

NEW ISSUE

PRELIMINARY LIMITED OFFERING MEMORANDUM DATED NOVEMBER 29, 2018

THE BONDS ARE INITIALLY OFFERED ONLY TO (1) AN “ACCREDITED INVESTOR” (AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933), OR (2) A “QUALIFIED INSTITUTIONAL BUYER” (WITHIN THE MEANING OF RULE 144A UNDER THE SECURITIES ACT OF 1933). SEE “LIMITATIONS APPLICABLE TO INITIAL PURCHASERS”.

In the opinion of Bond Counsel, interest on the Bonds will be excludable from gross income for federal income tax purposes under existing law, subject to the matters described under “TAX MATTERS” herein. See “TAX MATTERS — Tax Exemption” herein for a discussion of Bond Counsel’s opinion.

\$4,265,000*

CITY OF AUSTIN, TEXAS

(a municipal corporation of the State of Texas located in Travis, Williamson and Hays Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2018

(ESTANCIA HILL COUNTRY PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #1)

Dated Date: December 1, 2018

Due: November 1, as shown on the inside cover

Interest to Accrue from Date of Delivery

The City of Austin, Texas Special Assessment Revenue Bonds, Series 2018 (Estancia Hill Country Public Improvement District Improvement Area #1) (the “Bonds”), are being issued by the City of Austin, Texas (the “City”). The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$25,000 of principal amount and any integral multiple of \$5,000 in excess thereof. The Bonds will bear interest at the rates set forth on the inside cover, calculated on the basis of a 360-day year of twelve 30-day months, payable on each May 1 and November 1, commencing May 1, 2019, until maturity or earlier redemption. The Bonds will be registered in the name of Cede & Co., as nominee of The Depository Trust Company (“DTC”), New York, New York. No physical delivery of the Bonds will be made to the beneficial owners thereof. For so long as the book-entry only system is maintained, the principal of and interest on the Bonds will be paid from the sources described herein by U.S. Bank National Association, as trustee (the “Trustee”), to DTC as the registered owner thereof. See “BOOK-ENTRY ONLY SYSTEM.”

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), an ordinance expected to be adopted by the City Council of the City (the “City Council”) on December 13, 2018, and an amended and restated Indenture of Trust, dated as of December 1, 2018 (the “Indenture”), entered into by and between the City and the Trustee. The Bonds are being issued as “Additional Bonds” pursuant to the terms of the hereinafter defined Original Indenture and are being issued on parity with the Initial Improvement Area #1 Bonds (defined herein).

Proceeds of the Bonds will be used to provide funds for (i) paying a portion of the costs of certain public improvements for the benefit of Improvement Area #1 (as defined herein) of the Estancia Hill Country Public Improvement District (the “District”), (ii) funding a reserve fund for payment of principal and interest on Bonds Similarly Secured (as defined herein), and (iii) the payment of the costs of issuance of the Bonds. See “THE IMPROVEMENTS” and “APPENDIX B — Form of Indenture.” Capitalized terms not otherwise defined herein shall have the meanings assigned to them in the Indenture.

The Bonds, when issued and delivered, will constitute valid and binding special obligations of the City payable solely from and secured by the Pledged Revenues, consisting primarily of Improvement Area #1 Assessments (as defined herein) levied against assessable properties in Improvement Area #1 of the District in accordance with a Service and Assessment Plan and other funds comprising the Trust Estate, all to the extent and upon the conditions described herein. The Bonds are not payable from funds raised or to be raised from taxation. See “SECURITY FOR THE BONDS SIMILARLY SECURED.” The Bonds are subject to redemption at the times, in the amounts, and at the redemption price more fully described herein under the subcaption “DESCRIPTION OF THE BONDS — Redemption Provisions.”

The Bonds involve a significant degree of risk and are not suitable for all investors. See “BONDHOLDERS RISKS” and “SUITABILITY FOR INVESTMENT.” Prospective purchasers should carefully evaluate the risks and merits of an investment in the Bonds, should consult with their legal and financial advisors before considering a purchase of the Bonds, and should be willing to bear the risks of loss of their investment in the Bonds. The Bonds are not credit enhanced or rated and no application has been made for a rating on the Bonds.

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

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

The Bonds are offered for delivery when, as, and if issued by the City and accepted by the Underwriter (identified below), subject to, among other things, the approval of the Bonds by the Attorney General of Texas and the receipt of the opinion of Norton Rose Fulbright US LLP, Bond Counsel, as to the validity of the Bonds and the excludability of interest thereon from gross income for federal income tax purposes. See “APPENDIX D — Form of Opinion of Bond Counsel.” Certain legal matters will be passed upon for the City by its Assistant City Attorney and by McCall, Parkhurst & Horton L.L.P. as Disclosure Counsel to the City, for the Underwriter by its counsel, Orrick, Herrington & Sutcliffe, LLP, and for the Landowner by its counsel, Metcalfe Wolff Stuart & Williams LLP. It is expected that the Bonds will be delivered in book-entry form through the facilities of DTC on or about December 28, 2018 (the “Date of Delivery”).

FMSbonds, Inc.

* Preliminary, subject to change.

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

CUSIP Prefix: ^(a)

\$4,265,000*

CITY OF AUSTIN, TEXAS,

(a municipal corporation of the State of Texas located in Travis, Williamson and Hays Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2018

(ESTANCIA HILL COUNTRY PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #1)

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

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

(a) CUSIP numbers are included solely for the convenience of owners of the Bonds. CUSIP is a registered trademark of the American Bankers Association. CUSIP data herein is provided by CUSIP Global Services, managed by S&P Global Market Intelligence on behalf of The American Bankers Association. This data is not intended to create a database and does not serve in any way as a substitute for the CUSIP Services. CUSIP numbers are provided for convenience of reference only. None of the City, the City's Financial Advisor or the Underwriter takes any responsibility for the accuracy of such numbers.

() The Bonds are subject to mandatory sinking fund redemption and extraordinary optional redemption as described herein under "DESCRIPTION OF THE BONDS — Redemption Provisions."

* Preliminary, subject to change.

CITY OF AUSTIN, TEXAS

Elected Officials

	<u>Term Expires January</u>
Steve Adler	Mayor 2022
Ora Houston	Councilmember Place 1 2019 ⁽¹⁾
Delia Garza	Councilmember Place 2 2021
Sabio “Pio” Renteria	Councilmember Place 3 2019 ⁽¹⁾
Gregorio “Greg” Casar	Councilmember Place 4 2021
Ann Kitchen	Councilmember Place 5 2022
Jimmy Flanagan	Councilmember Place 6 2021
Leslie Pool	Councilmember Place 7 2021
Ellen Troxclair	Councilmember Place 8 2019 ⁽¹⁾
Kathryne B. Tovo, Mayor Pro Tem	Councilmember Place 9 2022
Alison Alter	Councilmember Place 10 2021

Appointed Officials

Spencer Cronk	City Manager
Elaine Hart, CPA	Deputy City Manager/Chief Financial Officer
Greg Canally	Deputy Chief Financial Officer
Ed Van Eenoo	Deputy Chief Financial Officer
Anne Morgan	City Attorney
Jannette S. Goodall	City Clerk

BOND COUNSEL

Norton Rose Fulbright US LLP
Austin and Dallas, Texas

DISCLOSURE COUNSEL FOR THE CITY

McCall, Parkhurst & Horton L.L.P.
Austin and Dallas, Texas

FINANCIAL ADVISOR

PFM Financial Advisors, LLC
Austin, Texas

SERVICE AND ASSESSMENT PLAN CONSULTANT

P3Works, LLC
Austin and Keller, Texas

For additional information regarding the City, please contact:

Belinda Weaver
Interim Treasurer
City of Austin
700 Lavaca, Suite 940
Austin, TX 78701
(512) 974-7885
belinda.weaver@austintexas.gov

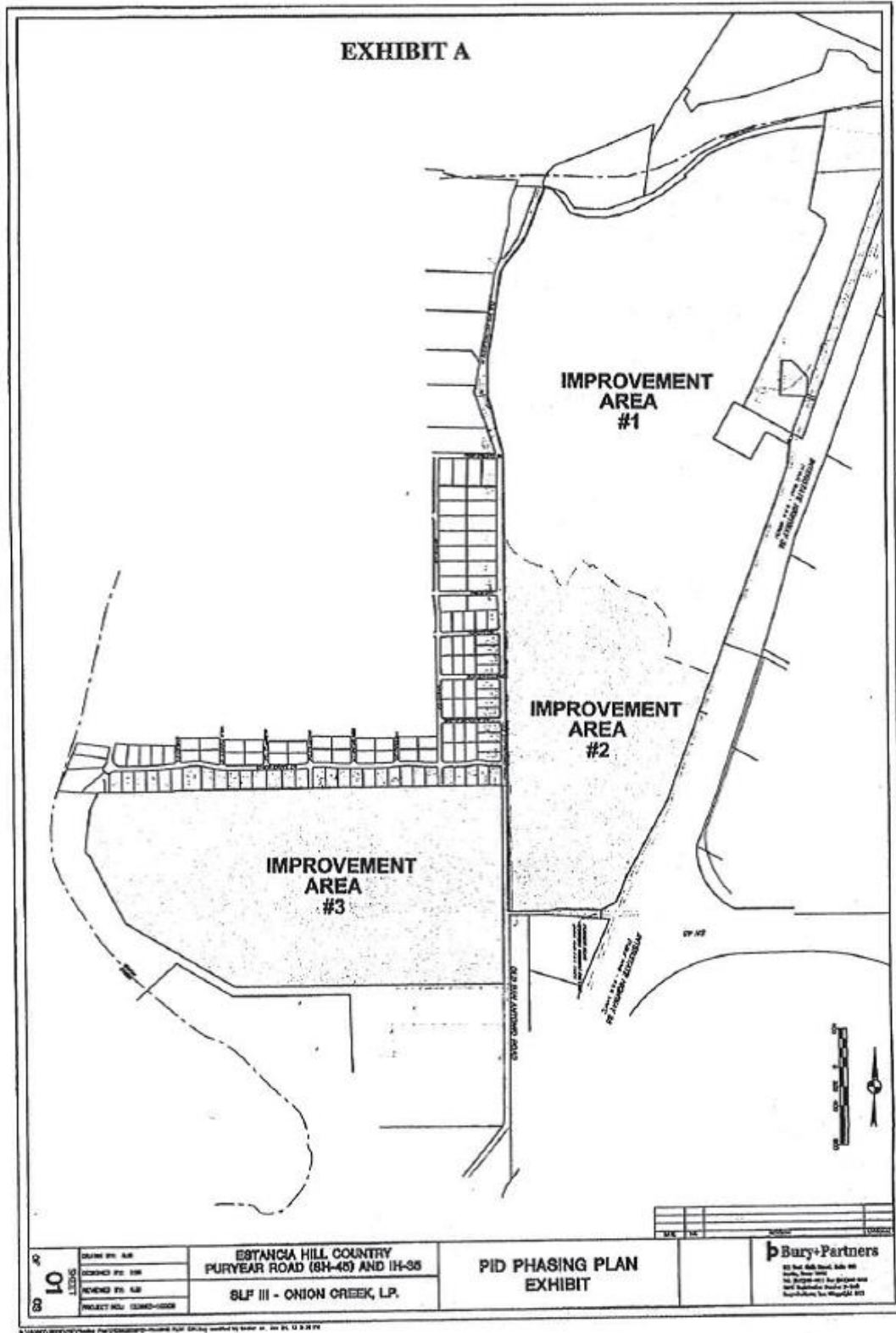
Dennis P. Waley
PFM Financial Advisors, LLC
221 West 6th Street
Suite 1900
Austin, TX 78701
(512) 614-5323
waleyd@pfm.com

¹ Runoff elections for City Council Places 1, 3 and 8 will be held on December 11, 2018. Incumbents Ora Houston and Ellen Troxclair did not seek reelection.

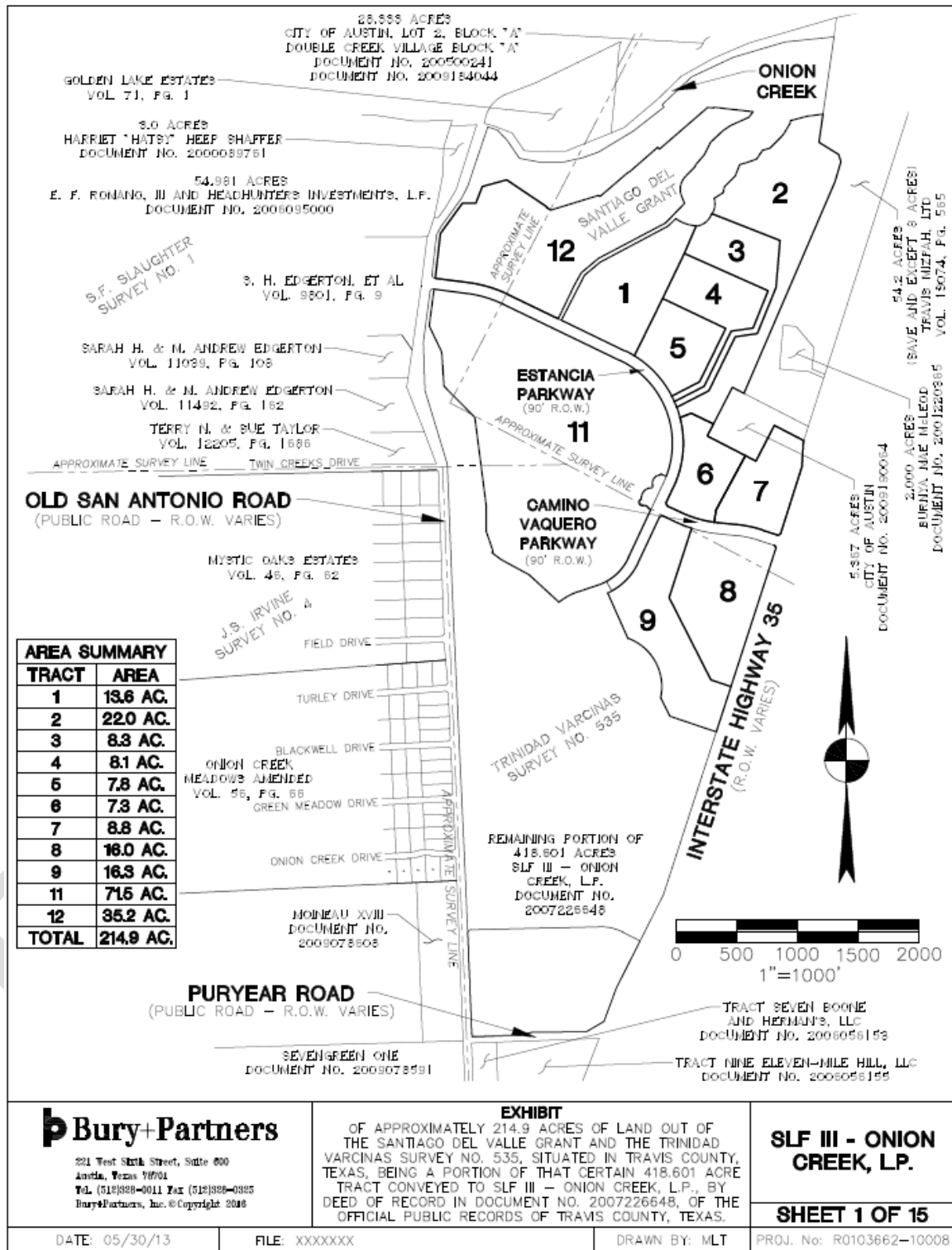
AREA LOCATION MAP OF THE DISTRICT



MAP SHOWING BOUNDARIES OF IMPROVEMENT AREAS #1-3 OF THE DISTRICT



MAP SHOWING TRACTS WITHIN IMPROVEMENT AREA #1 OF THE DISTRICT



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

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

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

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

NEITHER THE CITY NOR THE UNDERWRITER MAKE ANY REPRESENTATION AS TO THE ACCURACY, COMPLETENESS, OR ADEQUACY OF THE INFORMATION SUPPLIED BY THE DEPOSITORY TRUST COMPANY FOR USE IN THIS LIMITED OFFERING MEMORANDUM.

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

CERTAIN STATEMENTS INCLUDED OR INCORPORATED BY REFERENCE IN THIS LIMITED OFFERING MEMORANDUM CONSTITUTE "FORWARD-LOOKING STATEMENTS" WITHIN THE MEANING OF THE UNITED STATES PRIVATE SECURITIES LITIGATION REFORM ACT OF 1995, SECTION 21E OF THE UNITED STATES EXCHANGE ACT OF 1934, AS AMENDED, AND SECTION 27A OF THE SECURITIES ACT. SUCH STATEMENTS ARE GENERALLY IDENTIFIABLE BY THE TERMINOLOGY USED SUCH AS "PLAN," "EXPECT," "ESTIMATE," "PROJECT," "ANTICIPATE," "BUDGET" OR OTHER SIMILAR WORDS. THE ACHIEVEMENT OF CERTAIN RESULTS OR OTHER EXPECTATIONS CONTAINED IN SUCH

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

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

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PRELIMINARY LIMITED OFFERING MEMORANDUM

\$4,265,000*

CITY OF AUSTIN, TEXAS

(a municipal corporation of the State of Texas located in Travis, Williamson and Hays Counties)

SPECIAL ASSESSMENT REVENUE BONDS, SERIES 2018

(ESTANCIA HILL COUNTRY PUBLIC IMPROVEMENT DISTRICT IMPROVEMENT AREA #1)

INTRODUCTION

The purpose of this Limited Offering Memorandum, including the cover page and appendices hereto, is to provide certain information in connection with the issuance and sale by the City of Austin, Texas (the “City”), of its \$4,265,000* aggregate principal amount of Special Assessment Revenue Bonds, Series 2018 (Estancia Hill Country Public Improvement District Improvement Area #1) (the “Bonds”).

INITIAL PURCHASERS ARE ADVISED THAT THE BONDS BEING OFFERED PURSUANT TO THIS LIMITED OFFERING MEMORANDUM ARE BEING OFFERED INITIALLY TO AND ARE BEING SOLD ONLY TO “QUALIFIED INSTITUTIONAL BUYERS” AS DEFINED IN RULE 144A PROMULGATED UNDER THE SECURITIES ACT OF 1933, AS AMENDED (THE “SECURITIES ACT OF 1933”) AND “ACCREDITED INVESTORS” AS DEFINED IN RULE 501 OF REGULATION D PROMULGATED UNDER THE SECURITIES ACT OF 1933. PROSPECTIVE INVESTORS SHOULD BE AWARE OF CERTAIN RISK FACTORS, ANY OF WHICH, IF MATERIALIZED TO A SUFFICIENT DEGREE, COULD DELAY OR PREVENT PAYMENT OF PRINCIPAL OF, AND/OR INTEREST ON THE BONDS. THE BONDS ARE NOT A SUITABLE INVESTMENT FOR ALL INVESTORS. SEE “LIMITATIONS APPLICABLE TO INITIAL PURCHASERS,” “BONDHOLDERS’ RISKS,” AND “SUITABILITY FOR INVESTMENT.”

The Bonds are being issued by the City pursuant to the Public Improvement District Assessment Act, Subchapter A of Chapter 372, Texas Local Government Code, as amended (the “PID Act”), the ordinance authorizing the issuance of the Bonds expected to be enacted by the City Council of the City (the “City Council”) on December 13, 2018 (the “Bond Ordinance”), and an Amended and Restated Indenture of Trust, dated as of December 1, 2018 (the “Indenture”), entered into by and between the City and U.S. Bank National Association, as trustee (the “Trustee”), which amends and restates the hereinafter defined Original Indenture. The Bonds will be secured by special assessments (“Improvement Area #1 Assessments”) levied against assessable property located within Improvement Area #1 (as defined below) of the Estancia Hill Country Public Improvement District (the “District”) pursuant to Ordinance No. 20130620-052 enacted by the City Council on June 20, 2013 (the “Assessment Ordinance”).

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

Set forth herein are brief descriptions of the City, the District, the Assessment Ordinance, the Bond Ordinance, the Service and Assessment Plan (as defined herein), the Landowner (as defined herein), the Development Agreement (as defined herein), the Financing Agreement (as defined herein) and the Service and Assessment Plan Consultant (as defined herein), together with summaries of terms of the Bonds and the Indenture and certain provisions of the PID Act. All references herein to such documents and the PID Act are qualified in their entirety by reference to such documents or such PID Act and all references to the Bonds are qualified by reference to the definitive forms thereof and the information with respect thereto contained in the Indenture. Copies of these documents may be obtained during the period of the offering of the Bonds from the Underwriter, FMSbonds, Inc., 100 Crescent Court, Suite 700, Dallas, Texas 75201, telephone number (214) 302-2246. The form of Indenture appears in “APPENDIX B – Form of Indenture” and the form of amended and restated Service and Assessment Plan appears as “APPENDIX C – Form of Service and Assessment Plan.” The information provided under this caption “INTRODUCTION” is

* Preliminary, subject to change.

intended to provide a brief overview of the information provided in the other captions herein and is not intended, and should not be considered, fully representative or complete as to the subjects discussed hereunder.

PLAN OF FINANCE

Development Plan

SLF III – Onion Creek, L.P., a Texas limited partnership, and 18 related land holding entities acquired the approximately 593.791 acres within the District in 2007 for a master planned, mixed use development (the “Development”). SLF III – Onion Creek, L.P., which owns tracts 1, 2, 3, 4, 5 and 8 in Improvement Area #1 (as defined below), constituting the remaining unsold property, and all property in Improvement Area #2 (as defined below), and 18 entities to SLF III – Onion Creek, L.P. (which own all of the approximately 180.6 acres within Improvement Area #3 (as defined below) of the District) are, collectively or individually as the context may require herein, referred to as the “Landowner,” as further identified in “THE LANDOWNER”. The Development is zoned to allow single-family residential, multi-family residential, office, light industrial, retail and other uses, as well as public and private parks and trails. The Landowner owns all the property in Improvement Area #2 (as defined below). The Landowner is a landholding company.

The Development consists of three phases or “Improvement Areas”. The boundaries of the District and each of the planned Improvement Areas are shown in the “MAP SHOWING BOUNDARIES OF IMPROVEMENT AREAS #1-3 OF THE DISTRICT” on page iv. The Landowner anticipates that it, its affiliates or its successors will construct major infrastructure and parks for each improvement area, while the internal infrastructure and any amenities for each neighborhood or tract may be constructed by any landowner, developer or builder that purchases the property.

In the first quarter of 2016, the Landowner completed construction of the master infrastructure for approximately 215 net acres of developable parcels (“Improvement Area #1”), which is expected to include approximately 370 50- and 60-foot single family residential units, 92.2 acres of multifamily housing and 16 acres of retail or commercial space. As of September 26, 2018 development within Improvement Area #1 includes the following: (i) Lennar Homes of Texas Land and Construction, Ltd. (“Lennar”) has completed construction of 200 homes, 205 homes or lots have been sold to homebuyers, and an additional 15 homes or lots are under contract with homebuyers; (ii) Estancia Villas LLC has completed 312 units of multifamily housing; and (iii) The Park at Estancia, Ltd. is constructing a 320 unit multifamily housing development.

The Landowner’s current plans consist of constructing master infrastructure to serve the approximately 131 acres in the second phase of the Development (“Improvement Area #2”). The Landowner expects to complete construction of this master infrastructure by the second quarter of 2020, and expects that approximately 161 single family residential units, 1,050 units of multifamily housing, and 156,816 square feet of retail or commercial space will be constructed in Improvement Area #2 of the District. The Landowner expects that development of the third and final phase of the Development, consisting of the remaining 180.6 acres (“Improvement Area #3”), will occur after completion of the Improvement Area #2 Improvements. Improvement Area #3 is anticipated to contain a varying mix of residential housing but will ultimately depend on market conditions at the time of development. See “THE DEVELOPMENT.”

The City is issuing the Bonds as Additional Bonds pursuant to terms of that certain Indenture of Trust by and between the City and the Trustee dated as June 1, 2013 (the “Original Indenture”). The proceeds of the Bonds will be used to provide funds for (i) paying a portion of the costs of certain public improvements to serve Improvement Area #1 of the District (the “Improvement Area #1 Improvements”), (ii) funding a reserve fund for payment of principal and interest on the Bonds Similarly Secured (as defined herein), and (iii) paying the costs of issuance of the Bonds. The Bonds will be secured by the Trust Estate, including primarily special assessments levied on assessable parcels within Improvement Area #1 of the District (the “Improvement Area #1 Assessments”). See “SECURITY FOR THE BONDS SIMILARLY SECURED,” “SOURCES AND USES OF FUNDS,” and “THE IMPROVEMENTS.”

The Improvement Area #1 Improvements have been completed at a cost of \$17,807,927 (including bond issuance costs). The City has previously issued its Special Assessment Revenue Bonds, Series 2013 (Estancia Hill Country Public Improvement District) (the “Initial Improvement Area #1 Bonds,” and, together with the Bonds, the “Bonds Similarly Secured”) in an original principal amount of \$12,590,000 to pay a portion of the costs of constructing

the Improvement Area #1 Improvements, of which amount \$9,895,000 in principal amount remains outstanding. The remaining costs of constructing the Improvement Area #1 Improvements were funded by the Landowner. Pursuant to a financing agreement between the Landowner and the City dated June 20, 2013, as amended (the “Financing Agreement”), the City agreed to pay the Landowner for a portion of these costs from the proceeds of Improvement Area #1 Assessments or additional bonds. The City intends to use the proceeds of the Bonds to pay its remaining obligation to the Landowner under the Financing Agreement with respect to the Improvement Area #1 Improvements, and, upon issuance of the Bonds and payment of the net proceeds to the Landowner, the City’s obligations to the Landowner under the Financing Agreement with respect to Improvement Area #1 Improvements will be terminated.

Concurrently with the issuance of the Bonds, the City intends to issue its \$8,305,000* City of Austin, Texas, Special Assessment Revenue Bonds, Series 2018 (Estancia Hill Country Public Improvement District Improvement Area #2) (the “Improvement Area #2 Bonds”) to finance the costs of constructing public improvements to serve Improvement Area #2 of the District (the “Improvement Area #2 Improvements”). The Improvement Area #2 Bonds will be secured by special assessments on assessable property in Improvement Area #2 (the “Improvement Area #2 Assessments”).

