account of the Reserve Fund divided by the principal amount of Outstanding Bonds Similarly Secured 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 Similarly Secured to the date fixed for redemption of the Bonds Similarly Secured to be redeemed as a result of such Prepayment, the Trustee will transfer an amount equal to the shortfall from the Delinquency and Prepayment Reserve Account to the Redemption Fund to be applied to the redemption of the Bonds Similarly Secured.

Whenever, on any Interest Payment Date, or on any other date at the request of a City Representative, the value of cash and Value of Investment Securities on deposit in the Reserve Account exceeds the Reserve Account Requirement, the Trustee will provide written notice to the City Representative of the amount of the excess. Such excess will be transferred to the Principal and Interest Account to be used for the payment of interest on the Bonds Similarly Secured on the next Interest Payment Date in accordance with the Indenture, unless prior to the next Interest Payment Date, the Trustee receives a City Certificate instructing the Trustee to apply such excess: (i) to pay amounts due under the Indenture, (ii) to the Administrative Fund in an amount not more than the Annual Collection Costs for the Bonds Similarly Secured or (iii) to the Improvement Account of the Project Fund to pay Actual Costs of the Major Improvements if such application and the expenditure of funds is expected to occur within three years of the date of the Indenture.

Delinquency and Prepayment Reserve Account of the Reserve Fund

Pursuant to the Indenture, a Delinquency and Prepayment Reserve Account will be created within the Reserve Fund and held by the Trustee for the benefit of the Bonds Similarly Secured. The Trustee will transfer from the Pledged Revenue Fund into the Delinquency and Prepayment Reserve Account on _____ of each year, commencing _____, 20____, and on any other day set forth in a City Certificate, an amount equal to the Additional Interest until the Delinquency and Prepayment Reserve Requirement has accumulated in the Delinquency and Prepayment Reserve Account. If at any time the amount on deposit in the Delinquency and Prepayment Reserve Account is less than Delinquency and Prepayment Reserve Requirement, the Trustee will resume depositing such Additional Interest into the Delinquency and Prepayment Reserve Account on _____ of each year, and on any other day set forth in a City Certificate, until the Delinquency and Prepayment Reserve Requirement has accumulated in the Delinquency and Prepayment Reserve Account. The Delinquency and Prepayment Reserve Requirement is 5.5% of the principal amount of the Outstanding Bonds Similarly Secured. The City has allocated the Additional Interest, authorized by Section 372.018(a) of the PID Act, to the Delinquency and Prepayment Reserve Account for such purpose or to the Redemption Fund as described below. Once the Delinquency and Prepayment Reserve Requirement has accumulated in the Delinquency and Prepayment Reserve Account, any amounts in excess of the Delinquency and Prepayment Reserve Requirement will be transferred by the Trustee to the Redemption Fund to redeem Bonds Similarly Secured as provided in the Indenture provided, however, that at any time the amount on deposit in the Delinquency and Prepayment Reserve Account is less than Delinquency and Prepayment Reserve Requirement, the Trustee will resume depositing such Additional Interest into the Delinquency and Prepayment Reserve Account until the Delinquency and Prepayment Reserve Requirement has accumulated in the Delinquency and Prepayment Reserve Account. In determining the amounts to be transferred pursuant to the Indenture, the Trustee may conclusively rely on a City Certificate specifying the amounts to transfer. See “APPENDIX C — Form of Service and Assessment Plan.”

Administrative Fund

The City will create under the Indenture an Administrative Fund to be held by the Trustee. Immediately upon receipt thereof, the City will deposit or cause to be deposited to the Administrative Fund the portion of the Assessments and Annual Installments allocated to the payment of Annual Collection Costs and Delinquent Collection Costs, as set forth in the Service and Assessment Plan, and any other funds directed by the Indenture to be deposited therein.

Moneys in the Administrative Fund will be held by the Trustee separate and apart from the other Funds created and administered hereunder and used as directed by a City Certificate solely for the purposes set forth in the Service and Assessment Plan, including payment of Annual Collection Costs and Delinquent Collection Costs or may be withdrawn by the Trustee without further authorization for the payment of the fees, expenses, advances, and indemnities owed to the Trustee in accordance with the Indenture.

THE ADMINISTRATIVE FUND IS NOT PART OF THE TRUST ESTATE AND IS NOT SECURITY FOR THE BONDS SIMILARLY SECURED.

Developer Property Tax Reserve Fund

The City will create under the Indenture a Developer Property Tax Reserve Fund to be held by the Trustee. At least one business day prior to the Date of Delivery, the Developer, Yarrington and 135 Residential (the “AG

Landowners”) will deposit or cause to be deposited their proportionate share of the Initial Landowner Deposit (as defined herein) into the Developer Property Tax Reserve Fund. Prior to the Developer Property Tax Reserve Fund Transfer Date (as defined herein), the City will provide a City Certificate to the Trustee specifying (1) the amount of funds deposited in the Developer Property Tax Reserve Fund to be transferred to the City and that such amount is equal to all outstanding Developer Property Tax Delinquency Amounts and (2) the date on which such transfer shall be made (the “Developer Property Tax Reserve Fund Transfer Date”). Upon receipt of such City Certificate and on the Developer Property Tax Reserve Fund Transfer Date, the Trustee will transfer the amount of funds specified in such City Certificate to the City for payment of the related unpaid delinquent ad valorem taxes levied by any taxing entity on any property located in the District and any penalties, costs and interest related thereto. Upon any transfer of funds deposited in the Developer Property Tax Reserve Fund to the City in accordance with the Indenture, the applicable AG Landowner shall deposit or cause to be deposited an equivalent amount of funds into the Developer Property Tax Reserve Fund to replenish such Fund, all in accordance with the Redemption Waiver Agreement. See “BONDHOLDERS’ RISKS — Agricultural Use Valuation and Redemption Rights.”

Upon termination of the Redemption Waiver Agreement, the City will provide the Trustee with a City Certificate authorizing the release of the funds remaining in the Developer Property Tax Reserve Fund to the applicable AG Landowner under the Redemption Waiver Agreement. The Trustee may conclusively rely on such City Certificate in disbursing the amounts remaining in the Developer Property Tax Reserve Fund to the applicable AG Landowner.

At such time as the Trustee receives a City Certificate confirming the condition for release of funds to the applicable AG Landowner under the Redemption Waiver Agreement is met, any amounts deposited in the Developer Property Tax Reserve Fund will be irrevocably and unconditionally released to the applicable AG Landowner, or their successors and assigns or designees as identified in a written notice from such AG Landowner to the Trustee and the City. The City and the Trustee will solely and conclusively rely as to payment of amounts released from the Developer Property Tax Reserve Fund on any such written notice from such AG Landowner as to their successors and assigns or designees.

THE DEVELOPER PROPERTY TAX RESERVE FUND IS NOT PART OF THE TRUST ESTATE AND IS NOT SECURITY FOR THE BONDS SIMILARLY SECURED.

Defeasance

Any Outstanding Bonds Similarly Secured will, prior to the Stated Maturity or redemption date thereof, be deemed to have been paid and no longer Outstanding within the meaning of the Indenture (a “Defeased Debt”) when payment of the principal of, premium, if any, on such Defeased Debt, plus interest thereon to the due date thereof (whether such due date be by reason of maturity, redemption, or otherwise), either (1) will have been made in accordance with the terms thereof, or (2) will have been provided by irrevocably depositing with the Trustee, in trust, and irrevocably set aside exclusively for such payment, (A) money sufficient to make such payment or (B) Defeasance Securities, certified by an independent public accounting firm, or independent municipal advisor, either of national reputation to mature as to principal and interest in such amount and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of the Trustee pertaining to the Bonds Similarly Secured with respect to which such deposit is made will have been paid or the payment thereof provided for to the satisfaction of the Trustee. Neither Defeasance Securities nor moneys deposited with the Trustee pursuant to the Indenture nor principal or interest payments on any such Defeasance Securities will be withdrawn or used for any purpose other than, and will be held in trust for, the payment of the principal of and interest on the Bonds Similarly Secured. Any cash received from such principal of and interest on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, will, 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 Similarly Secured 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 will 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 determined by the City and described in the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended (“PFIA”); and

provided further investments and 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. Under current State law, which is subject to change, Investment Securities that are authorized for the investment of funds to defease public securities are (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality, and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than "AAA" or its equivalent.

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

Events of Default

Each of the following occurrences or events constitutes an "Event of Default" under the 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, in accordance with the Indenture;
- (iii) default in the performance or observance of any covenant, agreement or obligation of the City under the Indenture other than a default under (i) above or (iv) below, and the continuation thereof for a period of ninety (90) days after written notice specifying such default and requiring same to be remedied will have been given to the City by the Trustee, which may give such notice in its discretion and will give such notice at the written request of the Owners of at least a majority of the aggregate outstanding principal of the Bonds Similarly Secured then Outstanding; and
- (iv) the failure to make payment of the principal of or interest on any of the Bonds Similarly Secured when the same becomes due and payable and such failure is not remedied within thirty (30) days thereafter.

Remedies in Event of Default

Upon the happening and continuance of any of the Events of Default, then and in every such case the Trustee may proceed, and upon the written request of the Owners of at least a Quarter in Interest of the Bonds Similarly Secured then Outstanding and its receipt of indemnity satisfactory to it will proceed, to protect and enforce 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 SIMILARLY SECURED WILL NOT BE SUBJECT TO ACCELERATION UNDER ANY CIRCUMSTANCES.

Whenever moneys are to be applied pursuant to an Event of Default, irrespective of and whether other remedies authorized under the Indenture will 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. The Trustee will sell Trust Estate assets, according to the appraised value thereof, beginning with the asset of the highest value and continuing such sales in the order of next succeeding most valuable asset until satisfaction of debts pertaining to the outstanding Bonds Similarly Secured. 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 will 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 will 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 will 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 reasonable judgment of the Trustee, proper for the purpose which may be designated in such request.

Restriction on Owner's Actions

No Owner will 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 at least a Quarter in Interest of the Bonds Similarly Secured 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 sixty (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 at least a Quarter in Interest of the Bonds Similarly Secured 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 Similarly Secured will 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 thereunder except in the manner provided in the Indenture, and that all proceedings at law or in equity will be instituted and maintained in the manner provided in the Indenture and for the equal benefit of the Owners of all Bonds Similarly Secured then Outstanding. The notification, request and furnishing of indemnity will, 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 will 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 Similarly Secured.

In case the Trustee or any Owners of Bonds Similarly Secured have proceeded to enforce any right under the Indenture and such proceedings will have been discontinued or abandoned for any reason or will have been determined adversely to the Trustee or any Owners of Bonds Similarly Secured, then and in every such case the City, the Trustee and the Owners of Bonds Similarly Secured will be restored to their former positions and rights thereunder, and all rights, remedies and powers of the Trustee will 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 will, after payment of the cost, liabilities, advances and expenses of the proceedings resulting in the collection of such amounts, the expenses (including Trustee's 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 Similarly Secured, 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 will not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the registered owners entitled thereto, without any discrimination or preference; and

(ii) **SECOND:** To the payment to the Owners entitled thereto of the unpaid principal of Outstanding Bonds Similarly Secured, or Redemption Price of any Bonds Similarly Secured which will have become due, whether at maturity or by call for redemption, in the direct order of their due dates and, if the amounts available will not be sufficient to pay in full all the Bonds Similarly Secured 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.

In the event funds are not adequate to cure an Event of Default, the available funds will be allocated to the Bonds Similarly Secured that are Outstanding in proportion to the quantity of Bonds Similarly Secured that are currently due and in default under the terms of the Indenture.

Within thirty (30) 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 of Bonds Similarly Secured.

The restoration of the City to its prior position after any and all defaults have been cured, as provided above, will 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 or Account established pursuant to the Indenture, other than the Reserve Account, will be invested by the Trustee as directed by the City pursuant to a City Certificate filed with the Trustee in Investment Securities; provided that all such deposits and investments will be made in such manner that the money required to be expended from any Fund or Account will be available at the proper time or times. Money in the Reserve Account will be invested in such Investment Securities as directed by the City pursuant to a City Certificate filed with the Trustee, provided that the final maturity of any individual Investment Security will not exceed two hundred seventy (270) days and the average weighted maturity of any investment pool or no-load money market mutual fund will not exceed ninety (90) days.

Obligations purchased as an investment of moneys in any Fund or Account established pursuant to the Indenture will 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 as determined and directed in writing by the City.

Against Encumbrances

The City will covenant in the Indenture not to create and, to the extent Pledged Revenues are received, not suffer to remain, any lien, encumbrance or charge upon the Trust Estate, or upon any other property pledged under the Indenture, except the pledge created for the security of the Bonds or any Refunding Bonds, and other than a lien or pledge subordinate to the lien and pledge of such property related to the Bonds Similarly Secured.

So long as Bonds Similarly Secured are Outstanding under the Indenture, the City will not issue any bonds, notes or other evidences of indebtedness other than the Bonds and Refunding Bonds, secured by any pledge of or other lien or charge on the Pledged Revenues or other property pledged under the Indenture, other than a lien or pledge subordinate to the lien and pledge of such property related to the Bonds Similarly Secured.

Other Obligations or Other Liens; Refunding Bonds

The City reserves the right to issue obligations under other indentures, assessment ordinances, or similar agreements or other obligations (which obligations may be secured by future assessments levied in accordance with

the PID Act) which do not constitute or create a lien on the Trust Estate and are not payable from the Trust Estate or any portion of the Trust Estate.

Other than bonds issued to refund all or any portion of the Outstanding Bonds (“Refunding Bonds”), the City will not create or voluntarily permit to be created any debt, lien or charge on the Trust Estate or any portion thereof, and will not do or omit to do or suffer to be done or omit to be done any matter or things whatsoever whereby the lien of the 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 the Indenture as a lien or charge upon the Trust Estate; provided, however, that nothing in the Indenture will require the City to apply, discharge, or make provision for any such lien, charge, claim, or demand so long as the validity thereof will be contested by it in good faith, unless thereby, in the opinion of counsel to the Trustee, the same would endanger the security for the Bonds Similarly Secured.

Notwithstanding any contrary provision of the Indenture, the City will not issue additional bonds, notes or other obligations under the Indenture, secured by any pledge of or other lien or charge on the Pledged Revenues or other property pledged under the Indenture, other than Refunding Bonds. The City reserves the right to issue Refunding Bonds, the proceeds of which would be utilized to refund all or any portion of the Outstanding Bonds or Outstanding Refunding Bonds and to pay all costs incident to the Refunding Bonds, as authorized by the laws of the State.

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SOURCES AND USES OF FUNDS⁽¹⁾

The table that follows summarizes the expected sources and uses of proceeds of the Bonds and additional funds received from the Developer:

Sources of Funds:

Principal Amount	\$
“Initial Landowner Deposit” to Developer Property Tax Reserve Fund	
TOTAL SOURCES	\$

Use of Funds:

Deposit to Improvement Account of the Project Fund	\$
Deposit to Costs of Issuance Account of Project Fund	
Deposit to Capitalized Interest Account of the Bond Fund	
Deposit to Reserve Account of the Reserve Fund	
Deposit to the Administrative Fund	
Deposit to Developer Property Tax Reserve Fund	
Underwriter’s Discount ⁽²⁾	
TOTAL USES	\$

⁽¹⁾ To be updated and completed upon pricing.

⁽²⁾ Includes Underwriter’s Counsel’s fee.

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DEBT SERVICE REQUIREMENTS

The following table sets forth the anticipated debt service requirements for the Bonds:⁽¹⁾

<u>Year Ending</u> <u>(September 30)</u>	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2020	\$	\$	\$
2021			
2022			
2023			
2024			
2025			
2026			
2027			
2028			
2029			
2030			
2031			
2032			
2033			
2034			
2035			
2036			
2037			
2038			
2039			
2040			
2041			
2042			
2043			
2044			
2045			
2046			
2047			
2048			
2049			
2050			
Total	\$	\$	\$

⁽¹⁾ To be updated and completed upon pricing.

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OVERLAPPING TAXES AND DEBT

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, the Developer anticipates that each property owner in the single-family residential parcel within the District will pay an annual maintenance and operation fee and/or a property owners' association fee (the "POA Fee") to Whisper Residential Community Association, Inc. (the "POA"), a homeowners' association formed by 135 Residential. The Developer also anticipates that each owner of property in the District other than the Single-Family Parcel, will pay an annual maintenance and operation fee and/or a property owners' association fee (the "COA Fee" and together with the POA Fee, the "General OA Fee") to Whisper Master Community Property Owners' Association Inc., (the "COA" and together with the POA, the "OA"), an owners' association formed by the Developer. Each property owner in the District may also be required to pay to the applicable OA or a condominium association, if created, one or more additional annual maintenance and operation fee (the "Additional OA Fee" and together with the General OA Fee, the "OA Fees") for the operation and maintenance of any improvements or amenities specific to the property owner's Lot. All OA Fees will be calculated annually based on the estimated expenses to be incurred by the applicable owners' association in performing its functions to, among other things, maintain, repair and manage the improvements or amenities covered by the respective OA Fee.

In addition to the City, Hays County, Austin Community College District ("Austin CCD") and the Hays Consolidated Independent School District ("Hays CISD") 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 reflects the overlapping ad valorem taxes currently levied on property located in the District.

Overlapping Taxes in the District

<u>Taxing Entity</u>	Single-family Tax Year 2019 <u>Ad Valorem Tax Rate⁽¹⁾</u>	Multi-family and Commercial Tax Year 2019 <u>Ad Valorem Tax Rate⁽¹⁾⁽³⁾</u>
The City	\$0.6139	\$0.6139
Hays County	0.3899	0.3899
Hays County (Road & Bridge Tax)	0.0338	0.0338
Austin CCD	0.1049	0.1049
Hays CISD	<u>1.4677</u>	<u>1.4677</u>
Total Current Tax Rate	<u>\$2.6102</u>	<u>\$2.6102</u>
Estimated Average Annual Installment of Assessment as a tax rate equivalent ⁽²⁾	<u>\$0.1697</u>	<u>\$0.1697</u>
Estimated Total Tax Rate and Average Annual Installment of Assessment as a tax rate equivalent	<u>\$2.7799</u>	<u>\$2.7799</u>

⁽¹⁾ As reported by the taxing entities. Per \$100 in value.

