



Control Number: 44820



Item Number: 1

Addendum StartPage: 0



PURSUANT TO PUC CHAPTER 24, SUBSTANTIVE RULES APPLICABLE TO WATER AND SEWER
SERVICE PROVIDERS, SUBCHAPTER G: CERTIFICATES OF CONVENIENCE AND NECESSITY

Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN)

Docket Number: 44820

(this number will be assigned by the Public Utility Commission after your application is filed)

7 copies of the application, including the original, shall be filed with

Public Utility Commission of Texas
Attention: Filing Clerk
1701 N. Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

RECEIVED
2015 JUN -9 AM 10:38
PUBLIC UTILITY COMMISSION
FILING CLERK

If submitting digital map data, two copies of the portable electronic storage medium (such as CD or DVD) are required.

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Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN)

Purpose of Application

<input checked="" type="checkbox"/> Obtain	<input type="checkbox"/> New Water CCN	<input checked="" type="checkbox"/> New Sewer CCN
<input type="checkbox"/> Amend	<input type="checkbox"/> Water CCN# (s) _____	
<input type="checkbox"/> Amend	<input type="checkbox"/> Sewer CCN#(s) _____	

1. Applicant Information

Applicant

Utility name: City of Hackberry, Texas

Certificate number:

Street address (City/ST/ZIP/Code): 119 Maxwell Road, Frisco, Texas 75034

Mailing address(City/ST/ZIP/Code): 119 Maxwell Road, Frisco, Texas 75034

Utility Phone Number and Fax: (972) 292-3223

Contact information

Please provide information about the person(s) to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant manager, or other title related to the applicant.

Name: Brenda Lewallen

Title: City Administrator

Mailing address: 119 Maxwell Road, B7, Frisco, Texas 75034

Email: cityadmin@cityofhackberry.net

Phone and Fax: (972) 292-3223

List all counties in which service is proposed:

Denton

A. Check the appropriate box and provide information regarding the legal status of the applicant:

- ☐ Investor Owned Utility ☐ Individual ☐ Partnership
☐ Home or Property Owners Association ☐ For-profit Corporation
☐ Non-profit, member-owned, member-controlled cooperative corporation
 (Water Code Chapter 67, Water Supply or Sewer Service Corporation)
☒ Municipality ☐ District ☐ Other - Please explain:

B. If the applicant is a For-Profit business or corporation, please include the following information:

- i. A copy of the corporation's "Certification of Account Status" from the Texas State Comptroller of Public Accounts.
- ii. The corporation's charter number as recorded with the Office of the Texas Secretary of State: _____
- iii. A listing of all stockholders and their respective percentages of ownership.
- iv. A copy of the company's organizational chart, if available.
- v. A list of all directors and disclose the title of each individual.
- vi. A list of all affiliated organizations (if any) and explain the affiliate's business relationship with the applicant.

C. If the applicant is a Texas Water Code (TWC) Chapter 67 water supply or sewer service corporation please provide:

- i. A copy of the Articles of Incorporation and By-Laws.
- ii. The corporation's charter number as recorded with the Office of the Texas Secretary of State.
- iii. Identification of all board members including name, address, title, and telephone number.
- iv. A copy of the corporation's *Certificate of Account Status* from the Texas Comptroller of Public Accounts.

2. Location Information

- A. Are there people already living in the proposed area? ☒ Yes ☐ No
 If YES, are any currently receiving utility service? ☒ Yes ☐ No
 If YES, from WHOM? City of Hackberry

B. Demonstrate the Need for Service by providing the following:

Have you received any requests for service in the requested service area?

☐ Yes ☐ No

If YES, provide the following: See Attachment No. 1

- i. Describe the service area and circumstances driving the need for service in the requested area. Indicate the name(s) and address(es) of landowner(s), prospective landowner(s), tenant(s), or resident(s) that have requested service; and/or
- ii. Describe the economic need(s) for service in the requested area (i.e. plat approvals, recent annexation(s) or annexation request(s), building permits, septic tank permits, hospitals, etc.); and/or
- iii. Discuss in detail the environmental need(s) for service in the requested area (i.e. failing septic tanks in the requested area, fueling wells, etc.); and/or
- iv. Provide copies of any written application(s) or request(s) for service in the requested area; and/or
- v. Provide copies of any reports and/or market studies demonstrating existing or anticipated growth in the requested area.
- vi. If none of these items exist or are available, please justify the need for service in the proposed area in writing.

Note: Failure to demonstrate a need for additional service in the proposed service area may result in the delay and /or possible denial of the application.

C. Is any portion of the proposed service area inside an incorporated city or district?

☒ Yes ☐ No

If YES, within the corporate limits of: City of Hackberry

Provide a copy of any franchise, permit, or consent granted by the city or district. If not available please explain:

D. Is any portion of the proposed service area inside another utility's CCN area?

☐ Yes ☒ No

If YES, has the current CCN holder agreed to decertify the proposed area?

If NO, are you seeking dual or single certification of the area? Explain why decertification of the area is in the public interest:

Single Certification

3. Map Requirements

Attach the following hard copy maps with each copy of the application: See Attachment No. 2

- A. A location map delineating the proposed service area with enough detail to accurately locate the proposed area within the county.
- B. A map showing only the proposed area by:
 - i. metes and bounds survey certified by a licensed state or register professional land surveyor; or
 - ii. projectable digital data with metadata (proposed areas should be in a single record and clearly labeled). Also, a data disk labeled with the applicant's name must be provided; or
 - iii. following verifiable natural and man-made landmarks; or
 - iv. a copy of recorded plat map with metes and bounds.
- C. A written description of the proposed service area.
- D. Provide separate and additional maps of the proposed area(s) to show the following:
 - i. all facilities, illustrating separately facilities for production, transmission, and distribution of the applicant's service(s); and
 - ii. any facilities, customers or area currently being served outside the applicant's certificated area(s).

Note: Failure to provide adequate mapping information may result in the delay or possible denial of your application.

Digital data submitted in a format other than ArcView shape file or Arc/Info E00 file may result in the delay or inability to review applicant's mapping information.

For information on obtaining a CCN base map or questions about sending digital map data, please visit the Water Utilities section of the PUC website for assistance.

4. New System Information or Utilities Requesting a CCN for the First Time

- A. Please provide the following information:
 - i. a list of public drinking water supply system(s) or sewer system(s) within a 2 mile radius of the proposed system; See Attachment No. 3
 - ii. copies of written requests seeking to obtain service from each of the public drinking water systems or sewer systems listed in a. 1 above or documentation that it is not economically feasible to obtain service from each entity;
 - iii. copies of written responses from each system or evidence that they did not reply; and
 - iv. for sewer utilities, documentation showing that you have obtained or applied for a wastewater discharge permit. See Attachment No. 4
- B. Were your requests for service denied? ☐ Yes ☐ No N/A

- i. If yes, please provide documentation of the denial of service and go to c.
- ii. If no, please provide a detailed analysis which justifies your reasons for not accepting service. A separate analysis must be prepared and submitted for each utility that granted your request for service.
- C. Please summarize how the proposed utility system will be constructed and describe each projected construction phase, if any:

D. Date of plat approval, if required: _____
 Approved by: _____

E. Date Plans & Specifications submitted to the TCEQ for approval: _____ Attach copy of approval letter, if available. If the letter is not available by the time your CCN application is submitted, please supplement your application with a copy of the letter once you receive it from the TCEQ.

F. Date construction is scheduled to commence: _____

G. Date service is scheduled to commence: _____

5. Existing System Information

A. Please provide the following information for each water and/or sewer system, attach additional sheets if necessary.

i. Water system(s): TCEQ Public Water System identification number(s):

1	2	0	1	5															

ii. Sewer system(s): TCEQ Discharge Permit number(s)

W	Q	0	1	3	4	3	-	0	0	1	;	W	Q										
W	Q						-				;	W	Q										
W	Q						-				;	W	Q										

- iii. Date of last TCEQ water and/or sewer system inspection(s): 1/14/2014
- iv. Attach a copy of the most recent TCEQ water and/or sewer inspection report letter(s). See Attachment No. 5
- v. For each system deficiency listed in the TCEQ inspection report letter; attach a brief explanation listing the actions taken or being taken by the utility to correct the listed deficiencies, including the proposed completion dates. See Attachment No. 6

B. Provide the following information about the utility's certified water and/or sewer operators

Name	Classes	License Number
Consuelo A. Fluharty	BWW	WW0050879
Aaron T. McNeill	BWW	WD0009646

- Attach additional sheet(s) if necessary -

- C. Using the current number of customers, is any facility component in systems named in #5A above operating at 85% or greater of minimum standard capacity?

- ☐ Yes
- ☒ No

Attach a copy of the 85% rule compliance document filed with the TCEQ if the system is operating at 85% or greater of the TCEQ's minimum standard capacity requirements.

- D. In the table below, the number of existing and/or proposed metered and non-metered connections (by size). The proposed number should reflect the information presented in the business plan or financial documentation and reflect the number of service requests identified in Question 2.b in the application.

TCEQ Water System			TCEQ Sewer System		
Connection	Existing	Proposed	Connection	Existing	Proposed
5/8" or 3/4" meter	1,478		Residential	1,163	1,000
1" meter or larger	35		Commercial	35	
Non-Metered			Industrial		

TCEQ Water System			TCEQ Sewer System		
Other:			Other:		
Total Water			Total Sewer		

- E. If this application is for a water CCN only, please explain how sewer service is or will be provided:

- F. If this application is for a sewer CCN only, please explain how water service is or will be provided:

Water service is currently provided by the Applicant under CCN No. 12015.

- G. Effect of Granting a Certificate Amendment. See Attachment No. 7
Explain in detail the effect of granting of a certificate or an amendment, including, but not limited to regionalization, compliance and economic effects on the following:

- i. the applicant,
- ii. any retail public utility of the same kind already serving the proximate area; and
- iii. any landowner(s) in the requested area.

- H. Do you currently purchase or plan to purchase water or sewer treatment capacity from another source?

i. ☐ No, (skip the rest of this question and go to #6)

ii. ☒ Yes, Water

Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency basis?

Water Source	% of Total Treatment
City of Frisco, Texas	100.00%

Water Source	% of Total Treatment
	0.00%
	0.00%

iii. ☐ Yes, Sewer treatment capacity

Purchased on a ☐ Regular ☐ Seasonal ☐ Emergency basis?