The City reserves the right to issue one or more series of future phased bonds (each such series of bonds an “Improvement Area #3 Bond”) to finance the cost of future improvements within or serving Improvement Area #3 of the District as the development proceeds. The estimated costs of such improvements benefiting Improvement Area #3 of the District (the “Improvement Area #3 Improvements”) will be determined as Improvement Area #3 of the District is developed, and the Service and Assessment Plan will be updated to identify the improvements authorized by the PID Act to be financed by each new series of Improvement Area #3 Bonds. Such Improvement Area #3 Bonds will be secured by separate assessments levied pursuant to the PID Act on assessable property within Improvement Area #3 that benefits from the future improvements being financed.

Status of Land Sales to Builders

Improvement Area #1. Within Improvement Area #1, the Landowner has sold approximately 106.7 acres that is zoned to allow single-family housing to Lennar, approximately 16.3 acres zoned to allow for multifamily residential to Estancia Villas LLC, and approximately 16.1 acres zoned to allow for multifamily housing to The Park at Estancia, Ltd. The Landowner has received inquiries for the sale of portions of the remaining 75.8 acres in Improvement Area #1 from single family residential, multifamily housing and commercial/retail builders/users.

Improvement Area #2. The Landowner has entered into a contract with M/I Homes of Austin, LLC to purchase 29.7 acres in Improvement Area #2 that is zoned to allow for single family homes. Additionally, the Landowner has received offers and inquiries from other parties interested in purchasing property in Improvement Area #2. See “THE DEVELOPMENT – Land Sales and Expected Buildout Schedule.”

The Bonds

Proceeds of the Bonds will be used to provide funds for (i) paying a portion of the costs of the Improvement Area #1 Improvements; (ii) funding a reserve fund for the payment of principal of and interest on the Bonds Similarly Secured; and (iii) paying the costs of issuance of the Bonds. See “SOURCES AND USES OF FUNDS,” “THE IMPROVEMENTS,” and “APPENDIX C — Form of Indenture.”

Payment of the Bonds is secured by a pledge of and a lien upon the Pledged Revenues, consisting primarily of Improvement Area #1 Assessments levied against the assessable parcels or lots within Improvement Area #1 of the District and other funds comprising the Trust Estate, all to the extent and upon the conditions described herein and in the Indenture. See “SECURITY FOR THE BONDS SIMILARLY SECURED” and “ASSESSMENT PROCEDURES.” **The Bonds shall never constitute an indebtedness or general obligation of the City, the State or any other political subdivision of the State, within the meaning of any Constitutional provision or statutory limitation whatsoever, but the Bonds are limited and special obligations of the City payable solely from the**

* Preliminary, subject to change.

Trust Estate as provided in the Indenture. Neither the full faith and credit nor the taxing power of the City, the State or any other political subdivision of the State is pledged to the payment of the Bonds.

The Bonds, the Improvement Area #2 Bonds, and any Improvement Area #3 Bonds issued by the City are separate and distinct issues of securities secured by separate special assessments. The Improvement Area #2 Bonds or any Improvement Area #3 Bonds or Additional Obligations to be issued by the City are not offered pursuant to this Limited Offering Memorandum.

LIMITATIONS APPLICABLE TO INITIAL PURCHASERS

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

1. The Investor has authority and is duly authorized to purchase the Bonds and to execute any instruments and documents required to be executed by the Investor in connection with the purchase of the Bonds.

2. The Investor is an “accredited investor” under Rule 501 of Regulation D of the Securities Act of 1933 or a “qualified institutional buyer” under Rule 144A of the Securities Act of 1933, and therefore, has sufficient knowledge and experience in financial and business matters, including purchase and ownership of municipal and other tax-exempt obligations, to be able to evaluate the risks and merits of the investment represented by the Bonds.

3. The Bonds are being acquired by the Investor for investment and not with a view to, or for resale in connection with, any distribution of the Bonds, and the Investor intends to hold the Bonds solely for its own account for investment purposes and for an indefinite period of time, and does not intend at this time to dispose of all or any part of the Bonds. However, the investor may sell at any time the Investor deems appropriate. The Investor understands that it may need to bear the risks of this investment for an indefinite time, since any sale prior to maturity may not be possible.

4. The Investor understands that the Bonds are not registered under the Securities Act and that such registration is not legally required as of the date hereof; and further understands that the Bonds (a) are not being registered or otherwise qualified for sale under the “Blue Sky” laws and regulations of any state, (b) will not be listed in any stock or other securities exchange, and (c) will not carry a rating from any rating service.

5. The Investor acknowledges that it has either been supplied with or been given access to information, including financial statements and other financial information, and the Investor has had the opportunity to ask questions and receive answers from knowledgeable individuals concerning the City, the Improvement Area #1 Improvements, the Bonds, the security therefor, and such other information as the Investor has deemed necessary or desirable in connection with its decision to purchase the Bonds (collectively, the “Investor Information”). The Investor has received a copy of this Limited Offering Memorandum relating to the Bonds. The Investor acknowledges that it has assumed responsibility for its review of the Investor Information and it has not relied upon any advice, counsel, representation or information from the City in connection with the Investor’s purchase of the Bonds. The Investor agrees that none of the City, its councilmembers, officers, or employees shall have any liability to the Investor whatsoever for or in connection with the Investor’s decision to purchase the Bonds except for gross negligence, fraud or willful misconduct. For the avoidance of doubt, it is acknowledged that underwriter is not deemed officers or employees of the City.

6. The Investor acknowledges that the obligations of the City under the Indenture are special, limited obligations payable solely from amounts paid to the City pursuant to the terms of the Indenture and the City shall not be directly or indirectly or contingently or morally obligated to use any other moneys or assets of the City for amounts due under the Indenture. The Investor understands that the Bonds are not secured by any pledge of any moneys received or to be received from taxation by the City, the State of Texas (the “State”) or any political subdivision or taxing district thereof; that the Bonds will never represent or constitute a general obligation or a pledge of the full faith

and credit of the City, the State or any political subdivision thereof; that no right will exist to have taxes levied by the State or any political subdivision thereof for the payment of principal and interest on the Bonds; and that the liability of the City and the State of Texas with respect to the Bonds is subject to further limitations as set forth in the Bonds and the Indenture.

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

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

DESCRIPTION OF THE BONDS

General Description

The Bonds will mature on the dates and in the amounts set forth in the inside cover page of this Limited Offering Memorandum. Interest on the Bonds will accrue from their date of delivery to the Underwriter and will be computed on the basis of a 360-day year of twelve 30-day months. Interest on the Bonds will be payable on each May 1 and November 1, commencing May 1, 2019 (each an “Interest Payment Date”), until maturity or prior redemption. U.S. Bank National Association is the initial Trustee, Paying Agent and Registrar for the Bonds.

The Bonds will be issued in fully registered form, without coupons, in authorized denominations of \$25,000 of principal and any integral multiple of \$5,000 in excess thereof (or such smaller amount as authorized under the Indenture as a result of partial redemption) (“Authorized Denominations”). Upon initial issuance, the ownership of the Bonds will be registered in the name of Cede & Co., as nominee for The Depository Trust Company, New York, New York (“DTC”), and purchases of beneficial interests in the Bonds will be made in book-entry only form. See “BOOK-ENTRY ONLY SYSTEM” and “SUITABILITY FOR INVESTMENT.”

Redemption Provisions

No Optional Redemption. The Bonds are not subject to optional redemption.

Extraordinary Optional Redemption. The Bonds are subject to extraordinary optional redemption by the City prior to their scheduled maturity on the first day of any month after the required notice of redemption at a redemption price equal to the principal amount of the Bonds, or portions thereof, to be redeemed plus accrued and unpaid interest to the redemption date from amounts on deposit in the Redemption Fund as a result of Prepayments, including related transfers to the Redemption Fund. Unexpended proceeds shall be transferred to the Redemption Fund only in the event that the City Representative determines that amounts then on deposit in the Bond Improvement Account of the Project Fund are not expected to be expended for the purpose of the Project Fund due to the abandonment, or constructive abandonment, of the Improvement Area #1 Improvements such that, in the opinion of the City Representative, it is unlikely that the amounts in the Project Fund will ever be expended for the purposes of the Bond Improvement Account of the Project Fund. No redemption shall be made which results in a Bond remaining outstanding in a principal amount less than an Authorized Denomination. See “ASSESSMENT PROCEDURES — Prepayment of Improvement Area #1 Assessments” for the definition and description of Prepayments.

Mandatory Sinking Fund Redemption. The Bonds are subject to mandatory sinking fund redemption prior to their respective maturities and will be redeemed by the City in part at a price of 100% of the principal amount thereof, plus accrued interest to the redemption date, from moneys available for such purpose in the Principal and Interest Account of the Bond Fund pursuant to the Indenture, on the dates and in the respective Sinking Fund Installments as set forth in the following schedule:

\$_____ Term Bonds due November 1, 20__

Redemption Date

Sinking Fund Installment

† Stated maturity.

\$_____ Term Bonds due November 1, 20__

Redemption Date

Sinking Fund Installment

† Stated maturity.

At least forty-five (45) days prior to each mandatory sinking fund redemption date, the Trustee will select a principal amount of Bonds equal to the sinking fund installment amount for such date of such maturity of Bonds to be redeemed, will call such Bonds for redemption on such scheduled mandatory sinking fund redemption date, and shall give notice of such redemption, as provided in the Indenture.

The principal amount of Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced, at the option of the City, by the principal amount of any Bonds of such maturity which, at least 45 days prior to the sinking fund redemption date shall have been acquired by the City at a price not exceeding the principal amount of such Bonds plus accrued unpaid interest to the date of purchase thereof, and delivered to the Trustee for cancellation.

The principal amount of Bonds required to be redeemed on any mandatory sinking fund redemption date shall be reduced on a pro rata basis among Sinking Fund Installments for each maturity of Bonds by the principal amount of any Bonds which, at least 45 days prior to the mandatory sinking fund redemption date, shall have been redeemed pursuant to the extraordinary optional redemption provisions of the Indenture and not previously credited to a mandatory sinking fund redemption.

Notice of Redemption. Notice of any redemption shall be given by the Trustee at least thirty (30) days prior to the redemption date by giving written notice to the Owner of each Bond to be redeemed in whole or in part at the address shown on the Register by first-class mail, postage prepaid. Any such notice shall be conclusively presumed to have been duly given, whether or not the Owner receives such notice. Notice of redemption having been given as provided in the Indenture, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption provided that funds for the payment of the redemption price of such Bonds to the date fixed for redemption are on deposit with the Trustee; thereafter, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.

The City has the right to rescind any extraordinary optional redemption by written notice to the Trustee on or prior to the date fixed for redemption. Any notice of redemption shall be cancelled and annulled if for any reason funds are not available on the date fixed for redemption for the payment in full of the Bonds then called for redemption, and such cancellation shall not constitute an Event of Default under the Indenture. The Trustee shall mail notice of rescission of redemption in the same manner notice of redemption was originally provided.

Additional Provisions with Respect to Redemption. Bonds may be redeemed in part only in minimum principal amounts of \$25,000 and increments of \$5,000 thereafter. If less than all of the Bonds are to be redeemed, the Bonds to be redeemed shall be selected by any method selected by the Trustee that results in a random selection, and treating the smallest Authorized Denomination of the Bonds as a single Bond for such purposes. No redemption shall result in a Bond in a denomination of less than an Authorized Denomination; provided, however, if the amount of Outstanding Bonds is less than an Authorized Denomination after giving effect to such partial redemption, a Bond in the principal amount equal to the Outstanding Bonds, may be issued.

Upon surrender of any Bond in part, the Trustee, in accordance with the provisions of the Indenture, shall authenticate and deliver in exchange thereof a Bond or Bonds of like tenor, maturity and interest rate in an aggregate principal amount equal to the unredeemed portion of the Bond or Bonds so surrendered.

BOOK-ENTRY ONLY SYSTEM

This section describes how ownership of the Bonds is to be transferred and how the principal of, premium, if any, and interest on the Bonds are to be paid to and credited by The Depository Trust Company ("DTC"), New York, New York, while the Bonds are registered in its nominee name. The information in this section concerning DTC and the Book-Entry-Only System has been provided by DTC for use in disclosure documents such as this Limited Offering Memorandum. The City and the Underwriter believe the source of such information to be reliable, but neither the City nor the Underwriter takes responsibility for the accuracy or completeness thereof.

The City cannot and does not give any assurance that (1) DTC will distribute payments of debt service on the Bonds, or redemption or other notices, to DTC Participants, (2) DTC Participants or others will distribute debt service payments paid to DTC or its nominee (as the registered owner of the Bonds), or redemption or other notices, to the Beneficial Owners, or that they will do so on a timely basis or (3) DTC will serve and act in the manner described in this Limited Offering Memorandum. The current rules applicable to DTC are on file with the Securities and Exchange Commission, and the current procedures of DTC to be followed in dealing with DTC Participants are on file with DTC.

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

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

Purchases of Bonds under the DTC system must be made by or through Direct Participants, which will receive a credit for the Bonds on DTC's records. The ownership interest of each actual purchaser of each Bond ("Beneficial Owner") is in turn to be recorded on the Direct and Indirect Participants' records. Beneficial Owners

will not receive written confirmation from DTC of their purchase. Beneficial Owners are, however, expected to receive written confirmations providing details of the transaction, as well as periodic statements of their holdings, from the Direct or Indirect Participant through which the Beneficial Owner entered into the transaction. Transfers of ownership interests in the Bonds are to be accomplished by entries made on the books of Direct and Indirect Participants acting on behalf of Beneficial Owners. Beneficial Owners will not receive certificates representing their ownership interests in Bonds, except in the event that use of the book-entry system for the Bonds is discontinued.

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

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

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

Neither DTC nor Cede & Co. (nor any other DTC nominee) will consent or vote with respect to Bonds unless authorized by a Direct Participant in accordance with DTC's Procedures. Under its usual procedures, DTC mails an Omnibus Proxy to the City as soon as possible after the record date. The Omnibus Proxy assigns Cede & Co.'s consenting or voting rights to those Direct Participants to whose accounts Bonds are credited on the record date (identified in a listing attached to the Omnibus Proxy).

Principal, interest and all other payments on the Bonds will be made to Cede & Co., or such other nominee as may be requested by an authorized representative of DTC. DTC's practice is to credit Direct Participants' accounts upon DTC's receipt of funds and corresponding detail information from the City or Paying Agent/Registrar, on the payment date in accordance with their respective holdings shown on DTC's records. Payments by Participants to Beneficial Owners will be governed by standing instructions and customary practices, as is the case with securities held for the accounts of customers in bearer form or registered in "street name," and will be the responsibility of such Participant and not of DTC nor its nominee, the Trustee, the Paying Agent/Registrar, or the City, subject to any statutory or regulatory requirements as may be in effect from time to time. Payment of principal, interest and payments to Cede & Co. (or such other nominee as may be requested by an authorized representative of DTC) is the responsibility of the Trustee, the Paying Agent/Registrar or the City, disbursement of such payments to Direct Participants will be the responsibility of DTC, and disbursement of such payments to the Beneficial Owners will be the responsibility of Direct and Indirect Participants.

DTC may discontinue providing its services as securities depository with respect to the Bonds at any time by giving reasonable notice to the City or the Trustee. Under such circumstances, in the event that a successor securities depository is not obtained, Bond certificates are required to be printed and delivered.

The City may decide to discontinue use of the system of book-entry transfers through DTC (or a successor securities depository). In that event, Bond certificates will be printed and delivered. Thereafter, Bond certificates may be transferred and exchanged as described in the Indenture.

The information in this section concerning DTC and DTC's book-entry system has been obtained from sources that the City believes to be reliable, but none of the City, the City's Financial Advisor or the Underwriter take any responsibility for the accuracy thereof.

NONE OF THE CITY, THE TRUSTEE, THE PAYING AGENT, THE CITY'S FINANCIAL ADVISOR OR THE UNDERWRITER WILL HAVE ANY RESPONSIBILITY OR OBLIGATION TO THE DTC PARTICIPANTS OR THE PERSONS FOR WHOM THEY ACT AS NOMINEE WITH RESPECT TO THE PAYMENTS TO OR THE PROVIDING OF NOTICE FOR THE DTC PARTICIPANTS, THE INDIRECT PARTICIPANTS OR THE BENEFICIAL OWNERS OF THE BONDS. THE CITY CANNOT AND DOES NOT GIVE ANY ASSURANCES THAT DTC, THE DTC PARTICIPANTS OR OTHERS WILL DISTRIBUTE PAYMENTS OF PRINCIPAL OF OR INTEREST ON THE BONDS PAID TO DTC OR ITS NOMINEE, AS THE REGISTERED OWNER, OR PROVIDE ANY NOTICES TO THE BENEFICIAL OWNERS OR THAT THEY WILL DO SO ON A TIMELY BASIS, OR THAT DTC WILL ACT IN THE MANNER DESCRIBED IN THIS LIMITED OFFERING MEMORANDUM. THE CURRENT RULES APPLICABLE TO DTC ARE ON FILE WITH THE SECURITIES AND EXCHANGE COMMISSION, AND THE CURRENT PROCEDURES OF DTC TO BE FOLLOWED IN DEALING WITH DTC PARTICIPANTS ARE ON FILE WITH DTC.

SECURITY FOR THE BONDS SIMILARLY SECURED

General

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

The principal of, premium, if any, and interest on the Bonds are secured by a pledge of and a lien upon the pledged revenues (the "Pledged Revenues"), consisting primarily of Improvement Area #1 Assessments levied against the assessable parcels or lots within Improvement Area #1 of the District and other funds comprising the Trust Estate, all to the extent and upon the conditions described herein and in the Indenture. Improvement Area #1 contains approximately 215 acres subject to Improvement Area #1 Assessments. In accordance with the PID Act, the City has caused the preparation of an amended and restated Service and Assessment Plan (as amended and supplemented, the "Service and Assessment Plan"), which describes the special benefit received by the property within the District, including Improvement Area #1, provides the basis and justification for the determination of special benefit on such property, establishes the methodology for the levy of Improvement Area #1 Assessments and provides for the allocation of Pledged Revenues for payment of principal of, premium, if any, and interest on the Bonds. The Service and Assessment Plan is reviewed and updated annually for the purpose of determining the annual budget for improvements and the Annual Installments (as defined below) of Improvement Area #1 Assessments due in a given year. The determination by the City of the assessment methodology set forth in the Service and Assessment Plan is the result of the discretionary exercise by the City Council of its legislative authority and governmental powers and is conclusive and binding on all current and future landowners within the District. See "APPENDIX C — Form of Service and Assessment Plan."

Pledged Revenues

The City is authorized by the PID Act, the Improvement Area #1 Assessment Ordinance and other provisions of law to finance the Improvement Area #1 Improvements by levying Improvement Area #1 Assessments upon properties in Improvement Area #1 of the District benefitted thereby. For a description of the assessment methodology

and the amounts of Improvement Area #1 Assessments levied in each phase of the District, see “ASSESSMENT PROCEDURES” and “APPENDIX C — Form of Service and Assessment Plan.”

Pursuant to the Indenture, Pledged Revenues are the sum of (i) the Annual Installments, less the Annual Collection Costs, (ii) any Prepayments received by the City, (iii) any Foreclosure Proceeds received by the City, and (iv) the moneys held in any of the Pledged Funds. “Annual Installments” means, with respect to each Assessed Parcel, each annual payment of the Improvement Area #1 Assessment as shown on the Improvement Area #1 Assessment Roll attached to the Service and Assessment Plan as Exhibit F-1 and related to the Bonds or the Improvement Area #1 Improvements, or as shown on an Annual Service Plan Update as defined in the Service and Assessment Plan related to the Bonds. The City will covenant in the Indenture that it will take and pursue all actions permissible under Applicable Laws to cause the Improvement Area #1 Assessments to be collected and the liens thereof to be enforced continuously. See “SECURITY FOR THE BONDS SIMILARLY SECURED — Pledged Revenue Fund.” See also “APPENDIX B — Form of Indenture” and “APPENDIX C — Form of Service and Assessment Plan.”

The PID Act provides that the Improvement Area #1 Assessments (including any reassessment, with interest, the expense of collection and reasonable attorney’s fees, if incurred) are a first and prior lien (the “Assessment Lien”) against the property assessed, superior to all other liens or claims, except liens and claims for the State of Texas (the “State”), county, school district, or municipality for ad valorem taxes and are a personal liability of and charge against the owners of property, regardless of whether the owners are named. Pursuant to the PID Act, the Assessment Lien is effective from the date of the Improvement Area #1 Assessment Ordinance until the Improvement Area #1 Assessments are paid (or otherwise discharged), and is enforceable by the City Council in the same manner that an ad valorem property tax levied against real property may be enforced by the City Council. See “ASSESSMENT PROCEDURES” herein.

Collection and Deposit of Improvement Area #1 Assessments

The Improvement Area #1 Assessments shown on the Improvement Area #1 Assessment Roll, together with the interest thereon, shall be deposited to the Pledged Revenue Fund for the payment of the principal of and interest on the Bonds Similarly Secured as and to the extent provided in the Service and Assessment Plan and the Indenture.

The Improvement Area #1 Assessments assessed to pay debt service on the Bonds Similarly Secured, together with interest thereon, are payable in Annual Installments established by the Improvement Area #1 Assessment Ordinance and the Service and Assessment Plan to correspond, as nearly as practicable, to the debt service requirements for the Bonds Similarly Secured. An Annual Installment of an Improvement Area #1 Assessment has been made payable in the Assessment Ordinance in each City fiscal year preceding the date of final maturity of the Bonds Similarly Secured which, if collected, will be sufficient to first pay debt service requirements attributable to Improvement Area #1 Assessments in the Service and Assessment Plan. Each Annual Installment is payable as provided in the Service and Assessment Plan and the Assessment Ordinance.

A record of the Improvement Area #1 Assessments on each parcel, tract or lot which are to be collected in each year during the term of the Bonds is shown on the Improvement Area #1 Assessment Roll. Sums received from the collection of the Improvement Area #1 Assessments to pay the debt service requirements (including delinquent installments, Foreclosure Proceeds and penalties and interest thereon) shall be deposited into the Pledged Revenue Fund, except that amounts received as Prepayments shall be deposited into the Redemption Fund. The Trustee shall deposit Foreclosure Proceeds in the Pledged Revenue Fund and as soon as practical after such deposit shall transfer the Foreclosure Proceeds first to the Reserve Fund to restore any transfers from the Reserve Fund made with respect to the Assessed Parcel to which the Foreclosure Proceeds relate, and second to the Redemption Fund.

After the deposit of the Improvement Area #1 Assessments in the Bond Pledged Revenue Account of the Pledged Revenue Fund to pay debt service on the Bonds Similarly Secured, portions of the Annual Installments of Improvement Area #1 Assessments collected to pay Annual Collection Costs, and Delinquent Collection Costs shall be deposited in respective accounts within the Administrative Fund and shall not constitute Pledged Revenues.

Unconditional Levy of Improvement Area #1 Assessments

The City has imposed Improvement Area #1 Assessments on the property within Improvement Area #1 of the District to pay the principal of and interest on the Bonds Similarly Secured scheduled for payment from Pledged Revenues as described in the Indenture and in the Service and Assessment Plan and coming due during each Fiscal Year. The Improvement Area #1 Assessments are effective as of the date of, and strictly in accordance with the terms of, the Improvement Area #1 Assessment Ordinance. Each Assessment may be paid immediately in full or in periodic Annual Installments over a period of time equal to the term of the Bonds Similarly Secured, which installments shall include interest on the Improvement Area #1 Assessments. Pursuant to the Improvement Area #1 Assessment Ordinance, interest on the Assessments will be calculated at the rate of interest on the Bonds plus 0.50%, calculated on the basis of a 360-day year of twelve 30-day months. Such rate may be adjusted as described in the Service and Assessment Plan. Each Annual Installment, including the interest on the unpaid amount of an Improvement Area #1 Assessment, shall be calculated and billed in the same manner and at the same time that the City collects ad valorem taxes, and shall generally be billed before October 1 of each year. Each Annual Installment together with interest thereon shall be delinquent if not paid prior to February 1 of the following year. The next Annual Installments will be delinquent if not paid prior to February 1, 2019.

As authorized by Section 372.018(b) of the PID Act, on or about October 1 of each year while the Bonds are Outstanding and unpaid, the City will calculate and collect an Annual Installment of the Improvement Area #1 Assessment to pay the annual costs incurred by the City in the administration and operation of the District. The portion of each Annual Installment of an Improvement Area #1 Assessment used to pay such annual costs shall remain in effect from year to year until all Bonds are finally paid or until the City adjusts the amount of the levy after an annual review in any year pursuant to Section 372.013 of the PID Act. The Annual Installments of the Improvement Area #1 Assessments to pay annual expenses shall be due in the manner set forth in the Improvement Area #1 Assessment Ordinance when billed each year and shall be delinquent if not paid by February 1 of the following year. Such Annual Installments of the Improvement Area #1 Assessments to pay expenses do not secure repayment of the Bonds.

There will be no discount for the early payment of Improvement Area #1 Assessments.

Improvement Area #1 Assessments, together with interest, penalties, and expense of collection and reasonable attorneys' fees, as permitted by the Texas Tax Code, shall be a first and prior lien against the property assessed, superior to all other liens and claims, except liens or claims for State, county, school district or municipality ad valorem taxes and shall be a personal liability of and charge against the owner of the property regardless of whether the owners are named. The lien for Improvement Area #1 Assessments and penalties and interest begins on the effective date of the Improvement Area #1 Assessment Ordinance and continues until the Improvement Area #1 Assessments are paid or until all Bonds are finally paid.

Failure to pay an Annual Installment when due shall not accelerate the payment of the remaining Annual Installments of the Improvement Area #1 Assessments and such remaining Annual Installments (including interest) shall continue to be due and payable at the same time and in the same amount and manner as if such default had not occurred.

Perfected Security Interest

The lien on and pledge of the Pledged Revenues became valid and binding and fully perfected from and after the closing date of the Initial Improvement Area #1 Bonds, without physical delivery or transfer of control of the Pledged Revenues, the filing of the Indenture or any other act; all as provided in Texas Government Code, Chapter 1208, as amended, which applies to the issuance of the Bonds and the pledge of the Pledged Revenues granted by the City under the Indenture, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time while the Bonds Similarly Secured are Outstanding such that the pledge of the Pledged Revenues granted by the City under the Indenture is to be subject to the filing requirements of Texas Business and Commerce Code, Chapter 9, as amended, then in order to preserve to the registered owners of the Bonds Similarly Secured the perfection of the security interest in said pledge, the City agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of Texas Business and Commerce Code, Chapter 9, as amended, and enable a filing to perfect the security interest in said pledge to occur. See "APPENDIX B — Form of Indenture."

