

ESCONDIDO PUBLIC IMPROVEMENT DISTRICT

CITY OF HORSESHOE BAY, TEXAS

SERVICE AND ASSESSMENT PLAN

MARCH 26, 2008

ESCONDIDO
PUBLIC IMPROVEMENT DISTRICT
SERVICE AND ASSESSMENT PLAN

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Section I
PLAN DESCRIPTION AND DEFINED TERMS

A. Introduction

On October 16, 2007, the City Council of the City of Horseshoe Bay (the "City") passed and approved a resolution approving and authorizing the creation of The Escondido Public Improvement District (the "PID") to finance the PID Costs for the benefit of certain property in the PID, all of which is located within the corporate limits of the City.

Chapter 372 of the Texas Local Government Code, "Improvement Districts in Municipalities and Counties" (as amended, the "PID Act"), governs the creation of public improvement districts within the State of Texas. This Service and Assessment Plan has been prepared pursuant to Sections 372.013, 372.014, 372.015 and 372.016 of the PID Act. According to Section 372.013 of the PID Act, a service plan "must cover a period of at least five years and must also define the annual indebtedness and the projected costs for improvements. The plan shall be reviewed and updated annually for the purpose of determining the annual budget for improvements." The service plan is described in Section IV of this Service and Assessment Plan.

Section 372.014 of the PID Act states that "an assessment plan must be included in the annual service plan." The assessment plan is described in Section V.

Section 372.015 of the PID Act states that "the governing body of the municipality or county shall apportion the cost of an improvement to be assessed against property in an improvement district." The method of assessing the PID Costs to the property in the PID is included in Section VI of this Service and Assessment Plan.

Section 372.016 of the PID Act states that "after the total cost of an improvement is determined, the governing body of the municipality or county shall prepare a proposed assessment roll. The roll must state the assessment against each parcel of land in the district, as determined by the method of assessment chosen by the municipality or county under this subchapter." The Assessment Roll for the PID is included as Appendix D of this Service and Assessment Plan. The Assessments as shown on the Assessment Roll are based on the method of assessment described in Section V of this Service and Assessment Plan.

B. Definitions

Capitalized terms used herein shall have the meanings ascribed to them as follows:

"Administrator" means the employee or designee of the City who shall have the responsibilities provided for herein, in the Bond Indenture, or in another agreement approved by the City Council.

"Annual Collection Costs" mean the following actual or budgeted costs, as applicable, related to the annual collection costs of outstanding Assessments paid in installments, including the costs or anticipated costs of: (i) issuing, refunding or refinancing bonds, (ii) computing, levying, collecting and transmitting the Assessments (whether by the City, the Administrator or otherwise), (iii) remitting the Assessments to the Trustee, (iv) the City, the Administrator and

Trustee (including legal counsel) in the discharge of their duties, (v) complying with arbitrage rebate requirements, (vi) complying with securities disclosure requirements, and (vii) the City in any way related to the collection of the Assessments in installments, including, without limitation, the administration of the PID, maintaining the record of installments, payments and reallocations and/or cancellations of Assessments, and the repayment of the Bonds, including, without limitation, any associated legal expenses, the reasonable costs of other consultants and advisors and contingencies and reserves for such costs as deemed appropriate by the City Council. Annual Collection Costs collected and not expended for actual Annual Collection Costs shall be carried forward and applied to reduce Annual Collection Costs in subsequent years to avoid the over-collection of Annual Collection Costs.

“Annual Installment” means, with respect to each Parcel, each annual payment of the Assessment, as shown on the Assessment Roll attached hereto as *Appendix D* or an Annual Service Plan Update, and calculated as provided in Section VI of this Service and Assessment Plan.

“Annual Service Plan Update” has the meaning set forth in the first paragraph of Section IV of this Service and Assessment Plan.

“Assessed Property” means, for any year, Parcels within the PID other than Non-Benefited Property.

“Assessment” means the assessment levied against a Parcel imposed pursuant to the Assessment Ordinance and the provisions herein, as shown on the Assessment Roll, subject to reallocation upon the subdivision of such Parcel created by such subdivision or reduction according to the provisions herein and the PID Act.