Sewer Source	% of Total Treatment
	0.00%
	0.00%
	0.00%

iv. Provide a signed and dated copy of the most current water or sewer treatment capacity purchase agreement or contract. See Attachment No. 8 Treated Water Contract with the City of Frisco

I. Ability to Provide Adequate Service.

Describe the ability of the applicant to provide adequate service, including meeting the standards of the commission, taking both of the following items into consideration:

- i. the current and projected density; and
- ii. the land use of the requested area. See Attachment No. 9

J. Effect on the Land. Explain the effect on the land to be included in the certificated area.

As stated in Attachment No. 9, only 30 to 40 acres out of 1,035 acres (3-4% of the requested CCN area) are undeveloped or unplatted as part of a larger residential development. Therefore, the effect on the land is to support its continued development as single family residential by D. R. Horton and other developers.

6. Financial Information

- A. For new water and/or sewer systems and for applicants with existing CCNs who are constructing a new stand-alone water and/or sewer system: N/A
- i. the applicant must provide an analysis of all necessary costs for constructing, operating, and maintaining the system, and the source of that capital (such as a financial statement for the developing entity) for which the CCN is requested for at least the first five years. In addition, if service has been offered by an existing retail water service provider as stated in #4.A., but the applicant has determined that the cost of service as finally offered renders the project not economically feasible, the applicant must provide a comparison analysis of all necessary costs for acquiring and continuing to receive service from the existing system for the same period.
 - ii. Attach projected profit and loss statements, cash flow worksheets, and balance sheets (projected five year financial plan worksheet is attached) for each of the first five years of operation. Income from rates

should correlate to the projected growth in connections, shown on the projected profit and loss statement.

- iii. Attach a proposed rate schedule or tariff. Describe the procedure for determining the rates and fees and indicate the date of last change, if applicable. Attach copies of any cost of service studies or rate analysis worksheets.

B. For existing water and/or sewer systems:

- i. Attach a profit and loss statement and current balance sheet for existing businesses (end of last fiscal year is acceptable). Describe sources and terms for borrowed capital such as loans, bonds, or notes (profit and loss and balance sheet worksheets are attached, if needed).
- ii. Attach a proposed rate schedule or tariff.

❖ **Note: An existing water and/or sewer system may be required to provide the information in 6.A.i. above during the technical review phase if necessary for staff to completely evaluate the application**

C. Identify any funds you are required to accumulate and restrict by lenders or capital providers.

D. In lieu of the information in #6.A. thru #6.C., you may provide information concerning loan approvals within the last three (3) years from lending institutions or agencies including the most recent financial audit of the applicant.

❖ **Note: Failure to provide adequate financial information may result in the delay or possible denial of your application.**

7. Notice Requirements

- A. All proposed notice forms must be completed and submitted with the application. Do not mail or publish the notices until you receive written approval from the commission to do so.
- B. The commission cannot grant a CCN until proper notice of the application has been given. Commission rules do not allow a waiver of notice requirements for CCN applicants.
- C. It is the applicant's responsibility to ensure that proper notice is given to all entities that are required to receive notice.
- D. Recommended notice forms for publication, neighboring cities and systems, landowners with 25 acres or more, and customers are included with this application for use in preparing proposed notices. (Notice forms are available in Spanish upon request.)
- E. After reviewing and, if necessary, modifying the proposed notice, the commission will send the notice to the applicant after the application is accepted for filing along with instructions for publication and/or mailing. Please review the notice carefully before providing the notice.
- F. **Notice For Publication:**
The applicant shall publish the notice in a newspaper with general circulation in the county(ies) where a CCN is being requested. The notice must be published once each week for two consecutive weeks beginning with the week after the notice is received from the commission. Proof of publication in the form of a publisher's affidavit shall be submitted to the commission within 30 days of the last publication date. The affidavit shall state with specificity each county in which the newspaper is of general circulation.
- G. **Notice To Neighboring Utilities:**
 - i. List all neighboring retail public utilities and cities providing the same utility service within the following vicinities of the applicant's proposed certificate area.
 - ii. For applications for the issuance of a NEW CCN, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within five (5) miles of the requested service area.

- iii. For applications for the AMENDMENT of a CCN, the applicant must mail the notice with a copy of the proposed CCN map to all cities and neighboring retail public utilities providing the same utility service within two (2) miles of the requested service area.
- H. Notice to Customers:
Investor Owned Utilities (IOUs) that are currently providing service without a CCN must provide individual mailed notice to all current customers. The notice must contain the current rates, the date those rates were instituted and any other information required in the application.
- I. The commission may require the applicant to deliver notice to other affected persons or agencies.

Do not publish or send copies of the proposed notices to anyone at the time you submit the application to the commission. Wait until you receive written authorization to do so. Authorization occurs after the commission has reviewed the notices for completeness, and your application has been accepted for filing. Once the application is accepted for filing, you will receive written authorization to provide notice. Please check the notices for accuracy before providing them to the public. It is the applicant's burden to ensure that correct and accurate notice is provided.


OATH

STATE OF TEXAS
 COUNTY OF COLLIN

I, JOHN RAPIER, being duly sworn,
 file this application as ATTORNEY (indicate relationship to Applicant,
 that is, owner, member of partnership, title as officer of corporation, or other authorized
 representative of Applicant); that, in such capacity, I am qualified and authorized to file
 and verify such application, am personally familiar with the maps and financial information
 filed with this application, and have complied with all the requirements contained in this
 application; and, that all such statements made and matters set forth therein are true and
 correct. I further state that the application is made in good faith and that this application
 does not duplicate any filing presently before the Public Utility Commission of Texas.

I further represent that the application form has not been changed, altered or amended
 from its original form.

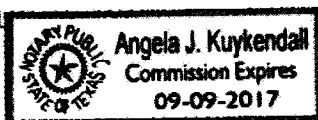
**I further represent that the Applicant will provide continuous and adequate
 service to all customers and qualified applicants for service within its certificated
 service area.**


 AFFIANT
 (Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the
 Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN TO BEFORE ME, a Notary Public in and for the State of Texas,
 This day 5th of June 20 15

SEAL




 NOTARY PUBLIC IN AND FOR THE
 STATE OF TEXAS

ANGELA J. KUYKENDALL
 PRINT OR TYPE NAME OF NOTARY

MY COMMISSION EXPIRES 09/09/2017

Notice for Publication

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO
PROVIDE WATER/SEWER UTILITY SERVICE IN

DENTON COUNTY(IES), TEXAS

Name of Applicant CITY OF HACKBERRY, TEXAS has filed an application for a
CCN to obtain or amend CCN No. (s) _____ and to
decertify a portion(s) of _____ with the
(Name of Decertified Utility)

Public Utility commission of Texas to provide SEWER
(specify 1) water or 2) sewer or 3) water & sewer)

utility service in DENTON County
(ies).

The proposed utility service area is located approximately 6 miles WEST
[direction] of downtown FRISCO, [City or Town] Texas, and is
generally bounded on the north by LAKE LEWISVILLE; on the east by
FRISCO; on the south by THE COLONY; and on the west by LAKE LEWISVILLE

The total area being requested includes approximately 1,035 acres and 1,182
current customers.

A copy of the proposed service area map is available at (Utility Address and Phone
Number): CITY OF HACKBERRY, 119 MAXWELL ROAD, FRISCO, TEXAS 75034 972-292-3223

A request for a public hearing must be in writing. You must state (1) your name, mailing address, and daytime telephone number; (2) the applicant's name, application number or another recognizable reference to this application; (3) the statement, "I/we request a public hearing"; (4) a brief description of how you or the persons you represent, would be adversely affected by the granting of the application for a CCN; and (5) your proposed adjustment to the application or CCN which would satisfy your concerns and cause you to withdraw your request for a hearing.

Persons who wish to intervene or comment should file with the PUC at the following address:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

within thirty (30) days from the date of this publication or notice. A public hearing will be held only if a legally sufficient hearing request is received or if the commission on its own motion requests a hearing. Only those individuals who submit a written hearing request or a written request to be notified if a hearing is set will receive notice if a hearing is scheduled.

If a public hearing is requested, the commission will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

If you are a landowner with a tract of land at least 25 acres or more, that is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

Persons who meet the requirements to opt out, and wish to request this option should file the required documents with the:

Filing Clerk
Public Utility Commission of Texas
1701 North Congress Avenue
P.O. Box 13326
Austin, Texas 78711-3326

A copy of the request to opt out of the proposed area must also be sent to the applicant. Staff may request additional information regarding your request.

Si desea informacion en Espanol, puede llamar al 1-888-782-8477

Notice to Neighboring Systems, Landowners and Cities

NOTICE OF APPLICATION FOR CERTIFICATE OF CONVENIENCE AND NECESSITY (CCN) TO
 PROVIDE WATER/SEWER UTILITY SERVICE IN _____ COUNTY(IES), TEXAS
 DENTON _____

To: _____ Date Notice Mailed _____ 20 15
 (Neighboring System, Landowner or City)

 (Address)

 City State Zip

Name of Applicant CITY OF HACKBERRY has filed an application for a
 CCN to obtain or amend CCN No. (s) _____ and to
 decertify a portion(s) of _____ with the
 (Name of Decertified Utility)

Public Utility Commission of Texas to provide _____ SEWER
 (specify 1) water or 2) sewer or 3) water & sewer)
 utility service in DENTON _____ County(ies).

The proposed utility service area is located approximately 6 miles WEST
 [direction] of downtown FRISCO, [City or Town] Texas, and is
 generally bounded on the north by LAKE LEWISVILLE ;on the east by
 FRISCO ;on the south by THE COLONY ;and on the west by LAKE LEWISVILLE

See enclosed map of the proposed service area.

The total area being requested includes approximately 1,035 acres and 1,182
 current customers.

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If a public hearing is requested, the Commission will not issue the CCN and will forward the application to the State Office of Administrative Hearings (SOAH) for a hearing. If no settlement is reached and an evidentiary hearing is held, the SOAH will submit a recommendation to the commission for final decision. If an evidentiary hearing is held, it will be a legal proceeding similar to a civil trial in state district court.

IF A HEARING IS HELD, it is important that you or your representative attend to present your concerns. Your request serves only to cause a hearing to be held and is not used during the hearing.

If you are a landowner with a tract of land at least 25 acres or more, and is partially or wholly located within the proposed area, you may request to be excluded from the proposed area (or "opt out") by providing written notice to the commission within (30) days from the date that notice was provided by the applicant. All requests to opt out of the requested service area must include a scaled, general location map and a metes and bounds description of the tract of land.

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DEVELOPMENT AGREEMENT

This DEVELOPMENT AGREEMENT (this "Agreement") is executed by and among the CITY OF HACKBERRY, TEXAS (the "City"), DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO. 4-A (the "District"), and ONE HACKBERRY, LTD. ("Owner") (individually referred to as a "Party" and collectively as the "Parties"), to be effective on the latest date (the "Effective Date") executed by the Parties.