Pledged Revenue Fund

The City has created under the Indenture a Pledged Revenue Fund to be held by the Trustee. On or about March 10 of each year while the Bonds are outstanding, the City shall deposit or cause to be deposited the Pledged Revenues into the Pledged Revenue Fund. The City shall deposit or cause to be deposited to the Bond Pledged Revenue Account from the Pledged Revenue Fund Improvement Area #1 Assessments collected (i) first, to the Bond Pledged Revenue Account of the Pledged Revenue Fund in an amount sufficient to pay debt service on the Bonds Similarly Secured next coming due, (ii) second, to the Reserve Account of the Reserve Fund in an amount to cause the amount in the Reserve Account to equal the Reserve Fund Requirement, (iii) third, to the Prepayment Reserve Account of the Reserve Fund in the amount described below under “–Prepayment Reserve Account of the Reserve Fund,” (iv) fourth, to the Delinquency Reserve Account of the Reserve Fund in the amount described below under “–Delinquency Reserve Account of the Reserve Fund,” (v) fifth, to pay other costs of the Improvement Area #1 Improvements and (vi) sixth, to pay other costs permitted by the PID Act.

From time to time as needed to pay the obligations relating to the Bonds Similarly Secured, but no later than five business days before each Interest Payment Date, the Trustee shall withdraw from the Pledged Revenue Fund, and transfer to the Principal and Interest Account of the Bond Fund, an amount, taking into account any amounts then on deposit in such Principal and Interest Account, such that the amount on deposit in the Principal and Interest Account equals the principal (including any Sinking Fund Installments) and interest due on the Bonds Similarly Secured on the next Interest Payment Date.

If, after the foregoing transfers and any transfer from the Reserve Fund (as described under “Reserve Fund” below), there are insufficient funds to make the payments provided in the preceding paragraph, the Trustee shall apply the available funds in the Principal and Interest Account first to the payment of interest, then to the payment of principal (including any Sinking Fund Installments) on the Bonds Similarly Secured.

Notwithstanding the deposits described in (i) first through (vi) sixth above, the Trustee shall transfer Prepayments to the Redemption Fund as soon as practical after deposit of such amounts into the Pledged Revenue Fund.

Notwithstanding the deposits described in (i) first through (vi) sixth above, the Trustee shall transfer Foreclosure Proceeds (which exclude Delinquent Collection Costs) first to the Reserve Fund to restore any transfers from the Reserve Fund made with respect to an Assessed Parcel to which the Foreclosure Proceeds relate, and second, to the Redemption Fund. Any Improvement Area #1 Assessments remaining after satisfying the foregoing payments may be used for any lawful purpose for which Assessments may be used under the PID Act.

Bond Fund

On each Interest Payment Date, the Trustee shall withdraw from the Principal and Interest Account and transfer to the Paying Agent/Registrar the principal (including any Sinking Fund Installments) and interest then due and payable on the Bonds Similarly Secured.

Project Fund

Pursuant to the Indenture, the prior creation of a Project Fund has been confirmed, which fund will be used for the purposes described in “PLAN OF FINANCE – The Bonds.”

Disbursements from the Project Fund to pay costs shall be made by the Trustee upon receipt by the Trustee of a properly executed and completed Certificate for Payment. The disbursement of funds from the Project Fund pursuant to a Certificate for Payment shall be pursuant to and accordance with the disbursement procedures described in the Financing Agreement.

If the City Representative determines in his or her sole discretion that amounts then on deposit in the Bond Improvement Account of the Project Fund are not expected to be expended for purposes of the Project Fund due to the abandonment, or constructive abandonment, of the Improvement Area #1 Improvements, such that, in the opinion

of the City Representative, it is unlikely that the amounts in the Bond Improvement Account of the Project Fund will ever be expended for the purposes of the Project Fund, the City Representative shall file a City Certificate with the Trustee which identifies the amounts then on deposit in the Bond Improvement Account of the Project Fund that are not expected to be used for purposes of the Project Fund. If such City Certificate is so filed, the amounts on deposit in the Bond Improvement Account of the Project Fund shall be transferred to the Redemption Fund to redeem Bonds Similarly Secured on the earliest practicable date after notice of redemption has been provided in accordance with the Indenture.

Upon the filing of a City Certificate stating that all Improvement Area #1 Improvements have been completed and that all costs of the Improvement Area #1 Improvements have been paid, or that any such costs are not required to be paid from the Bond Improvement Account of the Project Fund pursuant to a Certification for Payment, the Trustee shall transfer the amount, if any, remaining within the Project Fund to the Bond Fund and the Project Fund shall be closed.

Reserve Account of the Reserve Fund

Pursuant to the Indenture, the prior creation of a Reserve Account within the Reserve Fund has been confirmed which is for the benefit of the Bonds Similarly Secured and held by the Trustee. The Reserve Account was originally funded in connection with the issuance of the Initial Improvement Area #1 Bonds and proceeds of the Bonds will be deposited into the Reserve Account so that the balance of such account equals the Reserve Account Requirement upon the issuance of the Bonds. Pursuant to the Indenture, the "Reserve Account Requirement" for the Bonds Similarly Secured shall be an amount equal to the least of (i) Maximum Annual Debt Service on the Bonds Similarly Secured as of their date of issuance, (ii) 125% of average Annual Debt Service on the Bonds Similarly Secured as of their date of issuance, and (iii) 10% of the proceeds of the Bonds Similarly Secured; provided, however, that such amount shall be reduced by the amount of any transfers made to the Redemption Fund as a result of Prepayments and surplus Bonds Similarly Secured proceeds; and provided further that as a result of an optional redemption, the Reserve Account Requirement shall be reduced by a percentage equal to the pro rata principal amount of Bonds Similarly Secured redeemed by such optional redemption divided by the total principal amount of the Outstanding Bonds Similarly Secured prior to such redemption. As of the date of delivery of the Bonds, the Reserve Account Requirement is \$_____ which is an amount equal to [10% of the proceeds of] the Bonds Similarly Secured as of the date of issuance of the Bonds.

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

Whenever Bonds Similarly Secured are to be redeemed with the proceeds of Prepayments pursuant to the Indenture, a proportionate amount in the Reserve Account of the Reserve Fund shall be transferred on the Business Day prior to the redemption date by the Trustee to the Redemption Fund to be applied to the redemption of the Bonds Similarly Secured. The amount so transferred from the Reserve Account of the Reserve Fund shall be equal to a percentage of the amount of the Bonds Similarly Secured redeemed with such percentage equal to the lesser of: (i) the amount required to be in the Reserve Account of the Reserve Fund, as a percentage of the Outstanding Bonds Similarly Secured prior to the redemption, and (ii) the amount actually in the Reserve Account of the Reserve Fund, as a percentage of the Outstanding Bonds prior to the redemption.

Prepayment Reserve Account of the Reserve Fund

Pursuant to the Indenture, the prior creation of a Prepayment Reserve Account within the Reserve Fund has been confirmed which is held by the Trustee for the benefit of the Bonds Similarly Secured. The Trustee, if needed, will transfer from the Bond Pledged Revenue Account of the Pledged Revenue Fund to the Prepayment Reserve Account on May 1 and November 1 of each year, commencing May 1, 2015 an amount equal to 0.20% of the interest rate component of the Annual Installments to the Prepayment Reserve Account until the Prepayment Reserve Requirement has been accumulated in the Prepayment Reserve Account. The Prepayment Reserve Requirement is an amount equal to \$_____. Whenever, on any Interest Payment Date, or on any other date at the written request of

the City Representative, the amount in the Prepayment Reserve Account exceeds the Prepayment Reserve Requirement, the Trustee shall provide written notice to the City of the amount of the excess. The amount of such excess on deposit in the Prepayment Reserve Account shall be transferred to the Redemption Fund. See “APPENDIX B — Form of Indenture.”

Moneys deposited in the Prepayment Reserve Account will be used and withdrawn by the Trustee for the purpose of making transfers to the Redemption Fund, pursuant to, and at the times specified in, the Indenture to pay a portion of the accrued interest on Bonds Similarly Secured being redeemed pursuant to an extraordinary optional redemption for Prepayments. The amount to be transferred shall be an amount, for each Prepayment, equal to the amount of any shortfall, after transfers from the Reserve Account of the Reserve Fund as described above and application of investment earnings on the Prepayment toward payment of accrued interest, in funds necessary to pay the principal amount plus accrued interest on such Bonds Similarly Secured to be redeemed as a result of the Prepayment.

Whenever, on any Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service on the Bonds Similarly Secured due on such date, the Trustee shall transfer first from the Delinquency Reserve Account of the Reserve Fund, second from the Reserve Account of the Reserve Fund, and third from the Prepayment Reserve Account of the Reserve Fund to the Bond Fund in the amount necessary to cure such deficiency.

Delinquency Reserve Account of the Reserve Fund

Pursuant to the Indenture, a Delinquency Reserve Account has been created within the Reserve Fund and held by the Trustee for the benefit of the Bonds Similarly Secured. The Trustee, if needed, will transfer from the Bond Pledged Revenue Account of the Pledged Revenue Fund to the Delinquency Reserve Account on May 1 and November 1 of each year, commencing May 1, 2015 an amount equal to 0.30% of the interest rate component of the Annual Installments to the Delinquency Reserve Account until the Delinquency Reserve Requirement has been accumulated in the Delinquency Reserve Account. The Delinquency Reserve Requirement is an amount equal to \$_____. Whenever, on any Interest Payment Date, or on any other date at the written request of the City Representative, the amount in the Delinquency Reserve Account exceeds the Delinquency Reserve Requirement, the Trustee shall provide written notice to the City of the amount of the excess. The amount of such excess on deposit in the Delinquency Reserve Account shall be transferred to the Redemption Fund. See “APPENDIX B — Form of Indenture.”

Whenever, on any Interest Payment Date, the amount on deposit in the Bond Fund is insufficient to pay the debt service on the Bonds Similarly Secured due on such date, the Trustee shall transfer first from the Delinquency Reserve Account of the Reserve Fund, second from the Reserve Account of the Reserve Fund, and third from the Prepayment Reserve Account of the Reserve Fund to the Bond Fund in the amount necessary to cure such deficiency.

Administrative Fund

The City has created under the Indenture an Administrative Fund held by the Trustee. The City shall deposit or cause to be deposited to the Administrative Fund the amounts collected each year to pay Annual Collection Costs. Moneys in the Administrative Fund shall be held by the Trustee separate and apart from the other Funds created and administered hereunder and used as directed by a City Order solely for the purposes set forth in the Service and Assessment Plan.

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

Defeasance

All Outstanding Bonds shall prior to the Stated Maturity or redemption date thereof be deemed to have been paid and to no longer be deemed Outstanding if (i) in case any such Bonds are to be redeemed on any date prior to their Stated Maturity, the Trustee shall have given notice of redemption on said date as provided in the Indenture, (ii) there shall have been deposited with the Trustee either moneys in an amount which shall be sufficient, or Defeasance

Securities the principal of and the interest on which when due will provide moneys which, together with any moneys deposited with the Trustee at the same time, shall be sufficient to pay when due the principal of and interest on of the Bonds to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, (iii) the Trustee shall have received a report by an independent certified public accountant selected by the City verifying the sufficiency of the moneys or Defeasance Securities deposited with the Trustee to pay when due the principal of and interest on of the Bonds to become due on such Bonds on and prior to the redemption date or maturity date thereof, as the case may be, and (iv) if the Bonds are then rated, the Trustee shall have received written confirmation from each rating agency then rating the Bonds that such deposit will not result in the reduction or withdrawal of the rating on the Bonds. Neither Defeasance Securities nor moneys so deposited with the Trustee nor principal or interest payments on any such Defeasance Securities shall be withdrawn or used for any purpose other than, and shall be held in trust for, the payment of the principal of and interest on the Bonds. Any cash received from such principal of and interest on such Defeasance Securities deposited with the Trustee, if not then needed for such purpose, shall be reinvested in Defeasance Securities as directed by the City maturing at times and in amounts sufficient to pay when due the principal of and interest on the Bonds on and prior to such redemption date or maturity date thereof, as the case may be. Any payment for Defeasance Securities purchased for the purpose of reinvesting cash as aforesaid shall be made only against delivery of such Defeasance Securities.

“Defeasance Securities” means Investment Securities then authorized by applicable law for the investment of funds to defease public securities. “Investment Securities” means those authorized investments described in the Public Funds Investment Act, Chapter 2256, Texas Government Code, as amended; and provided further investments and are, at the time made, included in and authorized by the City’s official investment policy as approved by the City Council from time to time. Under current State law, Investment Securities that are authorized for the investment of funds to defease public securities are (a) direct, noncallable obligations of the United States of America, including obligations that are unconditionally guaranteed by the United States of America; (b) noncallable obligations of an agency or instrumentality of the United States, including obligations that are unconditionally guaranteed or insured by the agency or instrumentality, and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent; and (c) noncallable obligations of a state or an agency or a county, municipality, or other political subdivision of a state that have been refunded and that, on the date the governing body of the City adopts or approves the proceedings authorizing the issuance of refunding bonds, are rated as to investment quality by a nationally recognized investment rating firm not less than “AAA” or its equivalent.

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

Events of Default

Each of the following occurrences or events constitutes an “Event of Default” under the Indenture:

- (i) the failure of the City to deposit the Pledged Revenues to the Pledged Revenue Fund;
- (ii) the failure of the City to enforce the collection of the Improvement Area #1 Assessments including the prosecution of foreclosure proceedings; and
- (iii) default in the performance or observance of any covenant, agreement or obligation of the City under this Indenture and the continuation thereof for a period of 60 days after written notice specifying such default by the Owners of at least 25% of the Bonds Similarly Secured at the time Outstanding requesting that the failure be remedied.

Remedies in Event of Default

Upon the happening and continuance of any Event of Default, the Owners of at least 25% of the Bonds Similarly Secured then Outstanding, may proceed against the City for the purpose of protecting and enforcing the rights of the Owners under the Indenture, by action seeking mandamus or by other suit, action, or special proceeding in equity or at law, in any court of competent jurisdiction, for any relief to the extent permitted by Applicable Laws, including, but not limited to, the specific performance of any covenant or agreement contained herein, or injunction; provided, however, that no action for money damages against the City may be sought or shall be permitted.

THE PRINCIPAL OF THE BONDS SHALL NOT BE SUBJECT TO ACCELERATION UNDER ANY CIRCUMSTANCES.

If the assets of the Trust Estate are sufficient to pay all amounts due with respect to all Outstanding Bonds Similarly Secured, in the selection of Trust Estate assets to be used in the payment of Bonds Similarly Secured due in an Event of Default, the City shall determine, in its absolute discretion, and shall instruct the Trustee by City Order, which Trust Estate assets shall be applied to such payment and shall not be liable to any Owner or other Person by reason of such selection and application. In the event that the City shall fail to deliver to the Trustee such City Order, the Trustee shall select and liquidate or sell Trust Estate assets as provided in the following paragraph, and shall not be liable to any Owner, or other Person, or the City by reason of such selection, liquidation or sale.

Whenever moneys are to be applied pursuant to an Event of Default, irrespective of and whether other remedies authorized under the Indenture shall have been pursued in whole or in part, the Trustee may cause any or all of the assets of the Trust Estate, including Investment Securities, to be sold. The Trustee may so sell the assets of the Trust Estate and all right, title, interest, claim and demand thereto and the right of redemption thereof, in one or more parts, at any such place or places, and at such time or times and upon such notice and terms as the Trustee may deem appropriate and as may be required by law and apply the proceeds thereof in accordance with the provisions of the Indenture. Upon such sale, the Trustee may make and deliver to the purchaser or purchasers a good and sufficient assignment or conveyance for the same, which sale shall be a perpetual bar both at law and in equity against the City and all other Persons claiming such properties. No purchaser at any sale shall be bound to see to the application of the purchase money proceeds thereof or to inquire as to the authorization, necessity, expediency, or regularity of any such sale. Nevertheless, if so requested by the Trustee, the City shall ratify and confirm any sale or sales by executing and delivering to the Trustee or to such purchaser or purchasers all such instruments as may be necessary or, in the judgment of the Trustee, proper for the purpose which may be designated in such request.

Restriction on Owner's Actions

No Owner shall have any right to institute any action, suit or proceeding at law or in equity for the enforcement of the Indenture or for the execution of any trust thereof or any other remedy thereunder, unless (i) a default has occurred and is continuing of which the Trustee has been notified in writing or of which it is deemed to have notice, (ii) such default has become an Event of Default and the Owners of not less than 25% of the aggregate principal amount of the Bonds Similarly Secured then Outstanding have made written request to the Trustee and offered it reasonable opportunity either to proceed to exercise the powers granted or to institute such action, suit or proceeding in its own name, (iii) the Owners have furnished to the Trustee indemnity as provided in the Indenture, (iv) the Trustee has for 60 days after such notice failed or refused to exercise the powers granted, or to institute such action, suit, or proceeding in its own name, (v) no direction inconsistent with such written request has been given to the Trustee during such 60-day period by the owners of a majority of the aggregate principal amount of the Bonds Similarly Secured then Outstanding, and (vi) notice of such action, suit, or proceeding is given to the Trustee; however, no one or more Owners of the Bonds Similarly Secured shall have any right in any manner whatsoever to affect, disturb, or prejudice the Indenture by its, his or their action or to enforce any right thereunder except in the manner provided in the Indenture, and that all proceedings at law or in equity shall be instituted and maintained in the manner provided in the Indenture and for the equal benefit of the registered owners of all Bonds Similarly Secured then Outstanding. The notification, request and furnishing of indemnity shall, at the option of the Trustee, be conditions precedent to the execution of the powers and trusts of the Indenture and to any action or cause of action for the enforcement of the Indenture or for any other remedy thereunder.

Subject to provisions of the Indenture with respect to certain liabilities of the City, nothing in the Indenture shall affect or impair the right of any Owner to enforce, by action at law, payment of any Bond Similarly Secured at and after the maturity thereof, or on the date fixed for redemption or the obligation of the City to pay each Bond Similarly Secured issued thereunder to the respective Owners thereof at the time and place, from the source and in the manner expressed therein and in the Bonds Similarly Secured.

In case the Trustee or any Owners shall have proceeded to enforce any right under the Indenture and such proceedings shall have been discontinued or abandoned for any reason or shall have been determined adversely to the Trustee or any Owners, then and in every such case the City, the Trustee and the Owners shall be restored to their former positions and rights thereunder, and all rights, remedies and powers of the Trustee shall continue as if no such proceedings had been taken.

Application of Revenues and Other Moneys After Event of Default

All moneys, securities, funds and Pledged Revenues and the income therefrom received by the Trustee pursuant to any right given or action taken under the provisions of the Indenture with respect to Events of Default shall, after payment of the cost and expenses of the proceedings resulting in the collection of such amounts, the expenses (including Trustee's counsel), liabilities, and advances incurred or made by the Trustee and the fees of the Trustee in carrying out the Indenture, be applied by the Trustee, on behalf of the City, to the payment of interest and principal or redemption price then due on Bonds Similarly Secured, as follows:

FIRST: To the payment to the registered owners entitled thereto all installments of interest then due in the direct order of maturity of such installments, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, to the registered owners entitled thereto, without any discrimination or preference; and

SECOND: To the payment to the registered owners entitled thereto of the unpaid principal of Outstanding Bonds Similarly Secured, or redemption price of any Bonds Similarly Secured which shall have become due, whether at maturity or by call for redemption, in the direct order of their due dates and, if the amounts available shall not be sufficient to pay in full all the Bonds due on any date, then to the payment thereof ratably, according to the amounts of principal due and to the registered owners entitled thereto, without any discrimination or preference.

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

Within ten (10) days of receipt of such good and available funds, the Trustee may fix a record and payment date for any payment to be made to Owners.

The restoration of the City to its prior position after any and all defaults have been cured, as provided above, shall not extend to or affect any subsequent default under the Indenture or impair any right consequent thereon.

Investment or Deposit of Funds

Money in any fund or account established pursuant to the Indenture (other than the Reserve Account) will be invested by the Trustee as directed by the City pursuant to a City Order filed with the Trustee at least two (2) days in advance of the making of such investment in time deposits or certificates of deposit secured in the manner required by law for public funds, or be invested in direct obligations of, including obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, in obligations of any agencies or instrumentalities thereof, or in such other investments as are permitted under the Public Funds Investment Act, Chapter 2256, Government Code, as amended (the "PFIA") or any successor law, as in effect from time to time; provided that all such deposits and investments shall be made in such manner (which may include repurchase agreements for such investment with any primary dealer of such agreements) that the money required to be expended from any fund will be available at the proper time or times.

Obligations purchased as an investment of moneys in any fund or account established pursuant to the Indenture shall be deemed to be part of such fund or account, subject, however, to the requirements of the Indenture for transfer of interest earnings and profits resulting from investment of amounts in funds and accounts. Whenever in the Indenture any moneys are required to be transferred by the City to the Trustee, such transfer may be accomplished by transferring a like amount of permitted investments.

Against Encumbrances

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

So long as Bonds Similarly Secured are Outstanding under the Indenture, the City will not issue any bonds, notes or other evidences of indebtedness other than the Bonds and Initial Improvement Area #1 Bonds secured by any pledge of or other lien or charge on the Pledged Revenues or other property pledged under the Indenture, other than bonds issued for the purpose of refunding any Bonds Similarly Secured.

Other Obligations or Other Liens

The City reserves the right to issue obligations under other indentures, assessment ordinances, or similar agreements or other obligations which do not constitute or create a lien on the Trust Estate and are not payable from Pledged Revenues.

Other than in connection with the issuance of refunding bonds issued to refund Bonds Similarly Secured, the City will not create or voluntarily permit to be created any debt, lien or charge on the Trust Estate, and will not do or omit to do or suffer to be or omitted to be done any matter or things whatsoever whereby the lien of the Indenture or the priority hereof might or could be lost or impaired; and further covenants that it will pay or cause to be paid or will make adequate provisions for the satisfaction and discharge of all lawful claims and demands which if unpaid might by law be given precedence over or any equality with the Indenture as a lien or charge upon the Pledged Revenues or Pledged Funds; provided, however, that nothing in this Section shall require the City to apply, discharge, or make provision for any such lien, charge, claim, or demand so long as the validity thereof shall be contested by it in good faith, unless thereby, in the opinion of Bond Counsel or counsel to the Trustee, the same would endanger the security for the Bonds Similarly Secured.

SOURCES AND USES OF FUNDS

The table that follows summarizes the expected sources and uses of proceeds of the Bonds:

Sources of Funds:	
Principal Amount	\$
TOTAL SOURCES	\$
Use of Funds:	
Deposit to Bond Improvement Account of the Project Fund	\$
Deposit to Reserve Account of the Reserve Fund	
Costs of Issuance	
Underwriter's Discount ⁽¹⁾	
TOTAL USES	\$

⁽¹⁾ Includes Underwriter's discount of \$_____ and Underwriter's Counsel's fee of \$_____.

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DEBT SERVICE REQUIREMENTS*

The following table sets forth the anticipated debt service requirements for the Bonds and the Initial Improvement Area #1 Bonds:

<u>Year Ending (November 1)</u>	<u>The Bonds</u>		<u>Initial Improvement Area #1 Bonds</u>	<u>Total</u>
	<u>Principal</u>	<u>Interest</u>		
2019	\$ 215,000		\$ 1,343,700	
2020	225,000		1,343,700	
2021	270,000		1,346,000	
2022	320,000		1,345,000	
2023	380,000		1,341,600	
2024	435,000		1,344,900	
2025	500,000		1,344,600	
2026	570,000		1,344,700	
2027	635,000		1,342,900	
2028	715,000		1,346,200	
Total	<u>\$4,265,000</u>		<u>\$13,444,600</u>	

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* Preliminary, subject to change.

OVERLAPPING TAXES AND DEBT

Pursuant to the Estancia Hill Country Annexation and Development Agreement dated July 1, 2013, as amended by a First Amendment dated November 29, 2018 (the “Development Agreement”), by and between the City and the Landowner, the City has agreed not to annex Improvement Area #1 for full purposes prior to the final maturity date of the Bonds. The land within Improvement Area #1 has been, and is expected to continue to be, subject to taxes and assessments imposed by taxing entities other than the City. Such taxes are payable in addition to the Improvement Area #1 Assessments.

In addition to the Improvement Area #1 Assessments described above, the Landowner anticipates that each property owner in Improvement Area #1 of the District will pay an annual maintenance and operation fee and/or a property owner’s association fee to a master property owner’s association (the “Master POA”), which was formed by the Landowner. Additionally, each owner of a single-family residential unit in Improvement Area #1 of the District may be required to pay an annual maintenance and operation fee and/or a property owner’s association fee to a neighborhood homeowner’s association (the “Neighborhood HOA,” and, together with the Master POA, the “HOAs”) for the operation and maintenance of any improvements or amenities constructed by such builder. In addition, Travis County, the Austin Independent School District (“Austin ISD”), the Austin Community College District, the Travis County Healthcare District and the Travis County Emergency Services District No. 5 may each levy ad valorem taxes upon land in Improvement Area #1 for payment of debt incurred by such governmental entities and/or for payment of maintenance and operations expenses. The City has no control over the level of ad valorem taxes or special assessments levied by such other taxing authorities. The following table reflects the overlapping ad valorem taxes currently levied on property located in Improvement Area #1.

Overlapping Taxes	
Taxing Entity	Tax Year 2018 Ad Valorem Tax Rate ⁽¹⁾
Travis County	\$0.3542
Austin Independent School District	1.1920
Austin Community College District	0.1048
Travis County Healthcare District (d/b/a Central Health)	0.1052
Travis County Emergency Services District No. 5	<u>0.1000</u>
Total Current Tax Rate	<u>\$1.8562</u>
Estimated Average Annual Installment in Improvement Area #1 of the District as tax rate equivalent ⁽²⁾	<u>\$0.4544</u>
Estimated Total Tax Rate and Average Annual Installment in Improvement Area #1 of the District as a tax rate equivalent	<u>\$2.3106</u>

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

⁽²⁾ Derived from information obtained from the Service and Assessment Plan, and from lot counts and values provided by the Landowner. Does not include the Improvement Area #2 Assessments. Preliminary, subject to change. For single family and commercial tracts, the Service and Assessment Plan establishes a Maximum Assessment as an amount that results in an Annual Installment in the year such Maximum Assessment is calculated as an equivalent tax rate equal to 125% of the City’s tax rate for that year. See “ASSESSMENT PROCEDURES - Maximum Assessments in Improvement Area #1.”

Source: Municipal Advisory Council of Texas, the Appraisal, and the Service and Assessment Plan.

