
2007 ANNUAL REPORT

**TAX INCREMENT REINVESTMENT ZONE
NUMBER ONE
TEXAS CITY, TEXAS**



Fiscal Year Ending September 30, 2007

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COMPLIANCE

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CITY OF TEXAS CITY, TEXAS

2007 CITY COMMISSION

Mayor

Hon. Matthew T. Doyle

**Commission
Members**

Hon. Mike Land

Hon. Tommy Clark

Hon. Dee Ann Haney

Hon. Dedrick Johnson

Hon. Donald Singleton

Hon. J.W. Wilson, Jr.

**TAX INCREMENT REINVESTMENT ZONE NUMBER
ONE, CITY OF TEXAS CITY, TEXAS
2007 BOARD OF DIRECTORS**

| | |
|-------------------|---|
| Position 1 | Rick Wilkenfeld, Chair Texas City Designee |
| Position 2 | Clemon P. Prevost College of the Mainland Designee |
| Position 3 | James Torres Texas City Designee |
| Position 4 | Carlos Garza Texas City Designee |
| Position 5 | Chris Doyle Galveston County Designee |
| Position 6 | Doug Hoover Texas City Designee |
| Position 7 | Hon. Stephen Holmes Galveston County Designee |

DESCRIPTION OF ZONE

In accordance with the Tax Increment Financing Act (Chapter 311, Tax Code), Ordinance 06-45 of the City of Texas City, Texas (the “City”) established Reinvestment Zone Number One, City of Texas City, Texas (the “Zone”) on December 20, 2006. The Zone, also known as “The Lago Mar TIRZ”, consists of approximately 3,350 acres located in Galveston County, Texas (the “County”). The Project Plan (the “Plan”) was adopted by City Commission on January 2, 2008 by Ordinance 08-01. In addition to City participation in the Zone, the County and College of the Mainland (the “College”) agreed to participate in the Zone.

To aid and assist in the implementation of the Plan, the City created the Lago Mar Development Authority (the “Authority”), a Local Government Corporation incorporated on August 8, 2007. To further facilitate development within the Zone, the City, the Authority, the TIRZ and Galveston County Municipal Utility District No. 54 (“MUD 54”) entered into an agreement (the “Quad Party Agreement”), effective December 19, 2007, detailing the respective roles and responsibilities of the parties in implementing the Plan. The private sector developer for Lago Mar is Land Tejas Texas City Limited, a Texas Limited Partnership, whose General Partner is Land Tejas Corporation (the “Master Developer”). The Authority and the Master Developer entered into a Master Developer Reimbursement Agreement effective January 3, 2008.

The Zone is situated near the western boundary of Texas City, is bisected by Interstate 45, and at creation was vacant. A map illustrating the location of the Zone within the City follows as Figure 1. Figure 2 depicts the Zone boundary