RECITALS

WHEREAS, the City is a Type A general law municipality and political subdivision of the State of Texas organized and existing under the laws of the State of Texas; and

WHEREAS, the District is a political subdivision of the State of Texas, operating under the provisions of Article XVI, Section 59 and Article III, Section 52 of the Texas Constitution and Chapters 49, 51, and, for limited purposes, Chapter 53, Texas Water Code, as amended; and

WHEREAS, Owner is a Texas limited partnership duly organized and validly existing under the laws of the State of Texas; and

WHEREAS, Owner owns a portion of "Tract 1" (which portion consists of approximately 43.37 acres; being all of Tract 1 as reflected on Exhibit A-12 attached hereto, save and except for the five, one-acre "Tract 1 Director Lots", herein so called), "Tract 2" (containing approximately 29.04 acres), "Tract 3" (containing approximately 36.16 acres), and "Tract 4" (containing approximately 7.92 acres), which tracts (containing a total of approximately 116.50 acres) are more particularly described on Exhibits A-1, A-2, A-3, and A-4, respectively, attached to this Agreement and incorporated herein by reference; and

WHEREAS, Owner owns or will own the approximately 20-acre tract (the "20-Acre Tract"), which 20-Acre Tract consists of the 15-Acre Owner Tract and the five, one-acre "20-Acre Tract Director Lots" (herein so called) more particularly described on Exhibit A-5 attached to this Agreement and incorporated herein by reference; and

WHEREAS, Owner owns "Tract 5" (containing approximately 7.97 acres), "Tract 6" (containing approximately 16.32 acres), "Tract 7" (containing approximately 21.51 acres), and "Tract 8" (containing approximately 18.00 acres), which tracts (containing a total of approximately 63.80 acres) are more particularly described on Exhibits A-6, A-7, A-8, and A-9, respectively, attached to this Agreement and incorporated herein by reference; and

WHEREAS, Owner owns, or may own at some point in the future, "Tract 9" (containing approximately 3.11 acres) and "Tract 10" (containing approximately 98.23 acres), which tracts (containing a total of approximately 101.34 acres) are more particularly described and/or depicted on Exhibits A-10 and A-11, respectively, attached to this Agreement and incorporated herein by reference; and

WHEREAS, a portion of Tract 1 and a portion of the 20-Acre Tract are located within the ETJ of the City as shown and/or depicted on Exhibit A-13 attached to this Agreement and incorporated herein by reference; and

WHEREAS, pursuant to the map maintained by Denton County (the "County") as shown and/or depicted on Exhibit A-13 attached to this Agreement, the remainder of Tract 1 and the remainder of the 20-Acre Tract are located in the County and not within the corporate limits or ETJ of any city or town other than the City; and

WHEREAS, Tracts 2, 3, 4, and 5 are located within the extraterritorial jurisdiction ("ETJ") of the City as shown and/or depicted on Exhibit A-13, attached to this Agreement and incorporated herein by reference; and

WHEREAS, pursuant to the map maintained by the County as shown and/or depicted on Exhibit A-13 attached to this Agreement, Tracts 6, 7 and 9 are located in the County and not within the corporate limits or ETJ of any city or town; and

WHEREAS, all or a portion of Tract 8 is located within the corporate limits of the City with the remainder, if any, located within the ETJ of the City as shown and/or depicted on Exhibit A-13 attached to this Agreement; and

WHEREAS, a portion of Tract 10 is located within the ETJ of the City as shown and/or depicted on Exhibit A-13 attached to this Agreement; and

WHEREAS, pursuant to the map maintained by the County as shown and/or depicted on Exhibit A-13 attached to this Agreement, a portion of Tract 10 is located within the ETJ of the City of Little Elm, Texas ("Little Elm"); and

WHEREAS, pursuant to the map maintained by the County as shown and/or depicted on Exhibit A-13 attached to this Agreement, the remainder of Tract 10 is located in the County and not within the corporate limits or ETJ of any city or town other than the City or Little Elm; and

WHEREAS, all of the foregoing Tracts 1, 2, 3, 4, 5, 6, 7, 8, 9, and 10, the 20-Acre Tract, the Tract 1 Director Lots and the 20-Acre Tract Director Lots (containing, in the aggregate, approximately 306.6252 acres) are hereinafter collectively referred to as the "Property", which Property is depicted in its entirety on Exhibit A-12 attached to this Agreement and incorporated herein by reference; and

WHEREAS, Owner desires that (i) the portion of Tract 8 located within the corporate limits of the City be de-annexed from the City and remain within the City's ETJ, (ii) that, upon acquisition (if ever) by Owner, (A) the portion of Tract 10 located within Little Elm's ETJ be released by Little Elm from its ETJ and be included within the City's ETJ, and (B) the remaining portion of Tract 10 located in the County and not already in the City's or Little Elm's ETJ be released, if and to the extent applicable, from the ETJ of any municipalities and other governmental authorities claiming ETJ authority over such portion of Tract 10 and thereafter be included in the City's ETJ, (iii) that Tracts 6, 7 and Tract 9 be released, if and to the extent applicable, from the ETJ of any municipalities and other governmental authorities claiming any ETJ authority over such Tracts 6, 7 and 9 and thereafter be included within the City's ETJ, (iv)

that the portion of the 20-Acre Tract located in the County and not already in the City's ETJ be released, if and to the extent applicable, from the ETJ of any municipalities and other governmental authorities claiming any ETJ authority over such portion of the 20-Acre Tract and thereafter be included within the City's ETJ, and (v) that the portion of Tract 1 located in the County and not already in the City's ETJ be released, if and to the extent applicable, from the ETJ of any municipalities and other governmental authorities claiming any ETJ authority over such portion of Tract 1 and thereafter be included within the City's ETJ, with the ultimate result of all the foregoing actions being that all of the Property be included within the City's ETJ except as otherwise expressly contemplated herein; and

WHEREAS, Tracts 1 (including the Tract 1 Director Lots), 2, 3, and 4 are currently within the boundaries of the District; and

WHEREAS, Owner desires (i) that Tracts 5, 6, 7, 8, 9 and the 20-Acre Tract, including the 20-Acre Tract Director Lots, be included within the boundaries of the District, and (ii) in the event Owner becomes the owner of Tract 10, that Tract 10 be included within the boundaries of the District, with the ultimate result being that all of the Property be included within the boundaries of the District; and

WHEREAS, all of the Property is located and included within an area for which the City has (i) a certificate of convenience and necessity ("CCN") to be the retail provider of water service, and (ii) the right and ability to be the retail provider of wastewater sewer service; and

WHEREAS, water, sewer, drainage, roadway and other infrastructure improvements necessary to serve the Full Development (as defined in Article IV hereof) of the Property will be designed, constructed, operated, and maintained (and retail water and sewer service provided) through the cooperative efforts of the Parties as set forth in this Agreement, including, but not limited to, the sale and issuance by the District of bonds (the "District Bonds") to be repaid primarily from ad valorem taxes levied by the District upon the property located within the District (with the City having no liability for the payment of such District Bonds); and

WHEREAS, it is expressly understood that the Property may become a part of the City and, therefore, the City has the obligation to insure that all improvements, including streets, water, and sanitary sewer systems, conform to the Subdivision Ordinances and Special Conditions set forth in this Agreement, whereas all such infrastructure improvements, easements and right-of-way conveyed to the District will be conveyed to the City if the Property is annexed by the City in the future, subject to the provisions of Section 1.3 hereof; and

WHEREAS, water, sewer, drainage, roadway and other public improvement projects necessary to serve the Full Development of the Property will be designed, constructed, operated, and maintained (and retail water and wastewater sewer service provided) through the cooperative efforts of the Parties as set forth in this Agreement, including, but not limited to, upon request of Owner and approval of the City pursuant to Section 7.1 herein, (i) the creation and approval by the City within and outside the Property of one or more public improvement districts pursuant to the authority of Chapter 372, Texas Local Government Code (individually, a "PID" and, collectively, the "PIDs") and (ii) the sale and issuance by the City of PID bonds ("PID Bonds") secured, in part, by ad valorem taxes levied by the District upon the property located within the

District and, in part, by assessments levied by the City upon the property within the PIDs (with the City having no liability for the payment of such PID bonds); and

WHEREAS, the Parties desire that the Property be developed solely in accordance with standards, regulations, fees, and charges set forth in this Agreement, which standards, regulations, fees, and charges shall remain fixed until expiration of the Governing Regulations Period (as defined in Section 2.1 hereof), subject to any required revisions pursuant to state or federal law or regulations; and

WHEREAS, the City and Land Advisors, Ltd. ("Land Advisors") entered into that certain "CITY OF HACKBERRY & LAND ADVISORS LTD. DEVELOPMENT AGREEMENT" effective as of April 16, 2003 (the "City Development Agreement"); and

WHEREAS, the City, Land Advisors and Legacy/Monterey Homes, L.P. ("Legacy") entered into that certain letter agreement dated and signed on or about September 9, 2003 (the "Letter Agreement"), which Letter Agreement supplemented and/or provided an agreement to amend the City Development Agreement (the City Development Agreement, as supplemented and/or agreed to be amended by the Letter Agreement or otherwise, are hereinafter collectively referred to as the "Amended City Development Agreement"); and

WHEREAS, the Amended City Development Agreement provides for the development of certain property located within the City's ETJ including the obligation of Legacy, on behalf of Land Advisors, to pay Ninety Three Thousand Six Hundred and No/100 Dollars (\$93,600.00) to the City for the expansion of the City's then-existing wastewater treatment plant and, upon such payment being made, the obligation of the City to reserve to Land Advisors wastewater treatment capacity to serve 100 single-family equivalent hookups; and

WHEREAS, Legacy no longer has any interest in the Amended City Development Agreement or any of the property covered by the Amended City Development Agreement; and

WHEREAS, pursuant to the Amended City Development Agreement, Land Advisors has paid or caused to be paid to the City the sum of Ninety Three Thousand Six Hundred and No/100 Dollars (\$93,600.00), and the City has reserved to Land Advisors wastewater treatment capacity in the City's existing wastewater treatment plant capable of serving 100 single-family equivalent connections; and

WHEREAS, the City and Land Advisors entered into that certain "CITY OF HACKBERRY & LAND ADVISORS, INC. WATER DEVELOPMENT AGREEMENT" effective as of April 15, 2004 (the "Water Development Agreement"); and

WHEREAS, the Water Development Agreement provides for the development of certain land within the City's ETJ; and

WHEREAS, Land Advisors was the only person or entity (other than the City) having any right, title, or interest in, to, or under the Amended City Development Agreement and the Water Development Agreement (collectively, the "Prior Development Agreements"); and