“Assessment Ordinance” means the Assessment Ordinance approved by the City Council to approve the imposition of the Assessments.

“Assessment Revenues” mean the revenues actually received by the City from Assessments.

“Assessment Roll” means the document included in this Service and Assessment Plan as *Appendix D*, as updated, modified or amended from time to time in accordance with the procedures set forth herein and in the PID Act.

“Authorized Improvements” mean those public improvements described in *Appendix B* of this Service and Assessment Plan and Section 372.003 of the PID Act.

“Bond Indenture” means the indenture, ordinance or similar document setting forth the terms and other provisions relating to the Bonds, as modified, amended, and/or supplemented from time to time.

“Bonds” mean any bonds secured by Assessment Revenues issued by the City in one or more series.

“City” means the City of Horseshoe Bay, Texas.

“City Council” means the duly elected governing body of the City.

“Delinquent Collection Costs” mean interest, penalties and expenses incurred or imposed with respect to any delinquent installments of an Assessment in accordance with §372.018(b) of the PID Act and the costs related to pursuing collection of a delinquent Assessment and foreclosing the lien against the Assessed Property, including attorneys’ fees.

“Developer” means ESCONDIDO PARTNERSHIP, LTD., a Texas limited partnership.

“Equivalent Units” mean, as to any Parcel, for Lot Types 1 through 6, the number of dwelling units by lot type expected to be built on the Parcel and for Lot Type 7 and 8, the acreage, multiplied by the following factors:

Lot Type 1 (Lake Lot)	1.98 per dwelling unit
Lot Type 2 (Golf Lot)	1.00 per dwelling unit
Lot Type 3 (Non-Golf Lot)	0.93 per dwelling unit
Lot Type 4 (Creek Lot)	0.81 per dwelling unit
Lot Type 5 (Casita Lot)	0.76 per dwelling unit
Lot Type 6 (Villa Lot)	0.58 per dwelling unit
Lot Type 7 (Commercial Lot)	0.84 per acre
Lot Type 8 (Golf Course)	0.05 per acre

“Lot Type 1” means lots identified as such on the Assessment Roll, which are referred to as Lake Lots and being generally lots with a minimum size of ½ (one-half) acres and frontage on navigable water.

“Lot Type 2” means lots identified as such on the Assessment Roll, which are referred to as Golf Lots and being generally lots for single family dwelling unit with a minimum size of ½ (one-half) acres and frontage on the golf course.

“Lot Type 3” means lots identified as such on the Assessment Roll, which are referred to as non-Golf Lots and being generally lots for single family dwelling unit with a minimum size of ½ (one-half) acres with no golf course frontage.

“Lot Type 4” means lots identified as such on the Assessment Roll, which are referred to as Creek Lots and being generally lots for single family dwelling unit with a minimum size of ½ (one-half) acres and frontage on non-navigable water/creek.

“Lot Type 5” means lots identified as such on the Assessment Roll, which are referred to as Casita Lots and being generally lots for single family dwelling unit with a maximum size of 1/4 (one-quarter) acres have no building setback lines established by the City of Horseshoe Bay, Texas.

“Lot Type 6” means lots identified as such on the Assessment Roll, which are referred to have Villa Lots and being generally lots for single family dwelling unit with an average size of 1/4 (one-quarter) acres and have building setback lines as established and required by the City of Horseshoe Bay, Texas.

“Lot Type 7” means lots identified as such on the Assessment Roll, which are intended for commercial development.

“Lot Type 8” means Golf Course Tracts One, Two and Three located inside the boundaries of the PID and derive benefits from the Authorized Improvements as described in *Appendix B* of this Service and Assessment Plan and Section 372.003 of the PID Act.

“Non-Benefited Property” means Parcels within the boundaries of the PID that accrue no special benefit from the Authorized Improvements, including Owner Association Property, Public Property and easements that create an exclusive use for a public utility provider. Property identified as Non-Benefited Property at the time the Assessments (i) are imposed or (ii) are reallocated pursuant to a subdivision of a Parcel is not assessed. Assessed Property converted to Non-Benefited Property, if the Assessments may not be reallocated pursuant to Section VI. B. 1., remains subject to the Assessments and requires the Assessments to be prepaid as provided for in Section VI. C. 2.