Figure 1: Location Map



Figure 2: Texas City TIRZ 1 Boundary Map



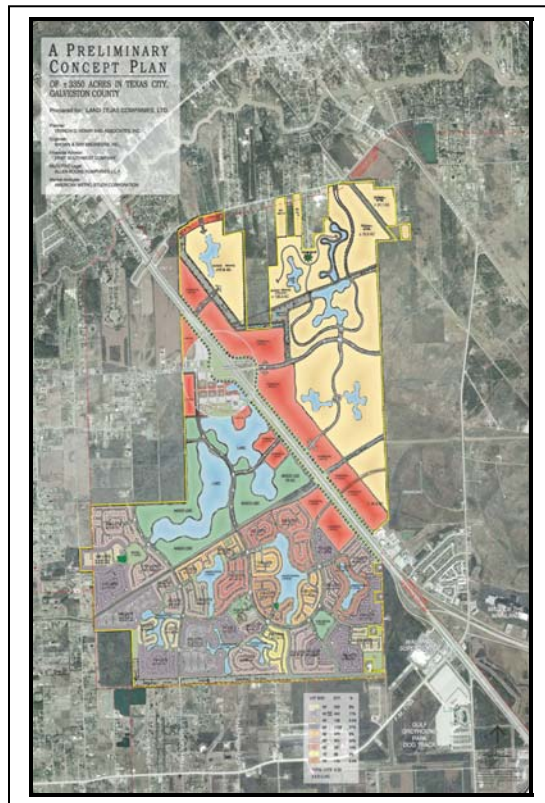
PURPOSE OF ZONE

The purpose of the Zone is to facilitate the development of a quality master-planned community, including a large mixed-use component, with amenities and sustainability that will contribute to the growth of the tax base for the City, the County and the College. The City Commission, in adopting the ordinance creating the Zone, found that the projects described in the Plan provided a focused planning and financing mechanism to promote and monitor this significant development effort to the benefit of all the citizens of the City, individual and corporate, as well as all participating jurisdictions. But for the creation of the Zone and the participating jurisdictions, this area would not likely experience the magnitude of private investment necessary for this property to develop in the proposed manner or to the standards and quality planned in the foreseeable future.

The City Commission further found that improvements in the Zone will enhance the value of all taxable real property within the Zone and will be of general benefit to the City. The methods of financing and the sources of funding available to the Zone, including the participation levels of the entities, are described in the Project Plan.

The Preliminary Concept Plan for Lago Mar Master Planned Community is shown below as Figure 4.

Figure 3: Lago Mar Preliminary Concept Plan



STATE OF THE ZONE AND PLAN IMPLEMENTATION IN 2007

Revenue

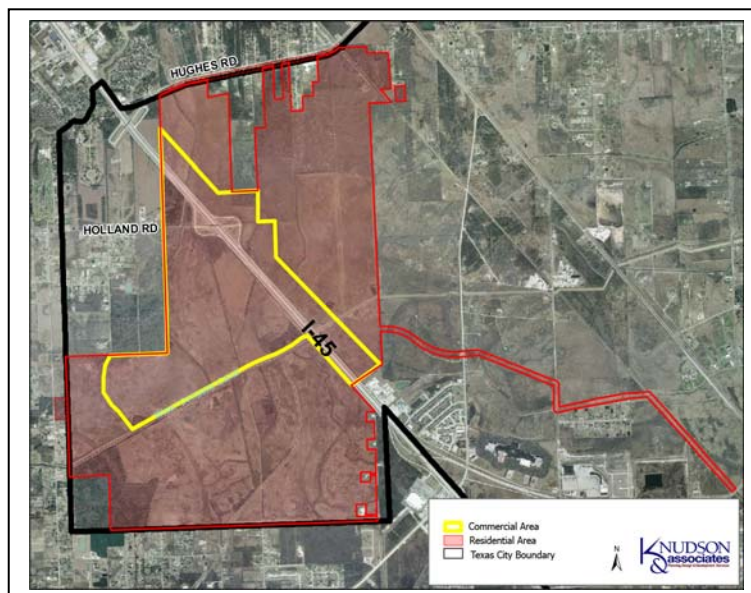
1. The information provided in the section is in accordance with § 311.016 (a) (1) of the Texas Tax Code, which requires inclusion of the amount and source of revenue in the tax increment fund established for the Zone.

In addition to the City's tax increment revenue, interlocal agreements with the County and the College provide for each taxing unit's participation in the Zone. The Plan sets forth a two-tiered participation schedule as follows:

Lago Mar is proposed to be a large master planned community with strong residential and commercial components. The commercial areas of the TIRZ are the very gateway of Texas City and the City seeks to promote the development of these critical areas with a distinctive urban design that establishes a sense of place unique in Galveston County. The City understands that the commercial areas will need time to reach the highest and best uses based on market conditions and to that end the City has proposed and secured a two-tiered participation structure: 100 % participation by the City for 31 years and by the County and the College for 30 years in the commercial area and 60% for 10 years followed by 40% for 10 years by all entities in the residential areas.

The boundaries of the residential and commercial areas within the TIRZ are shown below as Figure 5.

