

THE STATE OF TEXAS
COUNTY OF HIDALGO

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CITY OF MCALLEN

INTERLOCAL AGREEMENT

In consideration of the covenants set forth herein, and subject to the terms and conditions herein, the Parties (as defined below) hereby agree to the terms and conditions of this Agreement (as defined below).

I. PARTIES & INDEX

A. Parties

1. THIS INTERLOCAL AGREEMENT is made by and between the **CITY OF MCALLEN, TEXAS** (hereafter referred to as the "CITY"), a Texas Home Rule Municipality, acting through its City Manager, as authorized by the City Commission on March 9, 2015; **HIDALGO COUNTY**, a political subdivision of the State of Texas, acting through its County Judge pursuant to authority granted by the Hidalgo County Commissioners Court on March 17, 2015 (hereafter referred to as the "COUNTY"); the **TAX INCREMENT REINVESTMENT ZONE NUMBER ONE (1), CITY OF MCALLEN, TEXAS**, a reinvestment zone created by the CITY pursuant to Chapter 311 of the Texas Tax Code (hereafter referred to as the "ZONE"), acting by and through its duly authorized Board of Directors, established to administer manage and/or operate the ZONE pursuant to Sections §311.009(b) and 311.010, Texas Tax Code, as well as to implement and fund the Project ("ZONE BOARD"); and **RHODES ENTERPRISES, INC.**, the developer, its successors and assigns (hereafter referred to as "DEVELOPER"). Collectively, the CITY, COUNTY, ZONE, and DEVELOPER may be referred to as the "Parties." This Agreement is made pursuant to Chapter 791 Texas Government Code and Chapter 311 of the Texas Tax Code for the participation of the CITY and the COUNTY in the Project (as defined below).

2. The initial addresses of the Parties are listed below. Each party may designate a different address by giving the others at least ten (10) days prior written notice.

If to the City, to:

City of McAllen
1300 Houston Avenue.
McAllen, Texas 78501
Attention: City Manager
Phone: (956) 681-1000

With a copy to:

City of McAllen
1300 Houston Avenue.
McAllen, TX 78501
Attention: City Mayor
Phone: (956) 681-1000

If to the County, to:

Hidalgo County
2808 S. Business Highway 281
Edinburg, Texas 78539-6243
Re: Tres Lagos TIRZ
Attention: Honorable Ramon
Garcia, County Judge
Phone: (956) 318-2600

With a copy to:

Hidalgo County Auditor
Attn: Ray Eufrazio, CPA
Re: City of McAllen-TIF Zone #1
2808 South Business Hwy 281
Edinburg, Texas 78539
Phone: (956) 318-2511

If to the Zone, to:

Reinvestment Zone Number One
c/o City of McAllen
1300 Houston Avenue.
McAllen, TX 78501
Attention: Mike Rhodes,
Presiding Officer

With a copy to:

Reinvestment Zone Number One
Attn: Board Secretary,
Megan J. Clay
601 NW Loop 410, Ste. 390
San Antonio, Texas 78216

If to the Developer, to:

Rhodes Enterprises, Inc.
200 S. 10th St., Ste. 1400
McAllen, Texas 78501
Attention: Mike Rhodes
Phone: (956) 287-2800

With a copy to:

Earl & Associates, P.C.
601 NW Loop 410, Ste. 390
San Antonio, Texas 78216
Phone: (210) 222-1500
Attn: David L. Earl and Megan J.
Clay

B. Index

This Agreement consists of the following sections:

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Exhibit "A" Project and Finance Plan

Exhibit "B" City of McAllen Ordinance No. 2014-75 passed and approved by City on December 22, 2014.

Exhibit "C" Development Agreement

C. Parts Incorporated

All of the above-described exhibits are hereby incorporated into this Agreement by this reference for all purposes.

II. DEFINITIONS

As used in this Agreement, the following terms shall have the meanings set out below:

1. "Administrative Costs" means reasonable costs directly incurred by a Participating

Taxing Entity (as hereinafter defined) related to its agreement to participate in the development of the ZONE, as described in this Agreement. These costs include, but are not limited to, costs and expenses for legal review and financial analysis related to the ZONE incurred prior to entering into this Agreement, as well as any such costs and expenses incurred after this Agreement becomes effective. The aggregate reimbursable Administrative Costs for all the combined Participating Taxing Entities, which incur Administrative Costs over the life of the ZONE, shall not exceed an aggregate reimbursement of Four Hundred Thousand Dollars (\$400,000), representing Three Hundred Thousand Dollars (\$300,000.00) to the CITY and One Hundred Thousand Dollars (\$100,000.00) to the COUNTY.

2. "Agreement" means this Interlocal Agreement.
3. "Agreement Term" has the meaning set forth in Section VII.A. Below.
4. "Available Tax Increment" shall mean (1) as to CITY, an amount calculated as a millage rate per \$100 of Captured Appraised Value of real property in the Zone that equals 80% of the CITY's M&O Tax Rate as levied, collected, and allocated to the general fund (i.e., excluding only the portion of the CITY's property tax rate that is apportioned for payment of outstanding general obligation bonded indebtedness commonly referred to as the "interest and sinking fund rate"); and (2) as to COUNTY, an amount calculated as a millage rate per \$100 of Captured Appraised Value of real property in the Zone that equals 77% of the COUNTY's M&O Tax Rate levied, collected and allocated to the general fund (excluding only that portion of the COUNTY's property tax rate that is apportioned for payment of outstanding general obligation bond indebtedness commonly referred to as the "interest and sinking fund rate").
5. "Base Year" means the year in which a Tax Increment Reinvestment Zone is created by ordinance or order. The Base Year is 2014.
6. "Captured Appraised Value" means the captured appraised value of the ZONE, as defined by Section 311.012(b), Texas Tax Code (and as said Code may be amended from time to time); e.g., the total appraised value in a given year of all real property taxable by a participating taxing entity and located in the ZONE for that year less the total appraised value of that property in 2014, the Base Year of the ZONE.
7. "CITY" has the meaning set forth in Section I.A.1 above, and includes its successors and assigns.
8. "CITY M&O Tax Rate" means that portion of the ad valorem tax rate used by the CITY for Maintenance and Operation. The CITY M&O Tax Rate may change from time to time. The CITY M&O Tax Rate as of December 31, 2014 is \$0.4313 per \$100 dollars of valuation on the Captured Appraised Value and may be changed by the CITY during the term of the ZONE.
9. "COUNTY" has the meaning set forth in Section I.A.1 above.
10. "COUNTY Applicable M&O Tax Rate" for any given year means the lesser of (i) the Base Year M&O Tax Rate and (ii) the County M&O Tax Rate for the given year. The Base Year M&O Tax Rate was \$0.5308 per \$100 dollars of valuation.
11. "COUNTY M&O Tax Rate" means that portion of the ad valorem tax rate used by the COUNTY for maintenance and operation. The COUNTY M&O Tax Rate is subject to change by the COUNTY in accordance with applicable law.
12. "DEVELOPER" has the meaning set forth in Section I.A.1 above, and includes its successors and assigns.
13. "Development Agreement" means the agreement among the DEVELOPER, the ZONE and the CITY attached hereto as Exhibit C.
14. "Participating Taxing Entity" or "Participating Taxing Entities" means, singularly, a taxing unit participating in the ZONE, and collectively, two or more taxing units participating in the ZONE, and may include CITY and COUNTY.
15. "Parties" has the meaning given such term in Section I.A.1 above.
16. "Pre-TIRZ Administrative Costs" shall have the meaning given in the Project and Finance Plan.
17. "Project" means the Tres Lagos Development Project, as that project is more specifically

identified in the Finance and Project Plan.

18. "Project and Finance Plan" shall mean the final Project and Finance Plan for the ZONE approved by the Board of Directors of the ZONE and approved by City Commission of CITY and attached hereto as Exhibit "A".

19. "Project Costs" shall mean the costs of the Public Infrastructure Improvements, eligible for reimbursement under Chapter 311 of the Texas Tax Code, as described in the Project and Finance Plan. The Project Costs in the aggregate for the life of ZONE are estimated to be Two Hundred Thirty-Two Million Three Hundred Ninety-Six Thousand Three Hundred Fifteen and No/100 Dollars (\$232,396,315.00), plus an estimated Twenty Six Million One Hundred Forty-Four Thousand Five Hundred Eighty-Five and No/100 Dollars (\$26,144,585.00) in applicable qualifying interest costs for a total of Two Hundred Fifty-Eight Million Five Hundred Forty Thousand Nine Hundred One and No/100 Dollars (\$258,540,901.00) as more completely set forth in Exhibit "A".