⁽²⁾ Derived from information in the Service and Assessment Plan, and from lot counts and estimated buildout values provided by the Developer. Based on Annual Installments due from 2022 to 2050 due to capitalized interest for coverage of Annual Installment due no later than January 31, 2021. As set forth in the Service and Assessment Plan, the "Maximum Equivalent Tax Rate" for each Annual Installment is (i) \$0.17 per \$100 of estimated buildout value for any single-family detached residential Parcel and (ii) \$0.22 per \$100 of estimated buildout value with respect to any other individual Parcel. See "ASSESSMENT PROCEDURES — Assessment Amounts — Method of Apportionment of Assessments" and "APPENDIX C — Form of Service and Assessment Plan." Preliminary; subject to change.

⁽³⁾ Approximately 99.8 acres within Parcels 7A and 7B, which is planned to be developed as mixed-use and business park, is also located within Hays Emergency Services District No. 3 ("Hays ESD No. 3"). Hays ESD No. 3's 2019 ad valorem tax rate is \$0.0995. The estimated total tax rate and average Annual Installment for lots taxed by Hays ESD No. 3 is \$2.8794.

Source: Hays Central Appraisal District and the Service and Assessment Plan.

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 or assessments. 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 April 15, 2020, and City debt to be secured by the Assessments:

Overlapping Debt in the District

Taxing or Assessing Entity	Gross Outstanding Debt as of April 15, 2020	Estimated % Applicable ⁽¹⁾	Estimated Overlapping Debt ⁽¹⁾
The City (Assessments - The Bonds)	\$ 14,075,000 ⁽²⁾	100.00%	\$14,075,000 ⁽²⁾
The City (Ad Valorem Taxes)	321,530,000	0.27%	868,131
Hays County	493,285,154	0.06%	295,971
Hays County (Road & Bridge Tax) ⁽³⁾	-	0.06%	-
Austin CCD	404,420,000	0.01%	40,442
Hays CISD	465,770,000	0.15%	698,655
Total⁽⁴⁾	<u>\$1,699,080,154</u>		<u>\$15,978,199</u>

⁽¹⁾ Based on the Appraisal (as defined herein) for the District and on certified valuations for the Tax Year 2019 for the taxing entities.

⁽²⁾ Preliminary; subject to change.

⁽³⁾ Hays County (Road & Bridge Tax) does not have outstanding debt.

⁽⁴⁾ Approximately 99.8 acres within Parcels 7A and 7B, which is planned to be developed as mixed-use and business park, is also located within Hays ESD No. 3. Hays ESD No. 3's total outstanding debt as of fiscal year ended December 31, 2018 was \$3,503,768. The estimated applicable percent is 0.15% and the estimated overlapping debt of Hays ESD No. 3 as of fiscal year ended December 31, 2018 was approximately \$5,256.

Sources: Hays Central Appraisal District and Municipal Advisory Council of Texas.

If land is devoted principally to agricultural use, the landowner can apply for an agricultural valuation on the property and pay ad valorem taxes based on the land's agricultural value. A portion of the undeveloped property in the District is currently subject to an agricultural valuation with respect to its ad valorem taxes. Agricultural use includes production of crops or livestock. It can also include leaving the land idle for a government program or for normal crop or livestock rotation. A portion of the undeveloped portion of the District is subject to a crop and/or grazing lease, which is able to be terminated at any point by Developer, for a nominal penalty. These leases and lessees' operations on the property allow the property to maintain its agricultural valuation. See "BONDHOLDERS' RISKS — Agricultural Use Valuation and Redemption Rights."

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

If the land use changes to a non-agricultural use on only a portion of a larger tract, the landowner may be able to maintain the agricultural valuation on the remaining land. In this scenario, the landowner would only be responsible for rollback taxes on that portion of the land where use changed and not the entire tract. It is expected that rollback taxes will be paid by the Developer or purchasers from the Developer during development of the District and prior to the purchase of parcels or lots by homeowners.

ASSESSMENT PROCEDURES

General

Capitalized terms used under this caption and not otherwise defined in this Limited Offering Memorandum shall have the meaning given to such terms in the Service and Assessment Plan. As required by the PID Act, when the City determines to defray a portion of the costs of the Authorized Improvements through Assessments, it must adopt a resolution generally describing the Authorized Improvements and the land within the District to be subject to Assessments to pay the costs therefor. The City has caused an assessment roll to be prepared (the "Assessment Roll"), which Assessment Roll shows the Assessed Property within the District, 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 will be filed with the City Clerk and made available for public inspection. Statutory

notice will be given to the owners of the property to be assessed and a public hearing will be conducted to hear testimony from affected property owners as to the propriety and advisability of undertaking the Authorized Improvements funding the same with Assessments. The City expects to levy the Assessments and adopt the Assessment Ordinance on June 2, 2020, after which the Assessments will become legal, valid and binding liens upon the Assessed Property.

Under the PID Act, the costs of Authorized Improvements to be defrayed through Assessments may be assessed by the City against the Assessed Property so long as the special benefit conferred upon the Assessed Property by the Authorized Improvements equals or exceeds the Assessments. The costs of the Authorized 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 C — Form of Service and Assessment Plan.”

Assessment Methodology

The Service and Assessment Plan describes the special benefit to be received by each Parcel of Assessed Property as a result of the Authorized 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 Authorized Improvements to Parcels in a manner that results in equal shares of costs being apportioned to Parcels similarly benefited. As described in the Service and Assessment Plan, a portion of the costs of the Authorized 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 Authorized Improvements will be allocated to the Assessed Property by spreading the entire Assessment across all Parcels within the District pro rata based on estimated buildout value of all Parcels within the District.

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The table below provides the value to lien analysis based on Lot Type in the District.

Value to Lien Analysis in the District⁽¹⁾

<u>Parcel</u>	<u>Lot Type</u>	<u>Planned Number of Lots/Units /Square Foot</u>	<u>Estimated Base Value per Parcel⁽²⁾</u>	<u>Estimated Buildout Value per Lot/SF⁽³⁾</u>	<u>Estimated Buildout Value per Parcel⁽³⁾</u>	<u>Outstanding Total Assessments per Parcel</u>	<u>Estimated Ratio of Base Value per Parcel to Outstanding Assessment</u>	<u>Estimated Ratio of Estimated Buildout Value per Parcel to Outstanding Assessment</u>
Tract #1								
1	Retail/ Commercial	500,000	\$ 14,800,000	\$ 125	\$ 62,500,000	\$ 1,302,157	11.4 : 1	48.0 : 1
2	Retail/ Commercial	375,000	10,475,000	100	37,500,000	781,294	13.4 : 1	48.0 : 1
Tract #2								
3B	Business Park	180,000	3,575,000	90	16,200,000	337,519	10.6 : 1	48.0 : 1
Tract #3								
6	Single-family	581	19,500,000	230,000	133,630,000	2,784,116	7.0 : 1	48.0 : 1
Tract #4								
3A	Business Park	950,000	17,700,000	90	85,500,000	1,781,351	9.9 : 1	48.0 : 1
4A	Commercial	300,000	4,667,084	110	33,000,000	687,539	6.8 : 1	48.0 : 1
4B	Office	375,000	7,955,257	150	56,250,000	1,171,942	6.8 : 1	48.0 : 1
4C	Multi-family	1,300	15,627,660	85,000	110,500,000	2,302,214	6.8 : 1	48.0 : 1
5	Mixed-Use	110,000	6,900,000	100	11,000,000	229,180	30.1 : 1	48.0 : 1
7A	Business Park	800,000	12,025,000	90	72,000,000	1,500,085	8.0 : 1	48.0 : 1
Tract #5								
7B	Business Park	638,685	<u>9,850,000</u>	90	<u>57,481,650</u>	<u>1,197,602</u>	<u>8.2 : 1</u>	<u>48.0 : 1</u>
Total/			\$123,075,000		\$675,561,650	\$14,075,000	8.7 : 1	48.0 : 1
Average								

⁽¹⁾ The actual unit counts and estimated buildout value may vary from that shown above. Additionally, the Assessment allocation for each Lot Type may vary, subject to the terms of the Service and Assessment Plan, the PID Act, and other documents associated with the Bonds, and will be finalized for each Parcel at the time such Parcel is platted.

⁽²⁾ The estimated base value per Parcel for Tracts #1, 2, 4 and 5 are based on the “as-is” market value of such land, as of February 4, 2020, and the estimated base value per Parcel for Tract #3 is based on the “as-complete” market value of such land, as of February 4, 2021, as shown in the Appraisal. See “AUTHORIZED IMPROVEMENTS — Costs of Authorized Improvements,” “APPRAISAL OF PROPERTY WITHIN THE DISTRICT” and “APPENDIX F — Appraisal of the District.”

⁽³⁾ Provided by the Developer.

For further explanation of the Assessment methodology, see “APPENDIX C — Form of Service and Assessment Plan.”

The City has determined that the foregoing method of allocation will result in the imposition of equal shares of the Assessments on Parcels similarly benefitted within the District. The Assessments and interest thereon are expected to be paid in Annual Installments as described above. 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 and all future owners and developers within the District. See “APPENDIX C — Form of Service and Assessment Plan.”

Collection and Enforcement of Assessment Amounts

Under the PID Act, the Annual Installments may be collected in the same manner and at the same time as ad valorem taxes of the City. The Assessments may be enforced by the City in the same manner that an ad valorem tax lien against real property is enforced. Delinquent installments of the Assessments incur interest, penalties and attorney’s fees in the same manner as delinquent ad valorem taxes. Under the PID Act, the Assessment Lien is a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for State, county, school district or municipality ad valorem taxes. See “BONDHOLDERS’ RISKS — Assessment Limitations” 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, City staff or a designee of the City shall prepare, and the City Council shall approve, an Annual Service Plan Update to allow for the billing and collection of Annual Installments. Each Annual Service Plan Update shall include an updated Assessment Roll and a calculation of the Annual Installment for each Parcel. Annual Collection Costs shall be allocated among all Parcels in proportion to the amount of the Annual Installments for the Parcels.

The City will covenant, agree and warrant in the Indenture that, for so long as any Bonds are Outstanding and amounts are due to the Developer under the Reimbursement Agreement to reimburse it for funds that it has contributed to pay the costs of the Authorized Improvements, it will take and pursue all actions permissible under Applicable Laws to cause the Assessments to be collected and the liens thereof enforced continuously, in the manner and to the maximum extent permitted by Applicable Laws, and, to the extent permitted by Applicable Laws, to cause no reduction, abatement or exemption in the Assessments.

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

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

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

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

Annual Installments will be paid to the City or its agent. Annual Installments are due when billed on or about October 1 each 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>Received</u>	<u>Cumulative</u> <u>Penalty</u>	<u>Cumulative</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 amounts of the Assessments have been established by the methodology described in the Service and Assessment Plan. The Assessment Roll sets forth for each year the Annual Installment for each Parcel within the District. The Annual Installments for Assessments may not exceed the amounts shown on the Assessment Roll. The Assessments will be levied against the Parcels comprising the Assessed Property, as indicated on the Assessment Roll. See “APPENDIX C — Form of Service and Assessment Plan.”

The Annual Installments shown on the Assessment Roll will be reduced to equal the actual costs of repaying the Bonds, the Additional Interest and actual Annual Collection Costs (as provided for in the definition of such term), taking into consideration any other available funds for these costs, such as interest income on account balances.

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 by spreading the entire Assessment across all Parcels within the District pro rata based on estimated buildout value of all Parcels within the District. In the case of single-family residential Lots, there shall be only one Lot Type. The estimated buildout value for any single-family residential Assessed Property shall be calculated by using the average estimated buildout value of all single-family residential Lots within the single-family residential Assessed Property.

If an Assessed Property is divided prior to recording of a subdivision plat, the Assessment of such Assessed Property before the division shall be reallocated to the newly divided Assessed Properties based on the ratio of estimated build out value of each Assessed Property to estimated build out value of all newly-created Assessed Properties. If the division is by a recorded subdivision plat, the Assessment of such Parcel before the division shall be reallocated to the newly subdivided Lots based on the ratio of estimated build out value of each Lot Type of Assessed Properties to estimated build out value of all newly-created Lots. The Assessment for any resulting Lot may not exceed the Maximum Assessment for such Lot Type, as shown in the Service and Assessment Plan. See “APPENDIX C — Form of Service and Assessment Plan.”

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The following table provides the expected allocation of Assessments based on Lot Type.

Assessment Allocation by Lot Type in the District ⁽¹⁾

<u>Parcel</u>	<u>Lot Type</u>	<u>Planned Number of Lots/Units /Square Foot</u>	<u>Estimated Buildout Value per Lot/ Unit/SF⁽²⁾</u>	<u>Outstanding Assessment Per Lot/Unit/SF based on Lot Type⁽³⁾</u>	<u>Outstanding Total Assessments per Parcel</u>	<u>Average Outstanding Annual Installments Per Lot/Unit/SF based on Lot Type⁽⁴⁾</u>	<u>Equivalent Tax Rate per \$100 AV⁽³⁾</u>
Tract #1							
1	Retail/ Commercial	500,000	\$ 125	\$ 2.60	\$ 1,302,157	\$ 0.21	\$0.1697
2	Retail/ Commercial	375,000	100	2.08	781,294	0.17	0.1697
Tract #2							
3B	Business Park	180,000	90	1.88	337,519	0.15	0.1697
Tract #3							
6	Single-family	581	230,000	4,791.94	2,784,116	390.23	0.1697
Tract #4							
3A	Business Park	950,000	90	1.88	1,781,351	0.15	0.1697
4A	Commercial	300,000	110	2.29	687,539	0.19	0.1697
4B	Office	375,000	150	3.13	1,171,942	0.25	0.1697
4C	Multi-family	1,300	85,000	1,770.93	2,302,214	144.22	0.1697
5	Mixed-Use	110,000	100	2.08	229,180	0.17	0.1697
7A	Business Park	800,000	90	1.88	1,500,085	0.15	0.1697
Tract #5							
7B	Business Park	638,685	90	1.88	<u>1,197,602</u>	0.15	<u>0.1697</u>
Total/					<u>\$14,075,000</u>		<u>\$0.1697</u>
Average							

⁽¹⁾ Based on the concept plan for the District. Derived from information in the Service and Assessment Plan. The actual unit counts and estimated buildout value may vary from that shown above. Additionally, the Assessment allocation for each Lot Type may vary, subject to the terms of the Service and Assessment Plan, the PID Act, and other documents associated with the Bonds, and will be finalized for each Parcel at the time such Parcel is platted.

⁽²⁾ Provided by the Developer.

⁽³⁾ Pursuant to the Service and Assessment Plan, the maximum assessment (the “Maximum Assessment”) that can be levied on a Lot Type is equal to the lesser of (i) the amount calculated pursuant to the assessment methodology described in Section VI.A of the Service and Assessment Plan and (ii) the amount that produces an average Annual Installment resulting in the Maximum Equivalent Tax Rate. See “OVERLAPPING TAXES AND DEBT — Overlapping Taxes in the District” and “APPENDIX C — Form of Service and Assessment Plan.”

⁽⁴⁾ Based on Annual Installments due from 2022 to 2050 due to capitalized interest for coverage of Annual Installment due no later than January 31, 2021.

The Bonds are secured by a first lien on and pledge of Pledged Revenues, including the Assessments. See “SECURITY FOR THE BONDS” and “APPENDIX C — Form of Service and Assessment Plan.”

Prepayment of Assessments

Voluntary Prepayments. Pursuant to the PID Act and the Indenture, the owner of any Assessed Property may voluntarily prepay (a “Prepayment”) all or part of any Assessment levied against any Lot or Parcel, together with accrued interest to the date of payment, at any time. Upon receipt of such Prepayment, such amounts will be applied towards the redemption or payment of the Bonds. Amounts received at the time of a Prepayment which represent a payment of principal, interest, or penalties on a delinquent installment of an Assessment are not to be considered a Prepayment, but rather are to be treated as payment of regularly scheduled Assessments.

Mandatory Prepayments. If (i) Assessed Property is transferred to a party that is exempt from the payment of the Assessment under applicable law, or (ii) an owner of Assessed Property causes the Assessed Property to become

Non-Benefitted Property, the owner of such Assessed Property shall pay to the City the full amount of the Assessment, plus all Prepayment Costs and Delinquent Collection Costs, prior to any such transfer or act, in accordance with the Service and Assessment Plan; provided that, however, such mandatory Prepayment of the Assessment shall not be required for portions of a Parcel that are dedicated or conveyed to the City, any other governmental entity or utility provider, or an owners' association for use as internal roads, utilities, parks, drainage and detention facilities, and other similar improvements, in which case the Assessment that was allocated to the Parcel will be reallocated to the remainder of the Parcel. If a reallocation to the remainder of the Parcel as provided in the foregoing sentence causes the Assessment for such remainder to exceed the Maximum Assessment, the owner of the remainder of the Parcel must partially prepay the Assessment to the extent it exceeds the Maximum Assessment in an amount sufficient to reduce the Assessment to the Maximum Assessment. See Section VI.C of "APPENDIX C — Form of Service and Assessment Plan."

True-Up of Assessments if Maximum Assessment Exceeded at Plat. If, based on a final subdivision plat, the Assessment for any Lot Type exceeds the Maximum Assessment for such Lot Type, the owner of the applicable Assessed Property must partially prepay the Assessment for each Assessed Property that exceeds the Maximum Assessment in an amount sufficient to reduce the Assessment to the Maximum Assessment for such Lot Type. See Section VI.B of "APPENDIX C — Form of Service and Assessment Plan."