WHEREAS, Land Advisors has conveyed, transferred and assigned to Sunset Pointe I, Ltd. all of Land Advisors' rights, title and interests in, to and under the Prior Development Agreements effective as of July 1, 2004; and

WHEREAS, Sunset Pointe I, Ltd. has conveyed, transferred and assigned to Owner all of Sunset Pointe I, Ltd.'s rights, title and interests in, to and under the Prior Development Agreements effective as of August 27, 2004; and

WHEREAS, the Parties intend that this Agreement replace, in their entirety, the Prior Development Agreements and that, from and after the Effective Date, the Prior Development Agreements shall automatically terminate and neither the City nor Owner shall have any continuing rights, obligations, or remedies under the Prior Development Agreements; and

WHEREAS, the City, the City of Frisco, Texas ("Frisco"), Land Advisors, and LSR Development, Inc. ("LSRD") entered into that certain "CCN AGREEMENT AMONG THE CITY OF FRISCO AND CITY OF HACKBERRY, LAND ADVISORS, LTD, AND LSR DEVELOPMENT, INC." effective as of September 1, 2004 (the "CCN Agreement"); and

WHEREAS, the CCN Agreement provides, among other things, (i) for the City to negotiate a wholesale water supply contract with Frisco (the "Supply Contract") or with North Texas Municipal Water District (the "Alternate Supply Contract") pursuant to which the City will acquire and provide water in sufficient quantities to serve the fully developed City's CCN area (the "Hackberry Demand"), (ii) for the payment by Land Advisors to the City of the Rose Lane Water Line Funds (as defined below) to construct for the City the Rose Lane Water Line (as defined below) along Rose Lane, and (iii) for Frisco and LSRD to identify the water transmission improvements (collectively, the "Transmission Improvements") that will be needed to serve the Hackberry Demand and the service needs of Frisco, which Transmission Improvements include the water lines and systems to begin at the intersection of FM 423 and future Stonebrook Parkway and extend westerly along future Stonebrook Parkway to its intersection with Rose Lane; and

WHEREAS, pursuant to the CCN Agreement, Land Advisors paid to the City the sum of Two Hundred Forty Eight Thousand One Hundred and No/100 Dollars (\$248,100.00) (the "Rose Lane Water Line Funds") for the construction for the City of a water line and the Metering Station (as defined below; the water line and Metering Station are hereinafter collectively referred to as the "Rose Lane Water Line") comprised of (i) a 20-inch water line beginning at the intersection of future Stonebrook Parkway and Rose Lane and continuing northward along Rose Lane a distance of approximately 1,540 feet to the Rose Lane Water Facilities (as defined in Section 4.3(e) below) site generally depicted on Exhibit F, (ii) a metering station (the "Metering Station") to be constructed at the approximate location shown on Exhibit F, and (iii) a 12-inch water line northward from the Rose Lane Water Facilities site along Rose Lane approximately 3,795 feet to the intersection of Rose Lane and King Road; and

WHEREAS, the Rose Lane Water Line Funds are on deposit with the City and are available to Owner or the District to fund all or a portion of the construction of the Rose Lane Water Line for the City; and

WHEREAS, LSRD, Land Advisors, 423-Phillips Ranch, Ltd. ("423 Phillips"), 720-120, Ltd. ("720-120"), and Pulte Homes of Texas, L.P. ("Pulte") entered into that certain "Utility Development Agreement" (herein so called) effective as of May 13, 2005, pursuant to which the parties thereto agreed to perform or cause the performance of the Work (as defined in the Utility Development Agreement) with respect to the Transmission Improvements;

WHEREAS, Pulte, 423 Phillips, 720-120 and First American Title Insurance Company of Texas ("Escrow Agent") entered into that certain Escrow Agreement dated as of May 13, 2005 (the "Escrow Agreement") pursuant to which funds were deposited with the Escrow Agent (the "Transmission Improvements Escrow Funds") for the future construction of all or a portion of the Transmission Improvements; and

WHEREAS, Pulte has designed and commenced construction of the Transmission Improvements, and capacity in the Transmission Improvements will be reserved to the City to serve the Hackberry Demand, including service for Full Development of the Property; and

WHEREAS, pursuant to Article III, Section 64(b) of the Texas Constitution, political subdivisions of the State of Texas have the authority to contract for the performance of governmental functions required or authorized by the Constitution or the Laws of the State, under such terms and conditions as the Legislature may prescribe; and

WHEREAS, pursuant to Chapter 791 of the Texas Government Code, political subdivisions of the State of Texas have the authority to contract and agree to perform governmental functions and services that are of mutual concern to the City and the District; and

WHEREAS, Sections 42.021 and 42.022 of the Texas Local Governmental Code authorize the expansion and extension of the City's ETJ by this Agreement to include Tracts 1 (including the Tract 1 Director Lots), 6, 7, 9 and 10 and the 20-Acre Tract (including the 20-Acre Tract 1 Director Lots), subject to, if and to the extent applicable, the release of such Tracts or portions thereof, as applicable, from the ETJ of any governmental authorities other than the City claiming any ETJ authority over such Tracts or any portions thereof; and

WHEREAS, pursuant to Section 212.172 of the Texas Local Government Code, the City has the authority to enter into a written development agreement with the owner of land within the City's ETJ for the purposes set forth in Section 212.172; and

WHEREAS, the Parties intend that, with respect to the obligations between the City and the District contained in this Agreement, this Agreement shall be considered as and enforced as an Interlocal Cooperation Agreement authorized by Article III, Section 64(b) of the Texas Constitution and by Chapter 791 of the Texas Local Government Code; and

WHEREAS, the Parties intend that, with respect to the obligations between the City and Owner contained in this Agreement, this Agreement shall be considered as and enforced as a development agreement authorized by Section 212.172 of the Texas Local Government Code; and

WHEREAS, the Parties further intend that all of their respective obligations contained in this Agreement be enforced to the maximum extent allowed by law including, but not limited to,

enforcement based on the authority of the above-referenced provisions of the Texas Constitution, Texas Government Code, and Texas Local Government Code, and including waivers of governmental immunity to the extent necessary to enforce this Agreement and give full effect to the intent of the Parties.

NOW, THEREFORE, in consideration of the obligations of the Parties contained in this Agreement, and for other good and valuable consideration the receipt and adequacy of which are acknowledged, the Parties agree as follows:

ARTICLE I

JURISDICTIONAL AGREEMENTS

Section 1.1 De-annexation and ETJ Inclusion of Tract 8. (a) Owner hereby requests that any portions of the Property as defined herein, including any portion of Tract 8, located within the corporate limits of the City be de-annexed from the corporate limits of the City, and that, upon such de-annexation, such de-annexed portions of the Property remain within the ETJ of the City. The Parties acknowledge and agree that such de-annexed portions of the Property (i) consist of at least 10 acres contiguous to the City, and (ii) are uninhabited or contain fewer than one occupied residence or business structure for every two acres and fewer than three occupied residences or business structures on any one acre. It is understood and agreed that the Owner may not demand de-annexation pursuant to the terms of this Agreement of any land that the Owner or its successors may purchase that lies within the corporate limits of the City and is not a part of the Property as defined herein.

(b) The City hereby consents to the de-annexation of such de-annexed portions of the Property, and the Parties agree to take such further action as may be reasonably requested by any Party to accomplish and evidence such de-annexation including, but not limited to, (i) the submission by Owner of a petition or other document requesting de-annexation, (ii) the holding of any hearings relating to the de-annexation of, and the adoption by the City of any motions and/or ordinances de-annexing, such portions of the Property, and (iii) the entering by the Mayor in the minutes or records of the City Council and all other governing bodies of any orders discontinuing and de-annexing such portions of the Property from the corporate limits of the City (whereupon such de-annexed portions of the Property will cease to be a part of the corporate limits of the City on the date such order is entered).

(c) At such time as such de-annexed portions of the Property cease to be a part of the corporate limits of the City, (i) Owner shall pay to the City the amount equal to Twenty Thousand and No/100 Dollars (\$20,000.00) which the City acknowledges is adequate consideration and compensation to the City for the loss of property taxes that would have been paid to the City for the Property, and (ii) such de-annexed portions of the Property will automatically, and without any further action by the City Council or any other governing bodies, be within the ETJ of the City pursuant to the authority of Section 42.021 of the Texas Local Government Code and, as applicable, Section 42.022(b) of the Texas Local Government Code.

(d) In the event that the Owner does not commence development of the Property within eighteen (18) months after the Effective Date of this Agreement as contemplated herein,

then the Owner or its successor or assigns consent to the repeal of the de-annexation ordinance adopted by the City pursuant to this Section 1.1.

Section 1.2 ETJ Inclusion of Other Tracts. (a) Owner hereby requests that all of Tracts 1 (including the five Tract 1 Director Lots), 6, 7, 9 (if acquired by Owner) and 10 (if acquired by Owner), and the 20-Acre Tract (including the five 20-Acre Tract Director Lots) (all of the foregoing Tracts, or the relevant portions thereof, to be added to and included in the City's ETJ as provided in this Section 1.2 shall hereinafter be collectively referred to as the "Additional ETJ Tracts") be included within the ETJ of the City to the extent permitted by law and to the extent consents and/or releases are obtained from any municipalities or other governmental authorities claiming any ETJ authority over such Additional ETJ Tracts. The City consents to an expansion of its ETJ to include all of the Additional ETJ Tracts, and the Parties hereto agree to take such further action as may be reasonably requested by any Party or otherwise necessary or appropriate to evidence such expansion including, but not limited to, (i) the submission by Owner of a petition requesting that all of such Additional ETJ Tracts be included within the City's ETJ, (ii) the adoption by the City of an ordinance or resolution consenting to the inclusion of all of such Additional ETJ Tracts into the City's ETJ, and taking any other actions as may be required or appropriate under Sections 42.021 and 42.022 of the Texas Local Government Code to approve and effectuate such inclusion as described above, and (iii) to the extent applicable, seeking and obtaining (A) the release and/or relinquishment of such Additional ETJ Tracts from the ETJ of any municipalities or other governmental authorities claiming ETJ authority over such Additional ETJ Tracts, (B) the acknowledgement and agreement from such municipalities and other governmental authorities to such release and/or relinquishment of the Additional ETJ Tracts from their ETJ, as applicable, and (C) the taking of any other action as may be required or appropriate under Section 42.023 of the Texas Local Government Code, and/or any other governmental requirements, to seek and obtain such release and/or relinquishment as described above.

(b) At such time as such ordinance or resolution is adopted and the consents and/or releases (if and to the extent applicable) are obtained, the applicable Additional ETJ Tracts will be included within the ETJ of the City pursuant to the authority of Sections 42.021 and 42.022 of the Texas Local Government Code.