“Owner Association Property” means property within the boundaries of the PID that is owned by or irrevocably offered for dedication to, whether in fee simple or through an exclusive use easement, a property owners’ association.

“Parcel” means a parcel identified by either a tax map identification number assigned by the Llano Central Appraisal District for real property tax purposes or by lot and block number in a final subdivision plat recorded in the real property records of Llano County.

“PID Act” means Texas Local Government Code Chapter 372, Improvement Districts in Municipalities and Counties, Subchapter A, Public Improvement Districts, as amended.

“PID” has the meaning set forth in Section I.A of this Service and Assessment Plan and means the Escondido Public Improvement District of the City of Horseshoe Bay, Texas.

“PID Costs” mean the actual or budgeted costs, as applicable, of all or any portion of the Authorized Improvements, as described in Appendix B of this Service and Assessment Plan.

“Prepayment Costs” mean expenses reasonably expected to be incurred by the City as a result of any prepayment of an Assessment.

“Public Property” means property within the boundaries of the PID that is owned by or irrevocably offered for dedication to the federal government, the State of Texas, the City, a school district, a public utility provider or any other public agency, whether in fee simple or through an exclusive use easement.

“Service and Assessment Plan” means this Service and Assessment Plan prepared for the PID pursuant to the PID Act.

“Trustee” means the fiscal agent or trustee as specified in the Bond Indenture, including a substitute fiscal agent or trustee.

Section II
PROPERTY INCLUDED IN THE PID

The Escondido Public Improvement District ("PID") is located in the City of Horseshoe Bay, Texas. PID contains approximately 482.35 acres of land within the City, subdivided into 354 residential lots and two commercial tracts. A map of the property within the PID is shown on Appendix A to this Service and Assessment Plan. The Parcels in the PID are shown on the Assessment Roll.

For purposes of allocating the Assessments, the Assessed Property has been classified in one of eight lot types. The following table shows the proposed residential and commercial lot types:

Table II-A
Proposed Residential Lot Types

Lot Type	Proposed Development
<u>Residential:</u>	
Lot Type 1 – Lake Lot	34 units
Lot Type 2 – Golf Lot	148 units
Lot Type 3 – Non-Golf Lot	29 units
Lot Type 4 – Creek Lot	10 units
Lot Type 5 - Casita	70 units
Lot Type 6 – Villa Lot	63 units
Total - Residential	354 units
<u>Commercial:</u>	
Lot Type 7 – Commercial Lot	7 acres
Total - Commercial	
<u>Golf Course:</u>	
Lot Type 8 – Golf Course	209 acres
Total – Golf Course	
209 acres	

The classification of each parcel is shown on the Assessment Roll.

Section III
DESCRIPTION OF THE AUTHORIZED IMPROVEMENTS

Section 372.003 of the PID Act defines the Authorized Improvements that may be undertaken by a municipality or county through the establishment of a public improvement district, as follows:

372.003. Authorized Improvements

- (a) If the governing body of a municipality or county finds that it promotes the interests of the municipality or county, the governing body may undertake an improvement project that confers a special benefit on a definable part of the municipality or county or the municipality's extraterritorial jurisdiction. A project may be undertaken in the municipality or county or the municipality's extraterritorial jurisdiction.
- (b) A public improvement may include:
 - (i) landscaping;
 - (ii) erection of fountains, distinctive lighting, and signs;
 - (iii) acquiring, constructing, improving, widening, narrowing, closing, or rerouting of sidewalks or of streets, any other roadways, or their rights-of way;
 - (iv) construction or improvement of pedestrian malls;
 - (v) acquisition and installation of pieces of art;
 - (vi) acquisition, construction, or improvement of libraries;
 - (vii) acquisition, construction, or improvement of off-street parking facilities;
 - (viii) acquisition, construction, improvement, or rerouting of mass transportation facilities;
 - (ix) acquisition, construction, or improvement of water, wastewater, or drainage facilities or improvements;
 - (x) the establishment or improvement of parks;
 - (xi) projects similar to those listed in Subdivisions (i)-(x);
 - (xii) acquisition, by purchase or otherwise, of real property in connection with an authorized improvement;
 - (xiii) special supplemental services for improvement and promotion of the district, including services relating to advertising, promotion, health and sanitation, water and wastewater, public safety, security, business recruitment, development, recreation, and cultural enhancement; and
 - (xiv) payment of expenses incurred in the establishment, administration and operation of the district.