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As noted above, Improvement Area #1 of the District includes territory located in other governmental entities that may issue or incur debt secured by the levy and collection of ad valorem taxes or assessments. Set forth below is an overlapping debt table showing the outstanding indebtedness payable from ad valorem taxes with respect to property within Improvement Area #1 of the District, as of October 31, 2018, and City debt to be secured by the Improvement Area #1 Assessments:

Overlapping Debt

Taxing or Assessing Entity	Gross Outstanding Debt as of 10/31/2018	Estimated Percentage Applicable ⁽¹⁾	Estimated Overlapping Debt ⁽¹⁾
The City (The Bonds)	\$4,265,000 ⁽²⁾	100.00%	\$4,265,000 ⁽²⁾
The City (The Initial Improvement Area #1 Bonds)	9,895,000	100.00%	9,895,000
Travis County	705,136,179	0.0473%	333,686
Austin ISD	916,011,549	0.0782%	715,875
Austin Community College District	418,335,000	0.0409%	171,153
Travis County Healthcare District (d/b/a Central Health)	9,380,000	0.0473%	4,439
Travis County Emergency Services District No. 5	-	6.4100%	-
Total	<u>\$2,063,022,728</u>		<u>\$15,385,153</u>
Ratio of Total Debt to 2018 Taxable Assessed Valuation within Improvement Area #1			15.75%
Ratio of Total Overlapping Debt to 2018 Taxable Assessed Valuation within Improvement Area #1			17.11%

⁽¹⁾ Based on certified valuations for the Tax Year 2018 for the District's Improvement Area #1 and for the taxing entities.

⁽²⁾ Preliminary, subject to change. Excludes the Improvement Area #2 Bonds to be sold concurrently with the Bonds.

Sources: Travis Central Appraisal District, Municipal Advisory Council of Texas, and the Appraisal.

If land is devoted principally to agricultural use, the property owner can apply for an agricultural valuation on the property and pay ad valorem taxes based on the land's agricultural value. Agricultural use includes production of crops or livestock. It also can include leaving the land idle for a government program or for normal crop or livestock rotation. The remaining undeveloped property in Improvement Area #1 owned by the Landowner is currently subject to subject to a wildlife management plan, which allows it to maintain its agricultural valuation. The Landowner expects that this valuation will be terminated on a parcel by parcel basis at the time the applicable property owner begins construction of its development on a parcel.

If land qualified for an agricultural valuation and the land use changes to a non-agricultural use, "rollback taxes" are assessed for each of the previous 5 years in which the land received the lower agricultural valuation. The rollback tax is the difference between taxes paid on the land's agricultural value and the taxes that the land owner would have paid if the land had been taxed on a higher market value plus interest charged for each year from the date on which taxes would have been due.

If the land use changes to a non-agricultural use on only a portion of a larger tract, the land owner can fence off the remaining land and maintain the agricultural valuation on the remaining land. In this scenario, the land owner would only be responsible for rollback taxes on that portion of the land where use changed and not the entire tract.

It is expected that rollback taxes will be paid by the Landowner or purchasers from the Landowner during development of Improvement Area #1 when assessed after the change in use occurs for the applicable parcel.

Selected Financial Information for Improvement Area #1

The City has levied Improvement Area #1 Assessments in Improvement Area #1 on Assessable Property, which may be paid in Annual Installments, to pay for the Bonds. The following tables and calculations relate to the Bonds and to single family homes or lots within Improvement Area #1.

Selected Financial Information Relating to Single Family Homes in Improvement Area #1 ⁽¹⁾

Number of Unfinished Lots owned by Homebuilders	— ⁽²⁾
Number of Completed Lots owned by Homebuilders	— ⁽²⁾
Number of Lots with Completed Homes owned by Homebuilders	— ⁽²⁾
Number of Lots with Completed Homes owned by Individual Homeowners	— ⁽²⁾
Total Number of Lots subject to Assessments	<u>370</u>
2018 Average Assessed Taxable Value of Lots	\$ ⁽³⁾
2018 Average Assessed Taxable Value of Completed Homes	\$ ⁽³⁾
Total <i>Projected</i> Assessment Debt	
The Bonds	4,265,000 ⁽¹⁾
The Initial Improvement Area #1 Bonds	<u>9,895,000</u>
Total	<u>\$14,160,000</u>
<i>Projected</i> Average Assessment per Lot upon issuance of the Bonds	\$12,702
<i>Projected</i> Average Assessments value to lien for Finished Lots	5.63x ⁽³⁾
<i>Projected</i> Average Assessments value to lien for Completed Homes	28.14x ⁽³⁾
<i>Projected</i> Average Annual Installment per Lot upon issuance of the Bonds	\$1,763 ⁽⁴⁾
<i>Projected</i> Average Annual Installments for Finished Lots as tax rate equivalent	\$2.4873
<i>Projected</i> Average Annual Installments for Completed Homes as tax rate equivalent	\$0.4975 ⁽⁵⁾
<i>Projected</i> Maximum Annual Installment per Lot upon issuance of the Bonds	\$1,926 ⁽⁴⁾
<i>Projected</i> Maximum Annual Installments for Finished Lots as tax rate equivalent	\$2.7174
<i>Projected</i> Maximum Annual Installments for Completed Homes as tax rate equivalent	\$0.5435 ⁽⁵⁾

⁽¹⁾ Assumes the Bonds are issued. Preliminary, subject to change.

⁽²⁾ As of September 26, 2018; reported by the Landowner. All homes are expected to be constructed by Lennar.

⁽³⁾ Reflects the assessed taxable value of the District as of January 1, 2018, and as certified by the Travis Central Appraisal District.

⁽⁴⁾ Inclusive of the Additional Interest for the Delinquency Reserve Account and the Prepayment Reserve Account, and the currently budgeted Administrative Expenses per year.

⁽⁵⁾ Based on projected full buildout of \$130,720,000 for the single-family portion of Improvement Area #1, as shown in the Service and Assessment Plan.

2018 Assessed Valuation of Improvement Area #1

As reported by the Travis Central Appraisal District, the 2018 taxable assessed valuation for all of Improvement Area #1 is approximately \$89,929,450, as of January 1, 2018.

ASSESSMENT PROCEDURES

General

Capitalized terms used under this caption and not otherwise defined in this Limited Offering Memorandum shall have the meaning given to such terms in the Service and Assessment Plan. As required by the PID Act, when the City determines to defray a portion of the costs of the Improvement Area #1 Improvements through Improvement Area #1 Assessments, it must adopt a resolution generally describing the Improvement Area #1 Improvements and the land within Improvement Area #1 of the District to be subject to Improvement Area #1 Assessments to pay the costs therefor. The City has caused an assessment roll to be prepared (the "Improvement Area #1 Assessment Roll"), which Improvement Area #1 Assessment Roll shows the land within Improvement Area #1 assessed, the amount of the benefit to and the Improvement Area #1 Assessment against each lot or parcel of land and the number of Annual Installments in which the Improvement Area #1 Assessment is divided. The Assessment Roll was filed with the City Clerk and made available for public inspection. Statutory notice was given to the owners of the property to be assessed and a public hearing was conducted to hear testimony from affected property owners as to the propriety and advisability of undertaking the Improvement Area #1 Improvements and funding the same with Improvement Area #1 Assessments. The City levied the Improvement Area #1 Assessments and adopted the Improvement Area #1 Assessment Ordinance on June 20, 2013. After such adoption, the Improvement Area #1 Assessments became legal, valid and binding liens upon the property against which the Improvement Area #1 Assessments are made.

Under the PID Act, the costs of Improvement Area #1 Improvements to be defrayed through Improvement Area #1 Assessments may be assessed by the City against the assessable property in Improvement Area #1 of the District so long as the special benefit conferred upon the Assessed Parcels by the Improvement Area #1 Improvements equals or exceeds the Improvement Area #1 Assessments. The costs of the Improvement Area #1 Improvements may be assessed using any methodology that results in the imposition of equal shares of cost on Assessed Parcels similarly benefited. The allocation of benefits and assessments to the benefitted land within Improvement Area #1 of the District is presented in the Service and Assessment Plan, which should be read in its entirety. See "APPENDIX C — Form of Service and Assessment Plan."

Assessment Methodology

The Service and Assessment Plan describes the special benefit received by each parcel of assessable property as a result of the Improvement Area #1 Improvements, provides the basis and justification for the determination that such special benefit exceeds the Improvement Area #1 Assessments levied, and establishes the methodology by which the City allocated the special benefit of the Improvement Area #1 Improvements to parcels in a manner that resulted in equal shares of costs being apportioned to parcels similarly benefited. As described in the Service and Assessment Plan, a portion of the costs of the Improvement Area #1 Improvements are being funded with proceeds of the Bonds, which are payable from and secured by Pledged Revenues, including the Improvement Area #1 Assessments.

As set forth in the Service and Assessment Plan, the benefits received by the Improvement Area #1 Improvements were spread among the benefitted parcels (the "Assessed Property") based on the ratio of the estimated build out value of each parcel to the total estimated build out value for all parcels within Improvement Area #1. As parcels are subsequently divided, the Improvement Area #1 Assessments will be further apportioned based on the ratio of the estimated build out values of the newly created parcels. For single family residential units, when final residential building sites are subdivided by condominium plats or plans, Improvement Area #1 Assessments will be apportioned proportionately among each unit type based on the ratio of the estimated average build out value for the lot type at the time thereof.

The City has determined that allocating the Improvement Area #1 Assessments to the Assessed Property based on the relative estimated build out value of each parcel will result in the imposition of equal shares of the Improvement Area #1 Assessments on parcels similarly situated. The Improvement Area #1 Assessments and the interest thereon are expected to be paid in annual installments as described in the Service and Assessment Plan (the "Annual Installments"). The determination by the City of the assessment methodology set forth in the Service and Assessment Plan is the result of the discretionary exercise by the City Council of its legislative authority and governmental powers and is conclusive and binding on the Landowner and all future owners within Improvement Area #1. See "APPENDIX C — Form of Service and Assessment Plan."

Collection and Enforcement of Assessment Amounts

Under the PID Act, the Annual Installments may be collected in the same manner and at the same time as regular ad valorem taxes of the City. The Improvement Area #1 Assessments may be enforced by the City in the same manner that an ad valorem tax lien against real property is enforced. Delinquent installments of the Improvement Area #1 Assessments incur interest, penalties and attorney's fees in the same manner as delinquent ad valorem taxes. Under the PID Act, the Assessment Lien is a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for State, county, school district or municipality ad valorem taxes. See "BONDHOLDERS' RISKS — Assessment Limitations" herein.

The City has covenanted in the Indenture to collect, or cause to be collected, Improvement Area #1 Assessments as provided in the Improvement Area #1 Assessment Ordinance. No less frequently than annually, City staff or a designee of the City shall prepare, and the City Council shall approve, an Annual Service Plan Update to allow for the billing and collection of Annual Installments. Each Annual Service Plan Update shall include an updated Improvement Area #1 Assessment Roll and a calculation of the Annual Installment for each Parcel. Annual Collection Costs shall be allocated among all Parcels in proportion to the amount of the Annual Installments for the Parcels.

The City covenanted, agreed and warranted in the Indenture that, for so long as any Bonds Similar Secured are Outstanding, that it will take and pursue all actions permissible under Applicable Laws to cause the Improvement Area #1 Assessments to be collected and the liens thereof enforced continuously, in the manner and to the maximum extent permitted by Applicable Laws, and, to the extent permitted by Applicable Laws, to cause no reduction, abatement or exemption in the Improvement Area #1 Assessments.

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

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

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

The City shall not be required under any circumstances to expend any funds for delinquent collection costs in connection with its covenants and agreements under the Indenture or otherwise other than funds on deposit in the Administrative Fund.

Annual Installments will be paid to the City or its agent. Annual Installments are due when billed on or about October 1 each year, and become delinquent on February 1. In the event Improvement Area #1 Assessments are not timely paid, there are penalties and interest as set forth below:

<u>Date Payment</u> <u>Received</u>	<u>Cumulative</u> <u>Penalty</u>	<u>Cumulative</u> <u>Interest</u>	<u>Total</u>
February	6%	1%	7%
March	7%	2%	9%
April	8%	3%	11%
May	9%	4%	13%
June	10%	5%	15%
July	12%	6%	18%

After July, the penalty remains at 12%, and interest increases at the rate of 1% each month. In addition, if an account is delinquent in July, a 20% attorney's collection fee may be added to the total penalty and interest charge. In general, property subject to lien may be sold, in whole or in parcels, pursuant to court order to collect the amounts due. An automatic stay by creditors or other entities, including governmental units, could prevent governmental units from foreclosing on property and prevents liens for post-petition taxes from attaching to property and obtaining secured creditor status unless, in either case, an order lifting the stay is obtained from the bankruptcy court. In most cases, post-petition Improvement Area #1 Assessments are paid as an administrative expense of the estate in bankruptcy or by order of the bankruptcy court.

Assessment Amounts

Improvement Area #1 Assessment Amounts. Approximately 215 acres within Improvement Area #1 is subject to the Improvement Area #1 Assessments. The amounts of the Improvement Area #1 Assessments have been established by the methodology described in the Service and Assessment Plan. The Assessment Roll sets forth for each year the Annual Installment for each Parcel. The Annual Installments for Improvement Area #1 may not exceed the amounts shown on the Improvement Area #1 Assessment Roll. Pursuant to an ordinance passed by the City Council on June 20, 2013, as modified and amended through annual updates and through the amended and restated Service and Assessment Plan, the Improvement Area #1 Assessments were levied against the parcels comprising the Assessed Parcels in Improvement Area #1 as indicated on the Improvement Area #1 Assessment Roll. See "APPENDIX C — Form of Service and Assessment Plan." The Improvement Area #1 Assessments were originally levied in the amount of \$17,235,000, of which amount \$14,160,000 is currently outstanding. The Improvement Area #1 Assessments are allocated as follows:

Assessment Allocation by Parcel in Improvement Area #1

<u>Parcel(s)</u>	<u>Number of</u> <u>acres</u>	<u>Total</u> <u>Assessments</u>	<u>Average Annual</u> <u>Installments</u> ⁽¹⁾
Tracts 1-5 (future multifamily)	59.8	\$ 4,897,836	\$679,654
Tracts 6-7 (The Park at Estancia Ltd)	16.1	1,447,472	200,860
Tract 8 (future office/retail)	16	1,519,926	210,914
Tract 9 (Estancia Villas LLC)	16.3	1,594,897	221,330
Tract 11 Subdivided Portion (single family residential)	71.5	2,803,505	389,032
Tract 11 Remainder (undivided single family residential)		664,403	92,197
Tract 12 (undivided single family residential)	35.2	<u>1,231,872</u>	<u>170,942</u>
Total		\$14,160,000	\$1,964,929

⁽¹⁾ Based on the period from 2019 through 2028. Improvement Area #1 Assessments and corresponding Annual Installments will be capped at the Maximum Assessment. See "- Maximum Assessments" below. Preliminary, subject to change.

Expected Assessment Allocation by Lot Type for Single Family Lots in Improvement Area #1

Lot Type	Number of Units	Projected Buildout Value per Unit ⁽¹⁾	Assessment Per Unit	Total Assessments	Average Annual Installments per Unit ⁽²⁾	Equivalent Tax Rate per \$100 AV
Lot Type 1 (50')	158	\$320,000	\$10,473	\$1,654,741	\$1,453	\$0.4542
Lot Type 2 (60')	81	410,000	14,182	1,148,764	1,968	0.4 800
Lot Type 3 (50')	120	350,000	14,136	1,696,349	1,962	0.5605
Lot Type 4 (60')	11	450,000	18,175	199,927	2,522	0.5605
Total				\$4,699,780⁽³⁾		

(1) Derived from information obtained from the Service and Assessment Plan, and from lot counts and values provided by the Landowner.

(2) Based on the period from 2019 through 2028. Preliminary, subject to change.

(3) Includes all Improvement Area #1 Assessments levied against Tracts 11 and 12.

The Annual Installments shown on the Improvement Area #1 Assessment Roll will be reduced to equal the actual costs of repaying the Bonds Similarly Secured, the 0.5% of additional interest and actual Annual Collection Costs (as provided for in the definition of such term), taking into consideration any other available funds for these costs, such as interest income on account balances.

Method of Apportionment of Improvement Area #1 Assessments. For purposes of the Service and Assessment Plan, the City Council has determined that the Improvement Area #1 Assessments shall be allocated to the Assessed Parcels according to estimated buildout value per Assessed Parcel. If an Assessed Parcel is divided, the Improvement Area #1 Assessment of such Parcel before the division shall be reallocated to the newly created Parcels by City staff or by a third party consultant contracted by the City to administer the PID (the "PID Administrator") (and approved by the City Council in the next Annual Service Plan Update) based on the ratio of estimated build out value of each Assessed Parcel to estimated build out value of all newly-created Assessed Parcels. If the division is by a recorded subdivision plat, the Improvement Area #1 Assessment of such Parcel before the division shall be reallocated to the newly created lots by the PID Administrator (and approved by the City Council in the next Annual Service Plan Update) based on the ratio of estimated build out value of each Lot Type of Assessed Parcels to estimated build out value of all newly-created Assessed Parcels. See "APPENDIX C — Form of Service and Assessment Plan."

The Bonds are secured by a first lien on and pledge of Pledged Revenues, including the Improvement Area #1 Assessments. See "SECURITY FOR THE BONDS SIMILARLY SECURED" and "APPENDIX C — Form of Service and Assessment Plan."

Maximum Assessments in Improvement Area #1

Pursuant to the Service and Assessment Plan, the City has established a maximum Improvement Area #1 Assessment ("Maximum Assessment") for each parcel based on Lot Type and expected lot/unit count. The Maximum Assessment is equal to: (1) for multifamily parcels, \$5,843 per multifamily dwelling unit, and (2) for all other lot types, an amount that produces an Annual Installment for the year in which the Maximum Assessment Calculation Date occurs resulting in an equivalent tax rate that does not exceed 125% of the City's tax rate in the fiscal year the Maximum Assessment is determined (the "Maximum Equivalent Tax Rate") based on the estimated buildout for such lot type. The Maximum Assessment Calculation Date means 30 days prior to subdividing by plat, issuance of a site development permit, creating units by a horizontal condominium regime, or any other action that would cause the uses within a parcel to differ from the uses shown on Exhibit I and Exhibit K of the Service and Assessment Plan. As further described below, if the allocated Improvement Area #1 Assessment exceeds the Maximum Assessment for any parcel, the owner of such parcel must prepay the portion of the Improvement Area #1 Assessment that exceeds the Maximum Assessment. The City's 2018 tax rate is \$0.4403 per \$100 of taxable assessed value.

Prepayment of Improvement Area #1 Assessments

Voluntary Prepayments. Pursuant to the PID Act and the Indenture, the owner of any property assessed may voluntarily prepay (a “Prepayment”) all or part of any Improvement Area #1 Assessment levied against any lot or parcel, together with accrued interest to the date of payment, at any time. Upon receipt of such Prepayment, such amounts will be applied towards the redemption or payment of the Bonds Similarly Secured. Amounts received at the time of a Prepayment which represent a payment of principal, interest, or penalties on a delinquent installment of an Assessment are not to be considered a Prepayment, but rather are to be treated as payment of regularly scheduled Improvement Area #1 Assessments.

Mandatory Prepayments. If the Improvement Area #1 Assessment for any lot or parcel exceeds the Maximum Assessment on the Maximum Assessment Calculation Date, the owner shall partially prepay the Improvement Area #1 Assessment for each Assessed Property that exceeds the Maximum Assessment in an amount sufficient to reduce the Improvement Area #1 Assessment to the Maximum Assessment .

Additionally, if (i) Assessed Property is transferred to a party that is exempt from the payment of the Assessment under applicable law, or (ii) an owner of Assessed Property causes the Assessed Property to become Non-Benefited Property, the owner of such Assessed Property shall pay to the City the full amount of the Assessment, plus all Prepayment Costs and Delinquent Collection Costs, prior to any such transfer or act, in accordance with the Service and Assessment Plan.

Reduction of Improvement Area #1 Assessments

If as a result of cost savings or an Improvement Area #1 Improvement not being constructed, the Actual Costs of completed Improvement Area #1 Improvements are less than the Improvement Area #1 Assessments levied for such Improvement Area #1 Improvements, the City Council shall reduce each Improvement Area #1 Assessment related to such Improvement Area #1 Improvements on a pro-rata basis such that the sum of the resulting reduced Improvement Area #1 Assessments, for all Assessed Properties receiving benefit from the Improvement Area #1 Improvements, equals the reduced Actual Costs. The Improvement Area #1 Assessments shall not, however, be reduced to an amount less than the applicable outstanding Bonds Similarly Secured.

Priority of Lien

The Improvement Area #1 Assessments or any reassessment, the expense of collection, and reasonable attorney’s fees, if incurred, constitute a first and prior lien against the property assessed, superior to all other liens and claims except liens or claims for the State, county, school district or municipality ad valorem taxes, and are a personal liability of and charge against the owners of the property regardless of whether the owners are named. The lien is effective from the date of the Improvement Area #1 Assessment Ordinance until the Improvement Area #1 Assessment is paid, and may be enforced by the City in the same manner as an ad valorem tax levied against real property may be enforced by the City. The owner of any property assessed may pay the entire Improvement Area #1 Assessment levied against any lot or parcel, together with accrued interest to the date of payment, at any time.

Foreclosure Proceedings

In the event of delinquency in the payment of any Annual Installment, except for unpaid Improvement Area #1 Assessments on homestead property (unless the lien associated with the assessment attached prior to the date the property became a homestead), the City is empowered to order institution of an action in state district court to foreclose the lien of such delinquent Annual Installment. In such action the real property subject to the delinquent Annual Installments may be sold at judicial foreclosure sale for the amount of such delinquent Annual Installments, plus penalties and interest.

Any sale of property for nonpayment of an installment or installments of an Improvement Area #1 Assessment will be subject to the lien established for remaining unpaid installments of the Improvement Area #1 Assessment against such property and such property may again be sold at a judicial foreclosure sale if the purchaser thereof fails to make timely payment of the non-delinquent installments of the Improvement Area #1 Assessments

against such property as they become due and payable. Judicial foreclosure proceedings are not mandatory. In the event a foreclosure is necessary, there could be a delay in payments to owners of the Bonds Similarly Secured pending prosecution of the foreclosure proceedings and receipt by the City of the proceeds of the foreclosure sale. It is possible that no bid would be received at the foreclosure sale, and in such event there could be an additional delay in payment of the principal of and interest on Bonds Similarly Secured or such payment may not be made in full. The City is not required under any circumstance to purchase or make payment for the purchase of the delinquent Improvement Area #1 Assessment on the corresponding Assessed Parcel.

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

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

THE CITY

Administration

Incorporated in 1839, the City operates under a Council-Manager form of government under its home rule charter. As a result of an amendment to the Austin City Charter approved at an election held in November, 2012, the configuration of the City Council has changed from a seven member council, comprised of a Mayor and six council members elected at large, to an eleven member council, with the Mayor elected at large, and the remaining members elected from ten single member districts. The first council election held in accordance with the 2012 amendment to the City Charter was held November 4, 2014. See “APPENDIX A – General Information Regarding the City – General Information” in this document.

By charter, the City Council appoints a City Manager for an indefinite term who acts as the chief administrative and executive officer of the City. The duties include, among others, the supervision of all City departments, the preparation and administration of an annual budget and the preparation of a report on the finances and administrative activities of the City.

City Manager – Spencer Cronk

Mr. Spencer Cronk joined the City as City Manager on February 12, 2018. Before joining the City of Austin, Mr. Cronk was Minneapolis City Coordinator (City Administrator). He directed the management of Minneapolis city government by assisting the Mayor and City Council in defining City policy and establishing priorities, mobilizing department heads and staff to implement the Mayor and Council’s priorities, and working to strengthen the management and administrative systems of the City. Mr. Cronk previously served as Commissioner of the Minnesota Department of Administration, a role he was appointed to by Governor Mark Dayton in 2011. As Commissioner, Mr. Cronk led the state’s real property, purchasing, fleet, demographic analysis and risk management divisions responsible for more than \$2 billion in State purchasing and the historic renovation of the Minnesota State Capitol. Additionally, Mr. Cronk also served as chair of the Minnesota Public Data Governance Advisory Committee, and as a member of the Environmental Quality Board and the Minnesota Indian Affairs Council. Before joining the State of Minnesota, Mr. Cronk served as executive director of organizational development and senior advisor for the Department of Small Business Services for the City of New York, under former Mayor Michael Bloomberg. His accomplishments there included the design and implementation of a comprehensive performance-management system and the development

of a program for integrating new employees, which was used citywide as a best practice template for the City of New York's 300,000 employees. Mr. Cronk has served a number of community organizations and agencies, including as an Advisory Council member for Northern Spark, a member of the Minnesota Advisory Board of the Trust for Public Land, and a member of the Itasca Project Task Force on Socioeconomic Disparities in the Twin Cities. He was a recipient of the Minneapolis/St. Paul Business Journal's "40 Under 40" Award in 2013. Mr. Cronk received his bachelor's degree with honors from the University of Wisconsin– Madison. He is a graduate of Harvard University's Senior Executives in State and Local Government Program and was a Public Affairs Fellow with the Coro New York Leadership Center.

Deputy City Manager/Chief Financial Officer – Elaine Hart, CPA

Ms. Elaine Hart received her B.B.A. in Accounting from The University of Texas at Arlington. Effective upon the adoption of the City's fiscal year 2019 budget, Ms. Hart became Deputy City Manager. Her career with the City spans more than 20 years, including over 10 years in public power. Ms. Hart served as Interim Chief Financial Officer for two months before being appointed to the position of Chief Financial Officer in April 2012. Prior to her appointment as Chief Financial Officer, she served as Senior Vice President of Finance and Corporate Services for Austin Energy, the municipally-owned electric utility. During her tenure at the City (service not continuous), she has also served in other financial capacities, including the City's Chief Financial Officer in the late 1980s, Assistant Finance Director, City Controller and Deputy City Auditor. Ms. Hart also has private sector auditing, accounting and consulting experience.

Deputy Chief Financial Officer – Greg Canally

Mr. Greg Canally is the Deputy Chief Financial Officer for the City of Austin over the Treasury Office, Purchasing Office & Capital Contract Office, and worked as the Finance lead on economic development, transportation initiatives, facility master planning, and a variety of information technology issues for the City. Mr. Canally has been with the City of Austin for 17 years, entirely in the Finance Department. From 2004 through 2008, he was the City's Budget Officer. He is a past member of Government Finance Officers Association's Committee on Economic Development and Capital Planning. Prior to his work in municipal government, Mr. Canally worked as a project manager/economist for HDR Engineering, working with all levels of government to implement Water Planning solutions in Texas. Mr. Canally holds a Bachelor of Science in Economics from Villanova University and a Master of Science in Economics from the University of Texas at Austin.