Figure 5: Residential and Commercial TIRZ Areas



Further within the Residential Area the Plan sets forth a performance-based, enhanced level of participation by the City as follows:

In recognizing the reality of market forces, while wishing to foster the highest quality of single family residential possible, the City is has established a base participation level and a second performance-based participation level when certain average value per dwelling unit levels are exceeded in the aggregate. The base participation is shown below and will be enacted when the average value of the single family residential is less than \$180,000. The performance-based participation will be enacted when the average value of the single family residential is greater than \$180,000.

Schedules outlining the varying levels and lengths of participation for both the Commercial Area and the Residential Area follow as Table A and Table B respectively.

Table A: Participation Schedule Commercial Area

| Jurisdiction | 2007 Tax Rate | Participation % | Years |
|-------------------------|---------------|-----------------|-----------|
| Texas City | \$0.43561 | 100% | 2007-2037 |
| Galveston County | \$0.58000 | 100% | 2008-2037 |
| College of the Mainland | \$0.22738 | 100% | 2008-2037 |

Tax Rate Source: Galveston County Central Appraisal District

Table B: Participation Schedule Residential Area

| Jurisdiction | 2007 Tax Rate | Years | Base Participation % | Performance Based % |
|-------------------------|---------------|-----------|----------------------|---------------------|
| Texas City | \$0.43561 | 2007-2016 | 60% | 75% |
| | | 2017-2026 | 40% | 50% |
| | | 2027-2037 | 0% | 0% |
| Galveston County | \$0.58000 | 2008-2017 | 60% | n/a |
| | | 2018-2027 | 40% | |
| | | 2028-2037 | 0% | |
| College of the Mainland | \$0.22738 | 2008-2017 | 60% | n/a |
| | | 2018-2027 | 40% | |
| | | 2028-2037 | 0% | |

The obligations of the participating taxing jurisdictions, as defined in their respective interlocal agreements, include the timely deposit of tax increment revenue into the City's tax increment revenue fund. Table C illustrates the growth in appraised value from the base year 2006 to tax year 2007 for each participating jurisdiction.

Table C: Base Year Market Value by Jurisdiction

| Taxing Entity | 2006 Base Value | 2007 Value | Captured Appraised Value (Increment) |
|--------------------------------|------------------------|-------------------|---|
| Texas City | \$38,873,920 | \$39,077,930 | \$204,010 |
| Galveston County | \$38,873,920 | \$39,077,930 | \$204,010 |
| College of the Mainland | \$38,873,920 | \$39,077,930 | \$204,010 |

Note: Due to agricultural exemption, incremental value will be not result in revenue until roll-back.

Due to agricultural exemptions in place for 2007, incremental value will not result in incremental revenue until properties are taken out of the agricultural exemption. In future years Table D will be used to illustrate the amount of each jurisdiction’s incremental revenue to the tax increment fund for the Residential and Commercial Areas, Developer Reimbursements, and the estimated Fund Balance.

Table D: Tax Increment Revenue Fund Balance by Year

| COMMERCIAL AREA | | | |
|---------------------------------|------------------|------------------|------------------|
| Taxing Entity | 2006-2007 | 2007-2008 | 2008-2009 |
| Texas City | \$ -0- | \$-0- | |
| Galveston County | \$ -0- | \$-0- | |
| County Road & Flood | \$ -0- | \$-0- | |
| College of the Mainland | \$ -0- | \$-0- | |
| | | | |
| RESIDENTIAL AREA | | | |
| Taxing Entity | 2006-2007 | 2007-2008 | 2008-2009 |
| Texas City | \$ -0- | \$-0- | |
| Galveston County | \$ -0- | \$-0- | |
| County Road & Flood | \$ -0- | \$-0- | |
| College of the Mainland | \$ -0- | \$-0- | |
| | | | |
| Developer Reimbursements | \$ -0- | \$-0- | |
| | | | |
| Annual Fund Balance | \$ -0- | \$-0- | |

Expenditures

2. The information provided in this section is in accordance with § 311.016 (a) (2) of the Texas Tax Code, which requires inclusion of the amount and purpose of expenditures from the fund.

The Board of Directors of the Zone has been granted by City Council, in accordance with Section 311.010 of the Texas Tax Code, the power to administer, manage and operate the Zone and to implement the Plan. The Zone was created for a duration of 30 years, or until dissolved by the City.

