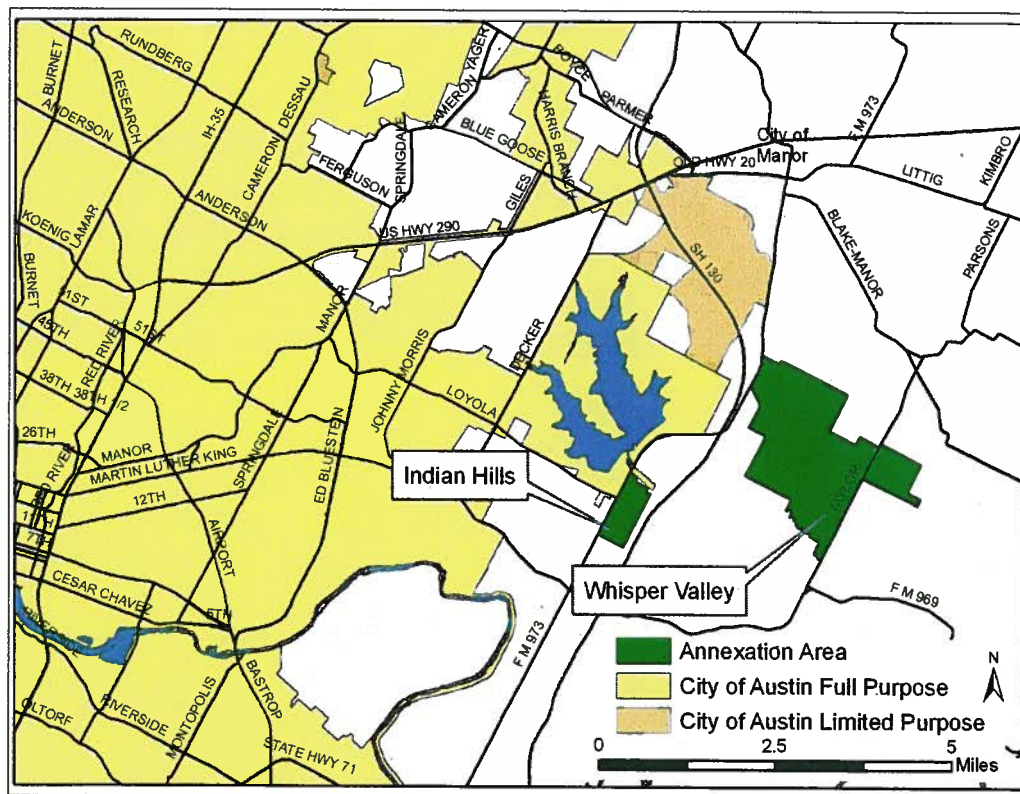




MEMORANDUM

To: Mayor and City Council
From: Leslie Browder, Chief Financial Officer *LB*
Date: August 12, 2011
Re: Update on Whisper Valley and Indian Hills Project and Bond Sale Schedule

In January 2011, we updated you on the current status and timeline for financing the infrastructure improvements needed for the future development of Whisper Valley and Indian Hills, two mixed-used planned communities to be located in the SH 130 corridor in the City of Austin's Desired Development Zone as depicted in the map below. We provided a fairly lengthy project background for you at that time, which is partially repeated below since the memo was distributed several months ago.



Project Background The Whisper Valley property (2,062 acres) was purchased by Taurus of Texas Holdings L.P. in June 2006 and is located east of SH 130. At completion, the development is expected to consist of approximately 2,848 detached single family residential units, 1,990

attached single family residential units, 2,668 multifamily units, 217.3 acres of commercial development, and 38 acres of mixed-use development. The development will also contain approximately 700 acres of open space/parkland.

The Indian Hills property (240 acres) was purchased by Taurus in December 2005 and is located west of SH 130. Plans for this site include approximately 1,500 apartment units, 2.7 million square feet of office, research and development and light industrial, and 131,000 square feet for neighborhood retail uses. The center portion of the site will be used for the extension of Decker Lake Road, the main thoroughfare.

Council Actions In June 2009, the City Council voted to approve related development agreements, and in August 2010, voted to approve zoning and limited purpose annexation. Whisper Valley has been zoned as a planned unit development and Indian Hills has been approved for the straight zoning needed for planned development. The City Council also approved the creation of a separate public improvement district (PID) for each of the two planned developments, in response to a petition by the property owners, a State law prerequisite to creation of a PID. The PID will provide a financing mechanism through the apportionment, levying and collection of assessments to help pay for the basic infrastructure that will support the planned communities. A public hearing was held on August 4, 2011, as required by law for Council to receive input on the draft service and assessment plans. No speakers signed up for comment. The assessments will be brought forward to Council to be approved and “levied” when the service and assessment plans are brought to the City Council for approval on August 25, 2011.