Prepayment as a Result of an Eminent Domain Proceeding or Taking. If any portion of any Parcel of Assessed Property is taken from an owner as a result of eminent domain proceedings or if a transfer of any portion of any Parcel of Assessed Property is made to an entity with the authority to condemn all or a portion of the Assessed Property in lieu of or as a part of an eminent domain proceeding (a "Taking"), the portion of the Assessed Property that was taken or transferred (the "Taken Property") shall be reclassified as Non-Benefitted Property (as defined in the Service and Assessment Plan). See Section VI.F of "APPENDIX C — Form of Service and Assessment Plan."

For the Assessed Property that is subject to the Taking as described in the preceding paragraph, the Assessment that was levied against the Assessed Property (when it was included in the Taken Property) prior to the Taking shall remain in force against the remaining Assessed Property (the Assessed Property less the Taken Property) (the "Remaining Property") following the reclassification of the Taken Property as Non-Benefitted Property, subject to an adjustment of the Assessment applicable to the Remaining Property after any required Prepayment as set forth below. The owner will remain liable to pay in Annual Installments, or payable as otherwise provided by the Service and Assessment Plan, as updated, or the PID Act, the Assessment that remains due on the Remaining Property, subject to an adjustment in the Annual Installments applicable to the Remaining Property after any required Prepayment as set forth below. Notwithstanding the foregoing, if the Assessment that remains due on the Remaining Property exceeds the Maximum Assessment (as defined and described in the Service and Assessment Plan), the owner will be required to make a Prepayment in an amount necessary to ensure that the Assessment against the Remaining Property does not exceed the Maximum Assessment, in which case the Assessment and Annual Installments applicable to the Remaining Property will be reduced by the amount of the partial Prepayment. In all instances the Assessment remaining on the Remaining Property shall not exceed the Maximum Assessment. See Section VI.F of "APPENDIX C — Form of Service and Assessment Plan."

Notwithstanding the preceding paragraphs under this subcaption, if the owner of the Assessed Property notifies the City and the PID Administrator that the Taking prevents the Remaining Property from being developed for any use which could support the estimated buildout value requirement, the owner shall, upon receipt of the compensation for the Taken Property, be required to prepay the amount of the Assessment required to buy down the outstanding Assessment to the Maximum Assessment on the Remaining Property to support the estimated buildout value requirement. The owner will remain liable to pay the Annual Installments on both the Taken Property and the Remaining Property until such time that such Assessment has been prepaid in full. See Section VI.F of "APPENDIX C — Form of Service and Assessment Plan."

Notwithstanding the preceding paragraphs under this subcaption, the Assessment shall not, however, be reduced to an amount less than the outstanding Bonds. See Section VI.F of "APPENDIX C — Form of Service and Assessment Plan."

Reduction of Assessments. If, as a result of cost savings or Major Improvements not being constructed, the Actual Costs of completed Major Improvements are less than the Assessments, the Trustee shall apply amounts on

deposit in the Project Fund that are not expected to be used for purposes of the Project Fund to redeem outstanding Bonds. Excess Bond proceeds shall be applied to redeem outstanding Bonds. See Section VI.D of “APPENDIX C — Form of Service and Assessment Plan.”

Priority of Lien

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

Foreclosure Proceedings

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

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

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

The City will not be obligated to fund foreclosure proceedings out of any funds other than in the Administrative Fund. If Pledged Revenues are insufficient to pay foreclosure costs, the owners of the Bonds may be required to pay amounts necessary to continue foreclosure proceedings. See “APPENDIX B — Form of Indenture” and “APPENDIX C — Form of Service and Assessment Plan.”

THE CITY

Background

The City is the county seat and principal commercial, education and recreational center of Hays County located in the center of the State in the Austin-San Marcos statistical metropolitan area, approximately midway

between the metropolitan areas of San Antonio and Austin. The City is located on Interstate Highway 35, U.S. 81, State Highways 80, 142, 21, 123 and Ranch Road 12. The City contains a total land area of approximately 32 square miles. The City's 2010 census population was 44,994. The City's 2019 population estimate was 65,234.

City Government

The City is a political subdivision operating as a home-rule city under the laws of the State and a home-rule charter, initially approved by the voters in 1967. The City operates under the City Council/Manager form of government where the Mayor is elected at-large in even numbered years for a two-year term and six Council Members are elected at-large for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administration officer.

The current members of the City Council and their respective expiration of terms of office and the principal administrators of the City are shown on page ii hereof. General information regarding the City and the surrounding area can be found in "APPENDIX A — General Information Regarding the City and Surrounding Area."

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 a resolution adopted by the City Council on October 6, 2014 in accordance with the PID Act (the "Creation Resolution"), for the purpose of undertaking and financing, in phases, the cost of certain public improvements within the District, including the Authorized Improvements, authorized by the PID Act and approved by the City Council that confer a special benefit on the portion of the District property being developed in a phase. The District is not a separate political subdivision of the State and is governed by the City Council. Maps of the property within the District are included on pages iv and v hereof.

Powers and Authority of the City

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

Pursuant to the PID Act and the Creation Resolution, the City has the power to undertake, or reimburse a property owner for the costs of, the financing, acquisition, construction or improvement of the Public Improvements. See "THE AUTHORIZED IMPROVEMENTS." Pursuant to the authority granted by the PID Act and the Creation Resolution, the City has determined to undertake the construction, acquisition or purchase of certain wastewater and roadway improvements comprising the Major 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" and "APPENDIX C — Form of Service and Assessment Plan."

THE AUTHORIZED IMPROVEMENTS

General

The Authorized Improvements consist of the (i) Major Improvements and (ii) the District Formation and Bond Issuance Costs, as described below. A portion of the costs of the Authorized Improvements will be funded with proceeds of the Bonds. The balance of the costs of the Authorized Improvements will be paid by the Developer under the terms of the Financing Agreement and the Service and Assessment Plan. See "APPENDIX C — Form of Service

and Assessment Plan” and “APPENDIX G — Financing Agreement.” The Major Improvements will be dedicated to the City, the COA or POA, as applicable. The COA or POA will grant an easement to the City with respect to any Major Improvement dedicated to such entity.

Authorized Improvements

Major Improvements. The Authorized Improvements consist of the following Major Improvements:

Road A (Opportunity Boulevard). Improvements including subgrade stabilization (including subgrade treatment, lime stabilization, road base import and compaction), concrete and reinforcing steel for roadways and sidewalks, material and compaction testing, handicapped ramps, and streetlights. All related earthwork, excavation, erosion control, retaining walls, intersections, signage, utility infrastructure, drainage infrastructure, including drainage infrastructure flowing to the District detention pond, street lighting, landscaping, irrigation, entrance monumentation and re-vegetation of all disturbed areas within the right-of-way are included. The street improvements will provide a benefit to each Lot within the District.

Road B (Fortuna Road). Improvements including subgrade stabilization (including subgrade treatment, lime stabilization, road base import and compaction), concrete and reinforcing steel for roadways and sidewalks, material and compaction testing, handicapped ramps, and streetlights. All related earthwork, excavation, erosion control, retaining walls, intersections, signage, utility infrastructure, drainage infrastructure, including drainage infrastructure flowing to the District detention pond, street lighting, landscaping, irrigation, entrance monumentation and re-vegetation of all disturbed areas within the right-of-way are included. The street improvements will provide a benefit to each Lot within the District.

Road C (Susurro Parkway). Improvements including subgrade stabilization (including subgrade treatment, lime stabilization, road base import and compaction), concrete and reinforcing steel for roadways and sidewalks, material and compaction testing, handicapped ramps, and streetlights. All related earthwork, excavation, erosion control, retaining walls, intersections, signage, utility infrastructure, drainage infrastructure, including drainage infrastructure flowing to the District detention pond, street lighting, landscaping, irrigation, entrance monumentation and re-vegetation of all disturbed areas within the right-of-way are included. The street improvements will provide a benefit to each Lot within the District.

Lift Station and Wastewater Line D. Improvements including trench excavation and embedment, trench safety, piping, manholes, service connections, testing, related earthwork, excavation, and erosion control and all necessary appurtenances required to provide wastewater service to the District.

Offsite Wastewater Line B. Improvements including trench excavation and embedment, trench safety, PVC piping, manholes, service connections, testing, related earthwork, excavation, and erosion control and all necessary appurtenances required to provide wastewater service to the District.

Detention Pond. Improvements providing drainage, detention and water quality treatment of stormwater runoff serving the District and the other Major Improvements, including without limitation the detention basin, water quality facilities, and related drainage inlets, swales, storm sewers, culverts and outfall structures located in the area shown on Exhibit H. All related earthwork, excavation, erosion control, retaining walls, drainage infrastructure, landscaping, irrigation and re-vegetation of all disturbed areas within the detention pond area are included. The detention pond will provide a benefit to each Lot within the District.

Soft Costs/Construction Management. Includes engineering, design, other professional fees and 4.0% construction management fee.

District Formation and Bond Issuance Costs. The Authorized Improvements also consist of the (i) initial deposit to the Reserve Account, (ii) any capitalized interest on the Bonds, (iii) the Underwriter's discount, (iv) the costs associated with establishing the District, including the initial deposit to the Administrative Fund and expenses incurred by the Developer and associated with forming the District, levying the Assessments and issuing the Bonds (the "Developer District Formation Costs"), and (v) costs related to issuing the Bonds (collectively, the "District Formation and Bond Issuance Costs").

Costs of Authorized Improvements

The following table reflects the expected total costs of the Authorized Improvements. A portion of the costs of the Authorized Improvements are expected to be financed with proceeds of the Bonds.

<u>Authorized Improvements Costs⁽¹⁾</u>	
<u>Type of Improvement</u>	<u>Total Cost</u>
<i>Major Improvements</i>	
Road A ⁽²⁾	\$ 5,214,299
Road B ⁽²⁾	2,179,637
Road C ⁽²⁾	2,284,880
Lift Station and Wastewater Line D	285,746
Offsite Wastewater Line B	315,750
Detention Pond	209,699
Construction Management	419,600
Soft Costs	824,099
<u>Total Major Improvements</u>	<u>\$11,733,710</u>
<i>District Formation and Bond Issuance Costs</i>	
Deposit to Reserve Account	\$ 1,066,556
Capitalized Interest	562,706
Underwriter Discount	422,250
First Year Annual Collection Costs	40,000
Developer District Formation Costs	200,000
Costs of Issuance	844,500
<u>Total District Formation and Bond Issuance Costs</u>	<u>3,136,012</u>
Total	\$14,869,722

⁽¹⁾ Derived from information in the Service and Assessment Plan. Preliminary; subject to change.

⁽²⁾ Net of proportionate share of \$1,592,682 in City cost participation.

The costs of the Major Improvements are based on information provided by the Developer and its engineer and reviewed by the City staff and by third-party consultants retained by the City and were approved by the City Council. See "APPENDIX C — Form of Service and Assessment Plan."

The total costs of all of the Authorized Improvements is expected to be approximately \$14,869,722*. Only a portion of the costs of the Authorized Improvements, in the approximate amount of \$14,075,000*, is expected to be paid with proceeds of the Bonds. The balance of the costs of the Authorized Improvements, in the total approximate amount of \$794,722*, was or will be financed by the Developer and will not be reimbursed by the City.

The Appraisal estimates that the value of the property within the District under certain conditions, including the completion of all of the Major Improvements within the District and the Additional Improvements within the Single-Family Parcel, is \$123,075,000. The Appraisal is attached hereto as APPENDIX F and should be read in its entirety in order to understand the meaning and basis of the information set forth therein. The Appraisal is addressed to the City and the Underwriter. The estimates of value presented in the Appraisal are no indication of the appraised property's actual market value. Investors should not assume that the disposition of the lots in the District in the event of default would provide sufficient funds to pay the principal of Bonds outstanding at that time. The conclusions

* Preliminary; subject to change.

reached in the Appraisal are subject to certain assumptions, hypothetical conditions and qualifications, which are set forth in the Appraisal. See “APPRAISAL OF PROPERTY WITHIN THE DISTRICT” for further information regarding the Appraisal, including with respect to such assumptions, hypothetical conditions and qualifications.

Ownership and Maintenance of Major Improvements

The Major Improvements will be dedicated in fee or by easement to and accepted by the City and will constitute a portion of the City’s infrastructure improvements. Certain Major Improvements will be owned by the COA or POA, but the COA or POA will grant an easement to the City with respect to any Major Improvement conveyed to such entity. The City, the COA or the POA, as applicable, will provide for the ongoing maintenance and repair of the Major Improvements owned by such entity.

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 Underwriter, and neither the City nor the Underwriter have any way of guaranteeing the accuracy of such information.

Overview

The Development is an approximately 706-acre master-planned mixed-use community with single-family residential, multi-family, industrial, office, retail and mixed-use components, as further described below. The Development is located within the City’s corporate limits, in southeast Hays County, approximately 20 miles from Austin and 50 miles from San Antonio. Access to the Development is provided by Interstate 35, Harris Hill Road and Yarrington Road. Additionally, Hays County and Texas Department of Transportation are working together to construct Loop 110, an 11.25-mile roadway that will connect Interstate 35 at McCarty Lane on the south side of the City with the Yarrington Road/Interstate 35 intersection adjoining the Development. When complete, the roadway will provide the Development with additional direct access to all major area roadways.

The Development is located within a Qualified Opportunity Zone. Qualified Opportunity Zones were created by the 2017 Tax Cuts and Jobs Act. These zones are designed to spur economic development and job creation in distressed communities throughout the country by providing tax benefits to investors who invest eligible capital into these communities. Taxpayers may defer tax on eligible capital gains by making an appropriate investment in a Qualified Opportunity Fund (“QOF”) and meeting certain other requirements. In the case of an eligible capital gain realized by a partnership, the rules allow either a partnership or its partners to elect deferral. Similar rules apply to other pass-through entities, such as S corporations and its shareholders, as well as estates and trusts and its beneficiaries. To qualify for deferral, (i) capital gains must be invested in a QOF within 180 days, (ii) the taxpayer must elect deferral on Form 8949 and file with its tax return and (iii) the investment in the QOF must be an equity interest, not a debt interest.

If a taxpayer holds its QOF investment at least five years, the taxpayer may exclude ten percent of the original deferred gain. If a taxpayer holds its QOF investment for at least seven years, the taxpayer may exclude an additional five percent of the original deferred gain for a total exclusion of 15 percent of the original deferred gain. The original deferred gain – less the amount excluded due to the five and seven year holding periods – is recognized on the earlier of sale or exchange of the investment, or December 31, 2026. If the taxpayer holds the investment in the QOF for at least ten years, the taxpayer may elect to increase its basis of the QOF investment equal to its fair market value on the date that the QOF investment is sold or exchanged. This may eliminate all or a substantial amount of gain due to appreciation on the QOF investment.

Whisper Industrial, the purchaser of the Whisper Industrial Parcel, is a Qualified Opportunity Zone Business (“QOZB”), which is wholly owned by QOFs. Whisper Industrial was created by the general partner of the Developer; however, Whisper Industrial is not otherwise affiliated with the Developer and does not have the same investment structure. See “— Industrial/Business Park and General Commercial Development – Developer Land” below. The general manager of the Developer and other non-affiliated entities may create additional QOFs or QOZBs to purchase and hold land within the District, in order to take advantage of the tax benefits outlined above.

Development Plan

The Development. The Developer acquired approximately 591 of the 706 acres comprising the District for a long-term development project in two separate transactions, consisting of approximately 505 acres from the Texas General Land Office in 2015 and approximately 86 acres from Yarrington in 2016. Yarrington retained approximately 116 acres of land. In the second quarter of 2019, the Developer sold approximately 131 acres within the District, comprising the Single-Family Parcel, to Harris Hill, which in turn conveyed such land to 135 Residential. The Developer is responsible for the construction of all of the Major Improvements within the District and the Additional Improvements necessary to serve the Developer Land, excluding the Whisper Industrial Parcel. Yarrington, and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Yarrington Land. Whisper Industrial, and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Whisper Industrial Parcel. 135 Residential and/or its successors in interest, is responsible for the construction of the Additional Improvements necessary to serve the Single-Family Parcel.

The Developer expects to complete the Development in approximately two construction stages, which began with the Major Improvements and is being followed by the Additional Improvements necessary to serve each Lot or Parcel within the Developer Land, excluding the Whisper Industrial Parcel. Construction of the Additional Improvements to serve each Lot within the Development will commence based on absorption and market demand. Yarrington has not commenced construction of the Additional Improvements necessary to serve the Yarrington Land.

The Development is planned to consist of approximately 581 single-family residential lots, approximately 1,300 units of multi-family housing (conventional and age-restricted), approximately 4,200,000 square feet of industrial/business park, office and mixed-use space and the Amenity Center, as described below.

Single-family Lots. The Single-Family Parcel consists of approximately 131 acres and makes up approximately 20 percent of the District. The Developer has Lot Purchase Agreements with DR Horton and Lennar for all 581 lots. See “— Single-Family Residential Development” below.

Multi-family Units. The Developer anticipates that the District will include approximately 1,300 units of multi-family housing. An approximately 14-acre parcel is currently under contract for development with Whisper Apartments 1 LLC, a Texas limited liability company (“Whisper Apartments”) and is expected to include an approximately 340-unit conventional multi-family development (“Multi-family A”). The Developer has also executed a purchase and sale agreement with Mission DG Ltd., a Texas limited partnership (“Mission DG”), to sell an approximately 8-acre parcel, on which Mission DG anticipates developing approximately 185 age-restricted senior multi-family units (“Multi-family B”). See “— Build-Out and Status of Lot Sales” and “— Multi-family Residential Development” below. In addition, the Developer expects to sell approximately three to four additional multi-family parcels, as development of the District progresses.