Section 108.052(a), Texas Local Government Code, ("Section 108") which is applicable to the City and to the PID, limits the public improvements to be undertaken in the PID to Section 372.003(b)(ix) above, excluding drainage facilities.

After analyzing the public improvement projects authorized by the PID Act and Section 108, the City has determined that the Authorized Improvements should be undertaken.

The estimated total costs to construct the Authorized Improvements are shown by Table III-A, which are more fully described in Appendix B and shown in Appendix C.

Table III-A
Estimated Costs to Construct
the Authorized Improvements

Authorized Improvements	Estimated Cost
Water supply improvements	\$2,207,753.66
Sewer management improvements including pressure sewer lines	\$1,153,419.73
Offsite sewer lift station upgrades to accommodate PID property	\$182,805.50
Casita far east, far west and west - water and sewer supply lines	\$500,000.00
Engineering, city fees, legal and other professional services for water and sewer improvements	\$1,451,403.65
Total estimated cost of Authorized Improvements	\$5,495,382.54

The bonded indebtedness expected to be incurred to fund the PID Costs set forth in Table III-A is included in Section IV of this Service and Assessment Plan.

The costs shown in Table III-A are estimates and may be revised in Annual Service Plan Updates. Savings from one line item may be applied to a cost increase in another line item.

**Section IV
SERVICE PLAN**

The PID Act requires a service plan cover a period of at least five years. The service plan is required to define the annual projected costs and indebtedness for the improvement projects undertaken within the PID. The estimated PID Costs plus costs related to the issuance of the Bonds and payment of expenses incurred in the establishment, administration, and operation of the PID is \$5,475,000, which PID Costs will be expended during the first five years. The plan shall be reviewed and updated annually for the purpose of determining the annual budget for improvements. The annual update to this Service and Assessment Plan is herein referred to as the "Annual Service Plan Update."

Bonds are expected to be issued in 2008 for all of the PID Costs. Table IV-A shows estimated sources and uses of the Bonds.

**Table IV-A
Sources and Uses of Funds**

Sources of Funds:		<u>Total</u>
Bond proceeds		\$5,475,000
Developer funds		\$1,365,883
Total sources of funds		\$6,840,883
Uses of Funds:		
Estimated PID Costs		\$5,495,383
Costs of issuance including underwriter's discount		\$360,000
Capitalized interest (from developer funds)		\$438,000
Reserve fund		\$547,500
Total uses of funds		\$6,840,883

The aggregate principal amount of the Bonds issued shall not exceed \$5,475,000. This sources and uses of funds table is subject to revision and the actual sources and uses of funds for any line item may be different than shown above. The sources and uses of funds shown in Table IV-A shall be updated each year in the Annual Service Plan Update to reflect any budget revisions and actual costs.

The annual projected costs and annual projected indebtedness is shown by Table IV-B. The annual projected costs and indebtedness is subject to revision and shall be updated each in the Annual Service Plan Update to reflect any changes in the costs or indebtedness expected for each year.

Table IV-B
Annual Projected Costs and Indebtedness

Year	Annual Projected Costs	Annual Projected Indebtedness
2008	\$5,475,000	\$5,475,000
2009	\$0	\$0
2010	\$0	\$0
2011	\$0	\$0
2012	\$0	\$0
Total	\$5,475,000	\$5,475,000

Section V ASSESSMENT PLAN

A. Introduction

The PID Act requires the City Council to apportion the PID Costs on the basis of special benefits conferred upon the property because of the Authorized Improvements. The PID Act provides that the PID Costs may be assessed: (i) equally per front foot or square foot; (ii) according to the value of the property as determined by the governing body, with or without regard to improvements on the property; or (iii) in any other manner that results in imposing equal shares of the cost on property similarly benefited. The PID Act further provides that the governing body may establish by ordinance or order reasonable classifications and formulas for the apportionment of the cost between the municipality and the area to be assessed and the methods of assessing the special benefits for various classes of improvements. This section of this Service and Assessment Plan describes the special benefit received by each Parcel of the Assessed Property as a result of the Authorized Improvements, provides the basis and justification for the determination that this special benefit exceeds the amount of the Assessments, and establishes the methodology by which the City Council allocates the special benefit of the Authorized Improvements to Parcels in a manner that results in equal shares of the PID Costs being apportioned to Parcels similarly benefited. The determination by the City Council of the assessment methodology set forth below 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 Developer and all future owners and developers of the Assessed Property.