On May 26, 2011, Council approved the negotiation and execution of contracts with the underwriting firm of Piper Jaffray, and the law firm of Fulbright and Jaworski. The team also includes the City’s financial advisor Public Financial Management, Inc. and Economic and Planning Systems, a firm specializing in real estate development market analysis and implementation support. Upon successfully completing the due diligence needed to issue PID obligations, most of these costs will be eligible for reimbursement from the bond proceeds. To cover costs for bond counsel and financial advisors until the bond sale becomes a reality, the City executed an agreement with the developer in which the developer has provided funds to the City upfront, as well as agreeing to replenish these funds as needed, to defray these initial costs. These developer funds do not require City reimbursement, but may be eligible for reimbursement from future PID bond proceeds. We anticipate bringing several requests for Council action to approve bond offering documents and the issuance of PID bonds on August 25, 2011. [rescheduled to November 3, 2011]

Project Plan and Estimated Phasing These two projects are long-term in nature, and the first phase is designed to construct the basic infrastructure needed before site development can begin. This basic infrastructure (excluding subdivision internal structure) includes approximately 2.4 miles of major divided arterial roadway (Braker Lane) to connect FM 973 to Taylor Lane, a wastewater treatment facility with capacity up to 3 million gallons per day, several lift stations, 2.5 miles of 30-inch wastewater interceptor, and 12 miles of large diameter (24-inch diameter and greater) water transmission main. All water and wastewater infrastructure will ultimately be turned over to the City and designed in accordance with City standards. These “macro” improvements will provide benefit to the two projects as a whole. Buildout is then anticipated over 15 to 20 years after this initial phase in response to market demand for housing. The total

cost of infrastructure improvements after all phases have been completed is forecast at approximately \$270 million for Whisper Valley and \$28 million for Indian Hills.

Current Financing Plan The developer plans to construct improvements in phases as the property builds out, and has previously asked the City to issue bonds, backed by the PID assessments, both during discussions regarding the development agreements in 2009 and during formation of the PIDs in 2010. PID bonds are considered to be special assessment revenue bonds and are not secured by the full faith and credit of City. Bonded debt service is paid for by special assessments levied on the real property within the PID. The financing plan for the Whisper Valley and Indian Hills projects includes the issuance of approximately \$37 million in PID bonds, with developer equity contributions of approximately \$7 million.

Current financing projections for the “macro infrastructure” of the Whisper Valley and the Indian Hills project include the issuance of two separate series of bonds that will include senior bonds as well as subordinate bonds.

- The senior PID bonds, estimated at \$16 million, will be secured by an assessment on the real estate. The assessments will be approved and “levied” by the City Council when the PID’s service and assessment plan is brought to the City Council for approval on August 25, 2011.
- The subordinate PID bonds, estimated at approximately \$21 million, will also be secured by the assessments, which are secured by a lien on the property, but will be junior to the senior bonds. These bonds will be secured by an additional source of funding, the estimated proceeds of cost reimbursement agreements between the developer and the City related to the water/wastewater infrastructure.
- The PID bonds will be tax exempt. The senior PID bonds will have a term of 30 years, but the subordinate bonds will have an early call provision and a shorter term so that the bonds can be paid down as the City reimbursements become available.

As a developer subdivides and sells off the land, the new property owner assumes the assessment burden. The ultimate security for PID bonds is the value of the real property being assessed, so it is important that the appraised value of the land be sufficient to secure the bonded debt, and reflect conservative valuation assumptions to account for changes in the real estate market over time. Under the oversight of the City’s real estate staff, the City contracted with a qualified appraiser to assess the value of the Whisper Valley and Indian Hills properties to ascertain that adequate value-to-assessment burden ratios were in place prior to the issuance of PID obligations. The appraisal sets forth the estimated aggregate retail value of the taxable property subject to assessment within both PIDs and the present value of the reimbursements for a total combined value estimate of \$80 million. The estimated combined value to assessment burden ratio is approximately 5.13 times the expected principal amount of the bonds for Whisper Valley and a ratio of 5.01 times for Indian Hills. Based on an evaluation of the City’s financial advisor and the underwriter, these ratios are considered favorable for a financing of this nature.

Additional project controls will be in place, including City control over disbursement of the bond proceeds, as well as payment of the reimbursement agreements, to help ensure that the improvements are completed as planned. City PID guidelines recommend that no city taxes are imposed until PID bonds are retired to help ensure that financing is structured so that undue

burden is not placed on future homeowners/landowners by paying both City taxes and PID assessments. As a result, only City services related to the construction and maintenance of the infrastructure that is being financed will be provided to the encumbered land until the PID obligations are retired and City taxes begin to be paid. For example, public safety services will continue to the responsibility of Travis County during this time period. As buildout is completed, preliminary estimates at this time indicate that the maximum annual assessment on a home valued at \$200,000 would approximate \$840 per year, or 42 cents per \$100 of assessed valuation.

Supplemental Due Diligence Completed In addition to the appraisal discussed above, we have taken a number of steps that will help assure the financial viability associated with the Whisper Valley and Indian Hills projects, as outlined below.

- Conducted a lien search and verified that the property is free and clear of any encumbrances.
- Researched the financial background and “credit worthiness” of the developer, similar to the due diligence completed for City redevelopment projects.
- Used the services of Economic & Planning Systems to provide analysis, quality assurance and risk mitigation throughout the financing and appraisal process

Please do not hesitate to contact me if you have any questions or need additional information.

cc: Marc A. Ott, City Manager
Sue Edwards, Assistant City Manager
Lauraine Rizer, Real Estate Services
Sharon Smith, Law Department