Industrial/Business Park. The Developer anticipates that the District will include approximately 2,570,000 square feet of industrial or flex-industrial business parks on approximately 262 acres. The Developer sold the approximately 17-acre Whisper Industrial Parcel to Whisper Industrial for a two-phase speculative industrial business park development. It is anticipated that each phase will contain one 90,000 square foot, 130 feet bay depth and 26 feet clear-height industrial building. See “— Build-Out and Status of Lot Sales” and “— Industrial/Business Park and General Commercial Development” below. The Developer expects to sell the remaining acres of business park space within the District in six to ten separate future transactions.

General Commercial. The Developer anticipates that the District will include approximately 1,660,000 square feet of general commercial on approximately 280 acres. The Developer anticipates that the various general commercial parcels will consist of office development, grocery anchored-retail, neighborhood retail, auto dealerships, hotel development or mixed-use spaces, depending on the location within the District. The Developer expects that it will construct a three-story, 60,000 square foot Class A office building on an approximately 8-acre parcel (the “WM Office Parcel”), through an affiliated, to be formed, special purpose entity. See “— Build-Out and Status of Lot Sales” and “— Industrial/Business Park and General Commercial Development” below. The Developer has an executed Letter of Intent and is currently negotiating a purchase and sale agreement with an individual to sell an approximately 2-acre

Parcel (the “Convenience Store Parcel”), on which a convenience store and gas station will be constructed. The Developer has not contracted with any party to construct any of the other general commercial sites.

Construction Plan and Status of Construction

Major Improvements. The Developer substantially completed construction of the Major Improvements in January of 2020 and is currently in the process of obtaining the City’s final acceptance.

Additional Improvements and Vertical Construction. The Developer expects that the Additional Improvements will be constructed by the applicable builder in a phased-manner based on absorption and market demand. The Developer expects to build out the Developer Land, excluding the Whisper Industrial Parcel, in a five to ten-year period. 135 Residential substantially completed the Additional Improvements necessary to serve phase one of the Single-Family Parcel in March of 2020, which is expected to include approximately 318 single-family residential units. The Developer expects the Homebuilders to begin to take down lots in June of 2020. See “— Single-Family Residential Development” below.

The Developer anticipates that construction of the Additional Improvements to serve Multi-family A and Multi-family B will commence in the fourth quarter of 2020 and that vertical construction will be complete by the first quarter of 2022.

The Developer anticipates that construction of the Additional Improvements to serve the approximately 52 acre-business park parcel will commence in the second quarter of 2020. The Developer has architectural and civil construction plans complete for the WM Office Parcel and is currently in the process of obtaining building permits from the City. The Developer expects that construction should commence in the second or third quarter of 2020 and be substantially complete in the second or third quarter of 2021. McDonald Development will relocate its office from Austin, Texas to the Development upon completion of the office building.

Whisper Industrial commenced construction of the Additional Improvements necessary to serve the Whisper Industrial Parcel in March of 2020 and anticipates that vertical construction will be complete by the first quarter of 2021.

Yarrington has not commenced construction of any Additional Improvements on the Yarrington Land.

The foregoing information has been provided by the Developer consistent with its current concept plan, but will ultimately depend on the market conditions at the time of development. There can be no guarantee that the phased development will occur as contemplated.

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Build-Out and Status of Lot Sales

The Developer's current expectations regarding the estimated buildout value of the Lots within the District, which are subject to change, are as follows:

Expected Build-Out of the District

<u>Parcel</u>	<u>Acreage⁽¹⁾</u>	<u>Current Owner</u>	<u>Proposed Land Use</u>	<u>Expected Units/ Sq.</u>	<u>Estimated Buildout Value Per Unit/SF</u>	<u>Estimated Total Buildout Value</u>
Tract #1						
1	69.393	Yarrington	Retail/ Commercial	500,000 Sq. Ft.	\$ 125	\$62,500,000
2	46.293	Yarrington	Retail/ Commercial	375,000 Sq. Ft.	100	37,500,000
Tract #2						
3B	16.56	Whisper Industrial	Business Park	180,000 Sq. Ft.	90	16,200,000
Tract #3						
6	130.641	135 Residential	Single-family	581 Homes	230,000	133,630,000
Tract #4						
3A	121.280	Developer	Business Park	950,000 Sq. Ft.	90	85,500,000
4A ⁽²⁾	81.993	Developer	Commercial	300,000 Sq. Ft.	110	33,000,000
4B ⁽²⁾	49.290	Developer	Office	375,000 Sq. Ft.	150	56,250,000
4C ⁽²⁾	32.900	Developer	Multi-family	1,300 Units	85,000	110,500,000
5	33.370	Developer	Mixed-Use	110,000 Sq. Ft.	100	11,000,000
7A	72.660	Developer	Business Park	800,000 Sq. Ft.	90	72,000,000
Tract #5						
7B	<u>51.969</u>	Developer	Business Park	638,685 Sq. Ft.	90	<u>57,481,650</u>
Total	<u>706.349⁽²⁾</u>					<u>\$675,561,650</u>

⁽¹⁾ Acres shown are rounded. Actual acreages per tract are shown in Exhibits A-2, A-3, A-4, A-5 and A-6 of the Service and Assessment Plan.

⁽²⁾ Approximately 20 acres within Parcel 4 of Tract #4 is planned to be used as a detention pond. Such 20 acres of land is non-benefitted property and is not subject to an Assessment.

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The status of land sales within the District, as of April 15, 2020, is as follows:

Status of Land Sale Within the District

<u>Parcel</u>	<u>Acreage⁽¹⁾</u>	<u>Proposed Land Use</u>	<u>Expected Units/Sq. Ft.</u>	<u>Purchaser/ Builder</u>	<u>Status of Land Sale</u>	<u>Average Purchase Price per Unit/SF</u>	<u>Actual/ Expected Date of Initial Construction/ Take Down</u>	<u>Expected Date of Vertical Completion</u>
3A	2.0	Convenience Store/Gas Station	5,500 Sq. Ft.	Individual	Letter of Intent	\$9.00	Q3 2020	TBD ⁽²⁾
3B	16.6	Business Park	180,000 Sq. Ft.	Whisper Industrial	Sold	> \$2.00	Q1 2020	Q3 2020
4B	8.0	Office	60,000 Sq. Ft.	TBD ⁽³⁾	TBD ⁽³⁾	N/A	Q2 2020	Q2 2021
4C	14.3	Multi-family	340 Units	Whisper Apartments	Under Contract	> \$4.00	Q4 2020	Q1 2022
4C	8.0	Senior Multi-family	185 Units	Mission DG	Under Contract	> \$4.00	Q4 2020	Q1 2022
6	130.6	Single-Family	337 Homes	DR Horton	Under Contract	\$48,187		
Total	179.5		244 Homes	Lennar		\$45,477	Q1 2020	TBD ⁽⁴⁾

⁽¹⁾ Acres are rounded to the nearest tenth.

⁽²⁾ Currently unavailable.

⁽³⁾ The Developer expects to create an affiliated special purpose entity and enter into a contract with such entity to construct a three-story, 60,000 square foot Class A office building on the WM Office Parcel, when the City approves the plans for the building.

⁽⁴⁾ The Developer's current expected date of vertical completion for phase 1 of the Single-Family Parcel is the third quarter of 2020, per the Lot Purchase Agreements.

Multi-Family Residential Development

The Developer has executed purchase and sale agreements with Whisper Apartments for an approximately 340-unit conventional multi-family development and Mission DG for an approximately 185-unit age-restricted senior multi-family development. Both land parcels are anticipated to be sold in excess of \$4.00 per gross square foot.

Pursuant to its purchase and sale agreement with the Developer, Whisper Apartments has provided earnest money in the amount of \$50,000. The agreement has an inspection period that expires on June 30, 2020 and a closing date of July 30, 2020. In the agreement, (i) the Developer agreed (A) that the District may not include another conventional multi-family apartments for 18 months following the closing of the transaction and (B) that there will be no third-party logistics and bulk warehousing companies that occupy more than 25,000 square feet of industrial space within 400 feet of Opportunity Blvd, between Interstate 35 and Fortuna Blvd and (ii) Whisper Apartments agreed that the property must be used for conventional multi-family apartments for ten years following the closing of the transaction.

Pursuant to its purchase and sale agreement with the Developer, Mission DG has provided earnest money in the amount of \$75,000. The agreement has an inspection period that expires on June 4, 2020 with the ability to extend the inspection period for an additional 30 days by depositing an additional \$50,000 of non-refundable earnest money. If the agreement is terminated prior to the expiration of the inspection period, the Developer must return \$55,000 of the earnest money to Mission DG. The agreement provides for the closing of the transaction to occur on or before 30 days following the expiration of the inspection period, with the ability to extend the closing date for an additional 30 days by depositing an additional \$50,000. The additional \$50,000 to extend the closing date will be non-refundable but will be applicable to the purchase price upon closing. In the agreement, Mission DG agreed that the property must be used as age-restricted apartments for ten years following the closing of the transaction.

Industrial/Business Park and General Commercial Development

Developer Land. The Developer has executed a contract and closed escrow with Whisper Industrial for the purchase of the Whisper Industrial Parcel, which is anticipated to be developed as a two-phase speculative industrial business park with each phase containing one 90,000 square foot, 130 feet bay depth and 26 feet clear-height industrial building. Whisper Industrial acquired the Whisper Industrial Parcel for a purchase price in excess of \$2.00 per gross square foot. Under the contract, Whisper Industrial is responsible for the construction of Flustern Road, an internal road necessary to serve the Whisper Industrial Parcel and must commence such construction by March of 2020. The Developer has agreed to contribute \$435,000 to the construction of such road.

The Developer has an executed Letter of Intent and is currently negotiating a purchase and sale agreement with an individual to sell the approximately 2-acre Convenience Store Parcel, on which a convenience store and gas station will be constructed. The Convenience Store Parcel is anticipated to be sold for approximately \$9.00 per gross square foot. It is expected that the agreement will provide for (i) \$25,000 in earnest money within two days of the effective date of the agreement, (ii) an inspection period that expires 90 days after the effective date of the agreement and (iii) the closing to take place 60 days following the expiration of the inspection period, but in no event later than July 3, 2020.

The Developer expects that it will construct a three-story, 60,000 square foot Class A office building (the “WM Office Building”) on the WM Office Parcel, through an affiliated, to be formed, special purpose entity. Pursuant to the Financing Agreement, within 360 days of the City’s acceptance of the Major Improvements, the Developer agreed to obtain site development and building permits for, and commence construction of, the WM Office Building. The Financing Agreement sets forth the construction requirements for the WM Office Building. See “APPENDIX G — Financing Agreement.”

Yarrington Land. Yarrington has no contracts or letters of intent for purchase of any parcels of the Yarrington Land.

Single-Family Residential Development

Homebuilders and Lot Purchase Agreements. 135 Residential has executed Lot Purchase Agreements for all 581 single-family residential lots within the District with the Homebuilders, DR Horton and Lennar. The Homebuilders expect to takedown lots in three phases. Pursuant to the Lot Purchase Agreements, DR Horton has agreed to purchase 337 lots, including 165 lots within phase 1, 142 lots within phase 2 and 30 within phase 3. Lennar has agreed to purchase 244 lots, including 153 lots within phase 1 and 91 lots within phase 2. The following table provides the number of lots by phase on which the Homebuilders plan to construct homes:

Homebuilders and Lot Purchase and Sale Agreements

Homebuilder	Total Lots ⁽¹⁾	Phase 1	Phase 2	Phase 3
DR Horton	337	165	142	30
Lennar	<u>244</u>	<u>153</u>	<u>91</u>	<u>-</u>
Total	581	318	233	30

⁽¹⁾ Lot totals include model homes.

Pursuant to the DR Horton Lot Purchase Agreement, DR Horton has agreed to initially take down 30 Lots upon the Developer’s substantial completion of phase 1 of the Single-Family Parcel (the “Substantial Completion Date”), which initial closing is anticipated to occur in June of 2020. Not later than 120 days after the required initial closing date, DR Horton is required to purchase a minimum of 20 additional Lots, and during each 90-day period thereafter. Pursuant to the Lennar Lot Purchase Agreement, Lennar will acquire 19 Lots on or before the later of June 5, 2020 or 15 days after the Substantial Completion Date and 39 Lots no later than 90 days following the initial lot takedown. Lennar’s third and fourth takedown will consist of 40 Lots and 19 Lots, respectively, that must be acquired within 180 days following the preceding takedown. Following the fourth takedown, Lennar will acquire 19 lots every 90 days thereafter. Under the Lot Purchase Agreements, the Homebuilders collectively have put down \$881,500 in earnest money, of which \$508,000 was provided by DR Horton and \$373,500 was provided by Lennar. Approximately \$254,500 of the \$508,000 provided by DR Horton is designated as a contribution towards the construction of the

Amenity Center (the “Amenity Center Earnest Money”), as further described under “— Residential Amenity Center” herein. The earnest money not designated as Amenity Center Earnest Money will be credited back to the respective Homebuilder as lots are purchased by each respective Homebuilder. Each Lot Purchase Agreement contains a gross lot pricing escalation of six percent simple interest, commencing (i) for DR Horton, one year following DR Horton’s initial lot takedown and (ii) for Lennar, 15 business days after the Substantial Completion Date.

There are circumstances described in the Lot Purchase Agreements which may result in the termination of the agreements. Pursuant to DR Horton’s agreement, if the Substantial Completion Date does not occur by June 30, 2020, DR Horton may terminate the agreement, and any earnest money shall be returned to DR Horton. Pursuant to Lennar’s agreement, if the Substantial Completion Date does not occur by May 29, 2020, Lennar may terminate the agreement, and any remaining earnest money shall be returned to Lennar.

The Developer’s current expectations regarding the build-out of the single-family lots within the District and sale of single-family lots to the Homebuilders therein are shown in the following table.

Actual and Expected Build-Out Schedule of Single-Family Lots within the District

<u>Phase</u>	<u>Single-Family Lots⁽¹⁾</u>	<u>Actual/Expected Infrastructure Completion Date</u>	<u>Actual/Expected Initial Sale Date of Single-Family Lots to Homebuilders</u>	<u>Expected Final Sale Date of Single-Family Lots to Homebuilders⁽²⁾</u>
1	318	February of 2020	March of 2020	November of 2021
2	233	January of 2022	February of 2022	May of 2023
3 ⁽³⁾	30	TBD	TBD	TBD
Total	581			

⁽¹⁾ Numbers include model homes.

⁽²⁾ Expected Final Sale Date provided by the Developer.

⁽³⁾ The expected development timeline of phase 3 of the Single-Family Parcel is currently unknown and will be dependent on development of adjacent property, which the Developer currently plans to purchase at a later date.

The actual and anticipated schedule for sale of single-family lots to Homebuilders, pursuant to the Lot Purchase Agreements, is shown in the following table.

Contractual Lot Takedown Schedule of Single-Family Lots to Homebuilders⁽¹⁾

<u>Year End</u>	<u>DR Horton</u>	<u>Lennar</u>	<u>Total Lots</u>
2020	70	60	130
2021	80	78	158
2022	80	78	158
2023	107	28	135
Total	337	244	581

⁽¹⁾ Numbers include model homes.

The Developer’s current expectations regarding estimated home prices for the single-family residential lots are as follows:

Single-Family Lot and Home Prices

<u>Quantity</u>	<u>Average Base Lot Price</u>	<u>Average Base Home Price</u>
581	\$45,660_	\$230,000

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Photographs of the Development

The photograph below depicts Fortuna Road and Opportunity Boulevard intersection facing south, with the Single-Family Parcel in background.



The photographs below depict construction of the entrance to the Single-Family Parcel at the intersection of Fortuna Road and Opportunity Boulevard.





The following three photographs below depict construction of the roads within the Single-Family Parcel.





The photograph below depicts construction of the drainage easement within the Single-Family Parcel.



The photograph below depicts Interstate 35 access to the Development off of Sussuro Parkway.



The photograph below depicts Opportunity Boulevard facing west towards Interstate 35.



The picture below depicts the design for the entry-way monument to be constructed at the intersection of Interstate 35 and Opportunity Boulevard.



The picture below depicts the design for the Whisper Industrial Parcel to be constructed by Whisper Industrial.



The picture below depicts the design for the WM Office Parcel to be constructed by an affiliate of the Developer.



The picture below depicts the design for the entry-way monument expected to be constructed at the entrance to the Single-Family Residential Parcel off Opportunity Blvd.



Financing Agreement

Pursuant to the Financing Agreement, the Developer has the right to construct public improvements for the District, including the Major Improvements, according to certain rules and regulations of the City, and to be reimbursed for a portion of the costs of such construction through the proceeds of assessments and/or bonds. The Financing Agreement provides certain requirements to be met for the issuance of the Bonds and any additional bonds issued for the payment of the Major Improvements (collectively, "PID Bonds"), including (i) the total amount of PID Bonds may not exceed \$14,630,000; (ii) the final maturity of each series of PID Bonds may not occur later than thirty years from the date of issuance of such PID Bonds; (iii) subject to the annual permitted increases allowed by clause (v) below, the initial annual installment tax rate equivalent cannot exceed (1) \$0.17 for any single-family detached residential parcels and (2) \$0.22 with respect to any other individual parcel; (iv) the minimum appraised value to lien ratio at the issuance date of each series of PID Bonds is 3:1 on an overall basis considering all parcels and 2.5:1 with respect to any individual parcel; and (v) the maximum annual permitted increase in annual installments is 2%. The City and the Developer may amend the Financing Agreement at any point without approval of the Owners of the Bonds. See "APPENDIX G —Financing Agreement."