See "APPENDIX A – General Information Regarding the City" for more information.

THE DISTRICT

General

The PID Act authorizes municipalities, such as the City, to create public improvement districts within their boundaries or extraterritorial jurisdiction, and to impose assessments within the public improvement district to pay for certain improvements. The District was created by the City in accordance with the PID Act by a resolution adopted by the City Council on June 6, 2013 (the "Creation Resolution"), for the purpose of, among others, funding the Improvement Area #1 Improvements. The District is not a separate political subdivision of the State of Texas and is governed by the City Council. The property within the District has been annexed by the City for limited purposes. The District contains approximately 593.791 acres of land, and Improvement Area #1 contains approximately 215 acres of land subject to Improvement Area #1 Assessments. A map of the property within the District, including Improvement Area #1, is included on page iv hereof.

Powers and Authority of the City

Pursuant to the PID Act, the City may establish and create the District and undertake, or reimburse a property owner or developer for the costs of, improvement projects that confer a special benefit on property located within the District, whether located within the City limits or the City's extraterritorial jurisdiction. The PID Act provides that the City may levy and collect Improvement Area #1 Assessments on property in Improvement Area #1 of the District,

or portions thereof, payable in periodic installments based on the benefit conferred by an improvement project to pay all or part of its cost.

Pursuant to the PID Act and the Creation Resolution, the City has the power to undertake, or reimburse a property owner or developer for the costs of, the financing, acquisition, construction or improvement of the Improvement Area #1 Improvements. See “THE IMPROVEMENTS.” Pursuant to the authority granted by the PID Act and the Creation Resolution, the City has determined to undertake the construction, acquisition or purchase of certain water, wastewater, drainage, roadway, hardscape, landscape and hike and bike trail public improvements comprising the Improvement Area #1 Improvements and to finance a portion of the costs thereof through the issuance of the Bonds. The City has further determined to provide for the payment of debt service on the Bonds through Pledged Revenues. See “ASSESSMENT PROCEDURES” herein and “APPENDIX C — Form of Service and Assessment Plan.”

District Collection and Delinquency History of Assessments in Improvement Area #1

Pursuant to an ordinance passed by the City Council on June 20, 2013, the City levied the Improvement Area #1 Assessments on assessable property in Improvement Area #1. The annual installments of Improvement Area #1 Assessments were billed beginning in October of 2014. The following table shows the collection and delinquency history of the Improvement Area #1 Assessments.

Collection and Delinquency of Improvement Area #1 Assessments

<u>Fiscal Year Ending 9/30</u>	<u>Annual Installments Levied</u>	<u>Parcels Levied⁽¹⁾</u>	<u>Delinquent Amount as of 3/1</u>	<u>Delinquent Percentage as of 3/1</u>	<u>Delinquent Amount as of 9/1</u>	<u>Delinquent Percentage as of 9/1</u>	<u>Annual Installments Collected</u>
2015	\$1,772,155.00	4	-	0.00%	-	0.00%	\$1,772,155.00
2016	1,766,370.00	79	\$9,375.00	0.53%	\$6,513.00	0.37%	1,759,857.00
2017	1,745,225.20	184	7,744.98	0.44%	6,454.15	0.37%	1,738,801.05
2018	1,786,810.05	244	3,654.94	0.20%	1,010.30	0.06%	1,785,799.75

⁽¹⁾ Pursuant to Section 31.031, Texas Tax Code, certain veterans, persons aged 65 or older, and the disabled, who qualify for an exemption under either Section 11.13(c), 11.32, or 11.22, Texas Tax Code, are eligible to pay property taxes in four equal installments (“Installment Payments”). Effective January 1, 2018, pursuant to Section 31.031(a-1), Texas Tax Code, the Installment Payments are each due before February 1, April 1, June 1, and August 1. Each unpaid Installment Payment is delinquent and incurs penalties and interest if not paid by the applicable date.

Improvement Area #1 Assessment Payer Concentration. The following table shows the top assessment-payers in Improvement Area #1 for Fiscal Year 2019:

<u>Owner</u>	<u>Total Annual Installments</u>	<u>Percentage of Total Annual Installments</u>
SLF III – Onion Creek LP	\$ 824,984.71	45.32%
Lennar Homes of Texas Land & Construction Ltd	243,761.07	13.39%
Estancia Villas LLC	205,030.88	11.26%
The Park at Estancia Ltd	186,068.28	10.22%
Total Annual Installments Levied	\$1,820,227.47	

Foreclosure History. As of November 1, 2018, there has never been a foreclosure sale of any assessed property within Improvement Area #1.

Prepayments of Improvement Area #1 Assessments. As of November 1, 2018, there have been no prepayments of Improvement Area #1 Assessments.

THE IMPROVEMENTS

General

A portion of the costs of the Improvement Area #1 Improvements were initially funded with the Initial Improvement Area #1 Bonds and the remainder of the costs of the Improvement Area #1 Improvements will be financed with the proceeds of the Bonds. The Improvement Area #1 Improvements have been dedicated to the City or to Travis County (the “County”). The Landowner was responsible for the completion of the construction, acquisition or purchase of the Improvement Area #1 Improvements, and the Landowner or its designee acted as construction manager. From the proceeds of the Bonds, the City will pay the Landowner for a portion of the project costs actually incurred in developing and constructing the Improvement Area #1 Improvements within or serving the District.

Development Plan

The current development plan for the public improvements that are to be financed through the District (the “Authorized Improvements”) is divided into three phased improvement areas. See “THE DEVELOPMENT” and “APPENDIX C — Form of Service and Assessment Plan.” The Landowner has completed construction of all the Improvement Area #1 Improvements. The Landowner is currently designing and pursuing governmental approvals in preparation for the construction of the Improvement Area #2 Improvements. The Landowner expects that the construction of the Authorized Improvements for Improvement Area #3 will occur after the construction of the Improvement Area #2 Improvements.

Improvement Area #1 Improvements. The Landowner completed construction of the Improvement Area #1 Improvements, including water, wastewater, roadway, drainage, hardscape, landscape and hike and bike trail public improvements located inside and outside the District, in the first quarter of 2016. Water and wastewater improvements were dedicated to the City for ownership and maintenance. Roadway improvements, including related drainage improvements, were dedicated to Travis County for ownership and maintenance. The Improvement Area #1 Improvements include:

Wastewater Line #1. Wastewater line #1 consists of $\pm 6,900$ linear feet (LF) of wastewater collection system ranging from 8”-24” in diameter with a depth ranging from 8 feet deep to 50 feet deep. Wastewater line #1 also includes a 180 LF bore and a vortex manhole that will tie into an existing City wastewater interceptor located along Onion Creek. The property is located parallel to Onion Creek and a portion of Old San Antonio Road. Wastewater line #1 benefits Improvement Area #1. Wastewater line #1 has been constructed to City standards and specifications and has been dedicated to and maintained by the City.

Wastewater Line #2. Wastewater line #2 consists of $\pm 2,200$ linear feet (LF) of 8” wastewater collection system to service the onsite development. Wastewater line #2 will tie into the offsite wastewater line and will eventually convey flows to an existing City wastewater interceptor. Wastewater line #2 benefits Improvement Area #1. Wastewater line #2 was constructed to City standards and specifications and has been dedicated to and maintained by the City.

Water Line. The water Line consists of $\pm 8,900$ linear feet (LF) of water distribution system ranging from 8”-16” in diameter. The water Line will tie into an existing City water transmission main located along the IH-35 frontage road adjacent to the property. The water line benefits Improvement Area #1. The water line has been constructed to City standards and specifications and has been dedicated to and maintained by the City.

Estancia Parkway (Phase I). Estancia Parkway (Phase I) is a 90-foot parkway consisting of $\pm 3,900$ LF of roadway with retaining walls, turn lanes, curb and gutter systems, and revegetation of all disturbed areas within the right-of-way. Estancia Parkway provides a link between Old San Antonio Road and Camino

Vaquero Parkway. It will eventually connect the property out to Puryear Parkway in Phase II. The roadway has been constructed to City and County standards and specifications and has been dedicated to and maintained by the County.

Camino Vaquero Parkway. Camino Vaquero Parkway is a 90 foot parkway consisting of $\pm 1,300$ LF of roadway with retaining walls, turn lanes, curb and gutter systems, and revegetation of all disturbed areas within the right-of-way. Camino Vaquero Parkway provides a link between IH-35 southbound access road and Estancia Parkway. It will eventually connect to a new IH-35 acceleration and deceleration lane into and out of the property. The roadway has been constructed to City and County standards and specifications and has been dedicated to and maintained by the County.

Existing Central Pond Improvements. These include a reconstructed outlet structure to the existing pond located near the center of the property. This allows the pond to function as a detention structure for Camino Vaquero Parkway and Estancia Parkway (Phase I). The central pond improvements have been constructed to City and County standards and specifications including a public drainage easement to the City and County but maintained by the Master POA.

Wet Pond North. Wet pond north has been designed for fully-developed conditions for Improvement Area #1. The inlet and outlet structures have been designed assuming fully-developed conditions of all development that will eventually drain to the wet pond north. Flow dissipaters and spreaders are used to ensure a smooth transition from channel to sheet flow. Temporary rock berm are utilized at all discharge points to reduce velocities and control erosion until permanent vegetation and controls are established. All storm sewer and drainage conveyance are contained within drainage easements. Wet pond north has been constructed to City and County standards and specifications including a public drainage easement to the City and County but maintained by the Master POA.

Wet Pond West. Wet pond west has been designed for fully-developed conditions for Improvement Area #1. The inlet and outlet structures have been designed assuming fully-developed conditions of all development that will eventually drain to wet pond west. Flow dissipaters and spreaders are used to ensure a smooth transition from channel to sheet flow. Temporary rock berm are utilized at all discharge points to reduce velocities and control erosion until permanent vegetation and controls are established. All storm sewer and drainage conveyance are contained within drainage easements. The project has been constructed to City and County standards and specifications including a public drainage easement to the City and County but maintained by the Master POA.

TxDOT Ramp Relocations and Engineering Cost ("TxDOT Ramp Flip"). The existing ramps to the access road along the frontage of IH-35 prevent access to Camino Vaquero Parkway without exiting IH-35 near Onion Creek Parkway. Per discussions with the Texas Department of Transportation ("TxDOT") and with their support, the north entrance ramp near Onion Creek will become an exit ramp from IH-35 to the access road. The south exit ramp will become an entrance ramp to IH35 from the access road. Surveying and geotechnical information will be prepared by Landowner to assist TxDOT with the design and construction of the ramps. The ramps will be designed to TxDOT standards and specifications and once constructed, will be owned and maintained by TxDOT.

Drainage. This consists of drainage improvements to support the installation of Camino Vaquero Parkway and Estancia Parkway, as well as onsite development within Improvement Area #1. Runoff conveyance consists of box culverts and storm sewer system sized to convey the 100 year storm to the ponds that have been constructed. The roadway runoff will be routed to one of three ponds located within the development which were designed for detention and water quality purposes. The drainage improvements have been constructed to City and County standards and specifications and dedicated to and maintained by the County.

Entry Monumentation. This consists of the construction of two entrance monuments, one at the intersection of IH-35 and Camino Vaquero Parkway and one at the intersection of Old San Antonio Road and Estancia Parkway. The entry monumentation is located within a public easement and maintained by the Master POA.

Hardscape. This consists of the installation of hardscape to include sidewalks, fencing, driveway

improvements, parking, lighting, and signage within the PID. The hardscape was constructed to City and County standards and specifications. The hardscape is located within the County right-of-way and within a public easement and maintained by the Master POA.

Landscaping. This consists of the installation of landscaping including plants, shrubs, and trees within Improvement Area # 1. The landscaping was installed to City and County standards and specifications. The landscaping is located within the County right-of-way and within an easement granted to the County and will be maintained by the Master POA.

Hike and Bike Trail System. The hike and bike trail system is located parallel to Old San Antonio Road and Onion Creek and connects the parks and trail system within Improvement Area #1 together. The trails consist of a mixture of improved pathways with several ancillary improvements (benches, playscapes, points of interest, etc.) along or near the pathways. The hike and bike trail system was constructed to City and County standards and specifications. The portion of the Hike & Bike Trail System located within the public park will be owned and maintained by the City, and the portion of the hike and bike trail system located outside of the public park will be maintained by the Master POA and covered by an easement granted to the County or City.

Erosion Control. This consists of the required Erosion and Sedimentation Control Infrastructure, both permanent and temporary controls, as required by the City, County, Texas Commission on Environmental Quality, and Environmental Protection Agency. These controls include, but are not limited to, silt fence, rock berms, stabilized construction entrances, matting and revegetation. The Erosion and Sedimentation Controls were installed to City, County, TCEQ and EPA specifications and standards. They are located as needed within Improvement Area #1 for protection of slopes and to prevent sedimentation discharge into the watershed.

Miscellaneous Soft Costs (fees, fiscals, etc.). This consists of the fees and fiscal posting requirements of the City and County. They include inspection fees, fiscal for installation of improvements, recording fees for easements and plats, submittal fees for review of plans and specifications by both the County and the City.

The following table reflects the actual costs of the Improvement Area #1 Improvements:

<u>Type of Improvement</u>	<u>Cost⁽¹⁾</u>	<u>Percent Complete</u>
Wastewater Line #1	\$1,488,735	100%
Wastewater Line #2	174,745	100%
Water Line	1,226,448	100%
Estancia Parkway (Phase 1)	2,697,181	100%
Camino Vaquero Parkway	507,363	100%
Existing Central Pond Improvements	179,080	100%
Wet Pond North	464,459	100%
Wet Pond West	464,459	100%
TxDOT Ramp Flip	200,000	100%
Drainage	1,833,040	100%
Monumentation	568,875	100%
Hardscape	456,876	100%
Landscape	970,206	100%
Hike and Bike Trail System	345,799	100%
Erosion Control	816,017	100%
Miscellaneous Soft Costs	<u>1,416,789</u>	100%
Total	<u>\$13,810,072</u>	100%

⁽¹⁾ Excludes costs related to the issuance of the Bonds and the Initial Improvement Area #1 Bonds. Excludes cost overruns and related development costs which were paid by the Landowner and are not subject to reimbursement from proceeds of Bonds or Improvement Area #1 Assessments.

The total costs of the Improvement Area #1 Improvements including costs related to the issuance of the Bonds and the Initial Improvement Area #1 Bonds in an amount of \$17,807,927*, were funded or are being funded in part by the Initial Improvement Area #1 Bonds (in an initial principal amount of \$12,590,000), and the Bonds (in a principal amount of \$4,265,000*). The remaining costs were paid by a contribution from the Landowner.

The Appraisal (as defined below) estimates that the combined value of the property within Improvement Area #1 of the District after construction, acquisition or purchase of the Improvement Area #1 Improvements is \$149,400,000. See “APPRAISAL OF PROPERTY WITHIN IMPROVEMENT AREA #1.” The cost of the Improvement Area #1 Improvements was \$17,807,927* (inclusive of District formation costs and Bond issuance costs). See “SOURCES AND USES OF FUNDS.” Based on value of the property provided in the Appraisal and the outstanding principal of the Bonds and the Initial Improvement Area #1 Bonds, the ratio of the value to lien across Improvement Area #1 of the District is approximately 10.6:1.

Improvement Area #2 Improvements. The Landowner is currently designing and pursuing governmental approvals in preparation for the construction of the Improvement Area #2 Improvements, which include water, wastewater, roadway and drainage public improvements that benefit Improvement Area #2 and are located inside and outside the District. The Landowner expects to complete such improvements, in the second quarter of 2020. Water and wastewater improvements will be dedicated to the City for ownership and maintenance. Roadway and drainage improvements will be dedicated to Travis County or TxDOT for ownership and maintenance. **The Improvement Area #2 Improvements are not necessary to complete the development of Improvement Area #1.**

The following table reflects the expected costs of the Improvement Area #2 Improvements:

Improvement Area #2 Improvement Costs⁽¹⁾

<u>Type of Improvement</u>	<u>Total Cost</u>
Estancia Parkway Extension	\$3,710,688
Avenida Mercado Street	1,613,254
OSR Turn Lanes at Avenida Mercado	338,905
West Water Quality/Detention Pond	1,038,651
Water Line Improvements (SBFR)	260,892
Wastewater Improvements (OSR)	463,838
SBFR Right Turn Lane at Mercado	143,000
Total	<u>\$7,569,228</u>

⁽¹⁾ Does not include approximately \$2,096,092 in cost related to the issuance of the Improvement Area #2 Bonds. Preliminary, subject to change.

The Landowner expects to begin construction on the Improvement Area #2 Improvements within 120 days of the issuance of the Bonds and the Improvement Area #2 Bonds, and expects to complete them by the second quarter of 2020. As of July 31, 2018, the Landowner has spent approximately \$386,150 in design, engineering and other soft costs in preparation for the construction of the Improvement Area #2 Improvements.

Additional Improvements. In addition to the Improvement Area #1 Improvements, the Landowner spent approximately \$2,305,811 constructing the East Water Quality Pond, which will not be reimbursed to the Landowner through the District.

The Development Agreement

Pursuant to the Development Agreement, the Landowner agreed to dedicate to the City 33.6 acres in the District to form an “Onion Creek Park” and an additional 57.6 acres in the District as additional parkland, and to

* Preliminary, subject to change.

construct a trail system within the District. Additionally, the Landowner agreed to reserve approximately 25.3 acres in the District as private parkland for use by the residents.

The Landowner also agreed to construct certain water infrastructure, including looped water lines and related easements, and wastewater infrastructure, including gravity lines, a lift station, force main and related easements, to connect the Development to the City's water and wastewater systems, a portion of which were Improvement Area #1 Improvements, a portion of which are Improvement Area #2 Improvements, and a portion of which will be constructed at a later date as development of the Development proceeds.

The City annexed the District for the limited purposes of planning and zoning only. See "THE DEVELOPMENT — Zoning/Permitting." The City further agreed to not full purpose annex property within the District before the earlier of (i) if bonds secured by assessments of the District have been issued on such portion of the District, such bonds have been retired and the assessments have been released, or (ii) July 16, 2034. The City and the Landowner agreed that the City would not issue bonds secured by assessments with terms greater than 15 years.

The Financing Agreement

The Landowner and the City of Austin entered into the Estancia Hill Country Public Improvement District Financing Agreement, dated as of June 20, 2013, as amended by a First Amendment dated November 29, 2018 ("Financing Agreement"). Pursuant to the Financing Agreement, the Landowner has the right to construct public improvements for the District including the Improvement Area #1 Improvements, according to certain rules and regulations of the City, and to be reimbursed for a portion of the costs of such construction through assessments and/or the proceeds of bonds. The Financing Agreement provides that the Landowner may assign such Agreement to any party so long as the assignee has demonstrated to the City's satisfaction that the assignee has the financial, technical, and managerial capacity, the experience, and expertise to perform any duties or obligations so assigned. The unsold land owned by Landowner and its affiliates in the District is part of an investment fund, Stratford Land Fund III, that is anticipated to reach the end of the scheduled life of the investment fund sometime between June 30, 2019 and December 31, 2019, subject to potential further extensions. The investors in this investment fund have directed Landowner and its affiliates to sell the remaining land in the District, together with the related rights and obligations, including the rights under the Reimbursement Agreement related to the District. Landowner anticipates that the remainder of the land in the District will be sold in 2019 in one or more sales, after the closing of the Bonds and the Improvement Area #2 Bonds. It is anticipated that a buyer may complete the construction of the Improvement Area #2 Improvements and would become the Landowner's successor under the Financing Agreement. See "BONDHOLDERS' RISK – Dependence Upon Landowner," and also "The LANDOWNER," for more information regarding the Landowner and the entities under common control.

Ownership and Maintenance of Improvements

The Improvement Area #1 Improvements were dedicated to and accepted by the City, the County, or TxDOT, as applicable, and will constitute a portion of the governmental authority's infrastructure improvements. The City, the County, TxDOT, the Master POA or an owner's association will provide for the ongoing maintenance and repair of the Improvement Area #1 Improvements constructed and conveyed, as outlined in the Service and Assessment Plan.

THE DEVELOPMENT

Overview

Landowner, its affiliates, or subsequent owners and developers are planning the Development as a master-planned mixed use community with single-family residential, multifamily, retail and office/commercial components as further described below. A boundary map of the Development is included on page iv.

The Development is located on the west side of IH 35, south of Onion Creek, east and west of Old San Antonio Road and north of Puryear Road in south central Travis County. The Development was purchased by the Landowner with cash in December 2007. At the time, the land had a few outbuildings which have been removed and no infrastructure. To date the Landowner has invested substantial additional funds to achieve the limited purpose

annexation by the City, Planned Unit Development (“PUD”) zoning entitlements, creation of the District and construction of the Improvement Area #1 Improvements.

Improvement Area #1 includes approximately 215 acres subject to the Improvement Area #1 Assessments, which is ultimately expected to consist of approximately 370 detached single family residential units, approximately 92.2 acres of multifamily residential units and approximately 16.0 acres of office and commercial development.

Improvement Area #2 includes approximately 97.3 acres that will be subject to the Improvement Area #2 Assessments that the Landowner expects will consist of approximately 161 detached single family residential units, approximately 51.3 acres of multifamily residential housing and approximately 16.3 acres of office and commercial development.

Improvement Area #3 includes approximately 180.6 acres, a portion of which are expected to be subject to future special assessments.

Landowner’s current expectations regarding the build-out of the entire Development and sale of units therein are shown in the following tables.

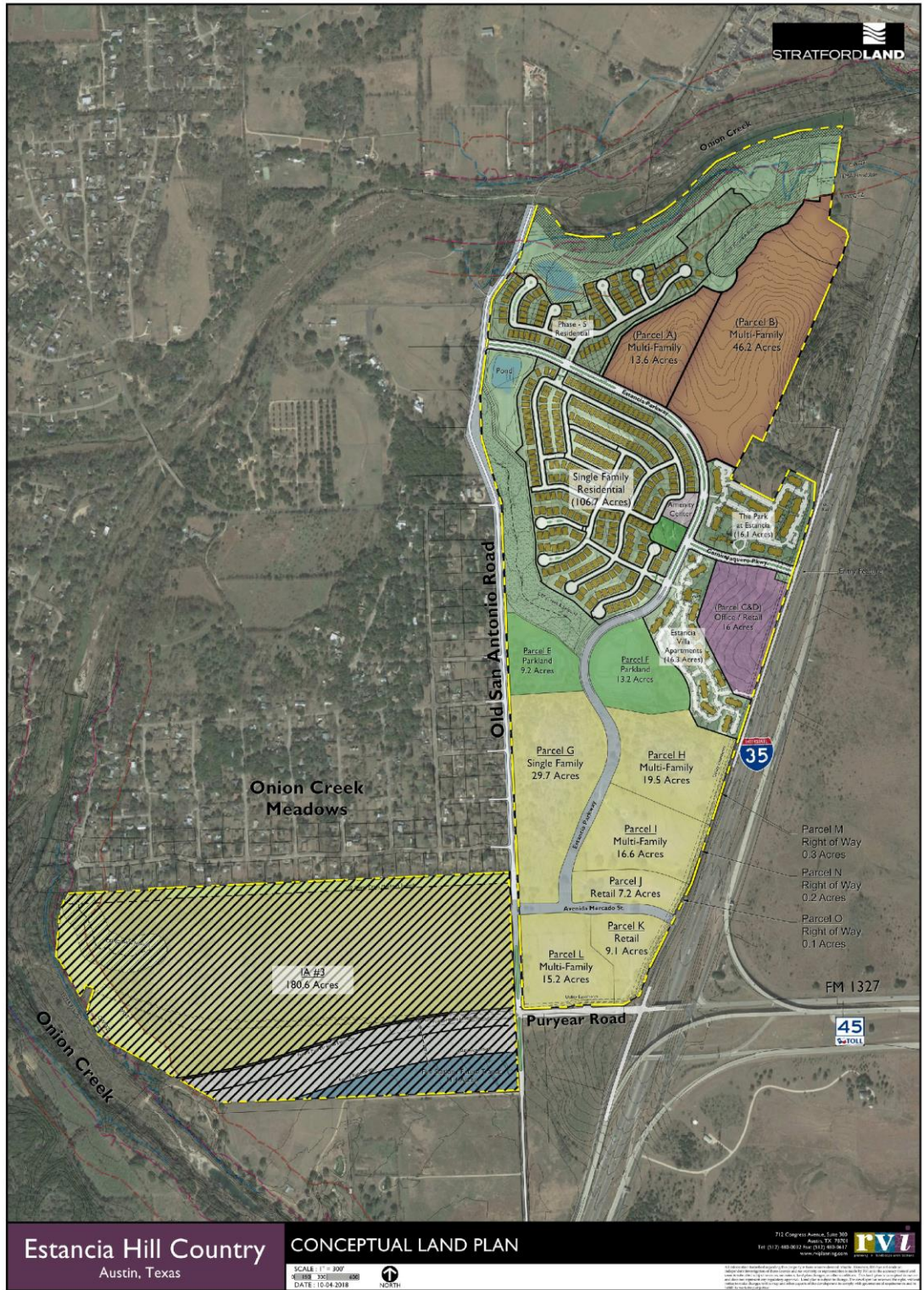
Expected Build-Out Schedule of Development

Improvement <u>Area</u>	Single- <u>Family Units</u>	Multi-family <u>Units</u>	Office/Retail <u>Sq Ft</u>	Expected Master Infrastructure <u>Completion Date</u>	Expected Final Sale Date of Single Family <u>Units by Builders</u>
1	370	1,888	232,320	1st Quarter, 2016	2 nd Quarter, 2021 ⁽¹⁾
2	161	1,050	156,816	2nd Quarter, 2020	4 th Quarter, 2022 ⁽²⁾
3	tbd	tbd	tbd	tbd	tbd

(1) All single-family units in Improvement Area #1 are expected to be constructed by Lennar.

(2) All single-family units in Improvement Area #2 are expected to be constructed by M/I Homes of Austin, LLC.

The Landowner's current conceptual land plan (which is subject to change), is shown below.



Current and Expected Build Out of the Development

Improvement Area #1. The Landowner has sold approximately 106.7 acres zoned to allow single-family housing and approximately 32.4 acres zoned to allow multifamily housing within Improvement Area #1 to developers. The current and expected build out of the Development, which is subject to change, is shown in the table below.