20. "Public Infrastructure Improvements" shall mean those certain public improvements to be constructed as part of the Project and described in the Project and Finance Plan as being public improvements the cost of which will be reimbursed out of either: (i) the Available Tax Increment or (ii) Tax Increment Bonds which will be repaid out of the Available Tax Increment.

21. "Tax Increment" for a Participating Taxing Entity means the total amount of ad valorem taxes levied and collected each year by that Participating Taxing Entity each year on the Captured Appraised Value of taxable real property in the ZONE. Further, with respect to the COUNTY, this term shall be further limited to the total amount of ad valorem taxes levied and collected only on behalf of the COUNTY each year.

22. "Tax Increment Base" means the total appraised value of all real property taxable by a Participating Taxing Entity and located in the ZONE as of January 1, 2014 the year in which the ZONE was designated.

23. "Tax Increment Fund" means the tax increment fund created by the CITY for the deposit of Available Tax Increments for the ZONE, entitled "Reinvestment Zone Number One City of McAllen, Texas Tax Increment Fund," which fund must be segregated and kept apart from any other funds of the CITY and may only be used to pay for expenses and costs approved by the Board of Directors for the ZONE.

24. "Tax Increment Payment" means the Available Tax Increment that a Participating Taxing Entity is required to deposit annually into the Tax Increment Fund in accordance with this Agreement and the Project Plan.

25. The "term of the ZONE" has the meaning set forth in Section III. A., below.

26. "Transportation Zone" means Transportation Reinvestment Zone Number Two, Hidalgo County.

27. "ZONE" means Tax Increment Reinvestment Zone Number One, City of McAllen, Texas, created by the CITY over the property contained in the Zone on December 22, 2014, by Ordinance No. 2014-75 a legal description of which is contained in Exhibit "A" to the Development Agreement, which is attached hereto as Exhibit "C".

28. "ZONE BOARD" has the meaning set forth in Section I.A.1 above.

III. BACKGROUND

A. A Resolution No. 2014-51 approved by the CITY Commission of CITY on October 27, 2014, expressed the CITY's intent to create a tax increment financing reinvestment zone and to participate in the ZONE at a level of 80% of the CITY M&O Tax Rate to support revitalization and development activities for the ZONE, commonly known as the Tres Lagos TIRZ, pursuant to Chapter 311, Texas Tax Code. On November 18, 2014, the COUNTY, by resolution, expressed its intent to participate in the ZONE at a level of 77% of the COUNTY M&O Tax Rate. On December 22, 2014, the City Commission of the CITY passed and approved Ordinance No. 2014-75, which created the ZONE and by which the

CITY agreed to be bound to this Agreement pursuant to Section 311.013 of the Texas Tax Code. The ZONE is projected to terminate on December 31, 2044, unless earlier termination occurs under this Agreement (the term of the "ZONE").

B. The CITY approved the preliminary project and finance plan on December 22, 2014. The CITY and the COUNTY agree to participate in the ZONE and to deposit their respective Tax Increment Payments to the Tax Increment Fund, in accordance with the terms, and in consideration for the agreements, set forth herein. The Tax Increment Fund was authorized by Ordinance No. 2014-75, attached hereto as Exhibit "B." The COUNTY hereby acknowledges receipt of notice of the initial creation of the ZONE. The CITY represents and warrants that it has found that it has complied with, and has complied with all legal requirements and notice requirements in the creation of the ZONE.

IV. RIGHTS AND OBLIGATIONS OF THE COUNTY

A. Tax Increment Participation by the COUNTY

1. Subject to the limitations set out in this Agreement, the COUNTY agrees to participate in the ZONE by contributing to the Tax Increment Fund an amount equal to 77% of the revenue generated from the COUNTY M&O Tax Rate as assessed and collected on the Captured Appraised Value for each respective tax year during the term of the ZONE. For the purpose of this Agreement the COUNTY M&O Tax Rate shall be calculated as set forth in section IV(B)(2) of this Agreement. In no event shall the COUNTY contribution to the Tax Increment Fund be greater than One Hundred Forty-Three Million Three Hundred Eighteen Thousand Four Hundred Eighty-Four and No/100 Dollars (\$143,318,484.00) over the life of the ZONE (which for purposes of this provision will be deemed to end no later than December 31, 2044) beginning with the 2015 tax year.

2. The Parties hereto agree that the COUNTY's contribution to the Tax Increment Fund shall be used to fund Project Costs including construction of Public Infrastructure Improvements to support the development and revitalization efforts in the ZONE. The COUNTY's contributions to the Tax Increment Fund shall end when it has contributed the maximum total contribution provided for herein of One Hundred Forty-Three Million Three Hundred Eighteen Thousand Four Hundred Eighty-Four and No/100 Dollars (\$143,318,484.00), or when it has made contributions of all Tax Increment Payments, as specified in the Project Plan, attributable to all periods through the end of the COUNTY's fiscal year 2044 (ending on December 31, 2044), whichever occurs first. The COUNTY's continued contribution to the Tax Increment Fund is conditioned upon the DEVELOPER's continuing the Project and being in full compliance with the Development Agreement and on the continued existence of the ZONE. In the event the DEVELOPER has been found to be in Default, as said term defined in Section 7.1 of the Development Agreement (hereinafter "Default"), the COUNTY may withhold its contributions without incurring penalty or interest until such time as the non-compliance has been remedied.

B. Tax Increment Payment

1. COUNTY's obligation to contribute its Tax Increment Payment to the Tax Increment Fund, as provided in Section IV.A. of this Agreement, shall accrue as the COUNTY collects its Available Tax Increment. The Parties hereto agree that all ad valorem property taxes collected each year by the COUNTY that are attributable to real property in the ZONE shall first constitute taxes on the Tax Increment Base and after the total amount of taxes on the value of the Tax Increment Base have been collected, then the remaining ad valorem taxes collected shall constitute the taxes collected on the value of the Tax Increment. The Parties agree that COUNTY shall have the right to deduct 1/30 of the COUNTY's pro-rata portion of Administrative Costs per year (1/30 of \$100,000.00, or \$3,333.33 per

year) prior to contribution of its Tax Increment Payment into the Tax Increment Fund. COUNTY agrees to deposit its first Tax Increment Payment to the Tax Increment Fund for tax year 2015 by the later of: (i) collection reports having been provided to the Hidalgo County Auditor’s Office; (ii) May 1, 2016; or (iii) 30 days after the full execution and delivery of this Agreement by all Parties. The amount of the first Tax Increment Payment shall be based on the Tax Increments that were received up to January 31, 2016, but only for tax year 2015, beginning January 1, 2015. For subsequent payments, the COUNTY agrees to contribute its yearly Tax Increment Payment to the Tax Increment Fund annually not later than the 90th day after the delinquency date for the COUNTY’s property taxes (or the first business day thereafter) following the end of each tax year. The amount of each Tax Increment Payment shall be based on the Tax Increments that are received up to January 31st following the end of the tax year, but which have not been previously deposited in the Tax Increment Fund, during the annual periods preceding each deposit date. Under no circumstances shall the COUNTY be required to participate in the ZONE with taxes attributable to periods after 2044.

The chart below is for illustrative purposes only and is an example of how the payment calculation is calculated by the COUNTY. Assuming for the purpose of this example, the tax value of the zone is \$100,000.00, the base value is \$10,000.00, the Administrative Costs are \$10.00 per year and the overall COUNTY tax rate is 5.0059.