(c) It is understood that Tract 7 is not contiguous to other portions of the Property, and that inclusion of Tract 7 in the City's ETJ may require either the extension of the City's corporate boundaries or the voluntary and consensual inclusion in the City's ETJ of a portion of the property (the "ETJ Portion of the Stonegate Property") owned by Stonegate Company, Ltd. ("Stonegate") as generally depicted on Exhibit A-13 attached hereto. In this regard, the Parties hereto hereby agree to seek and pursue the consent and agreement of Stonegate to inclusion in the City's ETJ of the ETJ Portion of the Stonegate Property. If Stonegate consents and agrees to such inclusion, then the City hereby consents to an expansion of its ETJ to include all of the ETJ Portion of the Stonegate Property, and the Parties hereto agree to take such further action as may be reasonably requested by any Party or otherwise necessary or appropriate to evidence such expansion including, but not limited to, (i) the submission by or on behalf of Stonegate of a petition requesting that the ETJ Portion of the Stonegate Property be included within the City's ETJ, (ii) the adoption by the City of an ordinance or resolution consenting to the inclusion into the City's ETJ of the ETJ Portion of the Stonegate Property, and taking any other actions as may

be required or appropriate under Sections 42.021 and 42.022 of the Texas Local Government Code to approve and effectuate such inclusion as described above, and (iii) to the extent applicable, seeking and obtaining (A) the removal, release and/or relinquishment of the ETJ Portion of the Stonegate Property from the ETJ of any municipalities or other governmental authorities claiming ETJ authority over the ETJ Portion of the Stonegate Property, (B) the acknowledgement and agreement from such municipalities and other governmental authorities to such removal and/or relinquishment of the ETJ Portion of the Stonegate Property from their ETJ, as applicable, and (C) the taking of any other action as may be required or appropriate under Section 42.023 of the Texas Local Government Code, and/or any other governmental requirements, to seek and obtain such removal, release and relinquishment as described above.

(d) If Stonegate does not consent to include the ETJ portion of the Stonegate Property into the City's ETJ, then the Owner and the District hereby consent to the annexation by the City of a strip of land (the "Annexation Strip") along the boundary of portions of the Property (not to exceed 10 feet in width) as more particularly depicted on Exhibit B attached hereto and incorporated herein reference. The Parties hereto agree to take such further action as may be reasonably requested by any party or otherwise necessary or appropriate to cause the Annexation Strip to be annexed into the corporate limits of the City, including, but not limited to, (i) the submission by Owner of a petition requesting that such Annexation Strip be annexed into the corporate limits of the City, and (ii) the adoption by the City of an ordinance or resolution consenting to the annexation of the Annexation Strip into the City's corporate limits. Annexation of the Annexation Strip shall not, however, restrict or impair the ability of Owner or the District to develop or use the Annexation Strip or any other portions of the Property or to require Owner or the District to incur any cost or expense in connection therewith without Owner's and the District's prior written approval. Furthermore, the City hereby agrees that development of the Annexation Strip shall be subject to the Governing Regulations (as defined in Section 2.1 hereof) and shall not require any City approvals of plans or specifications, City inspections or other City approvals or actions other than as provided herein for the other portions of the Property.

(e) The Owner agrees to (i) reimburse the City for all reasonable expenses, including but not limited to reasonable attorney fees, that the City incurs to accomplish the City's obligations pursuant to this Section 1.2, and (ii) pay such reimbursement within thirty (30) days following Owner's receipt, subject to the Owner's approval, of invoices reflecting such expenses, which approval process shall not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any such expenses pursuant to this Section 1.2, the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

Section 1.3 Annexation Limitation. (a) Pursuant to the authority of Section 212.171 et. Seq. of the Texas Local Government Code, the City agrees that it will not annex or attempt to annex, in whole or in part, the real property (including, without limitation, any portions of the Property) located within the boundaries of the District or the PID (if created) until the earlier of (i) 15 years from the Effective Date, or (ii) repayment of all PID Bonds and all District Bonds. If the City annexes any portions of the Property located within the boundaries of the District or the PID (if created) prior to Full Development of the Property and/or prior to full reimbursement to Owner of all eligible expenses and costs and repayment of all District Bonds, the City shall

automatically assume (1) complete liability for such reimbursement to Owner of all such remaining eligible expenses and costs (A) in accordance with the written agreement(s) or other arrangements between Owner and the District and/or the PID (if created), and (B) as otherwise required by law, and (2) responsibility of and/or complete liability for repayment and/or discharge of the District Bonds.

(b) If the City desires and/or attempts to annex any portions of the Property located within the boundaries of the District or the PID (if created) after Full Development of the Property and after full reimbursement to Owner of all eligible expenses and costs, Owner and the District shall support and not oppose the City's annexation attempts or efforts, provided that nothing contained in this Section 1.3(b) shall be binding on future homeowners in the Property. If such annexation occurs, (i) the infrastructure improvements, easements and rights-of-way owned by the District and located in the annexed portions of the Property shall be (A) conveyed by the District to the City upon such annexation, and (B) thereafter maintained, repaired, operated and replaced by the City at the City's sole cost and expense, and (ii) any maintenance and refurbishment reserves held by the District as of the date of such annexation shall be transferred to the City to the extent such reserves were collected by the District prior to the date of such annexation from its water and wastewater customers as part of the District Retail Water Rate or District Wastewater Surcharge.

Section 1.4 District Annexation Consent. The City hereby unconditionally and irrevocably consents (the "District Annexation Consent") to the inclusion within, and annexation by, the District of Tracts 5, 6, 7, 8, 9, and 10 and the 20-Acre Tract (including the five 20-Acre Tract Director Lots). Concurrently with the execution of this Agreement, the City shall adopt and execute the "Consent Resolution" attached hereto as Exhibit D and incorporated herein by reference, which Consent Resolution shall evidence the consents set forth in the preceding sentence. The City will take (at no cost to the City) such further action as may be reasonably requested by Owner, the District, and/or the Texas Commission on Environmental Quality (the "TCEQ") to accomplish such inclusion and annexation of such Tracts into the District including, but not limited to, the approval and adoption of ordinances and resolutions consenting to such inclusion and annexation. The Owner agrees to (i) reimburse the City for all reasonable expenses, including but not limited to reasonable attorney fees, that the City incurs to accomplish the City's obligations pursuant to this Section 1.4, and (ii) pay such reimbursement within thirty (30) days following Owner's receipt, subject to the Owner's approval, of invoices reflecting such expenses, which approval process shall not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any expenses associated with taking any such action pursuant to this Section 1.4, the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

Section 1.5 CCN Consent. (a) The City agrees to be and shall be, and the City and the District agree that the City shall be, the sole wholesale provider of water and sewer /wastewater services to the District, and the City shall provide such services sufficient to enable the District to provide, on a dual service basis with the City, the retail water and sewer/wastewater services and capacity necessary to serve the Property and the residents of the Property as and when needed. The District and the City will use good faith efforts to take such

further action, to the extent required or as may be reasonably requested or required by the TCEQ or any other governmental authorities, to allow the District to provide, on a dual service basis with the City, such utility services to the Property and the residents of the Property, including, without limitation, the designation of such portions of the Property within the water and sewer/wastewater service area of the City to be within the dual water and sewer/ wastewater service area of the City and the District and/or the issuance to the District of dual water and sewer/wastewater service CCN rights with the City pertaining to the Property. Such actions shall be initiated within sixty (60) days after the Effective Date of this Agreement.

(b) In the event the District ceases to exist or, once service has begun, ceases to provide retail water and/or sewer/wastewater utility services to the Property or any portions thereof (for reasons other than the City's failure to provide wholesale services), the District and the City will use good faith efforts to take such further action, to the extent required or as may be reasonably requested or required by the TCEQ or any other governmental authorities, to allow the City to provide such utility services to the residents of the Property on an exclusive basis, including, without limitation, the redesignation of such portions of the Property to be solely within the exclusive service area of the City and/or the transfer of the District's CCN rights to the City. Such actions shall be taken within sixty (60) days after the date that the District ceases to exist or to provide such utility services to the Property or any portions thereof. Notwithstanding anything to the contrary contained herein except as provided in Section 1.5(e) below or as otherwise requested by the City, in no event and under no circumstances will the Owner and/or the District cause any dual water and/or sewer/wastewater CCN service rights held by the District with the City pursuant hereto be conveyed or transferred to anyone other than the City. In this regard, but subject to the provisions of Section 1.5(e) below, when the District is no longer the retail provider of such water and wastewater services to the Property, the District will reconvey or transfer any dual water and sewer/wastewater CCN service rights to the City as provided above.

(c) Nothing in this Agreement shall abridge, reduce or diminish the City's water and sewer/wastewater CCN in the area of dual certification between the City and the District. The City and the District shall remain responsible for satisfying their obligations arising under their respective CCNs as required by the Texas Water Code and the applicable rules of the TCEQ, and nothing contained herein shall be construed as a delegation by the City of such obligations. However, pursuant to Section 13.248 of the Texas Water Code, as between the City and the District, the District shall be designated as the primary and preferred water and sewer/wastewater service purveyor in the area of dual certification until the District's CCN's are transferred to the City as provided herein. In order to avoid the otherwise unnecessary construction and operation of capital intensive water and wastewater utility service facilities during the term of this Agreement, service applicants living within the boundaries of the Property shall be encouraged to apply for water and sewer/wastewater utility service from the District. If the District is unable to timely and cost effectively fulfill the applicant's service needs, the City may extend its service to that applicant under the terms and conditions of the City's ordinances then in effect.

(d) The City and the District shall submit in a timely manner a copy of this Agreement to the TCEQ for approval pursuant to Section 13.248 of the Texas Water Code.