Zoning/Permitting

The development of the property within the District will be governed by the concept plan for the District, the Financing Agreement, and the Whisper Texas Planned Development District standards (the "Whisper PDD"), pursuant to Ordinance No. 2017-40, adopted by the City Council (collectively, the "Applicable Regulations"). The concept plan of the District is shown on page iv.

Education

The District is located within Hays Consolidated Independent School District ("Hays CISD"). Hays CISD operates 13 elementary schools, six middle schools, four high schools and one alternative campus. Hemphill Elementary School, which is approximately 4 miles from the District, Laura B Wallace Middle School, which is approximately 5 miles from the District and Jack C Hays High School, which is approximately 8 miles from the District, are expected to serve residents within the District.

Both Hemphill Elementary School and Laura B Wallace Middle School are rated “below average” by GreatSchools.org. Jack C Hays High School is rated “average” by GreatSchools.org. According to the Texas Education Agency annual school report cards both Hays CISD and Jack C Hays High School were rated as “B” and Hemphill Elementary School and Laura B Wallace Middle School were rated as “C” for 2019. (The categories for public school districts and public schools are A, B, C, D or F).

Residential Amenity Center

Pursuant to Lot Purchase Agreements, the Developer has agreed to construct the Amenity Center available only to the single-family residential lots, which will include an approximately 2-acre complex with a pool, playscape, open-air pavilion, parks and landscaping. The Developer anticipates that the Amenity Center will cost approximately \$880,000 to construct and expects to commence construction of the Amenity Center in the third quarter of 2020 and complete construction within seven months of such commencement. Per the terms of the Escrow Agreement (Whisper Residential Amenity Center) between the Developer and the Homebuilders, each Homebuilder will contribute \$1,000 per contracted Lot to the construction of the Amenity Center, with the Developer paying for the balance. DR Horton currently has \$254,500 in Amenity Center Earnest Money and will provide an additional \$82,500 for the Amenity Center at its initial closing of lots. Lennar will provide \$244,000 for the Amenity Center at its initial closing of lots. The Amenity Center will be dedicated to and maintained by the POA.

Environmental

Site Evaluation. A Phase One Environmental Site Assessment (the “Phase One ESA”) of the property within the District was completed on December 18, 2018. Based on the information presented in the Phase One ESA, there was no evidence that the Development was 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.

Endangered Species. According to the website for the United States Fish and Wildlife Service, the following endangered species are known or believed to occur in Hays County: whooping crane, golden-cheeked warbler, Barton Springs salamander, Texas blind salamander, fountain darter, San Marcos gambusia, Comal Springs riffle beetle and Comal Springs dryopid beetle. According to the website for the United States Fish and Wildlife Service, the following threatened species are known or believed to occur in Hays County: San Marcos Salamander and red knot. The Developer is not aware of any endangered or threatened species located on District property.

Mineral Rights and Easement Rights

There are certain mineral rights reservations of prior owners of real property within the District (the “Mineral Owners”) pursuant to one or more deeds in the chain of title for the property in the District.

While there is currently no drilling or exploration of minerals, the Developer cannot predict whether the Mineral Owners will take new action in the future to explore or develop the above-described mineral rights. The Developer is not aware of any real property (including mineral rights) owned by the Mineral Owners adjacent to the District. Certain rules and regulations of the Texas Railroad Commission may restrict the ability of the Mineral Owners to explore or develop the property due to well density, acreage, or location issues.

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

Geotechnical Exploration

The Developer and/or the Developer’s engineers have conducted geotechnical testing within the District. Soils vary as a result of the large land area but is predominately lined with clay, with the exception of the northwest corner of the property, which contains low plasticity index soil.

Utilities

Water and Wastewater. The City will provide wastewater service to the Development. The City and Maxwell Special Utility District (“Maxwell SUD”) will provide water service to the Development. The City and Maxwell SUD currently have sufficient capacity to provide water and wastewater service to the Development, as applicable. See “THE AUTHORIZED IMPROVEMENTS.”

Other Utilities. The Developer anticipates additional utilities to be provided by the following entities:

Gas	CenterPoint Energy
Phone/Data	Century Link
Electric	Pedernales Electric Cooperative
Cable	Grande Communications, AT&T and CenturyLink

THE DEVELOPER

The following information has been provided by the Developer. Certain of the following information is beyond the direct knowledge of the City, the City’s Financial Advisor and the Underwriter, and none of the City, the City’s Financial Advisor or the Underwriter have any way of guaranteeing the accuracy of such information.

General

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

Description of Developer

The Developer is an affiliate of McDonald Development Group, LLC, a Texas limited liability company (“McDonald Development”) and was created by McDonald Development for the purpose of managing and conveying property in the District to third parties, as described under the caption “THE DEVELOPMENT.” The Developer is a nominally capitalized limited liability company, the primary asset of which is unsold property within the District. The Developer will have no source of funds with which to pay Assessments or taxes levied by the City or any other taxing entity other than funds resulting from the sale of property within the District or funds advanced to the Developer by an affiliated party.

Since its founding in 1990, McDonald Development has acquired, planned and/or developed 15+ communities consisting of nearly 5,000+ single-family home sites and has developed, owned or constructed over 40 general commercial projects (multi-family, retail, medical-office, professional office, self-storage, and industrial). McDonald Development’s team of industry professionals can process and manage any real estate development project from start to finish throughout all aspects of a project. From initial entitlements to plan processing, plan amendments, zoning, tract mapping, infrastructure improvement plans, infrastructure development and permitting and clearances, its knowledge and experience allows it to navigate through the often complicated processes to obtain a successful project completion.

A snapshot of some of the communities McDonald Development has developed or is currently developing is presented below.

<u>Project Name</u>	<u>Project Type</u>	<u>Number of Units/</u>		<u>County</u>	<u>Status</u>
		<u>Sq. Ft./Acres</u>			
Blue Wing	SF Residential	307 lots		Bexar	Entitlement
Abbott Place	SF Residential	280 lots		Bexar	Entitlement
Rio Verde	SF Residential	250 lots		Guadalupe	Entitlement
Wolf Creek	SF Residential	200 lots		Travis	Entitlement
Compostela	SF Residential	78 lots		Caldwell	Entitlement
Guadalupe Heights	SF Residential	235 lots		Guadalupe	Under Construction
Shops at Stevens Ranch	Retail	17,000 Sq. Ft.		Bexar	Under Construction
McDonalds	Retail	1 acre		Bexar	Under Construction
Kress and Grant	Office	120,000 Sq. Ft.		Bexar	Under Construction
Gateway Business Park	Office	40,000 Sq. Ft.		Hays	Under Construction
Wonder World Medical Square	Medical Office	13,000 Sq. Ft.		Hays	Under Construction
Red Oak Shops	Retail	18,900 Sq. Ft.		Hays	Completed
Nash 123 Retail	Retail	7,600 Sq. Ft.		Hays	Completed
Guadalupe Station	Retail	18,000 Sq. Ft.		Hays	Completed
Freddy's	Retail	1 acre		Hays	Completed
Olive Garden	Retail	1 acre		Hays	Completed
Hooters	Retail	1 acre		Hays	Completed

Executive Biography of Principals of McDonald Development

Robert W. McDonald, III, Managing Director. Mr. McDonald has been in the real estate investment and development business for 35 years and has developed several million square feet of medical-office, office, retail and multi-family product. He was Founder and CEO of The Movie Shops, which operated 35 retail stores throughout Texas and was sold at its prime to Movie Gallery. Additionally, Mr. McDonald serves as a Director of Capital Bank of Texas in Carrizo Springs, Texas and First Choice Bank, in Pontotoc, Mississippi.

R.W. McDonald, IV, Managing Director. Mr. McDonald has been in the real estate investment and development business for 11 years and has managed more than 25 investment and development partnerships. Mr. McDonald's career commenced in the Great Recession by staffing, structuring and expanding the McDonald Development Group's in-house private credit business. He exclusively focused on this successful strategy for three years before opportunistically expanding into development of various commercial real estate asset classes. Mr. McDonald is currently the General Partner of CapStor Conversion Partners, Ltd., a discretionary closed-end fund that to-date has invested in self-storage, single-family residential lot development, single-tenant retail development and multi-tenant retail development in Texas and Florida.

History and Financing of the District

Summary of At-Risk Entities and Investments in the District Subordinate to the Assessment Lien. As of April 15, 2020, the Developer has substantially completed construction of the Major Improvements at a cost of approximately \$10,900,000 all of which is expected to be reimbursed with proceeds of the Bonds. The remaining amount will not be reimbursed to the Developer. Additionally, the Developer has secured financing for the portion of the Additional Improvements for which it is responsible to construct, which the Developer expects will cost approximately \$9,400,000. The value of the Additional Improvements is in addition to the value associated with the Major Improvements. As of April 15, 2020, the Developer has completed approximately \$9,000,000 in Additional Improvements. In order to finance the acquisition and development of the District the Developer and certain third parties, including the Homebuilders, have expended equity or extended promissory notes that are secured by a lien on some or all of the real property within the District that are subordinate to the lien associated with the Assessments securing the Bonds. A list of the entities with at-risk capital whose position or lien is subordinate to that of the Assessments is listed in the following table and more fully described in the subheadings below.

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

<u>At Risk Entity</u>	<u>Funding Type</u>	<u>Funding Purpose</u>	<u>Security</u>	<u>Position to Assessment Lien</u>	<u>Initial Amount</u>	<u>Outstanding Balance ⁽¹⁾</u>
Developer	Developer Equity	Land Purchase	N/A ⁽²⁾	N/A ⁽²⁾	\$12,000,000	\$12,000,000
Harris Hill	Single-Family Acquisition Loan	Purchase of Single-Family Parcel	Lien on Real Property within the Single-Family Parcel	Subordinate	\$6,510,000	\$6,510,000
First United Bank	Promissory Note	Development of the District	Lien on Real Property within the District	Subordinate	\$11,320,000	\$10,619,443
First United Bank (66.67%) ⁽³⁾ First Bank Southwest (33.33%) ⁽³⁾	Promissory Note	Finance development of the Single-Family Parcel	Lien on Real Property within the Single-Family Parcel	Subordinate	\$9,000,000	\$8,361,007
Developer	Whisper Industrial Acquisition Loan	Purchase of 16.56 acres of the Whisper Industrial Parcel from Developer	Line on 1.8 acres of the 16.56 acre Whisper Industrial Parcel	Subordinate	\$157,486	\$157,486
Lennar	Cash	Single-Family Lot Earnest Money	Lien on Contracted Single-Family Lots	Subordinate	\$373,000	\$373,500
DR Horton	Cash	Single-Family Lot Earnest Money	Lien on Contracted Single-Family Lots	Subordinate	\$507,000	\$253,500 ⁽⁴⁾
Total Outstanding Balance of Equity and Loan/Notes Secured by a Subordinate Lien Against Real Property within the District:						\$38,274,936

⁽¹⁾ As of April 15, 2020.

⁽²⁾ While Developer equity is not considered a loan or note, the Developer's equity investment within the District is subordinate to the lien securing the Bonds.

⁽³⁾ The Single-Family Development Loan permits First United Bank to sell participation interests in the Single-Family Development Loan to one or more participants. First United Bank entered into a Loan Participant Agreement with First Bank Southwest, under which First United Bank has a 66.67% interest and First Bank Southwest has a 33.33% interest in the Single-Family Development Loan.

⁽⁴⁾ DR Horton has put down \$508,000 in earnest money, of which \$253,500 is secured by a lien on its contracted single-family lots and \$254,500 is designated as a contribution towards the construction of the Amenity Center.

Acquisition of Land Within the District. The Developer purchased a portion of the property within the District in two separate transactions in 2015 and 2016 for a total purchase price of approximately \$12,000,000. The Developer's acquisition was made on a cash basis and no third-party financing was used to acquire the property within the District.

Developer Development Loan for the District. In order to finance the development of the District, the Developer obtained a loan in the amount of \$11,320,500 from First United Bank pursuant to a Promissory Note dated November 30, 2017, as amended on November 30, 2019 and March 15, 2020 (the “District Development Loan”), which is secured by, among other things, a lien on all of the real property within the District and improvements thereon owned by the Developer. The Single-Family Parcel and the Whisper Industrial Parcel are not encumbered by the District Development Loan. The District Development Loan bears interest at a variable rate, which is currently 5.25% and can never be lower than 4.75% per annum, and has a maturity date of September 30, 2020. As of April 15, 2020, the District Development Loan has an outstanding balance of \$10,053,417.44. The Developer expects to pay off the majority of the District Development Loan with proceeds of the Bonds.

135 Residential Loans for the Single-Family Residential

Acquisition Loan. 135 Residential purchased the Single-Family Parcel from Harris Hill in 2019 for \$2,760,000. In order to finance such purchase, 135 Residential obtained a loan in the amount of \$6,510,000 from Harris Hill pursuant to a Promissory Note dated April 29, 2019 (the “Single-Family Acquisition Loan”), which is secured by a lien on all of the real property within the Single-Family Parcel and improvements thereon owned by 135 Residential. The Single-Family Acquisition Loan bears interest at a rate of 3.0% per annum and has a maturity date of April 28, 2026. Pursuant to the Subordination Agreement between Harris Hills and First United Bank effective as of April 30, 2019, Harris Hills has agreed to (i) subordinate all of the liens and security interests securing or pertaining to the Single-Family Acquisition Loan to the Single-Family Development Loan, as defined and described below, and (ii) defer its right to receive repayment of principal or interest on the Single-Family Acquisition Loan until the Single-Family Development Loan has been paid in full, except that Harris Hill is entitled to partial release payments from the proceeds of 135 Residential’s sale of lots to the Homebuilders. As of April 15, 2020, the Single-Family Development Loan has an outstanding balance of \$6,510,000.

Development Loan. In order to finance the development of the Single-Family Parcel, 135 Residential obtained a loan in the amount of \$9,000,000 from First United Bank pursuant to a Promissory Note dated April 30, 2019 (the “Single-Family Development Loan”), which is secured by, among other things, a lien on all of the real property within the Single-Family Parcel and improvements thereon owned by 135 Residential and the Lot Purchase Agreements. The Single-Family Development Loan permits First United Bank to sell participation interests in the Single-Family Development Loan to one or more participants. First United Bank entered into a Loan Participant Agreement with First Bank Southwest, under which First United Bank has a 66.67% interest and First Bank Southwest has a 33.33% interest in the Single-Family Development Loan.

The Single-Family Development Loan bears interest at a variable rate, which is currently 5.25% and can never be lower than 5.25% per annum, and has a maturity date of October 30, 2022. Upon 135 Residential’s substantial completion of phase 1 of the single-family residential development and payment of principal reduction payments to reduce the outstanding principal balance to not more than \$2,000,000, 135 Residential may re-borrow up to the amount of the final budget of phase 2 of the single-family residential development. As of April 15, 2020, the Single-Family Development Loan has an outstanding balance of \$8,361,007.

Whisper Industrial Acquisition Loan. Whisper Industrial purchased the 16.56-acre Whisper Industrial Parcel from the Developer in 2019 for approximately \$1,400,000. In order to finance such purchase, Whisper Industrial obtained a loan in the amount of \$157,486 from the Developer pursuant to a Promissory Note dated December 31, 2019 (the “Whisper Industrial Acquisition Loan”), which is secured by a lien on 1.8 acres of the 16.56-acre Whisper Industrial Parcel and the improvements thereon owned by Whisper Industrial. The Whisper Industrial Acquisition Loan bears interest at a rate of 6.0% per annum and has a maturity date of December 30, 2022. As of April 15, 2020, the Whisper Industrial Acquisition Loan has an outstanding balance of \$157,486.

The PID Act provides that the Assessment Lien is a first and prior lien against the Assessed Property and is superior to all other liens and claims except liens or claims for State, county, school district, or municipality ad valorem taxes. Additionally, at or prior to delivery of the Bonds, First United Bank, Harris Hills and the Developer have agreed to consent to and acknowledge the creation of the District, the levy of the Assessments and the subordination of the lien securing the District Development Loan, the Single-Family Acquisition Loan, the Single-Family Development Loan and the Whisper Industrial Acquisition Loan to the assessment liens on property within the District securing payment of the Assessments. As a result, the lien on the property within the District securing the Assessments will

have priority over any liens on the property within the District securing the District Development Loan, the Single-Family Acquisition Loan, the Single-Family Development Loan and the Whisper Industrial Acquisition Loan.

THE PID ADMINISTRATOR

The following information has been provided by the PID Administrator. Certain of the following information is beyond the direct knowledge of the City, the City's Financial Advisor and the Underwriter, and none of the City, the City's Financial Advisor or the Underwriter have any way of guaranteeing the accuracy of such information.

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

The PID Administrators duties will include:

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

APPRAISAL OF PROPERTY WITHIN THE DISTRICT

The Appraisal

General. Flato Realty Advisors, LLC (the “Appraiser”) prepared an appraisal report for the City dated May 8, 2020, based upon a physical inspection of the District conducted on February 4, 2020 (the “Appraisal”). Since the date of the Appraisal, the costs of the Authorized Improvements have changed due to actual costs being finalized in anticipation for Bond issuance. The Appraisal was prepared at the request of the City. The description herein of the Appraisal is intended to be a brief summary only of the Appraisal as it relates to the District. The Appraisal is attached hereto as APPENDIX F and should be read in its entirety. The conclusions reached in the Appraisal are subject to certain assumptions, hypothetical conditions and qualifications, which are set forth therein. See “APPENDIX F — Appraisal of the District.”

The effective date of the Appraisal is February 4, 2020. In developing the opinion of the market value of the District, as of the effective date of Appraisal, the most recent available market data was incorporated. Post the effective date of the Appraisal, on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In light of the increasing volume of negative global economic news resulting from the impacts from COVID-19, it is possible that at some point in the near the future there may be some degree of influence or impact on property values in the Central Texas real estate market. See “BONDHOLDERS’ RISKS — Infectious Disease Outbreak.”