Tax Increment Reinvestment Zone (TIRZ Payment Calculation)	EXAMPLE
TIRZ Real Property Certified Taxable Value as of January 31 (Provided by Hidalgo County Appraisal District (HCAD))	\$100,000.00
<i>(multiplied by)</i> Hidalgo County Current (GHD) Tax Rate (.59/100)	\$0.0059
GHD Actual Tax Level for all real property tax accounts located within the TIRZ	\$590.00
TIRZ Real Property Certified Taxable Value as of January 31 (Provided by Hidalgo County Appraisal District (HCAD))	\$100,000.00
<i>(less)</i> Tax Increment Base	\$10,000.00
	\$90,000.00
Captured Appraised Value	\$90,000.00
<i>(multiplied by)</i> Contribution Rate (County Applicable M&O Tax Rate) (.51/100)	0.0051
Tax Levy Due to TIRZ	\$459.00
Tax Increment (for February 1 through January 31) as per Collections Reports provided by Hidalgo County Tax Office	\$300.00
<i>(divided)</i> GHD Actual Tax Levy for all Real Property tax accounts located within the TIRZ	\$590.00
Percent Collected of Actual Levy	50.85%
Tax Levy Due to TIRZ	\$459.00
<i>(multiplied by)</i> Percent Collected of Actual Levy	50.85%
Purposed Payment Amount	\$233.40
<i>(less)</i> Administration Costs (as per Agreement)	\$10.00
TAX INCREMENT PAYMENT AMOUNT DUE TO TAX INCREMENT FUND	\$223.40

2. One month prior to a payment required under Section IV.B. of this Agreement, the CITY shall provide to the COUNTY the TIRZ annual audit report, an updated fact sheet that includes detail as to what portion of the Project has been completed to date, a schedule of what portion of the Project is to be completed in the following year and a current roster of the ZONE’s board members, including the term of each board member, the entity that appointed the board member, the date for the next annual meeting and a formal request for payment. In preparing this report, COUNTY acknowledges that CITY will be relying on information provided by the DEVELOPER. In addition to and as part of the CITY’s fact sheet, the CITY shall supply the COUNTY with all information as required under section 311.016 of the Texas Tax Code on or before the 90th day following the end of the fiscal year of the CITY.

3. Pursuant to Chapter 311 of the Texas Tax Code, in the event there is a conflict between

the Parties in regards to the amount of the Tax Increment owed by the COUNTY, the Hidalgo County Auditor will make the final determination as to the amount of any Tax Increment owed by the COUNTY under this Agreement. The annual Captured Appraised Value for the real property contained within the ZONE shall be determined by the Hidalgo County Appraisal District on the assessed appraised values and the Hidalgo County Tax Offices' verification of collections in regards to the real property contained with the ZONE.

4. Any delinquent deposit by the COUNTY of a Tax Increment Payment under this Agreement shall be administered as provided in Section 311.013(c) of the Texas Tax Code, which states as follows:

“A taxing unit shall make a payment required by the Subsection (b) [Tax Increment Payment], not later than the 90th day after the delinquency date for the unit's property taxes. A delinquent payment incurs a penalty of five percent of the amount delinquent and accrues interest at an annual rate of ten percent.”

The Parties expressly agree that the COUNTY shall not owe any penalty or interest on Tax Increments attributable to taxes that have been levied, but not received by the COUNTY. Further, the COUNTY shall not be liable for the payment of any penalties or interest if the report required to be filed by the CITY under section 311.016 of the Texas Tax Code is not filed timely; or if the fact sheet, the TIRZ's annual audit report, and/or payment request are not provided to the County timely, or under any other situation in which the CITY does not pay interest or penalties.

5. The CITY and the ZONE agree to provide prior written notice to the COUNTY of a proposed change that would constitute at least a twenty-five percent (25%) increase or decrease in either the Project Costs or the scope and scale of the Project (hereinafter a “Material Change”); provided that any Material Change that is not approved by the COUNTY shall not change the amount of Tax Increment Payments due from the COUNTY. The ZONE BOARD shall have the right to amend and modify the Project and Finance Plan without providing prior written notice to the COUNTY so long as such amendment or modification does not constitute a Material Change.

6. If the CITY, the DEVELOPER or the Board of Directors for the ZONE materially breaches this Agreement, then the COUNTY may provide written notice to the CITY, the DEVELOPER and the ZONE (with a copy to any other Participating Taxing Entity still contributing Tax Increment Payments) demanding that all breaches must be resolved within ninety (90) days.

7. Except for contributing its respective Tax Increment Payments to the Tax Increment Fund as set out in this Agreement, the COUNTY shall not have any obligation or responsibility for any costs or expenses associated with the development of the ZONE or the implementation of the Project and Finance Plan, including, without limitation, any obligation to pay or repay any bond or other debt issued by another Participating Taxing Entity, the ZONE or the ZONE BOARD relating to the ZONE or any costs associated with the operation of ZONE, the Project or any other projects relating thereto. This provision shall not affect the obligation of the COUNTY under any separate document or agreement related to the Project or its infrastructure (i.e. agreements relating to design and construction of drainage channels or improvements) to which the COUNTY is a signatory.

8. Notwithstanding anything herein to the contrary, the COUNTY's total Tax Increment Payment to the Tax Increment Fund over the term of the ZONE shall not exceed One Hundred Forty-Three Million Three Hundred Eighteen Thousand Four Hundred Eighty-Four and No/100 Dollars (\$143,318,484.00), plus any applicable penalty and/or interest allowed in section 311.013 of the Tax Code, subject to the limitations on Section IV(B)(4).

9. a. *General Provisions.* Subject to changes in the COUNTY M&O Tax Rate that will be addressed as set forth in Section IV.B.9.b. and IV.B.9.c. below, the COUNTY agrees to participate at seventy-seven percent (77%) of the COUNTY M&O Tax Rate (for tax year 2015, 77% equaling \$.408716 per \$100 valuation on the Captured Appraised Value) for real property within the Zone, without regard to whether the real property is also within the Transportation Zone.

b. *Transportation Zone Overlap.* Notwithstanding anything to the contrary contained herein, in the event any of the property within the Zone is also within the Transportation Zone, during any period with respect to which the COUNTY is obligated to pay part of the tax increment on such real property in the ZONE to the Transportation Zone, in lieu of the 77% of Applicable M&O Tax Rate specified above, the COUNTY contribution to the ZONE with respect to real property that is within the overlap between the Transportation Zone and the ZONE shall not exceed fifty percent (50%) of the Applicable M&O Tax Rate.

c. *Lower COUNTY M&O Tax Rate.* If the COUNTY M&O Tax Rate is less than \$0.5308 per \$100 valuation on the Captured Appraised Value during a year in the term of the ZONE, then the maximum tax increment paid by the COUNTY into the Tax Increment Fund for such year shall not exceed seventy-seven percent (77%), or, with respect to property within an overlap with the Transportation Zone, fifty percent (50%) of the total amount of taxes collected by the COUNTY at the actual COUNTY M&O with respect to such year the COUNTY M&O Tax Rate is less than \$0.5308 per \$100 valuation.

d. *Greater COUNTY M&O Tax Rate.* If the COUNTY M&O Tax Rate is greater than \$0.5308 per \$100 valuation on the Captured Appraised Value during the term of the ZONE, the COUNTY shall retain all taxes collected in excess of \$0.5308 with respect to any real property within the ZONE per \$100 valuation on the Captured Appraised Value, and to the extent any such excess has been contributed into the Tax Increment Fund, such excess shall be promptly refunded to the COUNTY.

10. COUNTY taxes that are delinquent for more than five years will be considered uncollectible and shall not be included in the Tax Increment Payment.

11. All rollback taxes received from assessments on real property within the ZONE shall be considered Tax Increment and shall be deposited into the Tax Increment Fund, however any penalties and interest received shall not be considered Tax Increment.

C. School District Provisions

The COUNTY understands that the Project is located in the Edinburg Consolidated Independent School District. The City and the Zone represent to the COUNTY that the Edinburg Consolidated Independent School District is not participating in the ZONE by contribution of Tax Increment but may request cooperation in the future with the ZONE BOARD relating to the planning, construction or financing of schools within the ZONE, subject to appropriate approvals.

D. Management of the ZONE

1. The ZONE shall in all respects be managed by the ZONE BOARD, including the Director appointed by the CITY. The ZONE BOARD shall have all powers allowed under Chapter 311 of the Texas Tax Code to manage the ZONE and carry out the Project and Financing Plan as limited by the CITY's ordinance creating the ZONE. The Participating Taxing Entities, during the term of this

Agreement, may inspect the Project site and review Project plans and drawings at times and intervals in a manner that will not interfere with ongoing operations.

2. The ZONE BOARD shall be composed of nine (9) members, as allowed under Section 311.009(b) of the Texas Tax Code. The COUNTY shall have the right to designate one member of the ZONE BOARD as its designee. If it is necessary for the CITY to make or confirm the appointment, the CITY shall appoint or confirm the COUNTY's designee.

E. Expansion of the ZONE

Notwithstanding anything to the contrary contained herein, the obligation of the COUNTY to participate in the ZONE is limited to the legal description of the ZONE contained in Exhibit "B" attached hereto and is subject to the terms of this Agreement. The COUNTY's participation shall not extend to the Tax Increment on any additional real property added to the ZONE by the CITY unless the COUNTY approves such participation in writing.