(e) Notwithstanding anything set forth above, if the City fails to provide sufficient water and wastewater services to the District as a result of a default by the City of its obligations as provided in Section 1.5(a) above, then the District, subject to the provisions of Article 8 of the Agreement, may, in addition to pursuing any other remedies provided herein or available at law or equity, seek alternative sources for such utility services until the City provides sufficient utility services (subject to the terms of any agreement with the provider of such alternative services). For the purpose of this Section 1.5 (e), "sufficient water service" means the delivery by the City to the District of an adequate volume of treated water at the agreed upon delivery point to the District so that the District may comply with the applicable portions of Chapter 290 of Title 30 of the Texas Administrative Code. For the purpose of this Section 1.5 (e), "sufficient wastewater service" means the City will operate its wastewater treatment plant in such a manner that it will be capable of treating the flows reasonably expected from the development of the Property. It is understood, however, that the Owner and/or the District are responsible, with cooperation of the City pursuant to this Agreement, for the timely expansion of the City's Water Infrastructure Improvements and Wastewater Infrastructure Improvements so that sufficient treated water and wastewater treatment capacity is available prior to the time that development of the Property creates additional demand for treated water or wastewater treatment

ARTICLE II

DEVELOPMENT STANDARDS

Section 2.1 Governing Regulations. (a) Except for the "Building Codes" and "Special Regulations" described in Section 2.2 of this Agreement, development of the Property (which shall include for all purposes of this Article II, if applicable, development of the Annexation Strip) shall be governed solely by (i) the subdivision regulations attached hereto as and/or described on Exhibit C and incorporated herein by reference (the "Subdivision Ordinance"), (ii) the special conditions attached hereto as and/or described on Exhibit E and incorporated herein by reference (the "Special Conditions"), and (iii) the preliminary and final plats that are approved, from time to time, by the City, the County and/or any other applicable governmental authorities (as applicable, the "Approved Preliminary Plats" and "Approved Final Plats"). The Subdivision Ordinance, Special Conditions, Approved Preliminary Plats, and Approved Final Plats shall hereinafter be collectively referred to as the "Governing Regulations", and the Governing Regulations shall apply to the development of the Property during the period (the "Governing Regulations Period") commencing on the date hereof and continuing until the earlier of (A) the expiration of fifteen (15) years from the Effective Date hereof, or (B) full repayment and extinguishment of all PID Bonds and all District Bonds issued for or in connection with the Property. Without limiting the foregoing, development of the Property shall include, but not be limited to, the filing of, review of, and approval of preliminary and final plats for the Property and the filing of, review of, and approval of construction plans and specifications for water, sewer, drainage and roadway infrastructure for the Property, and the Governing Regulations shall govern, control and be applied to the development of the Property in lieu of any other City statutes, ordinances, rules or regulations.

(b) It is hereby expressly understood and agreed that development of the Property (including, if applicable, development of the Annexation Strip) shall be in accordance with the

Governing Regulations. All matters related to the Property (including, if applicable, the Annexation Strip) which are typically governed by, controlled by and/or included in the City zoning ordinances and/or regulations will be as determined by Owner and/or the District, at Owner's and/or the District's sole discretion subject to the Governing Regulations. No other City statutes, ordinances, rules or regulations shall govern, control or apply to the Property (including, if applicable, the Annexation Strip) or the use or development of the Property (including, if applicable, the Annexation Strip).

Section 2.2 Other Regulations. Notwithstanding Section 2.1 of this Agreement, development of the Property (including, if applicable, development of the Annexation Strip) shall also be subject to:

(a) the following uniform building codes, as amended (collectively, the "Building Codes"), provided they are approved by ordinance duly adopted by the City Council and provided they are uniformly applied and enforced throughout the corporate limits of the City: (i) 2003 International Building Code; (ii) 2003 International Plumbing Code; (iii) 2003 International Mechanical Code; (iv) 2003 International Fuel Gas Code; (v) 2003 International Energy Conservation Code; (vi) 2003 International Residential Code; (vii) 2003 National Electrical Code; and (viii) 2003 International Fire Code; and

(b) the following regulations, as amended (collectively, the "Special Regulations"), provided they are approved by ordinance duly adopted by the City Council and provided they are uniformly applied and enforced throughout the corporate limits of the City: (i) regulations for sexually oriented businesses; (ii) regulations with respect to the sale of fireworks and discharge of firearms; (iii) regulations to prevent imminent destruction of property or injury to persons from flooding that are effective only within a flood plain established by a federal flood control program and enacted to prevent the flooding of buildings intended for public occupancy; and (iv) regulations that the City is required to adopt under Federal or State law.

Section 2.3 Conflicts. In the event of any conflict or inconsistency between the Special Conditions, on the one hand, and any of the Subdivision Ordinances, the Special Regulations or the Building Codes, on the other hand, the Special Conditions shall control unless prohibited by state or federal law. In the event of any conflict or inconsistency between this Agreement and the Governing Regulations, the Building Codes, or the Special Regulations, this Agreement shall control. Subject to the foregoing, development of the Property (including, if applicable, development of the Annexation Strip) shall be governed (a) by this Agreement, the Governing Regulations, the Building Codes, and the Special Regulations, and no other City statutes, ordinances, rules or regulations of any kind without the prior written consent of Owner and the District, and (b) applicable laws and regulations of the U.S. and the State of Texas.

Section 2.4 Building Permits. Each builder shall be responsible for assuring that all structures constructed by such builder within the Property are in substantial compliance with the applicable portions of the Subdivision Ordinance, Special Conditions, Building Codes and other requirements imposed by the District. Inspections to determine compliance therewith shall be conducted by independent, certified and licensed inspectors hired and paid by the builders from a list of inspectors approved by the District. Each builder shall maintain a record of such

inspections, and all such records shall be available for review and copying by Owner, the District, and the City during normal business hours. No structure may be occupied until the inspector has certified in writing to the builder (with a copy provided to the District) that such structure complies with the applicable portions of the Subdivision Ordinance, Special Conditions, Building Codes, and other requirements imposed by the District. All inspectors shall be subject to all applicable anti-corruption, anti-kickback and anti-racketeering statutes.

Section 2.5 Approved Permit. This Agreement constitutes a "permit" as defined in Chapter 245, Texas Local Government Code, as amended, that is deemed filed with the City on the Effective Date. Except as provided by this Section 2.5, Owner does not, by entering into this Agreement, waive (a) any rights arising under Chapter 245, as amended, or under Chapter 43 of the Texas Local Government Code, as amended, or under any other provision of law, or (b) any claims that City regulation of the Property constitutes an illegal exaction or an inverse condemnation. Owner does, however, waive such rights and claims to the extent that they are based on regulation of the Property by application of the Governing Regulations in accordance with this Agreement.

Section 2.6 Moratoriums. The City agrees that the rights of Owner pursuant to Chapter 245 of the Local Government Code, together with the rights of Owner under this Agreement to develop in accordance with the Governing Regulations, shall continue and be unaffected by any moratorium that is hereafter adopted by the City with respect to real property within its corporate or ETJ limits and that would adversely affect the development of the Property. Nothing contained herein shall imply that the City has, or that the City may impose, any right or authority over the Property including any right or authority to issue, impose or enforce any moratorium, delay or deferment of any kind over or against the Property. Notwithstanding the foregoing, this Section 2.6 does not apply to moratoriums imposed by or caused by other governmental authorities including but not limited to the United States, the State of Texas, North Texas Municipal Water District or the City of Frisco,. In addition, this Section 2.6 will not be construed to effect or prevent the implementation of any drought contingency plan required by the TCEQ or other plan of the City in response to natural events or acts of God.

Section 2.7 Good Faith, Fair Dealing and Cooperation. It is expressly understood and agreed that each of the Parties hereto shall act in good faith and shall cooperate with each other in accomplishing the transactions and intent of the Parties as described herein. Without limiting the foregoing, the (i) City and the District hereby agree to timely (A) issue any and all permits, perform any and all inspections, give any and all approvals and accept any and all dedications required or contemplated herein, and (B) not to act arbitrarily or in a manner which unreasonably delays, hinders or prevents accomplishing the development of the Property or the transactions and intent of the Parties as described herein, and (ii) the Owner hereby agrees to timely give any and all approvals contemplated herein and not to act arbitrarily or in a manner which unreasonably delays, hinders or prevents accomplishing the intent of the Parties as described herein.

Section 2.8 City Fees, Charges and Expenses. (a) Except as otherwise expressly set forth in this Agreement including, without limitation, in Sections 4.4, 5.3 and 6.3 of this Agreement or in Section 2.8(b) below, the City hereby agrees not to charge or assess to or against, and not to seek or collect from Owner, the District or the Owner's or District's successors

or assigns, any (i) permit fees, charges or assessments, (ii) inspection, approval, green tag or certificate of occupancy fees, charges or assessments, (iii) plan submittal, review or approval fees, charges or assessments, (iv) dedication fees, charges or assessments, (v) maintenance, repair or replacement fees, charges, costs, expenses or assessments, reserves or advances, (vi) park, road or other impact fees, charges or assessments, or (vii) other fees, charges, assessment, costs or expenses of any kind.

(b) Owner and/or the District shall reimburse the City for (i) the City's reasonable engineering expenses and fees for (A) the City's review and approval of preliminary and final plats, plans and specifications and any other documents required to be reviewed and approved by the City pursuant to this Agreement, and (B) the City's inspection, approval and acceptance of any of the work and improvements required to be inspected, approved and accepted by the City pursuant to this Agreement, which reimbursements pursuant to this subclause (i) shall be based on the schedule of fees and expenses set forth on Exhibit I attached hereto and incorporated herein by reference, and (ii) the City's reasonable attorneys fees actually incurred by the City in connection with any agreements or other actions requested from the City by the Owner and/or the District pursuant hereto, provided that the City shall notify the Owner and the District in writing in advance of incurring such legal fees and expenses, which notice shall provide an estimate of such legal fees and expenses. In this regard, the City shall deliver to the Owner and the District a written statement itemizing the amounts requested to be reimbursed pursuant to this Section 2.8(b) together with invoices evidencing such amounts owed and/or paid by the City to the City's engineer(s) and/or attorney(ies). Within thirty (30) days after the Owner's and the District's receipt of such written request for reimbursement by the City pursuant to this Section 2.8(b), the Owner and/or the District shall deliver to the City payment in the amounts requested by the City in such written request for reimbursement, subject to the Owner's and/or the District's right to file a "Fee Reimbursement Dispute Notice" (herein so called) within ten (10) days following the receipt of the City's invoice in the event either Owner or the District disputes the reimbursement amounts requested by the City. If a Fee Reimbursement Dispute Notice is given and the Parties are unable to resolve such dispute within ten (10) days after delivery of the Fee Reimbursement Dispute Notice, such dispute shall be resolved pursuant to Section 8.3 hereof.

Section 2.9 Interlocal Agreement. The City agrees to use its best efforts to enter into an interlocal agreement with the County (as provided by Chapter 242 of the Texas Local Government Code) pursuant to which the City shall have exclusive jurisdiction over the subdivision of land within the City's ETJ including, but not limited to, the exclusive right of the City to determine the regulations that shall apply to such subdivisions. The Owner agrees to (i) reimburse the City for all reasonable expenses, including but not limited to reasonable attorney fees, that the City incurs to accomplish the City's obligations pursuant to this Section 2.9, and (ii) pay such reimbursement within thirty (30) days following Owner's receipt, subject to the Owner's approval, of invoices reflecting such expenses, which approval process will not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any expenses associated with taking any such action pursuant to this Section 2.9, the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

ARTICLE III PRIOR AGREEMENTS

Section 3.1 Prior Development Agreements. Owner is the successor in interest to all parties to the Prior Development Agreements other than the City, and the City hereby acknowledges and agrees that no person or entity other than Owner or the City has any right, title, or interest in, to, or under the Prior Development Agreements. This Agreement supersedes and replaces, in their entirety, the Prior Development Agreements. From and after the Effective Date, the Prior Development Agreements shall automatically terminate, whereupon neither Owner nor the City shall have any further rights, duties, obligations, or remedies under the terminated Prior Development Agreements.