Value Estimates. The Appraiser estimated the market value of the fee simple interest in Tracts #1, 2, 4 and 5 and the prospective market value at completion of the fee simple interest in Tract #3 (the Single-Family Parcel) under certain hypothetical conditions. The Appraisal Report does not reflect the value of the District as if sold to a single purchaser in a single transaction. The hypothetical conditions include the assumptions that all of the Major Improvements within the District and the Additional Improvements within the Single-Family Parcel have been completed in accordance with plans and specifications as of the dates specified below. See “THE AUTHORIZED

IMPROVEMENTS,” “THE DEVELOPMENT — Development Plan” and “APPENDIX F — Appraisal of the District.”

The cumulative value estimate for the Assessed Property using the methodologies described in the Appraisal and subject to the limiting conditions and assumptions set forth in the Appraisal, as of February 4, 2020 for Tracts #1, 2, 4 and 5 and, as of February 4, 2021, for Tract #3, is \$123,075,000. None of the City, the Developer nor the Underwriter makes any representation as to the accuracy, completeness, assumptions or information contained in the Appraisal. The assumptions or qualifications with respect to the Appraisal are contained therein. There can be no assurance that any such assumptions will be realized, and the City, the Developer and the Underwriter make no representation as to the reasonableness of such assumptions.

BONDHOLDERS’ RISKS

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

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

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 City, (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 property 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 property.

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 Assessed Property, 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 is no assurance that the value of such lands will be sufficient for that purpose and the expeditious liquidation of real property through foreclosure or similar means is generally considered to yield sales proceeds in a lesser sum than might otherwise be received through the orderly marketing of such real property.

The Underwriter is not obligated to make a market in or repurchase any of the Bonds, and no representation is made by the Underwriter, the City or the City’s Financial Advisor that a market for the Bonds will develop and be

maintained in the future. If a market does develop, no assurance can be given regarding future price maintenance of the Bonds.

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

Infectious Disease Outbreak

The outbreak of COVID-19, a respiratory disease caused by a new strain of coronavirus, has been characterized as a pandemic (the “Pandemic”) by the World Health Organization and is currently affecting many parts of the world, including the United States and Texas. On January 31, 2020, the Secretary of the United States Health and Human Services Department declared a public health emergency for the United States. On March 13, 2020, the President of the United States declared the Pandemic a national emergency and the Governor of Texas (the “Governor”) declared a state of disaster for all counties in the State in response to the Pandemic. On March 25, 2020, in response to a request from the Governor, the President issued a Major Disaster Declaration for the State. Subsequently, the President’s Coronavirus Guidelines for America and the United States Centers for Disease Control and Prevention called upon Americans to take actions to slow the spread of COVID-19 in the United States.

Pursuant to Chapter 418 of the Texas Government Code, the Governor has broad authority to respond to disasters, including suspending any regulatory statute prescribing the procedures for conducting state business or any order or rule of a state agency that would in any way prevent, hinder, or delay necessary action in coping with the disaster, and issuing executive orders that have the force and effect of law. The Governor has since issued a number of executive orders relating to COVID-19 preparedness and mitigation. These include, for example, the issuance on March 19, 2020 of Executive Order GA-08 which, among other things, imposed limitations on social gatherings of more than 10 people; discouraged eating or drinking at bars, restaurants, and food courts, or visiting gyms or massage parlors; and limited visits to nursing homes and long-term care facilities. On April 15, 2020, the Governor issued Executive Order GA-14 which provided that the following was considered an “Essential Service” and therefore allowed to take place during the COVID-19 pandemic: “Workers performing housing and commercial construction related activities.” On April 17, 2020, the Governor issued Executive Order GA-16, which, among other things, required Texans to minimize in-person contact with people who are not in the same household unless such people are involved in “Essential Services” or essential daily activities and orders the closure of schools throughout the State through the 2019-2020 school year, which was effective until April 30, 2020, unless otherwise extended, modified, rescinded, or superseded by the Governor. With Executive Order GA-16 set to expire on April 30, 2020, the Governor issued Executive Order GA-18 on April 27, 2020, which, among other things, permits the reopening of “reopened services,” including retail establishments, dine-in restaurant services, movie theaters, shopping malls, museums and libraries, with limitations on the levels of occupancy. On May 5, 2020, the Governor issued Executive Order GA-21, which, among other things, expanded the scope of reopened services to include, among other things, hair salons, tanning salons and swimming pools, to be effective May 8, 2020, and certain business offices, manufacturing services and gyms, to be effective May 18, 2020. Executive Order GA-21 remains in place until 11:59 p.m. on May 19, 2020 unless otherwise, extended, modified rescinded or superseded by the Governor. Most of the federal and state actions and policies under the aforementioned disaster declarations are focused on limiting instances where the public can congregate or interact with each other, which affects the operation of businesses and directly impacts the economy.

Since the disaster declarations were made, the Pandemic has negatively affected travel, commerce, and financial markets globally, and is widely expected to continue negatively affecting economic growth and financial markets worldwide. Stock values and crude oil prices, in the United States and globally, have seen significant declines attributed to COVID-19 concerns. Texas may be particularly at risk from any global slowdown, given the prevalence of international trade in the State and the risk of contraction in the oil and gas industry and spillover effects into other industries.

Such adverse economic conditions, if they continue, may reduce or negatively affect economic conditions in the City and lead to unemployment for property owners within the District or may otherwise have a negative impact on the sale of parcels, lots or homes within the District. The Bonds are secured by Assessments levied on benefitted property within the District. If lot or home sales are negatively impacted by the Pandemic, the Developer, Yarrington, Whisper Industrial and 135 Residential will continue to be responsible for the payment of the Assessments.

The City continues to monitor the spread of COVID-19 and is working with local, state, and national agencies to address the potential impact of the Pandemic upon the City. While the potential impact of the Pandemic on the City cannot be quantified at this time, the continued outbreak of COVID-19 could have an adverse effect on the City's operations and financial condition. None of the City, the Financial Advisor, the Underwriter or the Developer can predict the impact the Pandemic may have on the City, the financial and operating condition of the Developer, the projected buildout schedule, home prices and buildout values or an investment in the Bonds. ***[We will continue to monitor and update accordingly]***

Assessment Limitations

Annual Installments of Assessments are billed to property owners of Assessed Property. Annual Installments are due and payable, and bear the same penalties and interest for non-payment, as 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 Annual Installments of Assessment 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 District, the City has established a Reserve Account in the Reserve Fund, to be funded from the proceeds of the Bonds, to cover delinquencies. The Annual Installments are secured by the Assessment Lien. However, there can be no assurance that foreclosure proceedings will occur in a timely manner so as to avoid depletion of the Reserve Account and delay in payments of debt service on the Bonds. See "BONDHOLDERS' RISKS — Bondholders' Remedies and Bankruptcy" herein.

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

Based upon the language of Texas Local Government Code, Section 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 Section 372.018(d) supports this position, stating that an Assessment Lien runs with the land and the portion of an assessment payment that has not yet come due is not eliminated by foreclosure of an ad valorem tax lien.

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

Under State law, in order to establish homestead rights, the claimant must show a combination of both overt acts of homestead usage and intention on the part of the owner to claim the land as a homestead. Mere ownership of the property alone is insufficient and the intent to use the property as a homestead must be a present one, not an intention to make the property a homestead at some indefinite time in the future. As of the date of adoption of the Assessment Ordinance, no such homestead rights had been claimed. Furthermore, the Developer, 135 Residential and Yarrington are not eligible to claim homestead rights. Consequently, there are and can be no homestead rights on the Assessed Property superior to the Assessment Lien and, therefore, the Assessment Liens may be foreclosed upon by the City.

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

Effects of Future Legislation

In October of 2017, the 85th Texas Legislature House of Representatives and the 85th Texas Legislature Senate issued interim charges to the 85th Texas Legislature House Committee on Special Purpose Districts and the 85th Texas Legislature Senate Intergovernmental Relations Committee (collectively, the “Interim Committees”), respectively, requesting the study of special purpose districts and potential bond issuance reforms. The charges to the Interim Committees included review, hearings and testimony related to changes to and oversight of bonds secured by special assessments.

In December 2018, the 85th Texas Legislature House Committee on Special Purpose Districts released its Interim Report to the 86th Texas Legislature (the “House SPD Report”). The House SPD Report recommended that a Senate committee substitute to a bill proposed during the 82nd Texas Legislature in 2011, HB 1400 (the “HB 1400 Committee Substitute”) which set forth a tiered system for the findings required by a county or municipality prior to the issuance of bonds, be resurrected and re-examined in order to provide oversight for assessment. Under the HB 1400 Committee Substitute:

- Prior to the issuance of bonds or obligations wholly or partly payable from or secured by assessments, the governing body of a municipality with a population of 250,000 or less or the governing body of a county with a population of 1 million or less issuing the bonds or obligations must find and determine the following:
 - o construction of all underground water, wastewater, and drainage facilities and roadways to serve the real property liable for assessments necessary to support the payment of the bonds or obligations is at least 95 percent complete; and
 - o construction of at least 25 percent of the houses or other buildings on the real property liable for assessments and necessary to support the bonds or obligations has been completed.
- Prior to the issuance of bonds or obligations wholly or partly payable from or secured by assessments, a municipality with a population of more than 250,000 or a county with a population of more than 1 million issuing the bonds or obligations must obtain an independent market study from a firm recognized in the area of real estate market analysis supporting the development projects for the real property liable for assessments and necessary to support the payment of the bonds or obligations.

The findings of the House SPD Report suggested committee support applying standards similar to those applied by the Texas Commission of Environmental Quality (the “TCEQ”) to bonds issued by municipal utility and other independent special purpose districts to bonds issued by cities and counties under the PID Act.

In December 2018, the 85th Texas Legislature Senate Intergovernmental Relations Committee released its Interim Report to the 86th Texas Legislature (the “Senate IGR Report”). The Senate IGR Report found that, based on testimony received by the committee, standards imposed by cities relating to the issuance of assessment-backed public improvement district bonds exceeded the standards applied by the TCEQ to bonds issued by municipal utility and other independent special purpose districts. The Senate IGR Report did not recommend any further action to the 86th Texas Legislature relating to assessment backed bonds.

The Texas Legislature convenes in odd numbered years, and the 86th Texas Legislature convened on January 8, 2019. The House of Representatives of the 86th Texas Legislature did not convene a House Special Purpose Districts Committee, and instead transferred portions of its jurisdiction to the 86th Texas Legislature House Committee on Natural Resources and the 86th Texas Legislature House Committee Urban Affairs. The Senate of the 86th Texas Legislature has convened the Intergovernmental Relations Committee. During the session, no legislation was introduced in the 86th Texas Legislature which proposed the provisions of the HB 1400 Committee Substitute, and the sine die for the 86th Texas Legislature Regular Session occurred on May 27, 2019.

It is impossible to predict what new proposals may be presented regarding the PID Act and the issuance of special assessment bonds during any upcoming legislative sessions, whether such new proposals or any previous proposals regarding the same will be adopted by the Texas Senate and House of Representatives and signed by the Governor, and, if adopted, the form thereof. It is impossible to predict with certainty the impact that any such future legislation will or may have on the security for the Bonds.

Risks Related to the Current Residential Real Estate Market

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

Competition

Single-Family Residential. The housing industry in the San Marcos area is very competitive, and none of the Developer, the City, the City's Financial Advisor or the Underwriter can give any assurance that the building programs of the single-family residential development within the District which are planned will ever commence or be completed in accordance with the Developer's expectations. The competitive position of the Developer or of any homebuilder in the sale of developed lots or 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.

The following table is a list of competitive single-family residential projects, as shown in the Appraisal.

<u>Project Name</u>	<u>Total Lots</u>	<u>Available Lots</u>	<u>City</u>	<u>Average Home Price</u>
Paramount	330	330	Kyle	\$220,000 - \$335,000
Crosswinds Subdivision	88	60	Kyle	\$229,000 - \$285,000
Blanco Vista	403	295	San Marcos	\$255,000 - \$320,000
Cypress Forest	159	118	Kyle	\$410,000 - \$575,000
Cool Springs	71	37	Kyle	\$244,990 - \$325,000

There can be no assurances that other similar single-family residential projects will not be developed in the future or that existing projects will not be upgraded or otherwise able to compete with the Development. For more information on competitive projects, see "APPENDIX F — Appraisal of the District – Residential Market Analysis – Competitive Market Overview."

Commercial, Industrial/Business Park and Multi-family. Typically, the demand for commercial, industrial and multi-family development follows development of single-family residential, as demand increases due to population growth. The competitive position of the Developer or of any purchaser of commercial, industrial, business park, multi-family or mixed-use land within the District in the sale or lease of developed lots or the construction and sale of multifamily residential units, as applicable, 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. None of the Developer, the City, the City's Financial Advisor or the Underwriter can give any assurance that the building programs of the

commercial, industrial, business park, multi-family or mixed-use development within the District which are planned will ever commence or be completed in accordance with the Developer's expectations.

The following table shows the retail, office, industrial and multi-family land market analysis for the San Marcos – Kyle market, as shown in the Appraisal.

<u>Market</u>	<u>Inventory</u>	<u>Average Annual Market Rental</u>	<u>Average Vacancy Rate</u>	<u>Projects Under Construction</u>	<u>Projected 12 Month Absorption</u>	<u>Market Outlook</u>
Retail	5.1 million Sq. Ft.	\$23.48 per Sq. Ft.	3.5%	19,900 Sq. Ft.	162,000 Sq. Ft.	Strong and improving
Office	1.4 million Sq. Ft.	\$25.83 per Sq. Ft.	11.6%	82,600 Sq. Ft.	-3,500 Sq. Ft.	Strong with growth opportunities
Industrial	1.8 million Sq. Ft.	\$9.12 per Sq. Ft.	9.5%	113,000 Sq. Ft.	-12,300 Sq. Ft.	Equilibrium and stable with growth opportunities
Multi-Family	9,774 units	\$1,043 per unit	6.5%	266 units	205 units	Healthy

There can be no assurances that projects similar to the Development will not be developed in the future or that existing projects will not be upgraded or otherwise able to compete with the Development. For more information on competitive projects, see "APPENDIX F — Appraisal of the District – Commercial/Industrial/Multi-Family Land Market Analysis."

Loss of Tax Exemption

The Indenture will contain 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.

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

Bankruptcy

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

Direct and Overlapping Indebtedness, Assessments and Taxes

The ability of an owner of property within 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 property owners to pay the Assessments.

Depletion of Reserve Account of the 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 Account 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 Account of the Reserve Fund. The Indenture will provide that if, after a withdrawal from the Reserve Account of the Reserve Fund, the amount in the Reserve Account of the Reserve Fund is less than the Reserve Account Requirement, the Trustee shall transfer an amount from the Pledged Revenue Fund to the Reserve Account of the Reserve Fund sufficient to cure such deficiency, as described under “SECURITY FOR THE BONDS — Reserve Account of the 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 consider 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.

See “THE DEVELOPMENT — Environmental” for discussion of a Phase One ESA performed on the property within the District.

Regulation

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

100-Year Flood Plain

Approximately 35 acres within the District is located within an official FEMA 100-year flood plain as shown on the current Federal Emergency Management Agency’s Flood Insurance Rate Map Community Panel No. 48209C0392G (the “Flood Plain”). All the lands identified to be within the developed floodplain will be located within dedicated open space, park or drainage easements. The City will not allow occupied structures to be developed within the floodplain.

Additionally, FEMA will from time to time revise its Flood Insurance Rate Maps. None of the City, the Underwriter, or the Developer make any representation as to whether FEMA may revise its Flood Insurance Rate Maps, whether such revisions may result in homes that are currently outside of the 100-year flood plain from being included in the 100-year flood plain in the future, or whether extreme flooding events may exceed the Flood Plain.

Risk from Weather Events

All of the State, including the City, is subject to extreme weather events that can cause loss of life and damage to property through weather events that include strong winds, flooding and heavy rains. It is impossible to predict such weather events and the impact they may have on the City, including land within the District.

Exercise of Mineral Rights

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

The Developer does not expect the existence or exercise of any mineral rights or related real property rights in or around the District to have a material adverse effect on the Development, the property within the District, or the ability of landowners within the District to pay Assessments. However, the Developer provides no representations, warranties or other assurances with respect to the existence or exercise of any mineral rights or related real property rights in or around the District. Furthermore, none of the City, the Financial Advisor, or the Underwriter provide any assurances as to such Developer expectations.

Bondholders’ Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds or the occurrence of any other Event of Default under the Indenture, and upon the written request of at least 25 percent of the owners of the Bonds then Outstanding, 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 City’s obligations under the Bonds or the Indenture and such obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so 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 City. In this regard, should the City file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the City to seek judicial foreclosure of its Assessment Lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See “BONDHOLDERS’ RISKS — Bankruptcy Limitation to Bondholders’ Rights” herein.

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

In addition, in 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“Tooke”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In Tooke, the Court noted the enactment in 2005 of sections

271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W.3d 427 (Tex. 2016) (“Wasson”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources.” While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed Wasson for a second time and issued an opinion on October 5, 2018 clarifying that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory and common law guidance at the time of inception of the contractual relationship. Texas jurisprudence has generally held that proprietary functions are those conducted by a city in its private capacity, for the benefit only of those within its corporate limits, and not as an arm of the government or under authority or for the benefit of the State; these are usually activities that can be, and often are, provided by private persons, and therefore are not done as a branch of the State, and do not implicate the state’s immunity since they are not performed under the authority, or for the benefit, of the State as sovereign. Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgement, is justiciable against a municipality.

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

Judicial Foreclosures

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

within two years of foreclosure for residential and agricultural use property and six months for other property, and by a time-consuming and expensive collection procedure.