B. Special Benefit

The Assessed Property receives a direct and special benefit from the Authorized Improvements, and this benefit is equal to or greater than the amount of the Assessments. The Authorized Improvements are provided specifically for the benefit of the Assessed Property. The Authorized Improvements (more particularly described in subtotal of line-items format on Appendix B to this Service and Assessment Plan) and the costs of issuance and payment of expenses incurred in the establishment, administration, and operation of the PID shown in Table IV-A are authorized by the Act.

Use of the Assessed Property as described in this Service and Assessment Plan requires the construction and installation of the Authorized Improvements. Funding the PID Costs through the PID is determined to be the most beneficial means of providing for the payment of the Authorized Improvements. As a result, the Assessments result in a special benefit to the Assessed Property, and this special benefit exceeds the amount of the Assessments. This conclusion is based on and supported by the evidence, information, and testimony provided to the City Council.

C. Assessment Methodology

1. The PID Costs may be assessed by the City Council against the Assessed Property so long as the special benefit conferred upon the Assessed Property by the Authorized Improvements equals or exceeds the Assessments. The PID Costs may be assessed using any

methodology that results in the imposition of equal shares of the PID Costs on Assessed Property similarly benefited.

2. For purposes of this Service and Assessment Plan, the City Council has determined that the PID Costs shall be allocated to the Assessed Property on the basis of the relative value of Parcels with the Authorized Improvements completed and installed, and that such method of allocation will result in the imposition of equal shares of the PID Costs on Parcels similarly benefited. In determining the relative value of Parcels, the City Council has taken into consideration (i) the type of lots (i.e., casitas, creek lots, golf lots, etc.); (ii) current and projected home prices; (iii) the costs of the Authorized Improvements, and (iv) the ability of different property types to utilize and benefit from the Authorized Improvements.

3. Having taken into consideration the matters described above, the City Council has determined that allocating the PID Costs among Parcels based on value after the installation and construction of the Authorized Improvements is best accomplished by creating classifications of benefited Parcels based on the "Lot Types" defined in Section I.B of this Service and Assessment Plan. These classifications (from Lot Type 1 (Lake Lot) representing the highest value to Lot Type 6 (Villa Lot) representing the lowest value for residential lots; Lot Type 7 (for commercial lots) and Lot Type 8 (for the golf course) are set forth in Table V-A below. Assessments are allocated to each Lot Type on the basis of the average value of lots for each class of lots. This is accomplished by giving each Lot Type an Equivalent Unit factor. Equivalent Units are the ratio of the average value of lots within each assessment class, setting the Equivalent Unit factor for Lot Type 2 (Golf Lot) to 1.0.

TABLE V-A
Equivalent Unit Factors

Lot Type	Average Estimated Unit Value	Equivalent Unit Factor ¹
Lot Type 1 (Lake Lot)	\$676,300	1.98 per dwelling unit
Lot Type 2 (Golf Lot)	\$341,174	1.00 per dwelling unit
Lot Type 3 (Non-Golf Lot)	\$318,000	0.93 per dwelling unit
Lot Type 4 (Creek Lot)	\$276,611	0.81 per dwelling unit
Lot Type 5 (Casita)	\$259,556	0.76 per dwelling unit
Lot Type 6 (Villa Lot)	\$196,529	0.58 per dwelling unit
Lot Type 7 (Commercial Lot)	\$285,714	0.84 per acre
Lot Type 8 (Golf Course)	\$18,602	0.05 per acre

¹ the Equivalent Unit Factors are rounded to two decimal places.

4. The following table (Table V-B) shows the calculation of the Assessment per Equivalent Unit. There are a total of 356.46 Equivalent Units in the PID. The total Assessments are equal to \$5,475,000, resulting in an Assessment per Equivalent Unit of \$15,359.37.