Section 3.2 Prior Agreements and Understandings. This Agreement constitutes the complete agreement and understanding of the Parties with regard to the subject matter of this Agreement and supersedes and replaces all prior agreements and understandings (including the Prior Development Agreements), whether oral or written, regarding the subject matter of this Agreement.

ARTICLE IV WATER SERVICE/INFRASTRUCTURE

Section 4.1 Commitment for Water. Subject to the terms and conditions of the Supply Contract (as defined in Section 4.2 below), the City shall provide to Owner and the District water service to serve 1,600 single-family equivalent connections within the Property (hereinafter referred to as "Full Development") unless a larger number of connections is agreed to by the Parties hereto. Subject to obtaining sufficient water service pursuant to the Supply Contract described in Section 4.2 below, water service for Full Development of the Property shall be provided in phases as the Property is developed based on Owner's development schedule. Subject to obtaining sufficient water service pursuant to the Supply Contract described in Section 4.2 below, and subject to the construction of the Water Infrastructure Improvements pursuant to Section 4.3 below, the City reserves to Owner and the District, for the benefit of the Property, capacity in the City's water distribution system capable of serving Full Development of the Property, and the City will take no action (including, but not limited to, reserving capacity for, or providing service to, any other developers or water customers) that would interfere with the reservation and providing service to Owner and the District as described above. Subject to obtaining sufficient water service pursuant to the Supply Contract described in Section 4.2 below and construction of the Water Infrastructure Improvements pursuant to Section 4.3 below, water service will be provided to Owner and the District as described above on a continuous, uninterrupted, and non-discriminatory basis and without restrictions on use (subject only to such emergency use rules, including rationing, as may be adopted by the City Council and uniformly applied to all water customers of the City). In this regard, the City and the District shall enter into any and all documents and agreements as contemplated or warranted under Section 13.248 of the Texas Water Code and as described or required in Section 1.5 hereof.

Section 4.2 Water Supply Contract. Pursuant to the terms of the CCN Agreement, the City has entered into a Treated Water Supply Contract dated May 17, 2005 (the "Supply Contract") with Frisco which provides the City with a source of water which is adequate under

current applicable regulations to serve Full Development of the Property as well as other present and anticipated future water customers of the City.

Section 4.3 Water Infrastructure Improvements. The following water infrastructure improvements (all of the improvements described in this Section 4.3 shall hereinafter be collectively referred to as the "Water Infrastructure Improvements") shall be constructed pursuant to the terms and provisions of this Section 4.3.

(a) Rose Lane Water Line. Owner and/or the District shall construct or cause to be constructed the Rose Lane Water Line (based on Owner's development schedule for Phase One) beginning at the proposed intersection of future Stonebrook Parkway and Rose Lane (and connecting at such intersection to the Transmission Improvements) and continuing northerly along Rose Lane (through the Rose Lane Water Facilities) to the intersection of Rose Lane and King Road where the Rose Lane Water Line will connect to a 12-inch water line to be constructed by the City. The size and route of the Rose Lane Water Line is generally depicted on Exhibit F attached to this Agreement. Without limiting the foregoing, the following provisions shall apply to the Rose Lane Water Line:

(i) Plans and specifications for, and all other documents submitted in connection with, the Rose Lane Water Line shall comply with the requirements of this Agreement and shall be submitted to and approved by the City (which approval shall not be unreasonably withheld or delayed), the District and the TCEQ, as required. The City will cooperate fully with Owner and/or the District to approve the plans and specifications and other documents and to obtain and provide to Owner and the District easements or other rights-of-way necessary or appropriate for the construction, maintenance and operation of the Rose Lane Water Line including, but not limited to, the exercise by the City of its condemnation power and obtaining all necessary or appropriate easements from Frisco, the County and/or any entities or persons not a Party to this Agreement for the construction, maintenance and operation of the Rose Lane Water Line. Copies of all approved plans and specifications for the Rose Lane Water Line shall be provided to Owner, the City and the District.

(ii) Construction contracts shall be awarded by or on behalf of the District in accordance with the competitive bidding requirements applicable to the District (including, if required, payment and performance bonds) so that costs paid or incurred under such contracts are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources.

(iii) Owner, the District and the City will pay for the Rose Lane Water Line as follows:

(A) The City will make available and release to Owner and/or the District the Rose Lane Water Line Funds (consisting of Two Hundred Forty Eight Thousand One Hundred and No/100 Dollars (\$248,100.00) paid to the City in accordance with the CCN Agreement) on a monthly basis as approved by the City's engineer (which approval shall not be unreasonably withheld or delayed)

and as needed to pay (1) invoices and other reasonable amounts relating to the construction of the Rose Lane Water Line, and (2) all costs and expenses associated with or incurred in connection with obtaining and providing any easements or other rights-of-way, or in exercising the City's condemnation power, as described above.

(B) Owner and/or the District will be responsible for the balance of the funds required to design and construct the Rose Lane Water Line (including the mutually agreeable reasonable cost of easements or rights-of-way acquired by purchase or condemnation and including all mutually agreeable reasonable costs and expenses related to such purchase or condemnation).

(C) If the costs and expenses incurred in connection with the Rose Lane Water Line and other items as described in Section 4.3(a)(iii)(A) above are less than Two Hundred Forty Eight Thousand One Hundred and No/100 Dollars (\$248,100.00), the remainder of the Rose Lane Water Line Funds not paid or owed to Owner and/or the District as provided in subparagraph (A) above will be returned to the general fund of the City and may be spent for any purpose permitted by the City.

(D) The City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, and/or the TCEQ so that the costs and expenses incurred in connection with the Rose Lane Water Line by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be limited to, evidence of the reservation of capacity in the City's water distribution system and the Rose Lane Water Line to serve the Full Development of the Property.

(iv) During construction, the City and the District will have the continuous right to inspect the Rose Lane Water Line. The Owner will exercise good faith efforts to provide timely prior written notice to the City and the District of the performance of any and all tests, including but not limited to required pressure and water quality tests. Upon completion of construction and successful testing (if applicable), the Rose Lane Water Line may be inspected by the City and the District within fifteen (15) days of written request by Owner, and the City and the District may object in good faith within such fifteen (15) day period to any portion of the Rose Lane Water Line which has not been constructed substantially in accordance with the approved plans and specifications relating thereto. If the City or the District fails to deliver a written objection notice to Owner within such fifteen (15) day period, the City and/or the District, whichever applies, shall be deemed to have approved the Rose Lane Water Line. If a written objection notice is delivered to Owner within such fifteen (15) day period, the Owner shall use reasonable good faith efforts to correct any objections within a reasonable period of time after receipt of such objection notice, and the process set forth above shall be repeated until the City and the District have approved or are deemed to have approved the Rose Lane Water Line. Notwithstanding anything contained herein to the contrary,

approval of the Rose Lane Water Line shall not be unreasonably withheld or delayed, and objections to the Rose Lane Water Line may only be made if they are reasonable and made in good faith and only to the extent the applicable objectionable components of the Rose Lane Water Line are not constructed substantially in accordance with the approved plans and specifications relating thereto.

(v) Upon inspection and approval (or deemed approval) of the Rose Lane Water Line by the City and the District as provided above, the portion of the Rose Lane Water Line located (A) within the corporate (but not ETJ) boundaries of the City or solely in the County shall be conveyed to and accepted by the City, (B) in the area served by the District shall be conveyed to and accepted by the District, and (C) in Frisco up to and including the Metering Station (but excluding the portion of the Rose Lane Water Line providing outflow from the Metering Station) shall be conveyed to and accepted by Frisco. All portions of the Rose Lane Water Line shall be conveyed to the applicable grantees noted above free of liens and other monetary encumbrances, and upon such conveyance shall become part of the applicable grantee's water distribution system. Upon such conveyances, a complete set of as-built construction drawings shall be provided to Owner and each grantee of any portion of the Rose Lane Water Line. Furthermore, from and after such conveyance, the portions of the Rose Lane Water Line conveyed to each grantee shall be maintained, operated and repaired by the applicable grantee.

(b) Rose Lane Water Facilities. Owner and/or the District shall construct (in phases, as needed, based on Owner's development schedule for the Property but subject to the provisions of Section 4.3(b)(i) below) within Tract 5 (at the approximate location designated on Exhibit F attached hereto or at such other location as may be mutually agreeable to Owner and the District), to the extent necessary to serve the Full Development of the Property, (A) ground storage tank(s) and an elevated storage tank, and (B) a pump station which shall include an area for storage of water meters (the storage tanks, pump station and other improvements described in subparagraphs (A) and (B) above are hereinafter collectively referred to as the "Rose Lane Water Facilities"). Without limiting the foregoing, the following provisions shall apply to the Rose Lane Water Facility:

(i) Plans and specifications for, and all other documents submitted in connection with, the Rose Lane Water Facilities shall comply with the requirements of this Agreement and shall be submitted to and approved by the City (which approval shall not be unreasonably withheld or delayed) and, the District and the TCEQ, as required. The City will cooperate fully with Owner and/or the District to approve the plans and specifications and other documents as provided above. Copies of all approved plans and specifications for the Rose Lane Water Facilities shall be provided to the Owner, the City and the District. Notwithstanding anything contained herein, the elevated storage tank shall not be required to be built or completed prior to issuance of a final green tag, a certificate of occupancy or the equivalent evidence of final approval of completion (collectively, a "CO") of the 300th house constructed on the Property.

(ii) Construction contracts shall be awarded by or on behalf of the District in accordance with the competitive bidding requirements applicable to the District

(including, if required, payment and performance bonds) so that costs paid or incurred under such contracts are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources. Without limiting the foregoing, Owner and/or the District will pay all costs and expenses in connection with the design and construction of the Rose Lane Water Facilities. Furthermore, the City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, or the TCEQ so that the costs of the Rose Lane Water Facilities paid by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be limited to, evidence of the reservation of capacity in the City's water distribution system and the Rose Lane Water Facilities to serve the Full Development of the Property.