V. RIGHTS AND OBLIGATIONS OF CITY AND ZONE

A. Tax Increment Participation by the CITY

Subject to the terms of this Agreement and the Development Agreement, the CITY agrees to participate in the ZONE by contributing to the Tax Increment Fund eighty percent (80%) of the revenue generated from the CITY M&O Tax Rate as levied and collected on the Captured Appraised Value each year during the Term of this Agreement, beginning with the 2015 tax year. The CITY agrees to require the DEVELOPER and ZONE to implement the Project and Finance Plan. The CITY's contributions to the Tax Increment Fund shall end when the CITY has contributed the maximum total contribution provided for herein of One Hundred Twenty Million Nine Hundred Ninety Thousand One Hundred Forty-Nine and No/100 Dollars (\$120,990,149.00), or when it has contributed all Tax Increments attributable to periods before the ZONE termination date in 2044, whichever occurs first. The CITY's continued contribution to the Tax Increment Fund is conditioned upon the DEVELOPER not being in Default, and on the continued existence of the ZONE. In the event DEVELOPER is found to be in Default under the terms of the Development Agreement, the CITY may withhold its contribution without incurring penalty or interest until such time as the Default has been remedied. As a condition of the COUNTY's participation in this Agreement, the Finance and Project Plan must be followed and implemented pursuant to the Development Agreement.

The CITY and ZONE shall have an obligation to assure that the DEVELOPER follows and implements the Project and Finance Plan as provided in the Development Agreement. In the event the CITY and/or ZONE fails to appropriately require the Developer to comply with the Development Agreement or otherwise fails to appropriately implement the Project and Finance Plan, such failure will be considered a breach of this Agreement and subject to the cure provisions contained in Section IV.B.6. of this Agreement.

B. Tax Increment Payment

1. The CITY's obligation to contribute its Tax Increment Payment to the Tax Increment Fund as provided above in Section V of this Agreement shall accrue as the CITY collects its Tax Increment. The CITY agrees to deposit its first Tax Increment Payment to the Tax Increment Fund for tax year 2015 by May 1, 2016. The amount of the first Tax Increment Payment shall be based on the Tax Increments that were received through January 31, 2016, but only for the tax year 2015 beginning January 1, 2015. For subsequent Tax Increment Payments, the CITY agrees to contribute its Tax

Increment Payment to the Tax Increment Fund annually on or before May 1, 2016 (or the first business day thereafter) of each tax year. Any delinquent deposit of a Tax Increment Payment by the CITY under this Agreement shall be administered as provided in Section 311.013(c) of the Texas Tax Code (or its successor provision).

2. The COUNTY, the CITY and the ZONE expressly agree that the COUNTY and the CITY shall not owe any interest on Tax Increments that have been levied, but not received by the COUNTY or the CITY by the delinquency dates specified herein.

C. Financing of Project Costs

Each Participating Taxing Entity shall participate in the payment of Project Costs only to the extent described herein. The CITY and the ZONE shall be entitled to enter into any other agreements for the CITY or the ZONE to pay Project Costs and other reasonable expenses from the Available Tax Increments paid into the Tax Increment Fund without the consent of any other Participating Taxing Entity, but they will provide notice of such agreement(s) to each Participating Taxing Entity.

D. Disbursement of Funds in the Tax Increment Fund

1. Each Participating Taxing Entity agrees the CITY shall administer the Tax Increment Fund on behalf of the ZONE, pursuant to Ordinance No. 2014-75 passed and approved by City Commission of the CITY on December 22, 2014. Except for amounts to be paid to the CITY and COUNTY for Administrative Costs, no funds shall be disbursed from the Tax Increment Fund without the prior written approval of the ZONE BOARD, and notice of the amount of funds used and disbursement of funds by the ZONE shall be given at least annually to the COUNTY. The Parties agree that the CITY shall be responsible for the annual administration of the ZONE.

2. The parties agree and understand that under no circumstances shall Administrative Costs, in the aggregate, exceed the amount set out and described in Section II.1 above. Accordingly the agreed allocation of the total amount budgeted for Administrative Costs (\$400,000.00) shall be apportioned in the amount of \$300,000.00 for repayment of the CITY's administrative costs and \$100,000.00 for the repayment of the COUNTY's administrative costs during the term of the ZONE, with the CITY and the COUNTY each receiving 1/30 of their pro-rata amount per year, as funds are available in the Tax Increment Fund. The CITY shall receive priority reimbursement of the Pre-TIRZ Administration Costs incurred by it. The Parties further agree and understand that the COUNTY and CITY are entitled to deduct their yearly pro-rata portion of Administrative Costs prior to depositing their respective Tax Increment Payment into the Tax Increment Fund, as long as said deductions are clearly delineated as a deduction from the Tax Increment Payment. If there is not enough Available Tax Increment to pay the COUNTY's and CITY's respective pro-rata yearly Administrative Costs, the COUNTY and CITY are entitled to deduct the pro-rata Administrative Costs which are owing to each entity respectively, prior to depositing the Tax Increment Payment in the Tax Increment Fund during the next year in which sufficient funds exist in the Available Tax Increment to pay said pro-rata Administrative Costs.

3. The CITY and ZONE will use funds in the Tax Increment Fund to reimburse expenditures in the order and priority of payment set forth in the Project and Finance Plan and the Development Agreement. The foregoing notwithstanding, no funds will be paid from the Tax Increment Fund to a Participating Taxing Entity for its financial or legal services incurred in any dispute arising under this Agreement with another Participating Taxing Entity or Participating Taxing Entities or a dispute with Developer.

4. In addition, the above notwithstanding, in the event that bonds or tax anticipation notes are issued pursuant to Section 311.015 of the Texas Tax Code, the proceeds shall be used to pay outstanding reimbursements according to the priority of payment, and thereafter the payment of debt service shall be a priority above any other annual obligations, and the amount of the Tax Increment shall not be directed for any other purpose until such bonds or tax anticipation notes or other obligations have been satisfied in full.

VI. RIGHTS AND OBLIGATIONS OF DEVELOPER

A. Agreement by Developer

In return for the covenants and agreements made by the CITY, the COUNTY, and the ZONE, the DEVELOPER agrees to faithfully perform its obligations under this Agreement and the Development Agreement, including without limitation the obligation to follow and implement the Project and Finance Plan as that obligation is imposed by the Development Agreement. If the DEVELOPER fails to meet the obligations contained in the Development Agreement, it shall constitute a breach of this Agreement and be subject to the cure provisions contained in Section IV.B.6. of this Agreement.

B. Rights of Developer

1. The CITY, the COUNTY, and the ZONE agree and acknowledge that DEVELOPER is making the commitments identified herein in reliance on the commitments made by the CITY and the COUNTY to timely contribute their respective Tax Increment Payments to the Tax Increment Fund as they become due in accordance with and subject to the terms of this Agreement, and on the commitment of the ZONE to properly process payments and reimbursements for proper work completed by the DEVELOPER and/or its successors, assigns, contractors or subcontractors.

2. The DEVELOPER shall have the right to serve as Project manager for the construction and installation of all public improvements and public infrastructure identified in the Project and Finance Plan.

3. DEVELOPER shall have the right to adjust or prioritize the schedule of construction of improvements within each Phase of the Project, provided that such adjustment or prioritization does not cause a Material Change in the Project and Finance Plan.

4. DEVELOPER shall have the right to use anticipated reimbursements and other rights under this Agreement and the Development Agreement to obtain financing for funding required to construct improvements within the Project, including the assignment or use of such reimbursements or rights as collateral, or the factoring of such rights and obligations to third parties, subject to the limitations contained in the Development Agreement.

VII. TERM AND TERMINATION

A. Term of the ZONE and Termination

This Agreement shall become effective as of the last date of execution by the Parties hereto, and shall remain in effect until December 31, 2044, unless earlier terminated as provided herein. Subject to the terms of this Agreement, the COUNTY agrees to participate under this Agreement, beginning with the 2015 tax year and ending in accordance with the terms provided herein. Notwithstanding anything to the contrary contained in this Agreement, the Parties agree and understand that the CITY's and COUNTY's Tax Increment Payments will not be made after December 31, 2045 for the 2044 tax year.

B. Early Termination

Neither the CITY, the COUNTY, nor the ZONE BOARD shall take any action to terminate the ZONE earlier than the term of the ZONE as specified in Section III.A. above, except as set forth in the Development Agreement.