Improvement Area #1 – Current and Expected Build Out

Improvement Area #1 <u>Parcel</u>	Existing or Proposed <u>Land Use</u>	Expected <u>Units</u>	Estimated <u>Value/Unit</u>	Expected Total <u>Buildout Value</u>	<u>Developer⁽¹⁾</u>
Parcel 1	Multifamily	286 Apartments	\$ 140,000	\$ 39,984,000	tbd
Parcel 2	Multifamily	462 Apartments	140,000	64,680,000	tbd
Parcel 3	Multifamily	174 Apartments	140,000	24,402,000	tbd
Parcel 4	Multifamily	170 Apartments	140,000	23,814,000	tbd
Parcel 5	Multifamily	164 Apartments	140,000	22,932,000	tbd
Parcel 6	Multifamily	153 Apartments	140,000	21,462,000	The Park at Estancia, Ltd.
Parcel 7	Multifamily	185 Apartments	140,000	25,872,000	The Park at Estancia, Ltd.
Parcel 8	Retail	232,320 Sq. Ft.	150	34,848,000	tbd
Parcel 9	Multifamily	312 Apartments	140,000	43,680,000	Estancia Villas LLC
Parcel 11	Lot Type 1	158 Houses	320,000	50,560,000	Lennar
	Lot Type 2	81 Houses	410,000	33,210,000	Lennar
	Lot Type 3	47 Houses	350,000	<u>16,450,000</u>	Lennar
				100,220,000	
Parcel 12	Lot Type 3	73 Houses	350,000	25,550,000	Lennar
	Lot Type 4	11 Houses	450,000	<u>4,950,000</u>	Lennar
				<u>30,500,000</u>	
Total				\$ 432,394,000	

⁽¹⁾ Parcels 11 and 12 were acquired by Lennar in 2013, and construction of single family homes is ongoing. Parcel 9 was acquired by Estancia Villas LLC in 2015, and construction of apartments is complete. Parcels 6 and 7 were acquired by The Park at Estancia, Ltd. in 2017, and construction of apartments is ongoing. Parcels 1, 2, 3, 4, 5 and 8 are owned by Landowner.

The number of single family homes constructed in Improvement Area #1 as of September 26, 2018 are shown in the following table:

Completed Single-Family Home Construction in Improvement Area #1⁽¹⁾

<u>Lot Size (Typical)</u>	<u>Expected Final Lot Count</u>	<u>Total Platted Lots</u>	<u>Total Completed Homes</u>	<u>Homes/Lots Under Contract with Homebuyers</u>	<u>Homes/Lots Sold to Homebuyers</u>
50'	278	158	132	12	139
60'	<u>92</u>	<u>81</u>	<u>68</u>	<u>3</u>	<u>66</u>
Total	370	239	200	15	205

⁽¹⁾ All single-family units in Improvement Area #1 are expected to be constructed by Lennar.

The Landowner's current expectations regarding estimated home prices in Improvement Area #1 of the District are as follows:

Estimated Single Family Lot and Home Prices in Improvement Area #1⁽¹⁾

<u>Lot Type</u>	<u>Lot Size (Typical)</u>	<u>Total Lots</u>	<u>Average Base Home Price</u>	<u>Projected Completion of Construction</u>
1	50'	158	\$320,000	2 nd Quarter, 2021
2	60'	81	410,000	2 nd Quarter, 2021
3	50'	120	350,000	2 nd Quarter, 2021
4	60'	<u>11</u>	<u>450,000</u>	2 nd Quarter, 2021
Total/Avg		370	\$353,297	

⁽¹⁾ All single-family units in Improvement Area #1 are expected to be constructed by Lennar.

Based on information received from the purchasers, the Landowner believes the multi-family properties in Improvement Area #1 are being developed as described below:

Multi-Family Residential Development in Improvement Area #1

<u>Owner</u>	<u>Acres</u>	<u>Units</u>	<u>Average Rents</u>	<u>Anticipated Completion</u>
Estancia Villas LLC	16.3	312	Approx. \$1.34 psf	Complete
The Park at Estancia Ltd	<u>16.1</u>	<u>320</u>	Approx. \$1.43 psf	2 nd Quarter, 2020
Total	32.4	632		

Improvement Area #2. The Landowner expects the property in Improvement Area #2 to be developed as follows:

Expected Buildout of Improvement Area #2

<u>Initial Parcel</u>	<u>Planned Use</u>	<u>Planned Number of Units</u>	<u>Projected Buildout Value per Unit</u>	<u>Projected Total Buildout Value</u>
2	Multifamily	350 units	\$120,000	\$42,000,000
4	Multifamily	350 units	120,000	42,000,000
6	Commercial	65,340 sq. ft.	150	9,801,000
8	Commercial	91,476 sq. ft.	150	13,721,400
9	Multifamily	350 units	120,000	42,000,000
10	Single Family	137 units (market)	325,000	44,525,000
		24 units (affordable)	185,000	<u>4,440,000</u>
Total				\$198,487,400

Land Sales to Builders in Improvement Area #2. The Landowner has entered into a contract with M/I Homes of Austin, LLC to purchase 29.7 acres in Improvement Area #2 zoned to allow for single family homes. The contract is scheduled to close on January 31, 2019, unless extended. The Landowner's current expectations regarding estimated home prices in Improvement Area #2 of the District are as follows:

Estimated Single Family Lot and Home Prices in Improvement Area #2⁽¹⁾

<u>Lot Type</u>	<u>Quantity</u>	<u>Average Base Home Price</u>	<u>Expected Final Absorption</u>
Market Rate	137	\$325,000	4 th Quarter, 2022
Affordable Housing	<u>24</u>	185,000	4 th Quarter, 2022
Total	161		

⁽¹⁾ All single-family units in Improvement Area #2 are expected to be constructed by M/I Homes of Austin, LLC.

Additionally, the Landowner received offers and inquiries from other parties interested in purchasing property zoned to allow for multifamily or commercial development in Improvement Area #2. Although the Landowner is continuing to market all remaining property in Improvement Area #2, it believes that the remaining portions will be better priced once construction of the Improvement Area #2 Improvements is underway, allowing for the Landowner to continue selling portions of the Development individually or as a whole.

Improvement Area #3. Improvement Area #3 is anticipated to contain a varying mix of residential housing but will ultimately depend on market conditions at the time of development.

Photographs of the Development

View from the west:



View from the east:



Additional Obligations

The Landowner expects that construction and installation of public improvements within and serving Improvement Area #3 will occur after construction of the Improvement Area #2 Improvements. Those improvements are expected to be financed in whole or in part with proceeds of Improvement Area #3 Bonds secured by special assessment revenues levied and collected on parcels in Improvement Area #3. The City also reserves the right to issue Additional Obligations for any purpose permitted by the Act, including those described above.

The Bonds, the Initial Improvement Area #1 Bonds, the Improvement Area #2 Bonds and any Improvement Area #3 Bonds or Additional Obligations issued by the City are separate and distinct issues of securities.

Zoning/Permitting

The Preliminary Plan was approved through Travis County on November 15, 2011, and subsequently amended on December 3, 2014. The Preliminary Plan vests development rights over the entire Development in accordance with local and state regulations.

The Landowner has secured PUD zoning from the City following the City's annexation for the limited purposes of planning and zoning. The PUD zoning ordinance was adopted by the City in June 2013 and effective July 1, 2013, pursuant to City Ordinance 2013-0620-077 (as amended by Ordinance 2014-1211-177), and allows flexibility for each phase of the Development to be developed in a manner to meet market demand at the time of development of each phase, including a mixture of residential, mixed-use, commercial, industrial and open space uses within the Development in conformity with the limitations and conditions set forth in the PUD zoning ordinance. The PUD zoning sets design and construction standards, environmental and water quality impacts, affordable housing requirements, and transportation and bicycle planning. It also requires the Landowner to dedicate up to 9 acres for an intermodal transportation facility and 2 acres for a future fire/EMS station in Improvement Area #3 of the District. The PUD zoning provides for tailored design regulations within the Development and special waivers from standard City Code requirements.

Education

Improvement Area #1 is within Austin Independent School District. Other portions of the District are partially within Austin Independent School District and partially within Hays Consolidated Independent School District. The land plan for the Development does not include a school site.

The Development is served by Menchaca Elementary School in the Austin Independent School District, which is rated as “about average” by GreatSchools.org, and also by Tom Green Elementary in the Hays Consolidated Independent School District, which is rated “below average.” According to the Texas Education Agency annual school report cards, both Tom Green Elementary and Menchaca Elementary were rated as “Met Standard” (The categories for public schools are Met Standard, Improvement Required or Not Rated). Both Austin Independent School District and Hays Consolidated Independent School District were rated as “Met Standard” in the 2016-2017 Texas Academic Performance Report from the Texas Education Agency.

Amenities

The primary theme of community amenities for the Development is expected to revolve around the parks and trail system. The Development Agreement requires approximately 116.5 acres of public and private park land along with a network of trails designed to connect each of the park areas. See “THE IMPROVEMENTS – Development Agreement.” Onion Creek is a natural amenity that runs along the northern and western sides of part of the property.

Environmental

Site Evaluation. Several environmental studies of the Development have been prepared, including Phase 1 Environmental Site Assessments on November 1, 2007 and May 13, 2015, and a City of Austin Environmental Assessment (collectively, the “Phase 1 – ESA”). The Development as planned provides enhanced water quality facilities, preserving the headwaters of several tributaries and preserving open space.

Based on the information as presented in the Phase 1 – ESA there is no evidence that the Development is currently under federal or state environmental regulatory review or enforcement action and the site reconnaissance, regulatory database review and historical source review revealed no evidence of recognized environmental conditions involving the site.

Endangered Species. According to the website for the United States Fish and Wildlife Service, the following endangered species are known or believed to occur in Travis County: Whooping Crane, Golden-cheeked warbler, Barton Springs salamander, Austin Blind Salamander, Bee Creek Cave harvestman, Bone Cave harvestman, Tooth Cave pseudoscorpion, Tooth Cave Spider, Kretschmarr Cave mold beetle, and Tooth Cave ground beetle. According to the website for the United States Fish and Wildlife Service, the following threatened species are known or believed to occur in Travis County: Piping Plover, Red Knot, Georgetown Salamander, and Jollyville Plateau Salamander. The Landowner is not aware of any endangered or threatened species located on District property.

Easement Rights

The previous owners of the property in the District have retained rights to access and use the water under the property from a well located within Improvement Area #3, though they do not hold the right to construct additional wells on the property. Additionally, the previous owners and certain other parties hold easements for water lines, electric lines and telephone lines on the property.

Geotechnical Exploration

A Geotechnical Data Report (the “Geotech”) was prepared for the Improvement Area #1 Improvements by Raba Kistner, dated March 23, 2012. The Geotech analyzed the soil layer composition and groundwater at various points in Improvement Area #1 of the District.

Utilities

The City will provide both water and wastewater service to the Development. Pursuant to the Development Agreement, the Landowner (and/or its successors) is required to construct certain facilities within the District necessary for the City to provide water and wastewater service, a portion of which facilities are Authorized Improvements. See “THE IMPROVEMENTS.”

Additional utilities are provided by the following entities:

Gas	Texas Gas Service
Phone/Data	AT&T
Electric	Austin Energy (Improvement Area #1) or Pedernales Electric Cooperative (Improvement Area #2)
Cable	AT&T

THE LANDOWNER

General

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

SLF III – Onion Creek, L.P.

SLF III – Onion Creek, L.P. owns all of the property within Improvement Area #2 of the District, and Tracts 1, 2, 3, 4, 5 and 8 in Improvement Area #1. Another eighteen (18) entities affiliated with SLF III – Onion Creek, L.P. each own approximately 10 acres, for a total of approximately 180.6 acres, within Improvement Area # 3 of the District.

The Development is an investment of Stratford Land Fund III, L.P. (“Stratford Land Fund III”) a private equity fund sponsored and managed by Stratford Land Manager, L.P. (together with its predecessors and affiliates, “Stratford Land”).

Stratford Land

Established in 1983 and based in the United States, Stratford Land is a real estate investment manager focusing on high growth corridors in the “Sunbelt” region from North Carolina to Florida and across to Texas, Arizona and southern California. Stratford Land, through its investment vehicles, has invested in approximately \$800 million of land acquisitions and development. Until 1998, Stratford Land formed and managed a series of 19 separate single-asset partnerships to invest in land. Since 1998, Stratford Land’s primary investment management vehicles include five funds that have invested in land investments (equity and debt) such as the Development.

Investment vehicles sponsored by Stratford Land have owned 85 properties totaling in excess of 65,000 acres across the southern United States. Planned for various uses, these investment vehicles often obtain project entitlements

and in some cases, construct master infrastructure, and then sell pods to developers. Occasionally, Stratford Land investment vehicles develop the vertical improvements.

The unsold land owned by Landowner and its affiliates in the District is part of an investment fund, Stratford Land Fund III, that is anticipated to reach the end of the scheduled life of the investment fund sometime between June 30, 2019 and December 31, 2019, subject to potential further extensions. The investors in this investment fund have directed Landowner and its affiliates to sell the remaining land in the District, together with the related rights and obligations, including the rights under the Reimbursement Agreement related to the District. Landowner anticipates that the remainder of the land in the District will be sold in 2019 in one or more sales, after the closing of the Bonds and the Improvement Area #2 Bonds. It is anticipated that a buyer may complete the construction of the Improvement Area #2 Improvements and would become the Landowner's successor under the Financing Agreement. See "THE IMPROVEMENTS – The Financing Agreement," and "BONDHOLDERS' RISK – Dependence Upon Landowner."

Stratford Equity Investing

Stratford Land uses a proprietary model for purchasing land in major metro, coastal and mountain areas where the prospects for growth, spurred by jobs and population increases, are superior. Key indicators include market, political and financial forces. Downside risk is limited through an extensive due diligence and underwriting process.

Stratford Land acquires land that may be completely undeveloped, partially developed or in the process of being developed with "horizontal" infrastructure. Land purchases are typically held and sold over an average of three-to-seven years. The primary source of deal flow is off-market opportunities identified by Stratford Land's on-the-ground investment teams handling each respective market. Target acquisitions include land:

- for any product type including office, retail, industrial, multi-family and single-family residential;
- for single product uses as well as land for mixed-use or master-planned community development;
- parcels ranging from infill tracts under 10 acres to multi-phased master-planned communities in the thousands of acres;
- located in primary growth corridors or in redeveloping infill areas in Texas, Arizona, southern California, Colorado and the eastern seaboard from Virginia to Florida;
- in submarkets within these areas that have superior attributes related to user demand, access, visibility, development potential, utility and entitlement availability, and community support for development.

Stratford Land Projects

The following table shows representative current and former projects of the various Stratford Land funds.

<u>Project</u>	<u>Location</u>	<u>Fund</u>	<u>Acres at Acquisition</u>	<u>Districts in Place</u>
Ruby Jones I & II	Raleigh, NC	I	296.50	NA
Cardon: Pendev	Houston, TX	II	866.57	NA
Cardon: Vernon	Vernon, TX	II	567.55	NA
Cardon: Woodard Ranch	Houston, TX	II	873.31	NA
Cole Ranch	Denton, TX	II	3,406.12	NA
Concord / Cabarrus	Charlotte, NC	II	193.02	NA
Deer Valley	Phoenix, AZ	II	317.39	NA
Indian Trail	Ridge Road, NC	II	96.97	NA
Lake Lee	Monroe, NC	II	343.87	NA
Lake Norman	Davidson Township, NC	II	52.65	NA
McCarty	San Marcos, TX	II	259.52	NA
Waterstone	Hillsborough, NC	II	320.00	SAD
Yarrington	San Marcos, TX	II	192.80	NA
Baytown	Houston, TX	III	669.58	MUD
Bush 75	Richardson, TX	III	219.36	NA

Brick Landing	Myrtle Beach, NC	III	31.63	NA
Cardon: Bonds Ranch	Ft Worth, TX	III	711.00	NA
Cardon: Hwy 288	Houston, TX	III	1,587.50	NA
Castle Hills	Castle Hills, TX	III	133.32	PID, Fresh Water Supply District
East Argent	Hilton Head, SC	III	602.51	NA
Estancia Hill Country	Austin, TX	III	599.16	PID
Harmon 287	Fort Worth, TX	III	28.65	NA
RiverPort	Hardeeville, SC	III	5,136.83	MID
Storm Ranch	Prescott, AZ	III	291.87	NA
Suwanee Gateway	Atlanta, GA	III	112.93	NA
The Canyon	Dallas, TX	III	202.35	MMD/TIF
Vistancia	Phoenix, AZ	III	4,632.00	Community Facilities District
West 10 (Katy)	Houston, TX	III	465.04	MUD
Alico Lakes	Fort Meyers, FL	IV	34.11	NA
Altama	Brunswick, GA	IV	5,621.66	NA
Big Pasture	Brunswick, GA	IV	17,847.66	NA
Billyville	Brunswick, GA	IV	210.32	NA
BlackHawk	Austin, TX	IV	196.16	WCID
Chisholm Trail	Fort Worth, TX	IV	624.75	NA
McKinney Ranch	McKinney, TX	IV	19.82	NA
Culebra	San Antonio, TX	IV	111.40	NA
Dripping Springs	Dripping Springs, TX	IV	187.27	PID
Eules/Bear Creek	Eules, TX	IV	194.03	NA
Rozelle	San Antonio, TX	IV	113.96	NA
Park View	Los Angeles, CA	IV	42.10	NA
Horizon West "Hamlin"	Orlando, FL	IV	860.04	Community Facilities District
Northport/Westport	Savannah, GA	IV	421.61	NA
Lakelands	Myrtle Beach, SC	IV	7,390.00	MID
Mill Creek	LaGrange, GA	IV	381.48	Tax Assessment District
Millenia	San Diego, CA	IV	206.52	Community Facilities District
Sinclair	Sea Island, GA	IV	128.85	NA
Steubing Farm	San Antonio, TX	IV	168.98	NA
Traditions	Fort Worth, TX	IV	1,104.84	MUD
Windcrest	San Antonio, TX	IV	111.00	NA
			<u>52,983.48</u>	

Senior Management Biography

Phillip Wiggins – President, Chief Executive Officer & Founder

Mr. Wiggins has over 35 years of experience in land investment and brokerage. He began his real estate career in 1980 as a land broker. In 1983, he co-founded The Stratford Group, the first of several entities involved in real estate activities related to land. Since 1980, Wiggins and his associates have brokered in excess of \$1.5 billion of land. In 1998, Mr. Wiggins was the sole founder of The Stratford Company, a land investment company, and in 2006, he was the sole founder of Stratford Realty Capital, a hard asset lender. He has raised in excess of \$960 million of equity for Stratford Land through a series of real estate funds. Currently, Stratford Land has two regional offices covering the United States.

Mr. Wiggins was born and raised in Dallas, Texas. He graduated from Highland Park High School in 1973. He attended the University of Mississippi and received his B.A. in 1977 with honors in political science and sociology.

He worked for Burroughs Corporation (1977-1979) in Memphis, Tennessee and won the company's Legion of Honor award for outstanding sales performance. In 1979, he left Burroughs to take a Rotary Fellowship to study economics in Geneva, Switzerland.

Ocie L. Vest, P.E. – Senior Vice President, Entitlements

Mr. Vest joined Stratford Land in 2007. His primary responsibility is directing the underwriting and due diligence research associated with the purchase of new properties. Mr. Vest also directs land development strategies associated with governing agency entitlements, permits and approvals.

Mr. Vest has over 30 years of experience as a professional engineer in private land development including master planned communities, retail, office, industrial and multifamily projects. Prior to joining Stratford Land, Mr. Vest served as Vice President and Director of Engineering for Hunt Realty Corporation where he directed the underwriting, due diligence and entitlement strategy for several master planned communities in Texas and Colorado. Prior to joining Hunt Realty, Mr. Vest was the Senior Vice President of Huitt-Zollars, a top 200 ENR engineering and architectural firm, serving as the Market Sector Leader of the firm's Urban Development Group. At Huitt-Zollars, Mr. Vest was responsible for the firm's urban development projects including client development, sourcing new projects, project entitlements, development strategy and project permitting strategy. Mr. Vest holds a bachelor's degree in civil engineering from the University of Texas at Arlington and is a Registered Professional Engineer in Texas, California and Nevada.

Christian Nilsson – Investment Manager – Central and South Texas

Christian Nilsson joined Stratford Land in 2013 and serves as the Investment Manager of Central and South Texas. In this role, Mr. Nilsson assists in identifying, evaluating, and underwriting potential equity opportunities for Stratford Land; oversees the asset management of Texas projects; and works on the sales and marketing activities for projects across Texas.

Prior to Stratford Land, Christian worked as a consultant for Montgomery Coscia Greulich LLP. There he worked with companies to help design and implement financial strategies for start-up businesses and consulted on various accounting activities. Before Montgomery Coscia Greulich LLP, Mr. Nilsson worked for Inland American Communities (First Worthing) as well as Orix Capital Markets. Mr. Nilsson graduated from Baylor University with a BBA in Finance and Real Estate and has accumulated over 10 years' experience in the real estate field.

History and Financing of the District

The Property Acquisition. The historic Heep Ranch originally consisted of 10,000 acres on both sides of IH 35 and was a significant dairy and Hereford Cattle ranch operated by Herman Heep, a sixth generation native Texan. The ranching operations ended in the 1970's, but many acres were still owned by descendants up to 2007. In 2007 SH 45 SE, a toll-road connector to SH 130, began being constructed through the original land opening up the land for other economic opportunities. In 2007, Hatsy Heep Shaffer sold approximately 599 acres of the ranch, including all of the property in the District to SLF III – Onion Creek, L.P.

The Landowner obtained approval for the Preliminary Plan through Travis County which vests development over build-out for the entire Development. The City of Austin approved service extension requests for water and wastewater with existing lines to the Development that are adequate for full build-out.

The Development Financing. Stratford Land Fund III, acting through a subsidiary, SLF III – Holding, L.P., has a line of credit facility with Bank OZK, formerly known as Bank of the Ozarks, (the "Line of Credit") which it uses to fund development of its various properties. As of September 1, 2018, the Line of Credit had an outstanding loan balance of \$13,256,406, with a maximum borrowing capacity remaining under the Line of Credit of \$3,037,655. The Line of Credit is scheduled to terminate on February 24, 2019. The facility pays an interest rate of the LIBOR index plus 375 basis points (with a floor rate of 5.00%), and is secured by a first lien on property, improvements and appurtenances owned by certain subsidiaries of Stratford Land Fund III, including the property within Improvement

Area #1 of the District owned by Landowner. Stratford Land Fund III, either independently or acting through a subsidiary, has no present intention to seek an extension of the Line of Credit.

The PID Act provides that the Assessment Lien is a first and prior lien against the assessed property within Improvement Area #1 of the District and is superior to all other liens and claims except liens or claims for state, county, school district, or municipality ad valorem taxes. Generally, at or prior to delivery of the Bonds, any lender with a lien on property within Improvement Area #1 is required to consent to and acknowledge the creation of the District, the levy of the Improvement Area #1 Assessments and the subordination of the lien securing its respective loan to the assessment liens on property within the District securing payment of the Improvement Area #1 Assessments. As a result, the lien on the property within the District securing the Improvement Area #1 Assessments will have priority over any liens on the property within the District securing such loans.

THE SERVICE AND ASSESSMENT PLAN CONSULTANT

P3Works, LLC has been engaged by PFM Financial Advisors, LLC as the Service and Assessment Plan Consultant. P3Works, LLC prepared the 2018 Amended and Restated Service and Assessment Plan to be adopted by the City. P3Works, LLC has not been engaged by the City to provide ongoing PID administration services. The Service and Assessment Plan Consultant is a consulting firm focused on providing municipalities throughout Texas services relating to the formation and administration of public improvement districts, and has offices in Austin, Texas and Keller, Texas.

APPRAISAL OF PROPERTY WITHIN IMPROVEMENT AREA #1

The Appraisal

General. Paul Hornsby & Company (the “Appraiser”), prepared an appraisal report for the City dated September 20, 2018, based upon a physical inspection of the District conducted on August 9, 2018 (the “Appraisal”). The Appraisal was prepared at the request of the City. The Appraisal is attached hereto as APPENDIX F and should be read in its entirety. The conclusions reached in the Appraisal are subject to certain assumptions, hypothetical conditions and qualifications, which are set forth therein. See “APPENDIX F — Appraisal of Improvement Area #1.”

Value Estimates. The Appraiser estimated the market value of the fee simple interest in twelve tracts of land comprising Improvement Area #1 of the District under the condition that the Improvement Area #1 Improvements have been completed as proposed, and that any rollback taxes on the property have been paid. See “THE IMPROVEMENTS — Development Plan.”

The combined value estimate for the assessable property within Improvement Area #1 of the District using the methodologies described in the Appraisal and subject to the limiting conditions and assumptions set forth in the Appraisal, as of completion of the Improvement Area #1 Improvements, is \$149,440,000. None of the City, the Landowner, the Financial Advisor nor the Underwriter make any representation as to the accuracy, completeness, assumptions or information contained in the Appraisal. The assumptions or qualifications with respect to the Appraisal are contained therein. There can be no assurance that any such assumptions will be realized, and the City, the Landowner, the Financial Advisor and the Underwriter make no representation as to the reasonableness of such assumptions.

BONDHOLDERS’ RISKS

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

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

The ability of the City to pay debt service on the Bonds as due is subject to various factors that are beyond the City's control. These factors include, among others, (a) the ability or willingness of property owners within Improvement Area #1 of the District to pay Improvement Area #1 Assessments levied by the City, (b) cash flow delays associated with the institution of foreclosure and enforcement proceedings against property within Improvement Area #1 of the District, (c) general and local economic conditions which may impact real property values, the ability to liquidate real property holdings and the overall value of real property development projects, and (d) general economic conditions which may impact the general ability to market and sell the property within the District, it being understood that poor economic conditions within the City, State and region may slow the assumed pace of sales of such property.

The rate of development of the property in the District is directly related to the vitality of the residential housing industry. In the event that the sale of the lands within the District should proceed more slowly than expected and the Landowner is unable to pay the Improvement Area #1 Assessments, only the value of the lands, with improvements, will be available for payment of the debt service on the Bonds, and such value can only be realized through the foreclosure or expeditious liquidation of the lands within Improvement Area #1 of the District. There is no assurance that the value of such lands will be sufficient for that purpose and the expeditious liquidation of real property through foreclosure or similar means is generally considered to yield sales proceeds in a lesser sum than might otherwise be received through the orderly marketing of such real property.

The Underwriter is not obligated to make a market in or repurchase any of the Bonds, and no representation is made by the Underwriter, the City or the City's Financial Advisor that a market for the Bonds will develop and be maintained in the future. If a market does develop, no assurance can be given regarding future price maintenance of the Bonds.

