

Schertz Reinvestment Zone #2
Second Amended Development Agreement
Amended Project and Finance Plan
Amended Interlocal Agreement (collectively, the “TIRZ Documents”)
Revision Summary

The following highlights the more significant proposed changes in the TIRZ Documents. There are a number of changes made which were intended to conform the original language in the TIRZ Documents to the reality of today. For instance, certain defined terms as well as approval procedures have been revised to correspond to the actual terminology and procedure that the Developer employs with the City Staff (e.g., planning, engineering, public works, etc.) during the acceptance and approval of public improvements. Similarly, the original plan and documents included requirements which have since been completed and fulfilled and those requirements have been acknowledged.

However, there are some more substantive changes made in the TIRZ Documents which warrant identification and discussion:

1. Language has been added regarding the maintenance and application of the Architectural Standards of The Crossvine. The Architectural Standards in The Crossvine are the foundation for the value that has been created. A further requirement has been added to the Development Agreement that each Reimbursement Request be accompanied by Developer certification that the Architectural Standards have not changed and are being universally applied and complied with.
2. Prior iterations of the TIRZ Documents required that all improvements be constructed specifically as set forth in the PDD and in the Project and Financing Plan. Some flexibility in application of these standards is necessary in development. The focus is now centered on intent and spirit rather than strict compliance. The revised TIRZ Documents embed the concept of “Substantially in Accordance”. Ultimately, the approval of plats, acceptance of improvements, etc. by the City is considered evidence that the improvements that have been constructed are “Substantially in Accordance” with the PDD and the Project Financing Plan.
3. Previous drafts of the documents focused on “Modules” or “Phases” for the purpose of submission of requests for approval, reimbursement, etc.. The revised draft contemplates submission of requests annually or upon completion of various components (individual plats) of a Module (rather than an entire Module). There are only three modules in the development area and each Module can be fairly large. For instance, the development is just now completing Module I which was composed of four separate units/plats for a total of almost 600 homes. This proposed change, as is the case with many of the others, is intended to conform the documents to the actual practice that has developed between the City and the Developer over the course of the development period.
4. The TIRZ Documents provide that the Developer’s remaining obligation for the Fire/EMS station is a cash contribution of \$500,000. This is in recognition of (i) additional land provided by the Developer for the final location of the Fire/EMS station, (ii) the infrastructure and drainage

contributions by the Developer for this location, (iii) Developer's (pending) contribution of approximately 1 acre adjacent to the Fire/EMS station for an indoor shooting range, (iv) Developer's voluntary abandonment of the development of 302 homes on 150+ acres within the APZ II area in the AICUZ, (v) the release of any restrictions on the use of the originally contributed land on Ware Seguin Road for the Fire/EMS station, and (vi) other valuable consideration.

5. Section 8.2 of the Development Agreement contained language regarding Community and Builder signs that were to be allowed and which would ultimately revert to city ownership. The referenced section is included as an addendum to this memorandum. This section has been Intentionally Deleted. The contemplated signs were never constructed or installed and this section no longer applies to any current or anticipated circumstance.
6. The revisions contemplate an increase in participation by Bexar County to 80% of ad valorem tax revenue while SARA's participation remains unchanged.
7. The revisions also provide that the TIRZ contributions into the Tax Increment Fund may be paid to a Trustee and the Trustee will then make the distributions according to direction from the Developer. This does not increase any additional obligations on the Participating Taxing Units and actually, decreases obligations. Payments are made to the Trustee and the Developer can direct where those go (for collateral for bank financing, etc.) without any obligation on the Taxing Units to make those determinations.
8. January 31 has been proposed as the date upon which payments will be made to the Developer from the Tax Increment Fund or the Trustee. The payments to be made are 13 months after the due date for each year's taxes. For the purposes of clarity and by way of example, ad valorem tax payments which were established as of January 1, 2018 and which are due from landowners by December 31, 2018, shall be paid into the Tax Increment Fund and disbursed to the Developer on or before January 31, 2020. Further, this incorporates the concept that the Participating Taxing Units only pay what has been received. Any amount due for a particular tax year which is paid subsequent to the applicable January 31 disbursement date is rolled over and paid the following year. Further, the payment by each Participating Taxing Unit into the Tax Increment Fund constitutes the agreement by the Participating Taxing Unit for the distribution to the Developer without the need for separate approval.
9. A concept which underlies the entire TIRZ concept has been more specifically addressed in the Default and Remedy section of the documents. This concept provides that if there is a default, a failure to cure, and a subsequent termination of the TIRZ Documents that the termination will only impact future reimbursement requests. Reimbursement requests that have already been approved will continue to be disbursed; however, the Developer will not be reimbursed for any request submitted after the date of default.
10. Additional property has been added to the TIRZ reimbursement area. A number of parcels are smaller parcels which were subsequently acquired by Developer and added in order to "round out" development areas and make the development more efficient. A larger parcel of residential development area was subsequently added by Developer since the original TIRZ was formed. A map reflecting the additional land is included.