No Acceleration

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

Limited Secondary Market for the Bonds

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

No Credit Rating

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

Bankruptcy Limitation to Bondholders' Rights

The enforceability of the rights and remedies of the owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. The City is authorized under State 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 State 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 projects comparable to the Development.

General Risks of Real Estate Investment and Development

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

The ability of builders to sell or lease retail space, commercial space and apartment units to maximum occupancy levels within the District may be affected by unforeseen changes in the general economic conditions, fluctuations in the real estate market and other factors beyond the control of the owner of the retail space, commercial space, or multi-family apartments. In the event that a large number of rental, commercial or multi-family projects are constructed outside of the District, and compete with the Development, the demand for residential housing and commercial properties within the District could be reduced, thereby adversely affecting the continued development of the Development, or its attraction to businesses and residents.

Investments in undeveloped or developing real estate are generally considered to be speculative in nature and to involve a high degree of risk. The Development will be subject to the risks generally incident to real estate investments and development. Many factors that may affect the Development, including the schedule for and/or the costs of the Major Improvements and the Additional Improvements, as well as the operating revenues of the Developer, including those derived from the Development, are not within the control of the Developer. Such factors include changes in national, regional and local economic conditions; changes in long and short term interest rates; changes in the climate for real estate purchases; changes in demand for or supply of competing properties; changes in local, regional and national market and economic conditions; unanticipated development costs, market preferences and architectural trends; unforeseen environmental risks and controls; the adverse use of adjacent and neighboring real estate; changes in interest rates and the availability of mortgage funds to buyers of the homes to be built in the Development, which may render the sale of such homes difficult or unattractive; acts of war, terrorism or other political instability; delays or inability to obtain governmental approvals; changes in laws; moratorium; acts of God (which may result in uninsured losses); strikes; labor shortages; energy shortages; material shortages; inflation; adverse weather conditions; contractor or subcontractor defaults; and other unknown contingencies and factors beyond the control of the Developer. Furthermore, the operating revenues of the Developer may be materially adversely affected if specific conditions in the land purchase contracts are not met. Failure to meet the land purchase contract's conditions allows the applicable purchaser to terminate its obligation to purchase land from the Developer and obtain its earnest money deposit back. See “THE DEVELOPMENT” herein.

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

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

Use of Appraisal

Caution should be exercised in the evaluation and use of appraisal results. An appraisal is an estimate of market value as of a specified date based upon assumptions and limiting conditions and any extraordinary assumptions specific to the relevant valuation. It is not a precise measure of value but is based on a subjective comparison of related activity taking place in the real estate market. The valuation set forth in an appraisal is based on various assumptions of future expectations and while the appraiser's forecasts for properties in the District is considered to be reasonable at the current time, some of the assumptions may not materialize or may differ materially from actual experience in the future. The Bonds will not necessarily trade at values determined solely by reference to the underlying value of the properties in the District.

In performing its analyses, an appraiser makes numerous assumptions with respect to general business, economic and regulatory conditions and other matters, many of which are beyond the appraiser's, underwriter's and City's control, as well as to certain factual matters. Furthermore, the appraiser's analysis, opinions and conclusions are necessarily based upon market, economic, financial and other circumstances and conditions existing prior to the valuation.

The effective date of the Appraisal is February 4, 2020. In developing the opinion of the market value of the District, as of the effective date of Appraisal, the most recent available market data was incorporated. Post the effective date of the Appraisal, on March 11, 2020, the World Health Organization characterized COVID-19 as a pandemic. In light of the increasing volume of negative global economic news resulting from the impacts from COVID-19, it is possible that at some point in the near the future there may be some degree of influence or impact on property values in the Central Texas real estate market. See "BONDHOLDERS' RISKS — Infectious Disease Outbreak."

Availability of Utilities

The progress of development within the District is also dependent upon the City and Maxwell WSC providing an adequate supply of water and sufficient capacity for the collection and treatment of wastewater. If the City or Maxwell WSC fail to supply water and wastewater services to the property in the District, the development of the land in the District could be adversely affected. See "THE DEVELOPMENT — Utilities."

Dependence Upon Developer and Other Landowners

As of May 1, 2020, the Developer, 135 Residential, Whisper Industrial and Yarrington had the obligation for payment of approximately 63%, 20%, 2%, and 15% of the total Assessments, respectively. Although no assurances can be given, the Developer expects that the Homebuilders will begin to take down lots within the District in June of 2020 and the Multi-family Builders will purchase their contracted land in the fourth quarter of 2020. The ability of the Developer, 135 Residential, Whisper Industrial, Yarrington, the Homebuilders and the Multi-family Builders 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 sole assets of the Developer are land within the District, related permits and development rights and minor operating accounts. There can be no assurances given as to the financial ability of the Developer to advance any funds to the City to supplement revenues from the Assessments if necessary, or as to whether the Developer will advance such funds. See "THE DEVELOPER — Description of the Developer."

Chapter 11 Bankruptcy of a Development Entity Managed by Robert W. McDonald, III

On December 2, 2019, Blanco Riverwalk Business Park, LLC ("Blanco Riverwalk"), a single-purpose development entity created to develop the Blanco River Business Park (the "Blanco Project") in the City, filed Chapter 11 Bankruptcy in the Western District of Texas. Robert W. McDonald, III, the Managing Director of McDonald Development and the Developer, is a "Manager" and minority "Member" of Blanco Riverwalk. The Blanco Project was not initiated or commenced by Robert W. McDonald, III. Rather, Mr. McDonald came to be the Manager and minority Member of Blanco Riverwalk after the Blanco Project was already constructed. A number of the original membership owners of Blanco Riverwalk were unwilling to provide additional capital in response to capital calls to

cover Blanco Riverwalk's indebtedness related to the Blanco Project, which resulted in Blanco Riverwalk filing for Chapter 11 bankruptcy.

Blanco Riverwalk is not the Developer or an affiliate of the Developer and does not own an interest in the Developer or any of the Developer's affiliates.

Agricultural Use Valuation and Redemption Rights

Approximately 82% of the total area of the property in the District is currently entitled to valuation for ad valorem tax purposes based upon its agricultural use. The Developer expects that property will be removed from agricultural valuation as development progresses. Under State law, an owner of land that is entitled to an agricultural valuation has the right to redeem such property after a tax sale for a period of two years after the tax sale by paying to the tax sale purchaser a 25% premium, if redeemed during the first year, or a 50% premium, if redeemed during the second year, over the purchase price paid at the tax sale and certain qualifying costs incurred by the purchaser. Although Assessments are not considered a tax under State law, the PID Act provides that the lien for Assessments may be enforced in the same manner as a lien for ad valorem taxes. This shared enforcement mechanism raises a possibility that the right to redeem agricultural valuation property may be available following a foreclosure of a lien for Assessments, though there is no indication in State law that such redemption rights would be available in such a case.

Prior to the closing of the Bonds, the AG Landowners will execute the Agreement Regarding Waiver of Right of Redemption and Waiver of Agricultural Valuation (a "Redemption Waiver Agreement") with the City and the Trustee, (when acting in such capacity, the "Escrow Agent"), covering the portion of the property within the District subject to the agricultural valuation, pursuant to which each AG Landowner will waive its right to redeem any agricultural valuation property and will require any subsequent purchaser to execute a similar waiver. In addition, each AG Landowner will deliver, and require any subsequent purchaser to deliver, into escrow with the Escrow Agent a waiver of open-space agricultural valuation, which the Escrow Agent will receive written direction to release the waiver to the City for filing with the Hays County Tax Assessor/Collector in the event that an owner has not paid ad valorem taxes or the Assessments due in respect of agricultural valuation property resulting in foreclosure, sale, transfer or conveyance of such property. The Redemption Waiver Agreement will be enforceable by the Escrow Agent on behalf of the Owners of the Bonds. Although the Redemption Waiver Agreement is intended to protect the City and the bondholders against potential redemption rights of the AG Landowners in the context of a foreclosure proceeding, because there is currently no case law with respect to waiver of redemption rights or an agricultural valuation, it is unclear whether the Redemption Waiver Agreement is enforceable under State law.

Because the enforceability of the Redemption Waiver Agreement is not certain, as additional protection against the occurrence of a tax sale for non-payment of ad valorem taxes and the associated risk of redemption rights arising, prior to delivery of the Bonds, each AG Landowner will pay to the Escrow Agent to be deposited into the Developer Property Tax Reserve Fund an amount equal to the estimated ad valorem taxes assessed against such AG Landowner's agricultural valuation property due in the years 2019 and 2020 (collectively, the "Initial Landowner Deposit"). Such funds will be held by the Escrow Agent and used to pay delinquent ad valorem taxes on agricultural valuation property and thereby potentially avoid the possibility of a sale for non-payment of ad valorem taxes and the associated risk of redemption rights arising. So long as an AG Landowner owns property in the District that is entitled to valuation based on its agricultural use, in the event a portion of the Initial Landowner Deposit is used to pay delinquent ad valorem taxes, the applicable AG Landowner will be required to deposit additional funds with the Escrow Agent to be held in the Developer Property Tax Reserve Fund in an amount that will cause such AG Landowner's total deposit (less any funds delivered to the City) to the Developer Property Tax Reserve Fund to equal their portion of the Initial Landowner Deposit, all in accordance with the Redemption Waiver Agreement. A proportionate amount of such deposit will be returned to the applicable AG Landowner upon termination of the agricultural valuation.

TAX MATTERS

Opinion

On the date of initial delivery of the Bonds, McCall, Parkhurst & Horton L.L.P., Bond Counsel to the City, will render its opinion that, in accordance with statutes, regulations, published rulings and court decisions existing on the date thereof (“Existing Law”), (1) interest on the Bonds for federal income tax purposes will be excludable from the “gross income” of the holders thereof and (2) the Bonds will not be treated as “specified private activity bonds” the interest on which would be included as an alternative minimum tax preference item under section 57(a)(5) of the Internal Revenue Code of 1986 (the “Code”). Except as stated above, Bond Counsel to the City will express no opinion as to any other federal, state or local tax consequences of the purchase, ownership or disposition of the Bonds. See “APPENDIX D — Form of Opinion of Bond Counsel.”

In rendering its opinion, Bond Counsel to the City will rely upon (a) the City’s federal tax certificate and (b) covenants of the City with respect to arbitrage, the application of the proceeds to be received from the issuance and sale of the Bonds and certain other matters. Failure of the City to comply with these representations or covenants could cause the interest on the Bonds to become includable in gross income retroactively to the date of issuance of the Bonds.

The Code and the regulations promulgated thereunder contain a number of requirements that must be satisfied subsequent to the issuance of the Bonds in order for interest on the Bonds to be, and to remain, excludable from gross income for federal income tax purposes. Failure to comply with such requirements may cause interest on the Bonds to be included in gross income retroactively to the date of issuance of the Bonds. The opinion of Bond Counsel to the City is conditioned on compliance by the City with the covenants and the requirements described in the preceding paragraph, and Bond Counsel to the City has not been retained to monitor compliance with these requirements subsequent to the issuance of the Bonds.

Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the reliance on the aforementioned information, representations and covenants. Bond Counsel’s opinion is not a guarantee of a result. The Existing Law is subject to change by the Congress and to subsequent judicial and administrative interpretation by the courts and the Department of the Treasury. There can be no assurance that such Existing Law or the interpretation thereof will not be changed in a manner which would adversely affect the tax treatment of the purchase, ownership or disposition of the Bonds.

A ruling was not sought from the Internal Revenue Service by the City with respect to the Bonds or the facilities financed or refinanced with the proceeds of the Bonds. Bond Counsel’s opinion represents its legal judgment based upon its review of Existing Law and the representations of the City that it deems relevant to render such opinion and is not a guarantee of a result. No assurances can be given as to whether the Internal Revenue Service will commence an audit of the Bonds, or as to whether the Internal Revenue Service would agree with the opinion of Bond Counsel. If an audit is commenced, under current procedures the Internal Revenue Service is likely to treat the City as the taxpayer and the Bondholders may have no right to participate in such procedure. No additional interest will be paid upon any determination of taxability.

Federal Income Tax Accounting Treatment of Original Issue Discount

The initial public offering price to be paid for one or more maturities of the Bonds may be less than the principal amount thereof or one or more periods for the payment of interest on the Bonds may not be equal to the accrual period or be in excess of one year (the “Original Issue Discount Bonds”). In such event, the difference between (i) the “stated redemption price at maturity” of each Original Issue Discount Bond, and (ii) the initial offering price to the public of such Original Issue Discount Bond would constitute original issue discount. The “stated redemption price at maturity” means the sum of all payments to be made on the Bonds less the amount of all periodic interest payments. Periodic interest payments are payments which are made during equal accrual periods (or during any unequal period if it is the initial or final period) and which are made during accrual periods which do not exceed one year.

Under Existing Law, any owner who has purchased such Original Issue Discount Bond in the initial public offering is entitled to exclude from gross income (as defined in section 61 of the Code) an amount of income with respect to such Original Issue Discount Bond equal to that portion of the amount of such original issue discount allocable to the accrual period. For a discussion of certain collateral federal tax consequences, see discussion set forth below.

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

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

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

Collateral Federal Income Tax Consequences

The following discussion is a summary of certain collateral federal income tax consequences resulting from the purchase, ownership or disposition of the Bonds. This discussion is based on Existing Law, which is subject to change or modification, retroactively.

The following discussion is applicable to investors, other than those who are subject to special provisions of the Code, such as financial institutions, property and casualty insurance companies, life insurance companies, individual recipients of Social Security or Railroad Retirement benefits, individuals allowed an earned income credit, certain S corporations with Subchapter C earnings and profits, foreign corporations subject to the branch profits tax, taxpayers qualifying for the health insurance premium assistance credit, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase tax-exempt obligations.

THE DISCUSSION CONTAINED HEREIN MAY NOT BE EXHAUSTIVE. INVESTORS, INCLUDING THOSE WHO ARE SUBJECT TO SPECIAL PROVISIONS OF THE CODE, SHOULD CONSULT THEIR OWN TAX ADVISORS AS TO THE TAX TREATMENT WHICH MAY BE ANTICIPATED TO RESULT FROM RECENTLY ENACTED LEGISLATION OR THE PURCHASE, OWNERSHIP AND DISPOSITION OF TAX-EXEMPT OBLIGATIONS BEFORE DETERMINING WHETHER TO PURCHASE THE BONDS.

Under section 6012 of the Code, holders of tax-exempt obligations, such as the Bonds, may be required to disclose interest received or accrued during each taxable year on their returns of federal income taxation.

Section 1276 of the Code provides for ordinary income tax treatment of gain recognized upon the disposition of a tax-exempt obligation, such as the Bonds, if such obligation was acquired at a "market discount" and if the fixed maturity of such obligation is equal to, or exceeds, one year from the date of issue. Such treatment applies to "market discount Bonds" to the extent such gain does not exceed the accrued market discount of such Bonds;

although for this purpose, a de minimis amount of market discount is ignored. A “market discount bond” is one which is acquired by the holder at a purchase price which is less than the stated redemption price at maturity or, in the case of a bond issued at an original issue discount, the “revised issue price” (i.e., the issue price plus accrued original issue discount). The “accrued market discount” is the amount which bears the same ratio to the market discount as the number of days during which the holder holds the obligation bears to the number of days between the acquisition date and the final maturity date.

State, Local and Foreign Taxes

Investors should consult their own tax advisors concerning the tax implications of the purchase, ownership or disposition of the Bonds under applicable state or local laws. Foreign investors should also consult their own tax advisors regarding the tax consequences unique to investors who are not United States persons.

Information Reporting and Backup Withholding

Subject to certain exceptions, information reports describing interest income, including original issue discount, with respect to the Bonds will be sent to each registered holder and to the Internal Revenue Service. Payments of interest and principal may be subject to backup withholding under section 3406 of the Code if a recipient of the payments fails to furnish to the payor such owner’s social security number or other taxpayer identification number (“TIN”), furnishes an incorrect TIN, or otherwise fails to establish an exemption from the backup withholding tax. Any amounts so withheld would be allowed as a credit against the recipient’s federal income tax. Special rules apply to partnerships, estates and trusts, and in certain circumstances, and in respect of Non-U.S. Holders, certifications as to foreign status and other matters may be required to be provided by partners and beneficiaries thereof.

Future and Proposed Legislation

Tax legislation, administrative actions taken by tax authorities, or court decisions, whether at the Federal or state level, may adversely affect the tax-exempt status of interest on the Bonds under Federal or state law and could affect the market price or marketability of the Bonds. Any such proposal could limit the value of certain deductions and exclusions, including the exclusion for tax-exempt interest. The likelihood of any such proposal being enacted cannot be predicted. Prospective purchasers of the Bonds should consult their own tax advisors regarding the foregoing matters.

LEGAL MATTERS

Legal Proceedings

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

McCall, Parkhurst & Horton L.L.P., serves as Bond Counsel to the City. Orrick, Herrington & Sutcliffe LLP serves as Underwriter’s Counsel. The legal fees paid to Bond Counsel and Underwriter’s Counsel are contingent upon the sale and delivery of the Bonds.

Legal Opinions

The City will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and binding special obligations of the City. The City will also furnish the legal opinion of Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special obligations of the City under the Constitution and laws of the State. The legal opinion of Bond Counsel will further

state that the Bonds, including principal of and interest thereon, are payable from and secured by a pledge of and lien on the Trust Estate. Bond Counsel will also provide a legal opinion to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described above under the caption “TAX MATTERS,” including the alternative minimum tax consequences for corporations. A copy of the opinion of Bond Counsel is attached hereto as “APPENDIX D — Form of Opinion of Bond Counsel.”

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

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

Litigation — The City

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

Litigation — The Developer

At the time of delivery and payment for the Bonds, 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 or operations of the Developer or its general partner or would adversely affect (1) the transactions contemplated by, or the validity or enforceability of, the Bonds, the Indenture, the Bond Ordinance, the Service and Assessment Plan, the Reimbursement Agreement, the Financing Agreement, or the Bond Purchase Agreement, or otherwise described in this Limited Offering Memorandum, or (2) the tax-exempt status of interest on the Bonds (individually or in the aggregate, a “Material Adverse Effect”).