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

Assessment Limitations

Annual Installments of Improvement Area #1 Assessments are billed to property owners in Improvement Area #1 in the District. Annual Installments are due and payable, and bear the same penalties and interest for non-payment, as for ad valorem taxes as set forth under "ASSESSMENT PROCEDURES" herein. Additionally, Annual Installments established by the Service and Assessment Plan correspond in number and proportionate amount to the number of installments and principal amounts of Bonds maturing in each year, and the annual collection costs for such year. See "ASSESSMENT PROCEDURES" herein. The unwillingness or inability of a property owner to pay regular property tax bills as evidenced by property tax delinquencies may also indicate an unwillingness or inability to make regular property tax payments and Annual Installments of Improvement Area #1 Assessment payments in the future.

In order to pay debt service on the Bonds, it is necessary that Annual Installments are paid in a timely manner. Due to the lack of predictability in the collection of Annual Installments in the District, the City has established a Reserve Account in the Reserve Fund, to be funded from the proceeds of the Bonds, to cover delinquencies. The

Annual Installments are secured by the Assessment Lien. However, there can be no assurance that foreclosure proceedings will occur in a timely manner so as to avoid depletion of the Reserve Account and delay in payments of debt service on the Bonds. See “BONDHOLDERS’ RISKS — Bondholders’ Remedies and Bankruptcy” herein.

Upon an ad valorem tax lien foreclosure event of a property within Improvement Area #1 of the District, any Improvement Area #1 Assessment that is also delinquent will be foreclosed upon in the same manner as the ad valorem tax lien (assuming all necessary conditions and procedures for foreclosure are duly satisfied). To the extent that a foreclosure sale results in insufficient funds to pay in full both the delinquent ad valorem taxes and the delinquent Improvement Area #1 Assessments, the liens securing such delinquent ad valorem taxes and delinquent Improvement Area #1 Assessments would likely be extinguished. Any remaining unpaid balance of the delinquent Improvement Area #1 Assessments would then be an unsecured personal liability of the original property owner.

Based upon the language of Texas Local Government Code, § 372.017(b), case law relating to other types of assessment liens and opinions of the Texas Attorney General, the Assessment Lien as it relates to installment payments that are not yet due should remain in effect following an ad valorem tax lien foreclosure, with future installment payments not being accelerated. Texas Local Government Code § 372.018(d) supports this position, stating that an Assessment Lien runs with the land and the portion of an assessment payment that has not yet come due is not eliminated by foreclosure of an ad valorem tax lien.

The Assessment Lien is superior to any homestead rights of a property owner that were properly claimed after the adoption of the Improvement Area #1 Assessment Ordinance. However, an Assessment Lien may not be foreclosed upon if any homestead rights of a property owner were properly claimed prior to the adoption of the Improvement Area #1 Assessment Ordinance (“Pre-existing Homestead Rights”) for as long as such rights are maintained on the property. It is unclear under Texas law whether or not Pre-existing Homestead Rights would prevent the Assessment Lien from attaching to such homestead property or instead cause the Assessment Lien to attach, but remain subject to, the Pre-existing Homestead Rights.

Under Texas law, in order to establish homestead rights, the claimant must show a combination of both overt acts of homestead usage and intention on the part of the owner to claim the land as a homestead. Mere ownership of the property alone is insufficient and the intent to use the property as a homestead must be a present one, not an intention to make the property a homestead at some indefinite time in the future. As of the date of adoption of the Improvement Area #1 Assessment Ordinance, no such homestead rights had been claimed. Furthermore, the Landowner is not eligible to claim homestead rights and the Landowner represents that it owned all property within Improvement Area #1 of the District as of the date of the Improvement Area #1 Assessment Ordinance. Consequently, there are and can be no homestead rights on the Assessed Parcels superior to the Assessment Lien and, therefore, the Assessment Liens may be foreclosed upon by the City.

Failure by owners of the parcels to pay Annual Installments when due, depletion of the Reserve Fund, delay in foreclosure proceedings, or the inability of the City to sell parcels which have been subject to foreclosure proceedings for amounts sufficient to cover the delinquent installments of Improvement Area #1 Assessments levied against such parcels may result in the inability of the City to make full or punctual payments of debt service on the Bonds.

THE IMPROVEMENT AREA #1 ASSESSMENTS CONSTITUTE A FIRST AND PRIOR LIEN AGAINST THE PROPERTY ASSESSED, SUPERIOR TO ALL OTHER LIENS AND CLAIMS EXCEPT LIENS AND CLAIMS FOR STATE, COUNTY, SCHOOL DISTRICT OR MUNICIPALITY AD VALOREM TAXES AND IS A PERSONAL OBLIGATION OF AND CHARGE AGAINST THE OWNERS OF PROPERTY LOCATED WITHIN IMPROVEMENT AREA #1 OF THE DISTRICT.

Effects of Future Legislation

In October 2017, the Texas House and the Texas Senate issued interim charges to the Committee on Special Purpose Districts and the Intergovernmental Relations Committee (collectively, the “Interim Committees”), respectively, requesting the study of special purpose districts and public improvement districts and potential bond issuance reforms. The charges to the Interim Committees included review, hearings and testimony related to changes to and oversight of bonds secured by special assessments. Prior to the 2019 Texas legislative session, it is expected

that the Interim Committees will make recommendations to the Legislature on how to regulate special assessment revenue bonds, and possibly establish parameters on the use of public improvement districts as financing vehicles. As of the date hereof, the Interim Committees have not made any recommendations pursuant to the interim charges.

It is impossible to predict what new proposals the Interim Committees may present to the Legislature regarding the PID Act and the issuance of special assessment revenue bonds, what bills may be introduced during upcoming legislative sessions, whether such new proposals or any previous proposals will be recommended by the Interim Committees or new bills regarding the same will be passed by the Texas Senate and House of Representatives and signed by the Governor, and, if enacted, the form thereof. It is impossible to predict with certainty the impact that any such future legislation will or may have on the security for the Bonds or the Improvement Area #2 Bonds, or the ability of the City to issue Additional Obligations.

Risks Related to the Current Real Estate Market

In the past, the real estate market has experienced significant slowing of new home sales and new home closings due in part to the subprime mortgage crisis involving adjustable rate mortgages and other creative mortgage financing tools that allowed persons with higher credit risk to buy homes. The economic crisis that resulted from higher interest rates, at a time when many subprime mortgages were due to reset their interest rates, has served to reduce the availability of mortgages to many potential home buyers, making entry into the real estate market more difficult. Downturns in the real estate market and other factors beyond the control of the Landowner, including general economic conditions, may impact the timing of parcel, lot and home sales within the District.

Competition

The housing industry in the Austin area is very competitive, and none of the Landowner, the City, the City's Financial Advisor or the Underwriter can give any assurance that the building programs which are planned will ever commence. The competitive position of the Landowner or of any home builder in the sale of developed lots or the construction and sale of single-family residential units is affected by most of the factors discussed in this section, and such competitive position is directly related to maintenance of market values in the District.

There can be no assurances that other similar projects will not be developed in the future or that existing projects will not be upgraded or otherwise able to compete with the Development.

Loss of Tax Exemption

The Indenture contains covenants by the City intended to preserve the exclusion from gross income of interest on the Bonds for federal income tax purposes. As discussed under the caption "TAX MATTERS" herein, interest on the Bonds could become includable in gross income for purposes of federal income taxation, retroactive to the date the Bonds were issued, as a result of future acts or omissions of the City in violation of its covenants in the Indenture.

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

Bankruptcy

The payment of Improvement Area #1 Assessments and the ability of the City to foreclose on the lien of a delinquent unpaid Assessment may be limited by bankruptcy, insolvency or other laws generally affecting creditors' rights or by the laws of the State relating to judicial foreclosure. Although bankruptcy proceedings would not cause the Improvement Area #1 Assessments to become extinguished, bankruptcy of a property owner in all likelihood would result in a delay in prosecuting foreclosure proceedings. Such a delay would increase the likelihood of a delay

or default in payment of the principal of and interest on the Bonds, and the possibility that delinquent Improvement Area #1 Assessments might not be paid in full.

Direct and Overlapping Indebtedness, Assessments and Taxes

The ability of an owner of property within the District to pay the Improvement Area #1 Assessments could be affected by the existence of other taxes and assessments imposed upon the property. Public entities whose boundaries overlap those of the District currently impose ad valorem taxes on the property within the District and will likely do so in the future. Such entities could also impose assessment liens on the property within the District. The imposition of additional liens, or for private financing, may reduce the ability or willingness of the property owners to pay the Improvement Area #1 Assessments.

Pursuant to the Development Agreement, the City has agreed not to annex for full purpose or impose ad valorem taxes on the property within Improvement Area #1 prior to the final maturity date of the Bonds. See “OVERLAPPING TAXES AND DEBT.”

Depletion of Reserve Account of the Reserve Fund

Failure of the owners of property within the District to pay the Improvement Area #1 Assessments when due could result in the rapid, total depletion of the Reserve Fund prior to replenishment from the resale of property upon a foreclosure or otherwise or delinquency redemptions after a foreclosure sale, if any. There could be a default in payments of the principal of and interest on the Bonds if sufficient amounts are not available in the Reserve Account of the Reserve Fund. The Indenture provides that if, after a withdrawal from the Reserve Fund, the amount in the Reserve Fund is less than the Reserve Account Requirement, the Trustee shall transfer an amount from the Pledged Revenue Fund to the Reserve Account of the Reserve Fund sufficient to cure such deficiency, as described under “SECURITY FOR THE BONDS SIMILARLY SECURED — Reserve Account of the Reserve Fund” herein.

Hazardous Substance

While governmental taxes, assessments and charges are a common claim against the value of a parcel, other less common claims may be relevant. One of the most serious in terms of the potential reduction in the value that may be realized to the assessment is a claim with regard to a hazardous substance. In general, the owners and operators of a parcel may be required by law to remedy conditions relating to releases or threatened releases of hazardous substances. The federal Comprehensive Environmental Response, Compensation and Liability Act of 1980, sometimes referred to as “CERCLA” or “Superfund Act,” is the most well-known and widely applicable of these laws. It is likely that, should any of the parcels of land located in the District be affected by a hazardous substance, the marketability and value of parcels would be reduced by the costs of remedying the condition, because the purchaser, upon becoming owner, will become obligated to remedy the condition just as is the seller.

The value of the land within the District does not take into account the possible liability of the owner (or operator) for the remedy of a hazardous substance condition of the parcel. The City has not independently verified, and is not aware, that the owner (or operator) of any of the parcels within the District has such a current liability with respect to such parcel; however, it is possible that such liabilities do currently exist and that the City is not aware of them.

Further, it is possible that liabilities may arise in the future with respect to any of the land within the District resulting from the existence, currently, of a substance presently classified as hazardous but which has not been released or the release of which is not presently threatened, or may arise in the future resulting from the existence, currently, on the parcel of a substance not presently classified as hazardous but which may in the future be so classified. Further, such liabilities may arise not simply from the existence of a hazardous substance but from the method of handling it. All of these possibilities could significantly affect the value of a parcel that is realizable upon a delinquency.

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

Regulation

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

100-Year Flood Plain

Approximately 14.7 acres within Improvement Area #1 are located within an official FEMA 100 year flood plain as shown on the current Federal Emergency Management Agency's Flood Insurance Rate Map Panels 48453C0595H, 48453C0680H and 48453C0685H (the "Flood Plain"). All of the lands in the District identified to be within the developed floodplain will be located within dedicated open space, park or drainage easements. As the Development is developed the final location of the floodplain will be determined and will be contained within drainage easements or dedicated lots.

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

The National Weather Service has recently completed a historical rainfall study ("Atlas 14"). In response, the City expects to update its floodplain maps and related regulations. None of the City, the Underwriter or the Landowner make any representation as to when such process will be complete or what effect, if any, it might have the Development.

Risk from Weather Events

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

Bondholders' Remedies and Bankruptcy

In the event of default in the payment of principal of or interest on the Bonds Similarly Secured or the occurrence of any other Event of Default under the Indenture, and upon the written request of at least 25% of the owners of the Bonds Similarly Secured then Outstanding, the Trustee shall proceed to protect and enforce its rights and the rights of the owners of the Bonds Similarly Secured under the Indenture by such suits, actions or special proceedings in equity or at law, or by proceedings in the office of any board or officer having jurisdiction, either for mandamus or the specific performance of any covenant or agreement contained therein or in aid or execution of any power granted or for the enforcement of any proper legal or equitable remedy, as the Trustee shall deem most effectual to protect and enforce such rights. The issuance of a writ of mandamus may be sought if there is no other available remedy at law to compel performance of the City's obligations under the Bonds Similarly Secured or the Indenture and such obligations are not uncertain or disputed. The remedy of mandamus is controlled by equitable principles, so rests with the discretion of the court, but may not be arbitrarily refused. There is no acceleration of maturity of the Bonds Similarly Secured in the event of default and, consequently, the remedy of mandamus may have to be relied upon from year to year. The owners of the Bonds Similarly Secured cannot themselves foreclose on property within the District or sell property within the District in order to pay the principal of and interest on the Bonds Similarly Secured. The enforceability of the rights and remedies of the owners of the Bonds Similarly Secured further may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. In this regard, should the City file a petition for protection from creditors under federal bankruptcy laws, the remedy of mandamus or the right of the City to seek judicial foreclosure of its Assessment Lien would be automatically stayed and could not be pursued unless authorized by a federal bankruptcy judge. See "BONDHOLDERS' RISKS — Bankruptcy Limitation to Bondholders' Rights" herein.

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

In addition, in 2006, the Texas Supreme Court ruled in *Tooke v. City of Mexia*, 197 S.W.3d 325 (Tex. 2006) (“Tooke”) that a waiver of sovereign immunity must be provided for by statute in “clear and unambiguous” language. In so ruling, the Court declared that statutory language such as “sue and be sued”, in and of itself, did not constitute a clear and unambiguous waiver of sovereign immunity. In *Tooke*, the Court noted the enactment in 2005 of sections 271.151-.160, Texas Local Government Code (the “Local Government Immunity Waiver Act”), which, according to the Court, waives “immunity from suit for contract claims against most local governmental entities in certain circumstances.” The Local Government Immunity Waiver Act covers cities and relates to contracts entered into by cities for providing goods or services to cities.

In *Wasson Interests, Ltd. v. City of Jacksonville*, 489 S.W. 3d 427 (Tex. 2016) (“Wasson”), the Texas Supreme Court (the “Court”) addressed whether the distinction between governmental and proprietary acts (as found in tort-based causes of action) applies to breach of contract claims against municipalities. The Court analyzed the rationale behind the Proprietary-Governmental Dichotomy to determine that “a city’s proprietary functions are not done pursuant to the ‘will of the people’” and protecting such municipalities “via the [S]tate’s immunity is not an efficient way to ensure efficient allocation of [S]tate resources”. While the Court recognized that the distinction between governmental and proprietary functions is not clear, the Wasson opinion held that the Proprietary-Governmental Dichotomy applies in a contract-claims context. The Court reviewed Wasson again in June 2018 and clarified that to determine whether governmental immunity applies to a breach of contract claim, the proper inquiry is whether the municipality was engaged in a governmental or proprietary function when it entered into the contract, not at the time of the alleged breach. Therefore, in regard to municipal contract cases (as in tort claims), it is incumbent on the courts to determine whether a function was proprietary or governmental based upon the statutory guidance at the time of inception of the contractual relationship. Notwithstanding the foregoing new case law issued by the Court, such sovereign immunity issues have not been adjudicated in relation to bond matters (specifically, in regard to the issuance of municipal debt). Each situation will be prospectively evaluated based on the facts and circumstances surrounding the contract in question to determine if a suit, and subsequently, a judgement, is justiciable against a municipality.

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

No Acceleration

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

Bankruptcy Limitation to Bondholders’ Rights

The enforceability of the rights and remedies of the owners of the Bonds may be limited by laws relating to bankruptcy, reorganization or other similar laws of general application affecting the rights of creditors of political subdivisions such as the City. The City is authorized under Texas law to voluntarily proceed under Chapter 9 of the Federal Bankruptcy Code, 11 U.S.C. 901-946. The City may proceed under Chapter 9 if it (1) is generally not paying

its debts, or unable to meet its debts, as they become due, (2) desires to effect a plan to adjust such debts, and (3) has either obtained the agreement of or negotiated in good faith with its creditors, is unable to negotiate with its creditors because negotiation is impracticable, or reasonably believes that a creditor may attempt to obtain a preferential transfer.

If the City decides in the future to proceed voluntarily under the Federal Bankruptcy Code, the City would develop and file a plan for the adjustment of its debts, and the Bankruptcy Court would confirm the plan if (1) the plan complies with the applicable provisions of the Federal Bankruptcy Code, (2) all payments to be made in connection with the plan are fully disclosed and reasonable, (3) the City is not prohibited by law from taking any action necessary to carry out the plan, (4) administrative expenses are paid in full, (5) all regulatory or electoral approvals required under Texas law are obtained and (6) the plan is in the best interests of creditors and is feasible. The rights and remedies of the owners of the Bonds would be adjusted in accordance with the confirmed plan of adjustment of the City's debt.

Management and Ownership

The management and ownership of the Landowner and related property owners could change in the future. Purchasers of the Bonds should not rely on the management experience of such entities. There are no assurances that such entities will not sell the subject property or that officers will not resign or be replaced. In such circumstances, a new Landowner or new officers in management positions may not have comparable experience in projects comparable to the Development.

The unsold land owned by Landowner and its affiliates in the District is part of an investment fund, Stratford Land Fund III, that is anticipated to reach the end of the scheduled life of the investment fund sometime between June 30, 2019 and December 31, 2019, subject to potential further extensions. The investors in this investment fund have directed Landowner and its affiliates to sell the remaining land in the District, together with the related rights and obligations, including the rights under the Reimbursement Agreement related to the District. Landowner anticipates that the remainder of the land in the District will be sold in 2019 in one or more sales, after the closing of the Bonds and the Improvement Area #2 Bonds. It is anticipated that a buyer may complete the construction of the Improvement Area #2 Improvements and would become the Landowner's successor under the Financing Agreement. See "THE LANDOWNER."

General Risks of Real Estate Investment and Development

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

Investments in undeveloped or developing real estate are generally considered to be speculative in nature and to involve a high degree of risk. The Development will be subject to the risks generally incident to real estate investments and development. Many factors that may affect the Development, including the completion of the Improvement Area #2 Improvements as planned, as well as the operating revenues of the Landowner, including those derived from the Development, are not within the control of the Landowner. Such factors include changes in national, regional and local economic conditions; changes in long and short term interest rates; changes in the climate for real estate purchases; changes in demand for or supply of competing properties; changes in local, regional and national market and economic conditions; unanticipated development costs, market preferences and architectural trends; unforeseen environmental risks and controls; the adverse use of adjacent and neighboring real estate; changes in interest rates and the availability of mortgage funds to buyers of the homes to be built in the Development, which may render the sale of such homes difficult or unattractive; acts of war, terrorism or other political instability; delays or inability to obtain governmental approvals; changes in laws; moratorium; acts of God (which may result in uninsured losses); strikes; labor shortages; energy shortages; material shortages; inflation; adverse weather conditions; contractor or subcontractor defaults; and other unknown contingencies and factors beyond the control of the Landowner.

Furthermore, the operating revenues of the Landowner may be materially adversely affected if specific conditions in the land purchase contracts are not met. Failure to meet the land purchase contract's conditions allows the applicable purchaser to terminate its obligation to purchase land from the Landowner and obtain its earnest money deposit back. See "THE DEVELOPMENT — Current and Expected Buildout of the Development" herein.

The progress of development within the District is also dependent upon the City providing an adequate supply of water and sufficient capacity for the collection and treatment of wastewater. If the City fails to supply water and wastewater services to the property in the District, the Development cannot be substantially completed. See "THE DEVELOPMENT — Utilities."

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

A slowdown of the development process and the related absorption rate within the Development because of any or all of the foregoing could affect adversely land values. The timely payment of the Bonds depends on the willingness and ability of the Landowner and any subsequent owners to pay the Improvement Area #1 Assessments when due. Any or all of the foregoing could reduce the willingness and ability of such owners to pay the Improvement Area #1 Assessments and could greatly reduce the value of the property within the District in the event such property has to be foreclosed.

Use of Appraisal

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

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

Dependence Upon Landowner

The Landowner, as the owner of several of the Assessed Parcels in Improvement Area #1 of the District, currently has the obligation for payment of 45.32% of the total Improvement Area #1 Assessments. The ability of the Landowner to make full and timely payment of the Improvement Area #1 Assessments will directly affect the ability of the City to meet its debt service obligations with respect to the Bonds. The sole assets of the Landowner are land within the District, related permits and development rights and minor operating accounts. The source of funding for future land development activities and infrastructure within the District also consists of proceeds from Improvement Area #2 Bonds and proceeds of parcel sales, as well as possible bank financing and equity contributions by the Landowner and its partners. There can be no assurances given as to the financial ability of the Landowner to advance any funds to the City to supplement revenues from the Improvement Area #1 Assessments if necessary, or as to whether the Landowner will advance such funds.

The unsold land owned by Landowner and its affiliates in the District is part of an investment fund, Stratford Land Fund III, that is anticipated to reach the end of the scheduled life of the investment fund sometime between June 30, 2019 and December 31, 2019, subject to potential further extensions. The investors in this investment fund have directed Landowner and its affiliates to sell the remaining land in the District, together with the related rights and obligations, including the rights under the Reimbursement Agreement related to the District. Landowner anticipates that the remainder of the land in the District will be sold in 2019 in one or more sales, after the closing of the Bonds and the Improvement Area #2 Bonds. It is anticipated that a buyer may complete the construction of the Improvement Area #2 Improvements and would become the Landowner's successor under the Financing Agreement. See "THE LANDOWNER."

TAX MATTERS

Tax Exemption

The delivery of the Bonds is subject to the opinion of Bond Counsel to the effect that interest on the Bonds for federal income tax purposes (1) will be excludable from gross income, as defined in section 61 of the Internal Revenue Code of 1986, as amended to the date of such opinion (the "Code"), pursuant to section 103 of the Code and existing regulations, published rulings, and court decisions, and (2) will not be included in computing the alternative minimum taxable income of the owners thereof. A form of Bond Counsel's opinion is reproduced as Appendix D. The statutes, regulations, rulings, and court decisions on which such opinion is based are subject to change.

In rendering the foregoing opinions, Bond Counsel will rely upon representations and certifications of the City made in a certificate dated the date of delivery of the Bonds pertaining to the use, expenditure, and investment of the proceeds of the Bonds and will assume continuing compliance by the City with the provisions of the Order subsequent to the issuance of the Bonds. The Order contains covenants by the City with respect to, among other matters, the use of the proceeds of the Bonds and the facilities financed therewith by persons other than state or local governmental units, the manner in which the proceeds of the Bonds are to be invested, the periodic calculation and payment to the United States Treasury of arbitrage "profits" from the investment of proceeds, and the reporting of certain information to the United States Treasury. Failure to comply with any of these covenants may cause interest on the Bonds to be includable in the gross income of the owners thereof from the date of the issuance of the Bonds.

Bond Counsel's opinion is not a guarantee of a result, but represents its legal judgment based upon its review of existing statutes, regulations, published rulings and court decisions and the representations and covenants of the City described above. No ruling has been sought from the Internal Revenue Service (the "IRS") with respect to the matters addressed in the opinion of Bond Counsel, and Bond Counsel's opinion is not binding on the IRS. The IRS has an ongoing program of auditing the tax-exempt status of the interest on tax-exempt obligations. If an audit of the Bonds is commenced, under current procedures the IRS is likely to treat the City as the "taxpayer," and the owners of the Bonds would have no right to participate in the audit process. In responding to or defending an audit of the tax-exempt status of the interest on the Bonds, the City may have different or conflicting interests from the owners of the Bonds. Public awareness of any future audit of the Bonds could adversely affect the value and liquidity of the Bonds during the pendency of the audit, regardless of its ultimate outcome.

Except as described above, Bond Counsel expresses no other opinion with respect to any other federal, state or local tax consequences under present law, or proposed legislation, resulting from the receipt or accrual of interest on, or the acquisition or disposition of, the Bonds. Prospective purchasers of the Bonds should be aware that the ownership of tax-exempt obligations such as the Bonds may result in collateral federal tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, certain foreign corporations doing business in the United States, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a financial asset securitization investment trust ("FASIT"), and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Prospective purchasers should consult their own tax advisors as to the applicability of these consequences to their particular circumstances.

Existing law may change to reduce or eliminate the benefit to bondholders of the exclusion of interest on the Bonds from gross income for federal income tax purposes. Any proposed legislation or administrative action, whether

or not taken, could also affect the value and marketability of the Bonds. Prospective purchasers of the Bonds should consult with their own tax advisors with respect to any proposed or future changes in tax law.

Tax Accounting Treatment of Discount and Premium on Certain Bonds

The initial public offering price of certain Bonds (the "Discount Bonds") may be less than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Discount Bond (assuming that a substantial amount of the Discount Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes original issue discount to the initial purchaser of such Discount Bond. A portion of such original issue discount allocable to the holding period of such Discount Bond by the initial purchaser will, upon the disposition of such Discount Bond (including by reason of its payment at maturity), be treated as interest excludable from gross income, rather than as taxable gain, for federal income tax purposes, on the same terms and conditions as those for other interest on the Bonds described above under "Tax Exemption." Such interest is considered to be accrued actuarially in accordance with the constant interest method over the life of a Discount Bond, taking into account the semiannual compounding of accrued interest, at the yield to maturity on such Discount Bond and generally will be allocated to an initial purchaser in a different amount from the amount of the payment denominated as interest actually received by the initial purchaser during the tax year.

However, such interest may be required to be taken into account in determining the amount of the branch profits tax applicable to certain foreign corporations doing business in the United States, even though there will not be a corresponding cash payment. In addition, the accrual of such interest may result in certain other collateral federal income tax consequences to, among others, financial institutions, life insurance companies, property and casualty insurance companies, S corporations with subchapter C earnings and profits, individual recipients of Social Security or Railroad Retirement benefits, individuals otherwise qualifying for the earned income tax credit, owners of an interest in a FASIT, and taxpayers who may be deemed to have incurred or continued indebtedness to purchase or carry, or who have paid or incurred certain expenses allocable to, tax-exempt obligations. Moreover, in the event of the redemption, sale or other taxable disposition of a Discount Bond by the initial owner prior to maturity, the amount realized by such owner in excess of the basis of such Discount Bond in the hands of such owner (adjusted upward by the portion of the original issue discount allocable to the period for which such Discount Bond was held) is includable in gross income.

Owners of Discount Bonds should consult with their own tax advisors with respect to the determination of accrued original issue discount on Discount Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Discount Bonds. It is possible that, under applicable provisions governing determination of state and local income taxes, accrued interest on Discount Bonds may be deemed to be received in the year of accrual even though there will not be a corresponding cash payment.