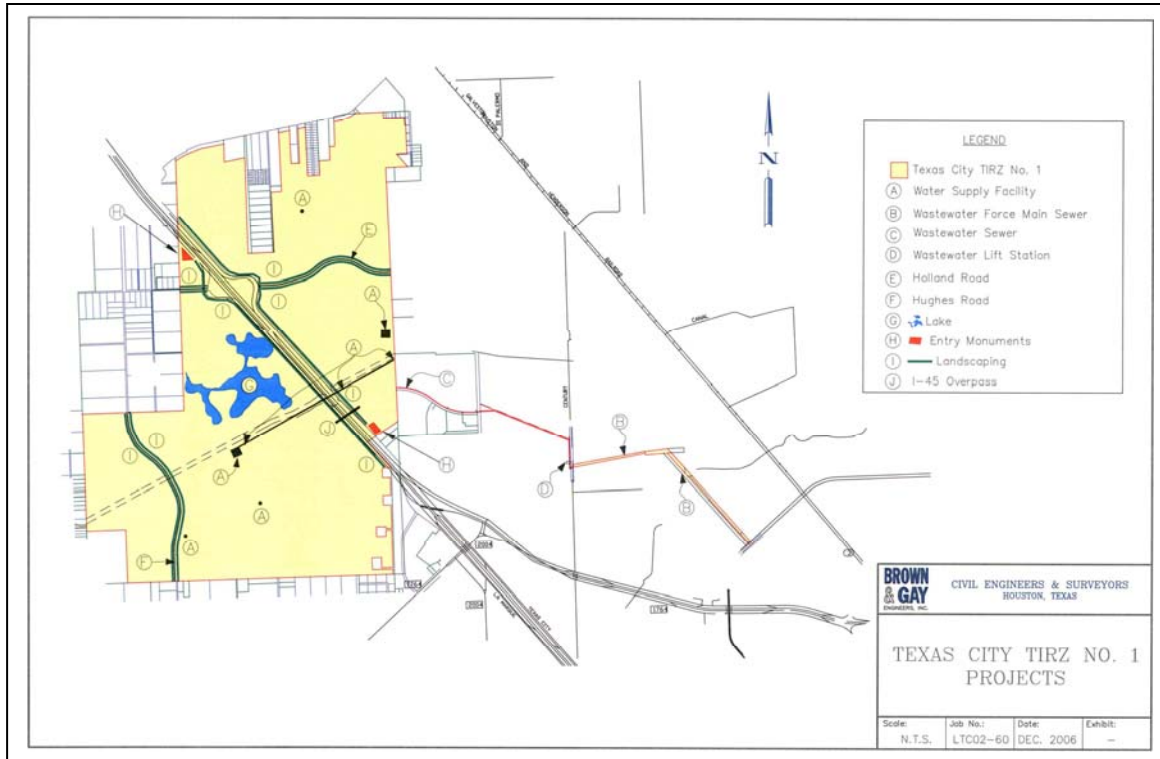
In addition to the Estimated Project Costs shown on Table E below, the Plan contemplates that the following types of projects may be considered as Eligible Project Costs:

- *Capital Expenses related to demolition, environmental abatement, and remediation including site work and fill, necessary to prepare sites and existing structures for new use.*
- *Land Costs associated with property formally conveyed to the public in conjunction with the implementation of projects otherwise eligible for reimbursement, may also be eligible for reimbursement. The City and the Zone shall establish procedures for determining the appropriateness and eligibility of any such costs based on Municipal Utility District rules for reimbursement.*
- *Matching Funds may be contributed in support of local, state, federal or other capital improvements programs that benefit the project and the region.*
- *Streetscape, Gateways, Parks, and Community Facilities that enhance or serve the existing and future development. These may include, but are not limited to, lighting, walks, landscaping and related street furniture, greenbelts and paths, trails, parks, outdoor pavilions, non-profit community and arts space, and recreational/sports facilities.*
- *Professional Fees incurred for architectural, planning, engineering, legal, landscape architecture, financial, marketing, public relations, management, leasing, bookkeeping, tax role verification, environmental, archaeological, and other services and advice necessary to the project.*
- *Financing Costs related to developer's interest and financing interest, legal fees, underwriter's fees, brokerage charges, transfer or placement charges, premium and fees paid for loans, credit enhancement fees, notes, bonds or other instruments of credit issued to pay for project costs.*
- *Operational Expenses as may be necessary to provide for the proper administration of the Zone over its life.*