TABLE V-B
Assessment Per Equivalent Unit

Lot Type	Equivalent Units	Total Number of Dwelling Units	Total Equivalent Units
Lot Type 1 (Lake Lot)	1.98 per dwelling unit	34 dwelling units	67.32
Lot Type 2 (Golf Lot)	1.00 per dwelling unit	148 dwelling units	148.00
Lot Type 3 (Non-Golf Lot)	0.93 per dwelling unit	29 dwelling units	26.97
Lot Type 4 (Creek Lot)	0.81 per dwelling unit	10 dwelling units	8.10
Lot Type 5 (Casita)	0.76 per dwelling unit	70 dwelling units	53.20
Lot Type 6 (Villa Lot)	0.58 per dwelling unit	63 dwelling units	36.54
Lot Type 7 (Commercial Lot)	0.84 per acre	7 acres	5.88
Lot Type 8 (Golf Course)	0.05 per acre	209 acres	10.45
Total Equivalent Units			356.46
Total Assessments			\$5,475,000
Assessment Per Equivalent Unit			\$15,359.37

5. The Assessment per dwelling unit or acre is calculated as the product of (i) \$15,359.37 multiplied by (ii) the applicable Equivalent Unit value for each Lot Type. For example, the Assessment for a Lot Type 1 (Lake Lot) dwelling unit is \$30,411.55 (\$15,359.37 x 1.98). The Assessment for a Lot Type 2 (Golf Lot) dwelling unit is \$15,359.37 (\$15,359.37 x 1.0). Table V-C sets forth the Assessment per dwelling unit for each of the eight Lot Types.

TABLE V-C
Estimated Assessment Per Lot Type

Lot Type	Equivalent Units	Assessment Per Unit
Lot Type 1 (Lake Lot)	1.98 per dwelling unit	\$30,411.55 per dwelling unit
Lot Type 2 (Golf Lot)	1.00 per dwelling unit	\$15,359.37 per dwelling unit
Lot Type 3 (Non-Golf Lot)	0.93 per dwelling unit	\$14,284.21 per dwelling unit
Lot Type 4 (Creek Lot)	0.81 per dwelling unit	\$12,441.09 per dwelling unit
Lot Type 5 (Casita)	0.76 per dwelling unit	\$11,673.12 per dwelling unit
Lot Type 6 (Villa Lot)	0.58 per dwelling unit	\$8,908.43 per dwelling unit
Lot Type 7 (Commercial Lot)	0.84 per acre	\$12,901.87 per acre
Lot Type 8 (Golf Course)	0.05 per acre	\$767.97 per acre

Section VI
TERMS OF THE ASSESSMENTS

A. Amount of Assessments

The Assessment for each Parcel is shown on the Assessment Roll, and no Assessment shall be changed except as authorized by this Service and Assessment Plan or the PID Act. The Assessments shall not exceed the amount required to repay the principal amount of the Bonds and shall be collected with interest and Annual Collection Costs in an amount to pay principal and interest on the Bonds and to cover the Annual Collection Costs of the PID.

B. Mandatory Prepayment of Assessments

1. If a Parcel or portion thereof is transferred to a party that is exempt from the payment of the Assessment under applicable law, or if an owner causes a Parcel or portion thereof to become Non-Benefited Property, the owner of such Parcel or portion thereof shall pay to the City the full amount of the Assessment, plus all Prepayment Costs, for such Parcel or portion thereof prior to any such transfer or act.
2. The payments required above shall be treated the same as any Assessment that is due and owing under the Act, the Assessment Ordinance, and this Service and Assessment Plan, including the same lien priority, penalties, procedures, and foreclosure specified by the Act.