C. Disposition of Tax Increments

Upon expiration or termination of the ZONE and after all bonds and/or notes have been paid and all reimbursements have been made, any money remaining in the Tax Increment Fund shall be paid to the Participating Taxing Entities on a pro rata basis in accordance with Section 311.014(d) of the Texas Tax Code, or any successor provision thereto. Accounting to determine the pro rata distribution of remaining funds to the respective taxing entities shall be conducted according to generally accepted accounting principles, and shall be subject to review and audit by the COUNTY upon reasonable request. In the event a discrepancy occurs between the reviews conducted by the CITY and COUNTY, said dispute will be resolved by the respective audit offices of the CITY and COUNTY. In the event the dispute cannot be resolved it shall be submitted to mediation under the rules of the American Mediation Association with a mediator agreed upon by the County Judge of the COUNTY and the City Manager of the CITY.

VIII. MISCELLANEOUS

A. Understanding

Any and all costs incurred by the CITY, COUNTY or DEVELOPER are not, and shall never become, general obligations or debt of the COUNTY or any Participating Taxing Entity. With respect to the CITY, COUNTY and DEVELOPER's costs, only eligible Project Costs and other allowable expenses under applicable law, if any, incurred by the CITY, COUNTY or DEVELOPER shall be payable from the Tax Increment Fund in the manner and priority provided the Project and Finance Plan and the Development Agreement and only to the extent that funds become available in the Tax Increment Fund. The Parties agree and understand that under no circumstance shall the eligible costs exceed the maximum specified in the Project and Finance Plan passed and approved in accordance with Commission action, on March 9, 2015 and the Development Agreement. The CITY and the COUNTY are not obligated above and beyond what is actually collected as its Available Tax Increment during the Term of the ZONE, which shall deposited into the Tax Increment Fund.

B. Severability

In the event any term, covenant or condition herein contained shall be held to be invalid by any court of competent jurisdiction, such invalidity shall not affect any other term, covenant or condition herein contained.

C. Entire Agreement

This Agreement merges the prior negotiations and understandings of the Parties hereto and embodies the entire agreement of the Parties. There are no other agreements, assurances, conditions, covenants (express or implied), or other terms with respect to the covenants, whether written or verbal, antecedent or contemporaneous, with the execution hereof.

Upon the occurrence of any event that allows the CITY to terminate hereunder, the COUNTY shall have the right to withhold tax increment payments under this Agreement until such time as such

event is cured, and the COUNTY shall not incur any penalties or interest with respect to any such withheld payments notwithstanding any provision herein to the contrary. With respect to the COUNTY's obligations, to the extent there is any discrepancy between this Agreement and any exhibit hereto, the terms of this Agreement shall control.

D. Written Amendment

This Agreement may be changed or amended only by a written instrument duly executed on behalf of each Party hereto. All Parties to this Agreement understand and recognize that only the City Commission of CITY and only the Commissioners Court of the COUNTY have authority to approve a change or amendment to this Agreement on behalf of the CITY or the COUNTY, respectively.

E. Notices

All notices required or permitted hereunder shall be in writing and delivered by personal delivery, facsimile or United States Postal Service (certified mail, return receipt requested) and addressed to the respective other Party at the address prescribed in Section I of this Agreement, or at such other address as the receiving Party may have theretofore prescribed by notice to the sending Party. Such notices shall be deemed delivered the earlier of: (i) when actually received by personal delivery or facsimile if received during normal business hours and on the next business day if received after normal business hours; or (ii), if sent by the United States Postal Service, on the date indicated by the United States Postal Service on the return receipt as the date on which it was received by the respective other Party.

F. Non-Waiver

Failure of any Party hereto to insist on the strict performance of any of the agreements herein or to exercise any rights or remedies accruing hereunder upon default or failure of performance shall not be considered a waiver of the right to insist on, or to enforce by any appropriate remedy, strict compliance with any other obligation hereunder or to exercise any right or remedy occurring as a result of any future default or failure of performance.

G. Assignment

All Parties to this Agreement understand and recognize that only the City Commission of the CITY and only the Commissioners Court of the COUNTY have authority to approve a delegation or assignment of the COUNTY's or the CITY's rights in this Agreement on behalf of the CITY or the COUNTY, respectively. All Parties further agree that the DEVELOPER shall have the right to assign the right to receive reimbursements to a third party for the purpose of obtaining financing, or to a related third party without obtaining consent of any other Party, provided that such reimbursements have been approved by the ZONE BOARD and such assignments are made in compliance with the Development Agreement.

H. Successors

This Agreement shall bind and benefit the Parties and their legal successors or assigns. This Agreement does not create any personal liability on the part of any trustee, officer, owner, partner, principal, employee, elected official or agent of a Party to this Agreement.

I. Amendments to Project and Finance Plan

The COUNTY acknowledges that it was provided with a copy of the initial preliminary finance plan for review and comment before the Project and Finance Plan was finalized and approved by the City Commission of the CITY. The Parties agree that a Material Change to the Project and Finance Plan shall not apply to the COUNTY unless the COUNTY approves the change as provided herein. Further, if such amendment to the Project and Finance Plan (i) has the effect of directly or indirectly increasing the percentage of Tax Increment to be contributed by the COUNTY; or (ii) increases or reduces the geographical area of the ZONE set forth in the Project and Finance Plan, the COUNTY must approve said amendment in order for the amendment to be binding on the COUNTY.

J. Access to Financial Information

The ZONE agrees to conduct or to cause to be conducted, at a minimum, an annual financial review, a copy of which will be provided to the COUNTY. Furthermore, each Party to this Agreement shall have reasonable access to financial or other information and audit reports regarding the operation of the ZONE, contribution of Tax Increment Payments to the Tax Increment Fund, and expenditures from the Tax Increment Fund for Project Costs. In addition, the CITY agrees, during the term of this Agreement, to prepare and deliver an annual report to the COUNTY in accordance with Section 311.016 and 311.0101(c), Texas Tax Code. The COUNTY shall have the right to withhold or delay payments to the Tax Increment Fund until such time as it has received the financial report from the CITY for the applicable tax year, and shall not incur any penalties or interest with respect to any such withheld or delayed payments notwithstanding any provision herein to the contrary.

K. Development Agreement

The CITY, DEVELOPER, and ZONE BOARD have entered into the Development Agreement. The CITY hereby agrees with COUNTY to use reasonable efforts to enforce and follow the provisions of the Development Agreement against DEVELOPER, including, without limitation, the DEVELOPER's compliance with all applicable building codes and ordinances, as modified or amended and all applicable federal, state, and local laws, rules, regulations, statutes, ordinances, orders and codes, as amended, pertained to the construction of the Project. The CITY and the ZONE agree to provide the COUNTY with a copy of any notice of Default that is delivered or sent to any party under the Development Agreement within five (5) business days after receipt of the notice by the CITY or the ZONE. The COUNTY shall have the right to consent to any waivers of Default. The COUNTY shall also have the rights to consent to any changes or modifications in DEVELOPER's or other Parties' obligations prior to such modifications or changes being effective, if modifications or changes constitute a Material Change.

M. ZONE Designation

The CITY represents that its designation of the ZONE meets the criteria of Section 311.005(a), Texas Tax Code.

[SIGNATURES ON FOLLOWING PAGE]

IN WITNESS HEREOF, the CITY OF MCALLEN; HIDALGO COUNTY; DEVELOPER; AND TAX INCREMENT REINVESTMENT ZONE NUMBER ONE (1), CITY OF MCALLEN, TEXAS have made and executed this Agreement in quadruplicate originals on this 17th day of March, 2015.