SUITABILITY FOR INVESTMENT

Investment in the Bonds poses certain economic risks. See “BONDHOLDERS’ RISKS.” The Bonds are not rated by any nationally recognized municipal securities rating service. No dealer, broker, salesman or other person has been authorized by the City or the Underwriter to give any information or make any representations, other than those contained in this Limited Offering Memorandum, and, if given or made, such other information or representations must not be relied upon as having been authorized by either of the foregoing. Additional information will be made available to each prospective investor, including the benefit of a site visit to the City and the opportunity to ask questions of the Developer, as such prospective investor deems necessary in order to make an informed decision with respect to the purchase of the Bonds.

ENFORCEABILITY OF REMEDIES

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

NO RATING

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

CONTINUING DISCLOSURE

The City

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

The City has agreed to update information and to provide notices of certain specified events only as provided in the Disclosure Agreement of the Issuer. The City has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of the Issuer. The City makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The City disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of the Issuer or from any statement made pursuant to the Disclosure Agreement of the Issuer.

The City Compliance with Prior Undertakings

Except as hereinafter described, during the last five years, the City has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule. On December 15, 2015 the City's Electric Revenue Bonds were upgraded by S&P. The upgrade notices were filed on February 10, 2016. The City provided its Monthly Water Rates and Monthly Wastewater System Rates in its annual filings, however the City's Sewer Surcharge Rate is not included in their financial reports but is publicly available on their website. In fiscal years 2014 and 2018, the City filed a draft of their CAFR by the required date to satisfy its continuing disclosure agreements. However, it was discovered that the draft copy for fiscal year 2014 and 2018 did not contain all of the required tables. The City provided this information when it filed its final CAFR on April 24, 2015 and April 11, 2019. A late notice for these tables was filed on April 25, 2019.

The Developer

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

The Developer has agreed to (i) prepare and provide certain updated information in report form to the Dissemination Agent and (ii) provide notices of certain specified events, only as provided in the Disclosure Agreement of the Developer. The Developer has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of the Developer. The Developer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The Developer disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of the Developer or from any statement made pursuant to the Disclosure Agreement of the Developer.

The Developer's Compliance With Prior Undertakings

The Developer has not previously entered into any continuing disclosure agreements related to the issuance of public securities.

Yarrington

Yarrington, the PID Administrator and the Dissemination Agent will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement of Yarrington") for the benefit of the Owners of the Bonds (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement of Yarrington, certain information regarding the Yarrington Land (the "Yarrington Reports"). The specific nature of the information to be contained in the Yarrington Reports is set forth in "APPENDIX E-3 — Form of Disclosure Agreement of Yarrington." Under certain circumstances, the failure of Yarrington to comply with its obligations under the Disclosure Agreement of Yarrington constitutes an event of default thereunder. Such a default will not constitute an event of default under the Indenture, but such event of default under the Disclosure Agreement of Yarrington would allow the Owners of the Bonds (including owners of beneficial interests in the Bonds) to bring an action for specific performance.

Yarrington has agreed to (i) prepare and provide certain updated information in report form to the Dissemination Agent and (ii) provide notices of certain specified events, only as provided in the Disclosure Agreement

of Yarrington. Yarrington has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of Yarrington. The Developer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. Yarrington disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of Yarrington or from any statement made pursuant to the Disclosure Agreement of Yarrington.

Yarrington's Compliance With Prior Undertakings

Yarrington has not previously entered into any continuing disclosure agreements related to the issuance of public securities.

135 Residential

135 Residential, the PID Administrator and the Dissemination Agent will enter into a Continuing Disclosure Agreement (the "Disclosure Agreement of 135 Residential") for the benefit of the Owners of the Bonds (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement of 135 Residential, certain information regarding the Single-Family Parcel (the "135 Residential Reports"). The specific nature of the information to be contained in the 135 Residential Reports is set forth in "APPENDIX E-4 — Form of Disclosure Agreement of 135 Residential." Under certain circumstances, the failure of 135 Residential to comply with its obligations under the Disclosure Agreement of 135 Residential constitutes an event of default thereunder. Such a default will not constitute an event of default under the Indenture, but such event of default under the Disclosure Agreement of 135 Residential would allow the Owners of the Bonds (including owners of beneficial interests in the Bonds) to bring an action for specific performance.

135 Residential has agreed to (i) prepare and provide certain updated information in report form to the Dissemination Agent and (ii) provide notices of certain specified events, only as provided in the Disclosure Agreement of 135 Residential. 135 Residential has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of 135 Residential. The Developer makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. 135 Residential disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of 135 Residential or from any statement made pursuant to the Disclosure Agreement of 135 Residential.

135 Residential's Compliance With Prior Undertakings

135 Residential has not previously entered into any continuing disclosure agreements related to the issuance of public securities.

UNDERWRITING

FMSbonds, Inc. (the "Underwriter") has agreed to purchase the Bonds from the City at a purchase price of \$_____ (the par amount of the Bonds, less an underwriting discount of \$_____). 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 inside cover page hereof, and such initial offering prices may be changed from time to time by the Underwriter.

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

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

The PID Act and Section 1201.041 of the Public Security Procedures Act (Chapter 1201, Texas Government Code, as amended) provide that the Bonds are negotiable instruments and investment securities governed by Chapter 8, Texas Business and Commerce Code, as amended, and are legal and authorized investments for insurance companies, fiduciaries, trustees, or for the sinking funds of municipalities or other political subdivisions or public agencies of the State. With respect to investment in the Bonds by municipalities or other political subdivisions or public agencies of the State, the PFIA requires that the Bonds be assigned a rating of at least “A” or its equivalent as to investment quality by a national rating agency. See “NO RATING” above. In addition, the PID Act and various provisions of the Texas Finance Code provide that, subject to a prudent investor standard, the Bonds are legal investments for state banks, savings banks, trust companies with capital of one million dollars or more, and savings and loan associations. The Bonds are eligible to secure deposits of any public funds of the State, its agencies, and its political subdivisions, and are legal security for those deposits to the extent of their market value. No review by the City has been made of the laws in other states to determine whether the Bonds are legal investments for various institutions in those states. 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

Under State law, the City is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letters of credit, of the United States or its agencies and instrumentalities, including the Federal Home Loan Banks; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations 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 or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) interest-bearing banking deposits other than those described by clause (7) if (A) the funds invested in the banking deposits are invested through: (i) a broker with a main office or branch office in this state that the City selects from a list the governing body or designated investment committee of the City adopts as required by Section 2256.025, Texas Government Code; or (ii) a depository institution with a main office or branch office in this state that the City selects; (B) the broker or depository institution selected as described by (A) above arranges for the deposit of the funds in the banking deposits in one or more federally insured depository institutions, regardless of where located, for the City’s account; (C) the full amount of the principal and accrued interest of the banking deposits is insured by the United States or an instrumentality of the United States; and (D) the City appoints as the City’s custodian of the banking deposits issued for the City’s account: (i) the depository institution selected as described by (A) above; (ii) an entity described by Section 2257.041(d), Texas Government Code; or (iii) a clearing broker dealer registered with the SEC

and operating under SEC Rule 15c3-3; (9) (i) certificates of deposit or share certificates meeting the requirements of the PFIA that are issued by an institution that has its main office or a branch office in the State and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or their respective successors, or are secured as to principal by obligations described in clauses (1) through (8) or in any other manner and provided for by law for City deposits, or (ii) certificates of deposits where (a) the funds are invested by the City through (A) a broker that has its main office or a branch office in the State and is selected from a list adopted by the City as required by law, or (B) a depository institution that has its main office or branch office in the State that is selected by the City, (b) the broker or the depository institution selected by the City arranges for the deposit of the funds in certificates of deposit in one or more federally insured depository institutions, wherever located, for the account of the City, (c) the full amount of the principal and accrued interest of each of the certificates of deposit is insured by the United States or an instrumentality of the United States, and (d) the City appoints the depository institution selected under (a) above, a custodian as described by Section 2257.041(d) of the Texas Government Code, or a clearing broker-dealer registered with the SEC and operating pursuant to SEC Rule 15c3-3 (17 C.F.R. Section 240.15c3-3) as custodian for the City with respect to the certificates of deposit; (10) fully collateralized repurchase agreements that have a defined termination date, are secured by a combination of cash and obligations described in clause (1) above, clause (12) below, require the securities being purchased by the City or cash held by the City to be pledged to the City, held in the City's name, and deposited at the time the investment is made with the City or with a third party selected and approved by the City, and are placed through a primary government securities dealer, as defined by the Federal Reserve, or a financial institution doing business in the State; (11) certain bankers' acceptances with 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; (12) commercial paper with a stated maturity of 365 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; (13) no-load money market mutual funds registered with and regulated by the United States SEC that provide the City with a prospectus and other information required by the Securities Exchange Act of 1934 or the Investment Company Act of 1940 and that comply with federal SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7), promulgated under the Investment Company Act of 1940 (15 U.S.C. Section 80a-1 et seq.); and (14) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. In addition, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations, including letters of credit, of the United States or its agencies and instrumentalities, other than the prohibited obligations described below, in an amount at least equal to the amount of bond proceeds invested under such contract and are pledged to the City and deposited with the City or a third party selected and approved by the City.

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 "AAAm" 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 ten (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 (8) above, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm at not less than "A" or its equivalent or (c) cash invested in obligations described in clauses (1) through (8) above, clauses (12) through (14) above, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the City's name 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; and (iv) the agreement to lend securities has a term of one year or less.

Under State law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that include a list of authorized investments for City funds, 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 fund's investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under State law, the City's 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 City's investment officers must submit an investment report to the City Council detailing: (1) the investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset at the 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 strategies and (b) State law. No person may invest City funds without express written authority from the City Council.

Under State law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt by written instrument 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 City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the qualified representative of firms offering to engage in an investment transaction with 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 entity's entire portfolio, requires an interpretation of subjective investment standards or relates to investment transactions of the entity that are not made through accounts or other contractual arrangements over which the business organization has accepted discretionary investment authority), and (c) deliver a written statement in a form acceptable to the City and the business organization attesting to these requirements; (5) in conjunction with its annual financial audit, perform a compliance 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 ninety (90) days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse purchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15 percent of the City'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.

INFORMATION RELATING TO THE TRUSTEE

The City has appointed UMB Bank, N.A., a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Limited Offering

Memorandum and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Limited Offering Memorandum or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

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

Additional information about the Trustee may be found at its website at www.umb.com. Neither the information on the Trustee's website, nor any links from that website, is a part of this Limited Offering Memorandum, nor should any such information be relied upon to make investment decisions regarding the Bonds.

SOURCES OF INFORMATION

General

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

Developer

The information contained in this Limited Offering Memorandum relating to the description of the Major Improvements generally and, in particular, the information included in the maps in the Limited Offering Memorandum and in the sections captioned "PLAN OF FINANCE — Development Plan," "— Status of Major Improvements and Lot Development," "— Homebuilders and Status of Home Construction" and "— Status of Multi-family, Industrial/Business Park and General Commercial," "THE AUTHORIZED IMPROVEMENTS," "THE DEVELOPMENT," and "THE DEVELOPER," and, to the best of its knowledge after due inquiry, under the captions "BONDHOLDERS' RISKS" (only as it pertains to the Developer, the Major Improvements and the Development), "LEGAL MATTERS — Litigation — The Developer," "CONTINUING DISCLOSURE — The Developer" and "— The Developer's Compliance with Prior Undertakings," "APPENDIX E-2" and "APPENDIX G" has been provided by the Developer, and the Developer warrants and represents that the information contained herein is true and correct and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made herein, in the light of the circumstances under which they were made, not misleading. At the time of delivery of the Bonds to the Underwriter, the Developer will deliver a certificate to this effect to the City and the Underwriter.

Experts

The information regarding the Service and Assessment Plan in this Limited Offering Memorandum has been provided by P3Works, LLC and has been included in reliance upon the authority of such firm as experts in the field of assessment allocation/methodology and district administration

The information regarding the Appraisal in this Limited Offering Memorandum has been provided by Flato Realty Advisors, LLC and has been included in reliance upon the authority of such firm as experts in the field of the appraisal of real property. Flato Realty Advisors, LLC has consented to the inclusion of the Appraisal herein.

Updating of Limited Offering Memorandum

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

FORWARD-LOOKING STATEMENTS

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

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

AUTHORIZATION AND APPROVAL

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

CITY OF SAN MARCOS, TEXAS

Mayor

ATTEST:

City Clerk

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been provided for informational purposes only.

The City is the county seat and principal commercial, education and recreational center of Hays County located in the center of the State in the Austin-San Marcos statistical metropolitan area, approximately midway between the metropolitan areas of San Antonio and Austin. The City is located on Interest Highway 35, U.S. 81, State Highways 80, 142, 21, 123 and Ranch Road 12. The City contains a total land area of approximately 32 square miles. The City's 2010 census population was 44,994. The City's 2019 population estimate was 65,234.

The City is a political subdivision operating as a home-rule city under the laws of the State and a home-rule charter, initially approved by the votes in 1967. The City operates under the City Council/Manager form of government where the Mayor is elected at-large in even numbered years for a two-year term and six Council Members are elected at-large for staggered three-year terms. The City Council formulates operating policy for the City while the City Manager is the chief administration officer.

THE CITY

Historical Employment in the City (Average Annual)

The City of San Marcos

	Average Annual ⁽¹⁾				
	2020 ⁽²⁾	2019	2018	2017	2016
Civilian Labor Force	33,713	33,672	33,107	32,227	31,238
Total Employed	32,412	32,631	32,028	31,122	30,101
Total Unemployed	1,301	1,041	1,079	1,105	1,137
Unemployment Rate	3.9%	3.1%	3.3%	3.4%	3.6%

⁽¹⁾ Source: Texas Workforce Commission.

⁽²⁾ Source: Data through March 2020.

Ten Largest Employers in the City (2019)

The ten largest employers in the City are set forth in the table below. **[City to review]**

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
Texas State University	Education	3,730
Amazon	Distribution Center	2,200
San Marcos Premium Outlets	Mall	1,600
Tanger Factory Outlets	Mall	1,540
San Marcos CISD	Education	1,400
Hays County	Government	885
City of San Marcos	Government	817
HEB Distribution Center	Distribution Center	750
Central Texas Medical Center	Health Care	675
CFAN	Government	600

Source: City's audited financial statements.

AUSTIN SAN MARCOS - REGIONAL EMPLOYMENT

Surrounding Economic Activity

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

City of Kyle, TX Approximately 5 Miles from San Marcos		City of New Braunfels, TX Approximately 20 Miles from San Marcos		City of Seguin, TX Approximately 25 Miles from San Marcos		City of Schertz, TX Approximately 25 Miles from San Marcos	
Employer	Employees	Employer	Employees	Employer	Employees	Employer	Employees
Hays CISD	2,383	Comal ISD	2,895	Texas Power Systems/CAT	2,190	Schertz/Cibola/UC ISD	1,837
Seton Medical Center Hays	610	Schlitterbahn Water Park	2,100	Continental AG (Motorola)	1,600	Amazon.com	1,256
HEB Plus	208	Wal-Mart Distribution Center	1,250	Seguin ISD	1,130	Sysco Central Texas	815
City of Kyle	198	New Braunfels ISD	1,188	CMC Steel	840	GE Oil Gas	600
Legend Oaks Healthcare	116	City of New Braunfels	812	Tyson Foods	745	FedEx Ground	475
Lowe's	108	Sysco	810	Guadalupe Regional Medical Center	700	Brandt Engineering	437
Warm Springs Rehab Hospital	100	Hunter Industries-Colorado Materials	730	Guadalupe County	595	Visionworks	400
Home Depot	100	Comal County	681	Texas Lutheran University	400	Republic Beverage Company	382
Austin Community College Hays	80	HD Supply	538	HEB	340	HEB Grocery Co.	350
RSI, Inc.	58	Rush Enterprises	518	Wal-Mart Supercenter	300	City of Schertz	341

City of Austin, TX Approximately 30 Miles from San Marcos	
Employer	Employees
State Government	37,890
University of Texas at Austin	23,925
City of Austin	14,038
HEB	13,756
Federal Government	13,000
Dell Computer Corporation	13,000
Austin ISD	11,379
St. David's Healthcare	10,309
Seton Healthcare Network	9,947
Samsung Austin Semiconductor	8,935

City of Bastrop, TX Approximately 40 Miles from San Marcos	
Employer	Employees
Bastrop ISD	1,427
Hyatt Regency Lost Pines Resort	650
Bastrop County	464
MD Anderson Cancer Center	439
HEB	408
Wal-Mart	311
Agilent/Stratagene	306
Bastrop FCI	276
Buc-ee's	169
Bluebonnet Electric Co-Op	168

Source: Municipal Advisory Council of Texas

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APPENDIX B
FORM OF INDENTURE

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APPENDIX C

FORM OF SERVICE AND ASSESSMENT PLAN

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APPENDIX D
FORM OF OPINION OF BOND COUNSEL

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APPENDIX E-1

FORM OF DISCLOSURE AGREEMENT OF THE ISSUER

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APPENDIX E-2

FORM OF DISCLOSURE AGREEMENT OF THE DEVELOPER

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APPENDIX E-3

FORM OF DISCLOSURE AGREEMENT OF YARRINGTON

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APPENDIX E-4

FORM OF DISCLOSURE AGREEMENT OF 135 RESIDENTIAL

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APPENDIX F
APPRAISAL OF THE DISTRICT

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APPENDIX G
FINANCING AGREEMENT

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APPENDIX H
REIMBURSEMENT AGREEMENT