The initial public offering price of certain Bonds (the "Premium Bonds") may be greater than the amount payable on such Bonds at maturity. An amount equal to the difference between the initial public offering price of a Premium Bond (assuming that a substantial amount of the Premium Bonds of that maturity are sold to the public at such price) and the amount payable at maturity constitutes premium to the initial purchaser of such Premium Bonds. The basis for federal income tax purposes of a Premium Bond in the hands of such initial purchaser must be reduced each year by the amortizable bond premium, although no federal income tax deduction is allowed as a result of such reduction in basis for amortizable bond premium. Such reduction in basis will increase the amount of any gain (or decrease the amount of any loss) to be recognized for federal income tax purposes upon a sale or other taxable disposition of a Premium Bond. The amount of premium which is amortizable each year by an initial purchaser is determined by using such purchaser's yield to maturity.

Purchasers of the Premium Bonds should consult with their own tax advisors with respect to the determination of amortizable bond premium on Premium Bonds for federal income tax purposes and with respect to the state and local tax consequences of owning and disposing of Premium Bonds.

LEGAL MATTERS

Legal Proceedings

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

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

Legal Opinions

The City will furnish the Underwriter a transcript of certain certified proceedings incident to the authorization and issuance of the Bonds. Such transcript will include a certified copy of the approving opinion of the Attorney General of Texas, as recorded in the Bond Register of the Comptroller of Public Accounts of the State, to the effect that the Bonds are valid and binding special obligations of the City. The City will also furnish the legal opinion of Bond Counsel, to the effect that, based upon an examination of such transcript, the Bonds are valid and binding special obligations of the City under the Constitution and laws of the State. The legal opinion of Bond Counsel will further state that the Bonds, including principal of and interest thereon, are payable from and secured by a pledge of and lien on the Trust Estate. Bond Counsel will also provide a legal opinion to the effect that interest on the Bonds will be excludable from gross income for federal income tax purposes under Section 103(a) of the Code, subject to the matters described above under the caption "TAX MATTERS." A copy of the opinion of Bond Counsel is attached hereto as "APPENDIX D —Form of Opinion of Bond Counsel."

Except as noted below, Bond Counsel did not take part in the preparation of the Limited Offering Memorandum, and such firm has not assumed any responsibility with respect thereto or undertaken independently to verify any of the information contained therein, except that, in its capacity as Bond Counsel, such firm has reviewed the information describing the Bonds in the Limited Offering Memorandum under the captions or subcaptions "PLAN OF FINANCE — The Bonds," "DESCRIPTION OF THE BONDS," "SECURITY FOR THE BONDS SIMILARLY SECURED," "ASSESSMENT PROCEDURES" (except for the subcaptions "Assessment Methodology" and "Assessment Amounts"), "THE DISTRICT" (except for the subcaption "District Collection and Delinquency History of Assessments in Improvement Area #1"), "TAX MATTERS," "LEGAL MATTERS — Legal Proceedings" (except for the final paragraph thereof), "LEGAL MATTERS — Legal Opinions" (except for the final paragraph thereof), "CONTINUING DISCLOSURE — The City," "REGISTRATION AND QUALIFICATION OF BONDS FOR SALE," "LEGAL INVESTMENTS AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS" and APPENDIX B and such firm is of the opinion that the information relating to the Bonds, the Bond Ordinance, the Improvement Area #1 Assessment Ordinance and the Indenture contained therein fairly and accurately describes the laws and legal issues addressed therein and, with respect to the Bonds, such information conforms to the Bond Ordinance, the Improvement Area #1 Assessment Ordinance and the Indenture.

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

Litigation — The City

At the time of delivery and payment for the Bonds, the City will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory agency, public board or body, pending or, to its knowledge, overtly threatened against the City affecting the existence of the

District, or seeking to restrain or to enjoin the sale or delivery of the Bonds, the application of the proceeds thereof, in accordance with the Indenture, or the collection or application of the Improvement Area #1 Assessments securing the Bonds, or in any way contesting or affecting the validity or enforceability of the Bonds, the Improvement Area #1 Assessment Ordinance, the Indenture, any action of the City contemplated by any of the said documents, or the collection or application of the Pledged Revenues, or in any way contesting the completeness or accuracy of this Limited Offering Memorandum or any amendment or supplement thereto, or contesting the powers of the City or its authority with respect to the Bonds or any action of the City contemplated by any documents relating to the Bonds.

Litigation — The Landowner

At the time of delivery and payment for the Bonds, Landowner will certify that, except as disclosed herein, there is no action, suit, proceeding, inquiry or investigation, at law or in equity, before or by any court, regulatory body, public board or body pending, or, to the best knowledge of Landowner, threatened against or affecting Landowner wherein an unfavorable decision, ruling or finding would have a material adverse effect on the financial condition or operations of Landowner or its general partner or would adversely affect (1) the transactions contemplated by, or the validity or enforceability of, the Bonds, the Indenture, the Bond Ordinance, the Service and Assessment Plan, the Financing Agreement, or the Bond Purchase Agreement, or otherwise described in this Limited Offering Memorandum, or (2) the tax-exempt status of interest on the Bonds (individually or in the aggregate, a “Material Adverse Effect”). Additionally, principals of Landowner, Stratford Land Fund III, L.P. and other subsidiaries of Stratford Land Fund III, L.P. have been (but are not currently) parties to pending and threatened litigation related to their commercial and real estate development activities. Such litigation occurs in the ordinary course of business and is not expected to have a Material Adverse Effect.

SUITABILITY FOR INVESTMENT

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

ENFORCEABILITY OF REMEDIES

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

NO RATING

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

CONTINUING DISCLOSURE

The City

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

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

The City Compliance with Prior Undertakings

Multiple rating changes occurred with respect to certain obligations of the City between 2013 and 2016, and the City did not file event notices with respect to certain of such rating changes. Subsequently, notices of such rating changes that occurred in 2015 and 2016 were filed. The City has filed event notices with respect to the current ratings of certain of its outstanding obligations. Also, the City inadvertently omitted several tables from the annual financial information and operating data filing for the March 31, 2013 continuing disclosure report relating to certain obligations of the City. The City filed the omitted information on May 14, 2014. With respect to the City's continuing disclosure reports regarding its outstanding Airport System Revenue Bonds, the City determined that (i) a table regarding detailed Airport revenues was inadvertently omitted from such reports that were filed in 2013, however, the total of such Airport revenues was included in such annual filings and such table was included in subsequent annual continuing disclosure reports, and (ii) a table had transposed years in the presentation of data in such report that was filed in 2015, and the City filed corrected information for such table on May 8, 2015. On April 25, 2016, the City filed updated financial information and operating data to reflect audited financial information as well as updated information in the “Comparative Analysis of Electric Utility System and Water and Wastewater System Operations,” “Operating Statement Electric Utility System and Water and Wastewater System” and “The Electric Utility System and Water and Wastewater System (Plant Cost and Equity in Utility Systems)” tables previously filed. On June 30, 2017, the City filed updated financial information and operating data to reflect Fiscal Year 2016 information on the first page of the “Water Service Rates” table. The City has implemented procedures to ensure timely filing of all future financial information and event notices and will continue to provide updates to the financial information and operating data as changes occur.

The Landowner

The Landowner and the Dissemination Agent will enter into a Continuing Disclosure Agreement (the “Disclosure Agreement of the Landowner”) for the benefit of the Owners of the Bonds (including owners of beneficial interests in the Bonds), to provide, by certain dates prescribed in the Disclosure Agreement of the Landowner, certain information regarding the Development and the Improvement Area #1 Improvements (collectively, the “Landowner Reports”). The specific nature of the information to be contained in the Landowner Reports is set forth in “APPENDIX E-2 — Form of Disclosure Agreement of the Landowner.” Under certain circumstances, the failure of the Landowner to comply with its obligations under the Disclosure Agreement of the Landowner constitutes an event of default thereunder. Such a default will not constitute an event of default under the Indenture, but such event of default under

the Disclosure Agreement of the Landowner would allow the Owners of the Bonds (including owners of beneficial interests in the Bonds) to bring an action for specific performance.

The Landowner has agreed to (i) prepare and provide certain updated information in report form to the Dissemination Agent and (ii) provide notices of certain specified events, only as provided in the Disclosure Agreement of the Landowner. The Landowner has not agreed to provide other information that may be relevant or material to a complete presentation of its financial results of operations, condition, or prospects or agreed to update any information that is provided in this Limited Offering Memorandum, except as provided in the Disclosure Agreement of the Landowner. The Landowner makes no representation or warranty concerning such information or concerning its usefulness to a decision to invest in or sell the Bonds at any future date. The Landowner disclaims any contractual or tort liability for damages resulting in whole or in part from any breach of the Disclosure Agreement of the Landowner or from any statement made pursuant to the Disclosure Agreement of the Landowner. Concurrently with issuance of the Bonds, the Landowner will enter into a continuing disclosure agreement related to the Improvement Area #2 Bonds.

The Landowner's Compliance With Prior Undertakings

Except as hereinafter described, during the last five years, the Landowner has complied in all material respects with its continuing disclosure agreements made in accordance with the Rule.

Due to an apparent administrative error, the disclosure agreement that was executed by the Landowner, the City and the Dissemination Agent in 2013 related to the "City of Austin, Texas, Special Assessment Revenue Bonds, Series 2013 (Estancia Hill Country Public Improvement District)" (the "2013 Bonds") contained reporting timelines that differed slightly from the form of disclosure agreement that was attached to the Official Statement for the 2013 Bonds.

The form of disclosure agreement attached to the Official Statement for the 2013 Bonds (the "Published 2013 Disclosure Agreement") provides for Quarterly Disclosure Reports to be provided to the MSRB within 30 days of the end of each of the following quarters: January 1, April 1, July 1 and October 1 (each a "Published 2013 Disclosure Agreement Filing Date").

The disclosure agreement that was executed by the parties (the "Executed 2013 Disclosure Agreement") requires that the Landowner provide Quarterly Disclosure Reports to the Dissemination Agent within 29 days (i.e. by January 30, April 30, July 30 and October 30 for quarters ending the 1st day of those months), and that the Dissemination Agent provide such reports to MSRB within 15 days after the Dissemination Agent's receipt thereof. The Landowner has been complying with the Executed 2013 Disclosure Agreement; however, the Quarterly Disclosure Report for the quarter ending January 1, 2017, was provided to the MSRB on March 31, 2017.

A review was made following discovery of this discrepancy in forms of disclosure agreement, which has determined that an additional ten Quarterly Disclosure Reports for quarters ending between July 1, 2014 and July 1, 2018 were filed between one and eight days after the applicable Published 2013 Disclosure Agreement Filing Date. The parties have instituted procedures intended to ensure that Quarterly Disclosure Reports for the 2013 Bonds are provided to the MSRB in accordance with the Published 2013 Disclosure Agreement.

UNDERWRITING

FMSBonds, Inc. (the "Underwriter") has agreed to purchase the Bonds from the City at a purchase price of \$_____ (the par amount of the Bonds, less an underwriting discount of \$_____, which includes Underwriter's Counsel's fee of \$_____). The Underwriter's obligations are subject to certain conditions precedent and if obligated to purchase any of the Bonds the Underwriter will be obligated to purchase all of the Bonds. The Bonds may be offered and sold by the Underwriter at prices lower than the initial offering prices stated on the inside cover page hereof, and such initial offering prices may be changed from time to time by the Underwriter.

REGISTRATION AND QUALIFICATION OF BONDS FOR SALE

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

LEGAL INVESTMENT AND ELIGIBILITY TO SECURE PUBLIC FUNDS IN TEXAS

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

The City made no investigation of other laws, rules, regulations or investment criteria which might apply to such institutions or entities or which might limit the suitability of the Bonds for any of the foregoing purposes or limit the authority of such institutions or entities to purchase or invest in the Bonds for such purposes.

INVESTMENTS

The City invests its funds in investments authorized by Texas law in accordance with investment policies approved by the City Council. Both Texas law and the City’s investment policies are subject to change.

Under Texas law, the City is authorized to make investments meeting the requirements of the PFIA, which currently include (1) obligations, including letter of credit, of the United States or its agencies and instrumentalities; (2) direct obligations of the State or its agencies and instrumentalities; (3) collateralized mortgage obligations directly issued by a federal agency or instrumentality of the United States, the underlying security for which is guaranteed by an agency or instrumentality of the United States; (4) other obligations, the principal and interest of which is guaranteed or insured by or backed by the full faith and credit of, the State or the United States or their respective agencies and instrumentalities, including obligations that are fully guaranteed or insured by the Federal Deposit Insurance Corporation or by the explicit full faith and credit of the United States; (5) obligations of states, agencies, counties, cities, and other political subdivisions of any state rated as to investment quality by a nationally recognized investment rating firm not less than “A” or its equivalent; (6) bonds issued, assumed or guaranteed by the State of Israel; (7) interest-bearing banking deposits that are guaranteed or insured by the Federal Deposit Insurance Corporation or its successor, or the National Credit Union Share Insurance Fund or its successor; (8) certificates of deposit and share certificates meeting the requirements of the PFIA that are issued by or through an institution that either has its main office or a branch office in Texas, and are guaranteed or insured by the Federal Deposit Insurance Corporation or the National Credit Union Share Insurance Fund, or are secured as to principal by obligations described in clauses (1) through (7) or in any other manner and amount provided by law for City deposits, or are invested by the City through a broker or depository institution that has its main office or a branch office in the State and otherwise meet the requirements of the PFIA; (9) fully collateralized repurchase agreements that have a defined termination date, are fully secured by a combination of cash and obligations described in clause (1), and are placed through a primary government securities dealer or a financial institution doing business in the State; (10) certain bankers’

acceptances with the remaining term of 270 days or less, if the short-term obligations of the accepting bank or its parent are rated at least “A-1” or “P-1” or the equivalent by at least one nationally recognized credit rating agency; (11) commercial paper with a stated maturity of 270 days or less that is rated at least A-1 or P-1 or the equivalent by either (a) two nationally recognized credit rating agencies or (b) one nationally recognized credit rating agency if the paper is fully secured by an irrevocable letter of credit issued by a United States or state bank; (12) no-load money market mutual funds registered with and regulated by the Securities and Exchange Commission (the “SEC”) and that comply with SEC Rule 2a-7 (17 C.F.R. Section 270.2a-7); and (13) no-load mutual funds registered with the SEC that have an average weighted maturity of less than two years, and either (a) a duration of one year or more and invest exclusively in obligations described in under this heading, or (b) as a duration of less than one year and the investment portfolio is limited to investment grade securities, excluding asset-backed securities. If specifically authorized in the authorizing document, bond proceeds may be invested in guaranteed investment contracts that have a defined termination date and are secured by obligations of the United States or its agencies and instrumentalities in an amount at least equal to the amount of bond proceeds invested under such contract, other than the prohibited obligations described in the next succeeding paragraph.

The City may invest in such obligations directly or through government investment pools that invest solely in such obligations provided that the pools are rated no lower than “AAA” or “AAA-m” or an equivalent by at least one nationally recognized rating service. The City may also contract with an investment management firm registered under the Investment Advisers Act of 1940 (15 U.S.C. Section 80b-1 et seq.) or with the State Securities Board to provide for the investment and management of its public funds or other funds under its control for a term up to two years, but the City retains ultimate responsibility as fiduciary of its assets. In order to renew or extend such a contract, the City must do so by order, ordinance, or resolution. The City is specifically prohibited from investing in: (1) obligations whose payment represents the coupon payments on the outstanding principal balance of the underlying mortgage-backed security collateral and pays no principal; (2) obligations whose payment represents the principal stream of cash flow from the underlying mortgage-backed security and bears no interest; (3) collateralized mortgage obligations that have a stated final maturity of greater than eight years; and (4) collateralized mortgage obligations the interest rate of which is determined by an index that adjusts opposite to the changes in a market index.

Political subdivisions such as the City are authorized to implement securities lending programs if (i) the securities loaned under the program are 100% collateralized, a loan made under the program allows for termination at any time and a loan made under the program is either secured by (a) obligations that are described in clauses (1) through (7) of the second paragraph under this caption, (b) irrevocable letters of credit issued by a state or national bank that is continuously rated by a nationally recognized investment rating firm not less than “A” or its equivalent, or (c) cash invested in obligations that are described in clauses (1) through (7) and (11) through (13) of the first paragraph under this caption, or an authorized investment pool; (ii) securities held as collateral under a loan are pledged to the City, held in the name of the City and deposited at the time the investment is made with the City or a third party designated by the City; (iii) a loan made under the program is placed through either a primary government securities dealer or a financial institution doing business in the State; and (iv) the agreement to lend securities has a term of one year or less.

Under Texas law, the City is required to invest its funds under written investment policies that primarily emphasize safety of principal and liquidity; that address investment diversification, yield, maturity, and the quality and capability of investment management; and that includes a list of authorized investments for City funds, the maximum allowable stated maturity of any individual investment, the maximum average dollar-weighted maturity allowed for pooled fund groups, methods to monitor the market price of investments acquired with public funds, a requirement for settlement of all transactions, except investment pool funds and mutual funds, on a delivery versus payment basis, and procedures to monitor rating changes in investments acquired with public funds and the liquidation of such investments consistent with the PFIA. All City funds must be invested consistent with a formally adopted “Investment Strategy Statement” that specifically addresses each funds’ investment. Each Investment Strategy Statement will describe its objectives concerning: (1) suitability of investment type, (2) preservation and safety of principal, (3) liquidity, (4) marketability of each investment, (5) diversification of the portfolio, and (6) yield.

Under Texas law, City investments must be made “with judgment and care, under prevailing circumstances, that a person of prudence, discretion, and intelligence would exercise in the management of the person’s own affairs, not for speculation, but for investment, considering the probable safety of capital and the probable income to be derived.” At least quarterly the investment officers of the City shall submit an investment report detailing: (1) the

investment position of the City, (2) that all investment officers jointly prepared and signed the report, (3) the beginning market value, the ending market value and the fully accrued interest for the reporting period of each pooled fund group, (4) the book value and market value of each separately listed asset and fund type invested at the beginning and end of the reporting period by the type of asset and fund type invested, (5) the maturity date of each separately invested asset, (6) the account or fund or pooled fund group for which each individual investment was acquired, and (7) the compliance of the investment portfolio as it relates to: (a) adopted investment strategy statements and (b) state law. No person may invest City funds without express written authority from the City Council.

Under Texas law, the City is additionally required to: (1) annually review its adopted policies and strategies; (2) adopt a rule, order, ordinance or resolution stating that it has reviewed its investment policy and investment strategies and records any changes made to either its investment policy or investment strategy in the respective rule, order, ordinance or resolution; (3) require any investment officers' with personal business relationships or relatives with firms seeking to sell securities to the City to disclose the relationship and file a statement with the Texas Ethics Commission and the City Council; (4) require the registered principal of business organizations seeking to sell securities to the City to: (a) receive and review the City's investment policy, (b) acknowledge that reasonable controls and procedures have been implemented to preclude investment transactions conducted between the City and the business organization that are not authorized by the City's investment policy (except to the extent that this authorization is dependent on an analysis of the makeup of the City's entire portfolio or requires an interpretation of subjective investment standards), and (c) deliver a written statement attesting to these requirements; (5) perform an annual audit of the management controls on investments and adherence to the City's investment policy; (6) provide specific investment training for the officers of the City; (7) restrict reverse repurchase agreements to not more than 90 days and restrict the investment of reverse repurchase agreement funds to no greater than the term of the reverse repurchase agreement; (8) restrict the investment in no-load mutual funds in the aggregate to no more than 15% of the City's monthly average fund balance, excluding bond proceeds and reserves and other funds held for debt service; (9) require local government investment pools to conform to the new disclosure, rating, net asset value, yield calculation, and advisory board requirements; and (10) at least annually review, revise, and adopt a list of qualified brokers that are authorized to engage in investment transactions with the City.

INFORMATION RELATING TO THE TRUSTEE

The City has appointed U.S. Bank National Association, a national banking association organized under the laws of the United States, to serve as Trustee. The Trustee is to carry out those duties assignable to it under the Indenture. Except for the contents of this section, the Trustee has not reviewed or participated in the preparation of this Limited Offering Memorandum and assumes no responsibility for the contents, accuracy, fairness or completeness of the information set forth in this Limited Offering Memorandum or for the recitals contained in the Indenture or the Bonds, or for the validity, sufficiency, or legal effect of any of such documents.

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

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

SOURCES OF INFORMATION

General

The information contained in this Limited Offering Memorandum has been obtained primarily from the City's records, the Landowner and its representatives and other sources believed to be reliable. In accordance with its responsibilities under the federal securities law, the Underwriter has reviewed the information in this Limited Offering

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

Source of Certain Information

The information contained in this Limited Offering Memorandum relating to the description of the Improvement Area #1 Improvements generally and, in particular, the information included in the sections captioned “PLAN OF FINANCE — Development Plan” and “– Status of Land Sales to Builders,” “THE IMPROVEMENTS,” “THE DEVELOPMENT,” and “THE LANDOWNER,” and, to the best of its knowledge after due inquiry, (1) any information pertaining to Lennar set forth under the captions “PLAN OF FINANCE – Development Plan” and “THE DEVELOPMENT”, (2) any information pertaining to M/I Homes of Austin, LLC set forth under the caption “THE DEVELOPMENT”, and (3) the information set forth under the captions “BONDHOLDERS’ RISKS” (only as it pertains to the Landowner, the Improvement Area #1 Improvements, the Improvement Area #2 Improvements and the Development), “LEGAL MATTERS – Litigation – The Landowner,” and “CONTINUING DISCLOSURE — The Landowner” and “– The Landowner’s Compliance with Prior Undertakings” has been provided by the Landowner, and the Landowner warrants and represents that the information contained herein is true and correct in all material respects and does not contain any untrue statement of a material fact or omit to state any material fact necessary in order to make the statements made herein, in the light of the circumstances under which they were made, not misleading. At the time of delivery of the Bonds to the Underwriter, the Landowner will deliver a certificate to this effect to the City and the Underwriter.

Experts

The information regarding the Service and Assessment Plan in this Limited Offering Memorandum has been provided by P3Works, LLC and has been included in reliance upon the authority of such firm as experts in the field of development planning and finance.

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

Updating of Limited Offering Memorandum

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

FORWARD-LOOKING STATEMENTS

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

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

AUTHORIZATION AND APPROVAL

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

CITY OF AUSTIN, TEXAS

Mayor

ATTEST:

City Clerk

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APPENDIX A

GENERAL INFORMATION REGARDING THE CITY

The following information has been provided for informational purposes only.

The City of Austin (the “City”), chartered in 1839, has a Council-Manager form of government under its home rule charter. A change in governance affecting City Council size, composition, and term duration was approved by the voters with the passage of Propositions 1 – 3 on November 6, 2012. Under the new governance, the Mayor remains elected at-large and ten Councilmembers are elected by geographic district, with all serving four-year staggered terms subject to a maximum of two consecutive terms. The voters also approved moving elections from May to November in even-numbered years, the first of which was held in November 2014. The City Council is composed of a Mayor who is elected at large and 10 Councilmembers who are elected by geographic districts, all of whom serve four-year staggered terms subject to a maximum of two terms. A petition signed by 5% of the registered voters will waive the term limit for a member of the City Council. The City Manager, appointed by the City Council, is responsible to the City Council for the management of all City employees and administration of all City affairs.

The City, which is the capital of Texas, is the fourth largest city in the state (behind Houston, Dallas, and San Antonio) and the eleventh largest in the nation, with, according to the City’s estimates, an October 2017 population of 946,080. Over the past ten years, Austin’s population has increased by approximately 26.48%, or 199,975 residents. Geographically, the City consists of approximately 325 square miles. The current estimated median household income for residents of the City is \$56,849 according to Nielsen Site Reports. The City’s per capita income is estimated to be \$53,908 based on analysis of the Bureau of Economic Analysis information.

The City offers several broad-ranged educational opportunities for those individuals with a desire to learn. Austin is a highly educated city, with 46.8% of adults twenty-five years or older holding a bachelor’s or advanced degree, compared to 28% for Texas and 30% for the U.S. as a whole. Higher education is a significant aspect of life in the Austin area, which is host to six universities, a robust community college system, and numerous other institutions of higher learning. The University of Texas at Austin (UT), the sixth largest public university in the nation, is known as a world-class center of education and research and was ranked 18th among public universities in the 2018 U.S. News and World Report survey of undergraduate programs.

The City is nationally recognized as a great place to live due in part to its diverse, educated and eclectic population, as well as its promotion of a year-round outdoor active lifestyle. The City draws its special character from its physical setting along the Balcones Escarpment, wedged between coastal plains and dramatic cliffs, canyons, and juniper-carpeted rolling hills. Austin’s quality of life has become a critical economic development engine, and the City’s diverse demographic structure serves to support and enrich its quality of life.

THE CITY

Historical Employment in the City (Average Annual)

The City of Austin

	Average Annual				
	2018 ⁽²⁾	2017	2016	2015	2014
Civilian Labor Force	590,477	572,348	554,495	536,573	527,919
Total Employed	575,205	555,738	537,404	520,552	508,331
Total Unemployed	15,272	16,610	17,091	16,021	19,588
Unemployment Rate	2.6%	2.9%	3.1%	3.0%	3.7%

⁽¹⁾ Source: Texas Workforce Commission.

⁽²⁾ Source: Data through May 2018.

Ten Largest Employers in the City (As of September 30, 2017)

The ten largest employers in the City are set forth in the table below.

<u>Employer</u>	<u>Product or Service</u>	<u>Employees</u>
State Government	Government	38,353
The University of Texas at Austin	Education	23,131
City of Austin	Government	13,825
Federal Government	Government	12,700
HEB Grocery	Grocery/Retail	12,198
Dell Computer Corporation	Computers	12,000
Austin Independent School District	Education	11,447
Seton Healthcare Network	Healthcare	10,270
St. David's Healthcare Partnership	Healthcare	8,598
Samsung Austin Semiconductor	Manufacturer	6,074

Source: The City's 2017 Comprehensive Annual Financial Report.

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APPENDIX B
FORM OF INDENTURE

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APPENDIX C

FORM OF SERVICE AND ASSESSMENT PLAN

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APPENDIX D
FORM OF OPINION OF BOND COUNSEL

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APPENDIX E-1

FORM OF DISCLOSURE AGREEMENT OF THE ISSUER

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APPENDIX E-2

FORM OF DISCLOSURE AGREEMENT OF THE LANDOWNER

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APPENDIX F

APPRAISAL OF IMPROVEMENT AREA #1

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