Table E: Estimated Project Plan Costs

| Estimate of Project Costs | |
|--|-------------------------------|
| Project | Estimated Project Cost |
| Water | |
| Water Supply Plant | 3,469,594 |
| Remote Water Well and Collection Line(s) | 1,682,835 |
| Elevated Water Storage Tank(s), Transmission Line(s), and Related Water Plant Items | 7,701,308 |
| Water Well(s), Lines, and Related Water Plant Items | 7,638,733 |
| Sub-total | 20,492,471 |
| Sanitary Sewer | |
| Wastewater Plant and Related Force Main(s) | 1,571,608 |
| Sanitary Sewer Transmission Line(s) | 2,468,238 |
| Other Wastewater Projects and Lift Station(s) | 2,355,092 |
| Other Force Main(s) | 2,519,492 |
| Sub-total | 8,914,429 |
| Roadway and Mobility Improvements | |
| Holland Road Construction and Landscaping | 7,447,717 |
| Hughes Road Construction and Landscaping | 6,471,177 |
| I-45 / Overpass | 5,000,000 |
| I-45 Landscaping | 3,901,309 |
| Sub-total | 22,820,203 |
| Detention / Retention / Place Making Amenities | |
| 125 ± Acre Lake | 28,973,505 |
| Lake Landscaping | 2,259,922 |
| Monumentation | 2,323,052 |
| Sub-total | 33,556,479 |
| Zone Administration | |
| Legal, Auditing, Planning, Architectural, Engineering, Administration, etc. | 2,850,000 |
| Total Estimated Project Costs | 88,633,582 |
| <p>Note: It is understood that land costs for major CIP dedications (water plants, water wells, etc.) and professional fees (engineering, planning, architectural, geotechnical, surveying, etc.) are necessary expenses that will be incurred on behalf of the Zone. These fees have been estimated and included in the line-item projections.</p> | |

Figure 6: Location of Proposed TIRZ Improvements



TIRZ Authorized Projects in 2007:

There were no projects authorized in 2007.

Interest Due on Outstanding Bonds

3. The information provided in this section is in accordance with § 311.016 (a) (3) of the Texas Tax Code, which requires inclusion of the amount of principal and interest due on outstanding bonded indebtedness.

The Zone issued no debt and therefore had no interest due on outstanding bonds.

Base Value & Captured Appraised Value

4. The information provided in this section is in accordance with § 311.016 (a) (4) of the Texas Tax Code, which requires inclusion of the tax increment base and current captured appraised value retained by the Zone.

The captured appraised value of the Zone is the total appraised value of all real property located within the Zone, less the tax increment base value. In each year subsequent to the base year, the Zone will receive tax increment revenue based on ad valorem property

taxes levied and collected by each participating taxing unit on the captured appraised value of the Zone.

As of January 1, 2006, the base year for the Zone, the total appraised value of the property was \$38,873,920. On January 1, 2007, the area encompassed by the Zone had a total appraised value of \$39,077,903. As a result, the total captured appraised value on the tax roll as of January 1, 2007 was \$204,010 as illustrated in Table C.

Increment Received by Taxing Entities

5. The information provided in this section is in accordance with § 311.016 (a) (5) of the Texas Tax Code, which requires inclusion of the captured appraised value shared by the City and other taxing units, the total amount of tax increments received, and any additional information necessary to demonstrate compliance with the Plan.

No increment revenue was generated for tax year 2007. In 2007, the Zone Board organized itself, drafted its Project Plan and Reinvestment Zone Financing Plan, secured participation of the County and the College, and entered into the Quad Party Agreement.