CITY OF MCALLEN

HIDALGO COUNTY

Jim Darling
Jim Darling
City Mayor

Ramon Garcia
Hon. Ramon Garcia
County Judge

ATTEST/SEAL:

ATTEST/SEAL:

Annette Villarreal
Annette Villarreal
City Secretary



Arturo Guajardo, Jr.
Arturo Guajardo, Jr.
County Clerk

**APPROVED AS TO FORM FOR
THE CITY OF MCALLEN:**

**APPROVED AS TO FORM FOR
HIDALGO COUNTY:**

Kevin Pagan
Kevin Pagan, City Attorney

Atlas, Hall, & Rodriguez, LLP

By: Stephen L. Crain
Stephen L. Crain

**DEVELOPER:
RHODES ENTERPRISES, INC.**

Mike Rhodes
Mike Rhodes
President



Approved by Commissioners' Court
on 3-17-15

**REINVESTMENT ZONE NUMBER ONE,
CITY OF MCALLEN, TEXAS
(Tres Lagos Development Project)**

Mike Rhodes
Mike Rhodes
Presiding Officer

Exhibit A
Tres Lagos Development Project
Project and Finance Plan

Exhibit B
Tres Lagos Development Project
City of McAllen Ordinance No. 2014-75

ORDINANCE NO. 2014-75

DESIGNATING THE TRES LAGOS DEVELOPMENT PROJECT BEING A +/- 2571 ACRE AREA LOCATED IN THE NORTHERN MOST AREA OF THE CITY AS A TAX INCREMENT REINVESTMENT ZONE; DESCRIBING THE BOUNDARIES OF THE ZONE; CREATING A BOARD OF DIRECTORS FOR THE ZONE; PROVIDING FOR AN EFFECTIVE DATE AND A TERMINATION DATE FOR THE ZONE; NAMING THE ZONE "REINVESTMENT ZONE NUMBER ONE, CITY OF MCALLEN, TEXAS"; ESTABLISHING A TAX INCREMENT FUND; AND CONTAINING OTHER PROVISIONS RELATED THERETO.

WHEREAS, the Board of Commissioners (the "Commission") of the City of McAllen, Texas (the "City") desires to support revitalization, economic development and job creation activities for the community through the construction of the TRES LAGOS Development Project (the "Project"), to be funded in whole or in part through the creation of a Tax Increment Reinvestment Zone (a "Reinvestment Zone"), as hereinafter more specifically defined and named, and with boundaries as hereinafter provided, pursuant to the provisions of the Tax Increment Financing Act (the "Act"), *Texas Tax Code, Chapter 311*; and

WHEREAS, the City received a petition for Reinvestment Zone designation by owners representing over 50% of the appraised value of the land in the proposed Reinvestment Zone; and the City agrees to create the Zone (as defined below) as petitioned; and

WHEREAS, the proposed public improvements for the Zone are those set forth in the preliminary project plan for the Zone; and

WHEREAS, pursuant to the Act, the City may designate a contiguous geographic area within the jurisdiction of the City to be a Reinvestment Zone if the area satisfies certain sections of the Act; and

WHEREAS, on October 27, 2014, the Commission adopted Resolution No. 2014-51, expressing its intent to create the proposed Zone in order to encourage the growth and development of new housing opportunities within the City limits; and

WHEREAS, on November 18, 2014, the Commissioners Court of Hidalgo County (the "County") passed and approved a Resolution of Intent to Participate to Participate in Proposed Reinvestment Zone Number One, City of McAllen, Texas, by pledging 77% of its maintenance and operation portion of the County's assessed and collected taxes during the term of the Zone; and

WHEREAS, pursuant to §311.003(b) of the Act, the City has distributed a copy of the preliminary finance plan for the Zone to the governing body of each taxing unit that levies taxes on real property in the proposed Zone; and

WHEREAS, it is hereby officially found and determined that the meeting at which this Ordinance was passed was open to the public, and public notice of the time, place and purpose of said meeting was given, all as required by Chapter 551, Texas Government Code; **NOW THEREFORE:**

BE IT ORDAINED BY THE CITY COMMISSION OF THE CITY OF MCALLEN:

SECTION 1. FINDINGS. The City hereby finds and declares that: (a) improvements in the Zone will significantly enhance the value of all the taxable real property in the Zone and will be of general benefit to the City; and (b) the Zone area meets the requirements of Section 311.005(a)(4) of the Act, being that the Zone area:

(1) is an area described in a petition requesting that the area be designated as a reinvestment zone, if the petition is submitted to the governing body of the municipality by the owners of property constituting at least 50 percent of the appraised value of the property in the area according to the most recent certified appraisal roll for the county in which the area is located.

The City, pursuant to the Act, further finds and declares that:

- (1) the proposed Zone is a contiguous geographical area located wholly within the jurisdictional limits of the City of McAllen;
- (2) the total appraised value of the taxable real property in the proposed Zone or in existing reinvestment zones, if any, does not exceed fifteen (15%) of the total appraised value of taxable real property in the City;
- (3) the proposed Zone does not contain more than fifteen (15%) of the appraised value of real property taxable by Hidalgo County; and
- (4) development or redevelopment within the boundaries of the proposed Zone will not occur solely through private investment in the reasonably foreseeable future without creation of the Zone.

SECTION 2. DESIGNATING THE AREA AS A REINVESTMENT ZONE. The area located in the northwestern most part of the City's jurisdictional limits and being commonly referred to as the "Tres Lagos Development Project", with the boundaries as more specifically described in Exhibits A and B attached hereto, and officially assigned the name as designated in Section 6 below (which reinvestment Zone so described, named and designated is hereinafter referred to as the "Zone"), is hereby designated as a Tax Increment Reinvestment Zone pursuant to the Act, specifically Chapter 311.005(a)(4) thereof.

SECTION 3. DESCRIPTION OF THE BOUNDARIES OF THE REINVESTMENT ZONE. Attached hereto as Exhibits "A" & "B" which are incorporated herein as if a part hereof, is a field notes description and a map depicting the

boundaries of the Zone, which consists of approximately 2571+/- acres of real property within the jurisdictional limits of the City.

SECTION 4. CREATION AND COMPOSITION OF A BOARD OF DIRECTORS FOR THE ZONE AND AUTHORITY OF BOARD.

There is hereby created a Board of Directors (the "Board") for the Zone, with all the rights, powers and duties as provided by the Act. Pursuant to §311.009(b) and §311.009(e)(2) the Board shall consist of nine (9) members and have the following composition:

- a) Six (6) members appointed by the City of McAllen, Texas by Ordinance of the City Commission and meeting the requirements of §311.009(e)(2) of the Texas Tax Code, which said members for the purpose of establishing the initial Board shall be:
 1. Mike Rhodes (hereby designated as Presiding Officer)
 2. Megan Clay
 3. Jaime Gonzalez
 4. Lori Rhodes
 5. Nick Rhodes
 6. James Darling; and
- b) One member appointed by Hidalgo County, Texas provided if the County waives the appointment of a board member the position shall be filled by an appointment made by the Commission; and
- c) The member of the State Senate, or their designee, pursuant to §311.009(b); and
- d) The member of the State House of Representatives, or their designee, pursuant to §311.009(b).

The term of each initial director shall be determined by lot and then recorded in the minutes of the organizational meeting of the Board. Four (4) of the initial directors shall serve an initial term of three (3) years, and three (3) shall serve an initial term of two (2) years. The term of each subsequent director shall be two (2) years. Vacancies shall be filled for the remainder of the unexpired term, by appointment made by the governing body that appointed the director who served in the vacated position.

The Commission shall annually appoint a member of the Board to serve as chairman of the Board for a one year term beginning January 1st and ending December 31st. The Board may elect a vice-chairman to serve in the absence of the chairman, and other officers as it deems appropriate.

The Board may hold its meetings at any place within the City as the Board may from time to time determine; provided that, in the absence of any such determination by the Board, the meetings shall be held at the City Commission Chambers of the City. The Board shall conduct its meetings in accordance with the requirements of the Act and the Texas Open Meetings Act, *Chapt. 551, Tex. Gov't. Code*, as amended. Regular meetings of the Board shall be held at such times and places as shall be designated, from time to time, by resolution of the Board. Notice of regular meetings need not be given to each of the Directors but public notice of each meeting shall be given in the manner prescribed by law. Special meetings of the Board shall be held whenever called by the chairman, the

vice-chairman in the absence of the chairman, or upon advice of or request by the Mayor. A majority of the directors fixed by this Ordinance shall constitute a quorum for Board meetings. The act of a majority of the directors present at a meeting at which a quorum is in attendance shall constitute the act of the Board, unless the act of a greater number is required by law.