D. Reduction of Assessments

1. If after all Authorized Improvements have been constructed and acquired the actual PID Costs is less than the PID Costs used to calculate the Assessments, resulting in excess Bond proceeds being available to redeem Bonds, then the Assessment for each Parcel shall be reduced by an equal percentage such that the sum of the resulting reduced Assessments for all Parcels equals the actual reduced PID Costs and such excess Bond proceeds shall be applied to redeem Bonds. The Assessments shall not be reduced to an amount less than the outstanding Bonds.
2. If all the Authorized Improvements are not constructed and acquired, resulting in excess Bond proceeds being available to redeem Bonds, the Assessment for each Parcel shall be appropriately reduced by the City Council to reflect only the PID Costs that were expended and such excess Bond proceeds shall be applied to redeem Bonds. The City Council may reduce the Assessments for each Parcel by an equal percentage such that the sum of the resulting reduced Assessments equals the PID Costs with respect to the Authorized Improvements that were acquired. The Assessments shall not be reduced to an amount less than the outstanding Bonds.

E. Payment of Assessments

1. Payment in Full

- (a) The Assessment for any Parcel may be paid in full at any time. Payment shall include all Prepayment Costs. If prepayment in full will result in a redemption of Bonds, the payment amount shall be reduced by the amount, if any, of reserve funds applied to the redemption under the Bond Indenture, net of any other costs applicable to the redemption of Bonds.

(b) If an Annual Installment has been billed prior to payment in full of an Assessment, the Annual Installment shall be due and payable and shall be credited against the payment-in-full amount.

(c) Upon payment in full of an Assessment and all Prepayment Costs, the City shall deposit the payment in accordance with the Bond Indenture; whereupon, the Assessment shall be reduced to zero, and the owner's obligation to pay the Assessment and Annual Installments thereof shall automatically terminate.

(d) At the option of the owner, the Assessment on any Parcel plus Prepayment Costs may be paid in part in an amount sufficient to allow for a convenient redemption of Bonds as determined by the Administrator. Upon the payment of such amounts for a Parcel, the Assessment for the Parcel shall be reduced, the Assessment Roll shall be updated to reflect such partial payment, and the obligation to pay the Annual Installment for such Parcel shall be reduced to the extent the partial payment is made.

2. Payment in Annual Installments

The Act provides that an Assessment for a Parcel may be paid in full at any time. If not paid in full, the Act authorizes the City to collect interest and collection costs on the outstanding Assessment. An Assessment for a Parcel that is not paid in full will be collected in Annual Installments each year in the amounts shown in the Assessment Roll, which include interest on the outstanding Assessments and Annual Collection Costs. It is anticipated that the Llano County will bill and collect the annual installments on behalf of the City of Horseshoe Bay. Payment of the Annual Installments shall commence with tax bills mailed in 2008 or 2009.

Each Assessment shall bear interest of no more than the lesser of (i) the actual interest rate paid on the Bonds plus one-half of one percent and (ii) 9.5 (nine and one-half) percent per annum. The Assessment Roll sets forth for each year the Annual Installment for each Parcel based on an estimated interest rate of eight percent. The actual interest on the Bonds may be different than the interest rate estimated in the Assessment Roll, but may not exceed 9.5 percent. The Assessment Roll shall be updated once the interest rate is known on the Bonds to reflect the actual interest rate.

The Annual Installments shall be reduced to equal the actual costs of repaying the Bonds 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.

F. Collection of Annual Installments

No less frequently than annually, the Administrator 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 Assessment Roll and a calculation of the Annual Installment for each Parcel. Annual Collection Costs shall be allocated among Parcels in proportion to the amount of the Annual Installments for the Parcels. Each Annual Installment shall be reduced by any credits applied under the applicable Bond Indenture,

such as capitalized interest, interest earnings on any account balances, and any other funds available to the Trustee for such purpose, including any existing deposits for a prepayment reserve. Annual Installments shall be collected by the City in the same manner and at the same time as 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 Council may provide for other means of collecting the Annual Installments to the extent permitted under the PID Act. The Assessments shall have lien priority as specified in the Act.

Any sale of property for nonpayment of the Annual Installments shall be subject to the lien established for the remaining unpaid Annual Installments 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 Annual Installments against such property as they become due and payable.

Section VII THE ASSESSMENT ROLL

The Assessment Roll identifies each Parcel within the PID, the classification of each Parcel by lot type, the Assessment imposed on each Parcel, and the Annual Installments to be paid each year for each Parcel if the Assessment is not paid in full for any Parcel. The Assessment on each Parcel is based on the lot type, the Equivalent Units for such lot type, and the Assessment per Equivalent Unit as explained herein.