11. The aggregate cap on the amount of reimbursement for public improvements has been increased to \$66 million to reflect the significant increased spending by the Developer on public improvements in the form of roads, utility infrastructure, public greenspaces and walking and hiking trails.
12. The term of the TIRZ has been extended to December 31, 2041. A number of factors have combined to make this extension of the term a necessity.

As we are all aware, the economic downturn in 2008 and continuing thereafter cast a pall on the entire development and homebuilding environment nationwide for a number of years. After the initial lots sales in 2008, Developer did not begin lot sales for 6 more years with only 14 sales in 2015.

A more realistic development approach has been pursued by Developer as compared to the original developer. While the original developer proposed sales in some years exceeding 200, 300, and in one case, 400 homes a year, the current Developer has tempered this with a much more moderate expectation of absorption.

In addition, although the anticipated future road improvements along 1518 will significantly improve traffic flow, the Developer anticipates a negative impact upon residential absorption (and most certainly commercial absorption) during the course of the construction of the 1518 roadway improvements.

Legislation which provided waivers of some or all ad valorem taxes for certain conditions (e.g., disabled veterans, etc.) has eroded tax revenue. For instance, in 2015 the Assessed Valuation was roughly 92% of the determined Market Value. However, for 2019 the Assessed Valuation had declined to 76% of Market Value. We appreciate the overwhelming reception by our military community and had anticipated that our walking trails, etc. would be appealing to this demographic. However, we didn't anticipate the erosion of tax revenue as a result of legislative grants.

Further, the long term effects of the recent economic consequences of the COVID-19 pandemic have yet to be determined. However, we have concerns that absorption and pricing may be impacted in the near term.

13. Projections by the original Developer anticipated \$438,013,003 in market value at the end of the term. The revised projections by Developer anticipate \$932,326,389 in market value at the end of the term of the TIRZ.

Addendum
Redacted Section 8.2 of the Development Agreement

8.2 The City herein agrees to allow exterior signs to be erected within the Property. Prior to the placement of any signs, the Developer will submit the proposed sign design and the proposed number and location of the signs to the City for approval, which approval shall not be unreasonably withheld, conditioned, or delayed. Notwithstanding any other provisions of this Agreement or the PDD for the Project or Property previously approved by the City to the contrary, the City agrees to consider for approval, such approval not to be unreasonably withheld, conditioned or delayed, ten (10) Project signs to be erected by Developer, at Developer's sole cost and expense, outside of the Property boundaries, but within the boundaries of the Zone. Such signage shall at all times be constructed and maintained, in good condition and working order, and used by Developer in full compliance with the requirements of this Development Agreement and all applicable laws, statutes and regulations. Developer agrees that (i) on the tenth (10th) anniversary of the completion of construction of each sign or upon completion of seventy percent (70%) of developable acreage within the Property, whichever occurs first in time, and (ii) receipt of a written notification from the City requesting dedication of the sign to the City, Developer will (A) dedicate each such sign to the City free of charge, (B) remove all Developer signage from each such sign dedicated, and (C) assign to City any ground lease or other real property interest associated with such signs (subject to the City's assumption of all duties and obligations associated with such lease on real property interested so assigned).