The Board shall make recommendations to the Commission concerning the administration of the Zone. The Board shall prepare and adopt a project plan and financing plan for the Zone and must submit such plans to the Commission for its final approval. The Board shall possess all powers necessary to prepare, monitor, and administer such project plan and financing plan for the Zone as set forth in the project plan, financing plan and Development Agreement (as defined below) (hereafter collectively the "Governing Documents"). The Board shall have the power to enter into agreements for the acquisition of professional services relating to accounting and auditing functions required for administration the Zone. The Board shall have the power to review reimbursement requests submitted by the Developer and the City and shall approve payment of said reimbursements provided all of the prerequisites for approving the reimbursement as set forth in the Governing Documents have been complied with. All actions of the Board in administering the Zone must be carried out pursuant to the policies and procedures established by the Board, and must be in compliance with the Governing Documents and the Act. The Board shall submit an annual report on the status of the Zone to the Commission no later than 30 days prior to the end of the City's fiscal year. The Board may not undertake any of the projects set forth in the project plan or financing plan for the Zone in place of the Developer or the City without subsequent written authorization of the Commission to do so. Any powers not herein specifically delegated to the Board are specifically reserved to the Commission and the Board shall not have any rights of the City with respect to the Zone unless specifically delegated herein or by the Commission pursuant to a subsequent ordinance. Without limiting the foregoing, the Board shall NOT have any of the City's powers under *Chapter 211 of the Texas Local Government Code* nor shall the Board have any other powers which City is entitled to delegate to the Board under Sections 311.010 (b) (provided the Board may enter into the Development Agreement and contracts for professional accounting and auditing services), (c), (d), (f), or (h) of the Act.

SECTION 5. EFFECTIVE DATE AND TERMINATION DATE OF THE ZONE.

The Zone shall take effect immediately upon passage of this ordinance (the "Effective Date"). The term of the Zone shall be for a period of 30 years, beginning on the later of the Effective Date or the date of approval of the Development Agreement (so called herein) between the City, the Zone and Rhodes Enterprises, Inc. ("Developer") (the "Term"), unless otherwise terminated earlier as a result of (i) payment in full of all project costs, tax increment bonds or notes, if any, including interest on said bonds or notes, (ii) the Zone being deannexed from the City pursuant to the terms of the Ordinance annexing the property within the Zone or the terms of the Chapter 212 Agreement entered into between the City, M.L. Rhodes Ltd., and Rhodes Enterprises, Inc., it being acknowledged that the Zone shall automatically terminate upon the property within the Zone being deannexed from the City, (iii) any termination of the Development

Agreement as a result of the default of the Developer thereunder according to the terms of the Development Agreement, it being acknowledged that any such termination of the Development Agreement will result in the termination of the Zone, or (iv) as otherwise permitted by law.

SECTION 6. ASSIGNING A NAME TO THE ZONE. The Zone created hereby is assigned the name of “REINVESTMENT ZONE NUMBER ONE, CITY OF MCALLEN, TEXAS.”

SECTION 7. TAX INCREMENT BASE. The Tax Increment Base for the Zone is the total appraised value of all real property within the zone and taxable by the City and located in Zone, determined as of January 1, 2014, the year in which the Zone was designated as a Tax Increment Reinvestment Zone (the “Tax Increment Base”).

SECTION 8. LIMITATION OF TAX INCREMENT AND ESTABLISHMENT OF A TAX INCREMENT FUND. There is hereby created and established in the depository bank of the City, a fund to be called the “REINVESTMENT ZONE NUMBER ONE, CITY OF MCALLEN, TEXAS TAX INCREMENT FUND” (herein called the “Tax Increment Fund”).

The Tax Increment Fund may be divided into additional accounts and sub-accounts authorized by resolution or Ordinance of the Commission.

The Tax Increment Fund shall consist of, and there shall be deposited therein, (i) the percentage of the tax increment, as defined by Section 311.012(a) of the *Texas Tax Code*, that each taxing unit which levies real property taxes in the Zone, other than the City, has elected to dedicate to the Tax Increment Fund under an agreement with the City authorized by Section 311.013(f) of the Act, plus (ii) an amount calculated as a millage rate per hundred dollars of Captured Appraised Value (as defined below) of real property in the Zone that equals eighty percent (80%) of the “City’s M&O Tax Rate” as same is actually levied, collected and allocated to the City’s general fund. As used herein, “City’s M&O Tax Rate” means that portion of the City’s ad valorem tax rate used by the City for maintenance, support, current expenses and operations, and general municipal purposes and excluding the portion of the City’s property tax rate that is collected and apportioned for payment of outstanding general obligation bonded indebtedness commonly referred to as the “interest and sinking fund rate”. As used above, the phrase “Captured Appraised Value” means the captured appraised value of the property in the Zone as defined by Section 311.012(b), Texas Tax Code (i.e., the total appraised value of all real property taxable by the City and located in the Zone in any given year less the total appraised value of that property in 2014, the base year of the Zone. The amount of the tax increment to be contributed by the City to the Zone shall be deemed limited as set forth above for purposes of Section 311.013(l) of the Act.

Any interest received on monies held within the Tax Increment Fund as a result of depository interest or investment of said funds shall be added to the balance of the Tax

Increment Fund and such interest shall be credited towards the maximum amount to be contributed by the City and the County to the Tax Increment Fund.

The Tax Increment Fund shall be maintained in an account at a depository bank of the City and shall be secured in the manner prescribed by law for Texas cities. In addition, all revenues from (i) the sale of any obligations hereafter issued by the City and secured in whole or in part from the tax increments; (ii) revenues from the sale of any property acquired as part of a tax increment financing plan adopted by the Board; and (iii) other revenues dedicated to and used in the Zone shall be deposited into the Tax Increment Fund. Prior to the termination of the Zone, money shall be disbursed from the Tax Increment Fund only to pay project costs, as defined by the Texas Tax Code and pursuant to the terms of the Development Agreement, for the Zone, or to satisfy the claims of holders of tax increments bonds or notes issued for the Zone.

Any expenditure to be made from the Tax Increment Fund or any contract related thereto, must be approved by the Commission prior to such expenditure being made or contract being executed. Approval of the project plan and financing plan shall constitute approval by the Commission for the payments for the various Zone projects identified therein in accordance with such plans, provided such payment is approved by the Board according to the policies and procedures set forth in the project plan, financing plan and Development Agreement.

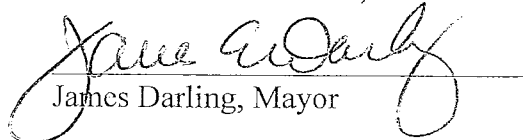
SECTION 9. INCORPORATION OF RECITALS. The Commission hereby finds that the statements set forth in the recitals of this Ordinance are true and correct, and the Commission hereby incorporates such recitals as a part of this Ordinance.

SECTION 10. SEVERABILITY. If any provision of this Ordinance or the application thereof to any circumstances shall be held to be invalid, the remainder of this Ordinance and the application thereof to other circumstances shall nevertheless be valid, as if such invalid provision had never appeared herein, and this governing body hereby declares that this Ordinance would have been enacted without such invalid provision.

SECTION 11. EFFECTIVE DATE. The Zone shall take effect immediately upon passage of this ordinance, pursuant to §311.004(a)(3) of the Act.

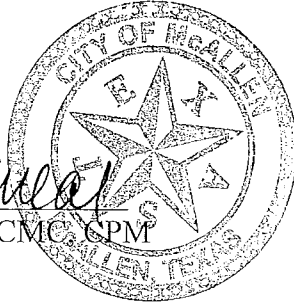
PASSED AND APPROVED AT MCALLEN, TEXAS, THIS 22nd DAY OF DECEMBER 2014.

CITY OF MCALLEN, TEXAS


James Darling, Mayor

ATTEST:


Annette Villarreal, TRMC/CMC/CPM
City Secretary



APPROVED AS TO FORM:

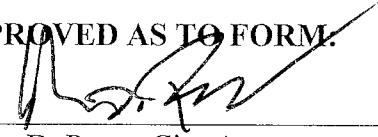

Kevin D. Pagan City Attorney

Exhibit B: Metes and Bounds Description

Tract 1: A tract of land containing 2561.402 acres situated in the County of Hidalgo, Texas, being 2571.402 acres comprised of 1.) 18.865 acres being a part or portion of LOT 54-7, OUT OF THE AMENDED MAP OF LOTS 53-6, 54-6, 55-6, 56-6, 57-6, 58-6, 59-6, 53-7, 54-7, 55-7, 56-7, 57-7, 58-7, 59-7, 53-8 & 53-9, WEST ADDITION TO SHARYLAND SUBDIVISION, according to the plat thereof recorded in Volume 6, Page 42, Hidalgo County Map Records, 2.) ALL OF SECTION 223, TEXAS-MEXICAN RAILWAY CO. SURVEY according to the plat thereof recorded in Volume 8, Page 54, Hidalgo County Map Records; 3.) ALL OF SECTION 224, TEXAS-MEXICAN RAILWAY CO. SURVEY according to the plat thereof recorded in Volume 411, Page 149-150, Hidalgo County Deed Records; 4.) a part or portion of SECTION 227, TEXAS-MEXICAN RAILWAY CO. SURVEY; 5.) a part or portion of SECTION 230, TEXAS-MEXICAN RAILWAY CO. SURVEY; 6.) a part or portion of SECTION 232, TEXAS-MEXICAN RAILWAY CO. SURVEY according to the patent issued by the State of Texas, to W. S. Daugherty recorded in Volume 4, Page 142-143, Hidalgo County Deed Records, SAVE AND EXCEPT 10.00 acres conveyed to Hidalgo County Irrigation District No. 7 by virtue of a Warranty Deed recorded in Volume 622, Page 638, Hidalgo County Deed Records, said 2571.402 acres also being more particularly described as follows:

BEGINNING at the Northeast corner of Section 232 Texas –Mexican Railway Co. Survey located on the city limits of the City of McAllen for the Northeast corner of this tract;

1. THENCE, in a Southwesterly direction along the East Lot line of Lot 232 and the city limits of the City of McAllen to the Southeast corner of said lot for the Northernmost Southeast corner of this tract;

2. THENCE, N 80° 23' 30" W along the South line of said Section 232, the North line of Lots 35-68, Section 229, Tex-Mex as per plat thereof recorded in Volume 12, Page 55, Hidalgo County Map Records, and within Mile 9 Road right-of-way, a distance of 5175.14 feet to an iron pipe found for the Southwest corner of said Section 232, and the Northeast corner of Section 230 for an inside corner of this tract;

3. THENCE, S 09° 05' 05" W along the East line of said Section 230, and the West line of Section 229, as per said plat thereof recorded in Volume 12, Page 55, Hidalgo County Map Records, at a distance of 2519.05 feet pass an iron pipe found in line, and now continuing along the West line of Section 229, Tex-Mex, as per plat thereof recorded in Volume 12, Page 22, Hidalgo County Map Records, and continuing a total distance of 3295.30 to an outside corner of this tract;

4. THENCE, N 80° 48' 32" W a distance of 251.52 feet (250.00 feet) to an iron rod set for an inside corner of this tract;

5. THENCE, S 08° 44' 55" W, at a distance of 20.00 pass an iron pipe found in line, and continuing a total distance of 250.00 feet to an iron pipe found for an outside corner of this tract;
6. THENCE, N 80° 55' 38" W a distance of 2503.36 feet (2503.2 feet) to an iron pipe found for an inside corner of this tract;
7. THENCE, S 09° 02' 13" W at a distance of 1611.44 feet pass the North right-of-way line of Mile 8 Road, and continuing a total distance of 1631.44 feet to the Southernmost Southeast corner of this tract;
8. THENCE, N 80° 48' 07" W along the South line of said Section 230, and within said Mile 8 Road right-of-way, a distance of 627.20 feet to an iron rod found for the centerline of Glasscock Road, and for an angle point of this tract;
9. THENCE, N 80° 47' 57" W along the South line of said Section 230, said Section 223, and within said Mile 8 Road right-of-way, a distance of 2644.96 feet to a concrete monument found for the centerline of Stewart Road, and for an angle point of this tract;
10. THENCE, N 81° 10' 51" W along the South line of said Section 223, and within said Mile 8 Road right-of-way, at a distance of 2658.21 feet pass an iron rod found in line and for the center line of Bryan Road, and continuing a total distance of 4164.66 feet to the Southwest corner of said Section 223, and for the Southernmost Southwest corner of this tract;
11. THENCE, N 08° 59' 01" E along the West line of said Section 223, a distance of 1554.21 feet to an iron rod set for an inside corner of this tract;
12. THENCE, N 81° 02' 31" W along the South line of said Section 223, and said Section 224, at a distance of 1161.82 feet pass an iron rod found in line, at a distance of 2462.04 feet pass an iron rod found in line, and continuing a total distance of 2915.12 feet to an iron pipe found for the Southwest corner of said Section 224 and to a point on the East line of said Lot 54-7, for an inside corner of this tract;
13. THENCE, S 08° 59' 01" W along the East line of said Lot 54-7, a distance of 110.00 feet to the Southeast corner of said Lot 54-7, for an outside corner of this tract;
14. THENCE, N 81° 17' 16" W along the South line of said Lot 54-7, at a distance of 761.50 feet pass a No.4 rebar set for the East right-of-way line of F.M. Road 2993 (Cantu Road), continuing a total distance of 791.50 feet to the Southwest corner of said Lot 54-7, for the Northernmost Southwest corner of this tract;

15. THENCE, N 08° 42'44" E along the West line of said Lot 54-7 and within the right-of-way of F.M. Road 2993 (Cantu Road), a distance of 280.00 feet to an outside corner of this tract;

16. THENCE, S 81° 17' 16" E at a distance of 30.00 feet pass a No.4 rebar set for the East right-of-way line of F.M. Road 2993 (Cantu Road), continuing along the South line of The Frass Subdivision (Vol.25, Pg.134-A H.C.M.R.), for a total distance of 205.00 feet to a No.4 rebar set at the Southeast corner of said The Frass Subdivision, for an inside corner of this tract;

17. THENCE, N 08° 42' 46" E along the East line of said The Frass Subdivision, a distance of 125.00 feet to a No.4 rebar set at the Northeast corner of said The Frass Subdivision, for an inside corner of this tract;

18. THENCE, N 81° 17'16" W along the North line of said The Frass Subdivision, at a distance of 175.00 feet pass a No.4 rebar set for the East right-of-way line of F.M. Road 2993 (Cantu Road), continuing a total distance of 205.00 feet to an outside corner of this tract;

19. THENCE, N 08° 42'44" E along the West line of said Lot 54-7 and within the right-of-way of F.M. Road 2993 (Cantu Road), a distance of 692.13 feet to the Southernmost Northwest corner of this tract;

20. THENCE, S 81° 17' 16" E along the South line of a certain 3.82-acre tract, at a distance of 30.00 feet pass a No.4 rebar set for the East right-of-way line of F.M. Road 2993 (Cantu Road), continuing a total distance of 746.69 feet to a No.4 rebar set for an outside corner of this tract;

21. THENCE, S 08° 59' 01" W along the West line of a tract conveyed to Hidalgo Co. Water Control & Imp. Dist. No.7 (now United Irrigation District) by virtue of a Deed recorded in Vol.519, Pg.65, Hidalgo County Deed Records, a distance of 477.14 feet to a No.4 rebar set for an inside corner of this tract;

22. THENCE, S 81° 17' 16" E along the South line of said tract conveyed to Hidalgo Co. Water Control & Imp. Dist. No.7, a distance of 50.00 feet to a No.4 rebar set for an inside corner of this tract;

23. THENCE, N 08° 59' 01" E along the West line of said Section 224, a distance of 2284.35 feet to an iron pipe found for the Northwest corner of said Section 224, and for an outside corner of this tract;

24. THENCE, S 81° 02' 31" E along the North line of said Section 224, a distance of 2554.12 feet to an iron rod set for the Northeast corner of said Section 224, and for an inside corner of this tract;

25. THENCE, N 08° 59' 01" E along the West line of said Section 223, a distance of 854.95 feet to an iron pipe found for the Northwest corner of said Section 223, and for an outside corner of this tract;

26. THENCE, S 80° 46' 58" E along the North line of said Section 223, a distance of 3177.65 feet to an iron pipe found for an angle point of this tract;

27. THENCE, S 80° 45' 29" E along the North line of said Section 223, a distance of 2102.46 feet to an iron pipe found for the Northeast corner of said Section 223, and for an inside corner of this tract;

28. THENCE, N 09° 03' 26" E along the West line of said Section 227, at a distance of 3795.04 feet pass an iron pipe found in line, and continuing a distance of 5216.19 feet to an iron pipe found for the South right-of-way line of Monte Cristo Road (F.M. 1925) and a distance of 5,256.19 feet to the Northwest corner of Section 227 and the Northernmost Northwest corner of this tract;

29. THENCE, in a Southeasterly direction along the North lot line of Section 227 and 232 to the Northeast corner of Section 232 to the POINT OF BEGINNING, and containing 2571.402 acres, SAVE AND EXCEPT the above mentioned 10.00 acres conveyed to Hidalgo County Irrigation District No. 7, leaving 2,561.402 acres of land, more or less, as shown in Exhibit A.

Exhibit C
Tres Lagos Development Project
Development Agreement