Each Parcel has been evaluated by the City Council (based on the developable area, proposed Owner Association Property and Public Property, the Authorized Improvements, best and highest use of land, and other development factors deemed relevant by the City Council) to determine, for Lot Types 1 through 6, the number of dwelling units by lot type expected to be built and for Lot Types 7 and 8, the acreage, on the Parcel. Each dwelling unit, for Lot Types 1 through 6, and the acreage, for Lot Types 7 and 8, is then multiplied by the applicable amount per dwelling unit set forth in last column of Table V-C of this Service and Assessment Plan. The total of such amounts for all dwelling units, for Lot Types 1 through 6, and total acreage, for Lot Types 7 and 8, within the Parcel shall constitute the "Assessment" for the Parcel set forth on the Assessment Roll. The Assessment Roll shall be updated upon the preparation of each Annual Service Plan Update to reflect, for each Parcel, subdivisions, consolidations, prepayments, and reductions authorized by this Service and Assessment Plan.

The Administrator shall prepare, and the City Council shall review and approve, annual updates to the Assessment Roll in conjunction with the Annual Service Plan Update to reflect the following matters, together with any other changes helpful to the Administrator or the City and permitted by the Act: (i) the identification of each Parcel; (ii) the Assessment for each Parcel, including any adjustments authorized by this Service and Assessment Plan or in the Act; (iii) the Annual Installment for the Parcel for the year (if the Assessment is payable in installments); and (iv) payments of the Assessment, if any, as provided by Section VI.C of this Service and Assessment Plan.

Once Bonds are issued, the Assessment Roll shall be updated, which update may be done in the next Annual Service Plan Update, to reflect any changes resulting from the issuance of the Bonds, including the actual interest rate on the Bonds at which the Annual Installments shall be paid and any reductions to the Assessments.

**Section VIII
MISCELLANEOUS PROVISIONS**

A. Administrative Review

To the extent consistent with the Act, an owner of an Assessed Parcel claiming that a calculation error has been made in the Assessment Roll, including the calculation of the Annual Installment, shall send a written notice describing the error to the City not later than thirty (30) days after the date any amount which is alleged to be incorrect is due prior to seeking any other remedy. The Administrator shall promptly review the notice, and if necessary, meet with the Assessed Parcel owner, consider written and oral evidence regarding the alleged error and decide whether, in fact, such a calculation error occurred.

If the Administrator determines that a calculation error has been made and the Assessment Roll should be modified or changed in favor of the Assessed Parcel owner, such change or modification shall be presented to the City Council for approval, to the extent permitted by the Act. A cash refund may not be made for any amount previously paid by the Assessed Parcel owner (except for the final year during which the Annual Installment shall be collected), but an adjustment may be made in the amount of the Annual Installment to be paid in the following year. The decision of the Administrator regarding a calculation error relating to the Assessment Roll may be appealed to the City Council for determination. Any amendments made to the Assessment Roll pursuant to calculations errors shall be made pursuant to the PID Act.

B. Termination of Assessments

Each Assessment shall terminate on the date the Assessment is paid in full, including unpaid Annual Installments and Delinquent Collection Costs, if any. After the termination of an Assessment, and the collection of any delinquent Annual Installments and Delinquent Collection Costs, the City shall provide the owner of the affected Parcel a recordable "Notice of the PID Assessment Termination."

C. Amendments

The City Council reserves the right to the extent permitted by the Act to amend this Service and Assessment Plan without notice under the Act and without notice to property owners of Parcels: (i) to correct mistakes and clerical errors; (ii) to clarify ambiguities; and (iii) to provide procedures for the collection and enforcement of Assessments, Prepayment Costs, Collection Costs, and other charges imposed by the Service and Assessment Plan. Additional amendments to the Service and Assessment Plan can be made as permitted by the PID Act and other applicable Texas law.

D. Administration and Interpretation of Provisions

The City Council shall administer the PID, this Service and Assessment Plan, and all Annual Service Plan Updates consistent with the PID Act, and shall make all interpretations and determinations related to the application of this Service and Assessment Plan unless stated otherwise herein or in the Bond Indenture, such determination shall be conclusive.