(iii) During construction, the City and the District will have the continuous right to inspect the Rose Lane Water Facilities. The Owner will exercise good faith efforts to provide timely prior written notice to the City and the District of the performance of any and all tests, including but not limited to required pressure and water quality tests. Upon completion and successful testing (if applicable), the Rose Lane Water Facilities may be inspected by the City and the District within fifteen (15) days of written request by Owner, and the City and the District may object in good faith within such fifteen (15) day period to any portion of the Rose Lane Water Facilities which have not been constructed substantially in accordance with the approved plans and specifications relating thereto. If the City or the District fails to deliver a written objection notice to Owner within such fifteen (15) day period, the City and/or the District, whichever applies, shall be deemed to have approved the Rose Lane Water Facilities. If a written objection notice is delivered to Owner within such fifteen (15) day period, the Owner shall use reasonable good faith efforts to correct any objections within a reasonable period of time after receipt of such objection notice, and the process set forth above shall be repeated until the City and the District have approved or are deemed to have approved the Rose Lane Water Facilities. Notwithstanding anything contained herein to the contrary, approval of the Rose Lane Water Facilities shall not be unreasonably withheld or delayed, and objections to the Rose Lane Water Facilities may only be made if they are reasonable and made in good faith and only to the extent the applicable objectionable components of the Rose Lane Water Facilities are not constructed substantially in accordance with the approved plans and specifications relating thereto.

(iv) Upon inspection and approval (or deemed approval) of the Rose Lane Water Facilities by the City and the District as provided above, (A) subject to the provisions of Section 4.3(b)(iv)(C) below, the Rose Lane Water Facilities will be conveyed to and accepted by the District as provided above, free of liens or other monetary encumbrances, and shall become a part of the District's water distribution system, (B) Owner will convey to the District by special warranty deed, and the District shall accept, the site(s) on which the Rose Lane Water Facilities are located, and Owner will provide (and grant to the City and/or the District) such other easements and/or rights-of-way on and to such site(s) and within the Property as reflected or to be reflected on the

final plat(s) of the Property to the extent such easements and/or rights-of-way are reasonably necessary for the maintenance and operation of the Rose Lane Water Facilities, and (C) the City shall thereafter be responsible for maintenance, repair and operation of the Rose Lane Water Facilities.

(v) Any reasonable expenses incurred by the City relating to the inspection or approval of the Rose Lane Water Facilities will be paid by the Owner within thirty (30) days following Owner's receipt, subject to the Owner's approval, of invoices reflecting such expenses, which approval process will not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any expenses associated with taking any such action pursuant to this Section 4.3, the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

(c) Property Water Distribution System. Owner and/or the District shall construct (in phases, as needed, based on Owner's development schedule for the Property) all water lines and related equipment and facilities located within the Property that are necessary to provide retail water service within the Property (collectively, the "Property Water Distribution System"). Without limiting the foregoing, the following provisions shall apply to the Property Water Distribution System:

(i) Plans and specifications for the Property Water Distribution System shall comply with the requirements of this Agreement and shall be submitted to and approved by the City (which approval shall not unreasonably withheld or delayed), the District and the TCEQ, as required. The City will cooperate fully with Owner and/or the District to approve the plans and specifications and other documents as provided above, and Owner and/or the District will provide (and dedicate to the public and/or the District) such easements or other rights-of-way within the Property as reflected or to be reflected on the final plat(s) of the Property that are reasonably necessary for the maintenance and operation of the Property Water Distribution System. Copies of all approved plans and specifications for the Property Water Distribution System shall be provided to the Owner, the City and the District.

(ii) Construction contracts shall be awarded by or on behalf of the District in accordance with the competitive bidding requirements applicable to the District (including, if required, payment and performance bonds) so that costs paid or incurred under such contracts are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources. Without limiting the foregoing, Owner and/or the District will pay all reasonable costs and expenses in connection with the design and construction of the Property Water Distribution System. Furthermore, the City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, or the TCEQ so that the costs of the Property Water Distribution System paid by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be

limited to, evidence of the reservation of capacity in the City's water distribution system and the Property Water Distribution System to serve the Full Development of the Property.

(iii) During construction, the City and the District will have the continuous right to inspect the Property Water Distribution System. The Owner will exercise good faith efforts to provide timely prior written notice to the City and the District of the performance of any and all tests, including, but not limited to required pressure and water quality tests. Upon completion of construction and successful testing (if applicable), the Property Water Distribution System shall be inspected by the City and the District within fifteen (15) days of written request by Owner, and the City and the District my object in good faith within such fifteen (15) day period to any portion of the Property Water Distribution System which has not been constructed substantially in accordance with the approved plans and specifications relating thereto. If the City or the District fails to deliver a written objection notice to Owner within such fifteen (15) day period, the City and/or the District, whichever applies, shall be deemed to have approved the Property Water Distribution System. If a written objection notice is delivered to Owner within such fifteen (15) day period, the Owner shall use reasonable good faith efforts to correct any objections within a reasonable period of time after receipt of such objection notice, and the process set forth above shall be repeated until the City and the District have approved or are deemed to have approved the Property Water Distribution System. Notwithstanding anything contained herein to the contrary, approval of the Property Water Distribution System shall not be unreasonably withheld or delayed, and objections to the Property Water Distribution System may only be made if they are reasonable and made in good faith and only to the extent the applicable objectionable components of the Property Water Distribution System are not constructed substantially in accordance with applicable regulations and the approved plans and specifications relating thereto.

(iv) Upon inspection and approval (or deemed approval) of the Property Water Distribution System by the City and the District, (A) the Property Water Distribution System will be conveyed to and accepted by the District, free of liens or other monetary encumbrances, and shall become a part of the District's water distribution system, and (B) thereafter the District shall be responsible for maintenance, repair and operation of the Property Water Distribution System subject to the one year maintenance agreement and maintenance bond if required by the District and/or the City. Upon such conveyance, a complete set of as-built construction drawings shall be provided to Owner, the City and the District of the Property Water Distribution System.

(v) Any reasonable expenses incurred by the City relating to the inspection or approval of the Property Water Distribution System will be paid by the Owner within thirty (30) days following Owner's receipt, subject to the Owner's approval, of invoices reflecting such expenses, which approval process will not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any expenses associated with taking any such action pursuant to this Section 4.3(c), the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

(d) Transmission Improvements. To the extent reflected in a separate agreement between Pulte Homes of Texas, L.P. and any other parties to the CCN Agreement, the City shall use their best efforts to cause the Transmission Improvements to be constructed and completed in accordance with the provisions of the CCN Agreement, and shall take any and all actions reasonably necessary or appropriate to ensure that the Transmission Improvements are fully operational in accordance with the provisions of the CCN Agreement.

(e) Excess Water Capacity. It is anticipated that the Water Infrastructure Improvements will create capacity ("Excess Water Capacity") in the City's existing water distribution system which exceeds the additional water capacity necessary to serve the Full Development of the Property. In this regard, the District and/or the Owner shall be reimbursed for the amounts (the "District's Prorata Water Reimbursement") calculated in the manner set forth on Exhibit O attached hereto for all Excess Water Capacity utilized by and/or reserved by the City for other water customers of the City for lots for which a final plat is approved by the City after the Effective Date hereof. Such District's Prorata Water Reimbursement shall be paid to the District and/or the Owner by the City within one hundred eighty (180) days after the final approval of a plat by the City containing lots which will be subject to the District's Prorata Water Reimbursement. Without limiting the foregoing, the City agrees to and shall timely enact such ordinances which are necessary or appropriate to authorize and enable the City to make the District's Prorata Water Reimbursements to the District and/or the Owner when and as described above. Without limiting the foregoing, the District's Prorata Water Reimbursement shall be determined as follows:

(1) The methodology for calculating the District's Prorata Water Reimbursement is set forth on Exhibit O attached hereto and incorporated herein by reference.

(2) The initial District's Prorata Water Reimbursement shall be established by the Parties within one hundred eighty (180) days after the Effective Date based on the methodology set forth on Exhibit O.

(3) The District's Prorata Water Reimbursement shall be revised based on the methodology set forth on Exhibit O on the dates, whichever are earlier, of (A) the completion of each phase of the Property, or (B) five (5) years after the Effective Date or the previous revision to the District's Prorata Water Reimbursement, whichever applies.

(f) Unused Water Capacity. Without limiting the foregoing, Water Infrastructure Improvements will create capacity ("Unused Water Capacity") in the City's water distribution system which will exceed the immediate requirements of the District for the Property and will not be needed or fully utilized by the District until such time as the District's customer base is adequate to utilize such Unused Water Capacity. Without limiting the foregoing, all Unused Water Capacity created by the Water Infrastructure Improvements will be exclusively reserved by the City to serve and for the use of the Property, provided that the City may utilize the Unused Water Capacity to serve the City's other water customers until the District's water service demands need such Unused Water Capacity. Accordingly, the City will expand or cause to be expanded its existing water distribution facilities to serve and accommodate the service demands

of its other water customers so that the Unused Water Capacity is and will be available for use by the District and the water users in the Property if and when the need arises.

Section 4.4 Fees and Charges. Except as otherwise provided herein and expressly provided in Section 2.8 or this Section 4.4, no fees, charges or assessments shall apply to or be incurred or charged in connection with the Full Development of the Property or the design and construction of the Water Infrastructure Improvements or the providing of water service to serve Full Development of the Property.

(a) Impact Fees. The City agrees that there are no capital improvements or facility expansions necessitated by or attributable to the Full Development of the Property or the design or construction of the Water Infrastructure Improvements for which the City is paying the costs associated therewith, and that no City funds (other than the Two Hundred Forty Eight Thousand One Hundred and No/100 Dollars (\$248,100.00) described in Section 4.3(a)(iii) hereof) have been or will be expended for any improvements to provide water service to the Property. Consequently, except as set forth in Section 2.8 or this Section 4.4, there are no water impact fees (or other similar capital recovery fees, charges or assessments of any kind) due and payable in connection with (i) the development of any portion of the Property, (ii) the design and construction of the Water Infrastructure Improvements, (iii) tapping into, connecting to or using the Water Infrastructure Improvements, and/or (iv) the City's obligation to provide water service to serve the Full Development of the Property.

(b) District Retail Water Rate. The City shall charge and collect such charges from, the water customers living in the area served by the District for water usage by such customers based on the "District Retail Water Rate" established by the District and designated in writing to the City from time to time. On or before the 15th of each month, the City shall remit to the District all amounts collected on the District's behalf since the preceding monthly payment from the City to the District. If a District water customer does not timely pay for water received from the District, then the City shall, at the District's election, (i) continue to pursue collection through the use of commercially reasonable collection efforts, provided that if the City engages an outside collection service at the District's request, the costs of this collection service shall be netted out of the amounts collected by the City before such amounts are remitted to the District, (ii) terminate water service to such customer(s) and thereafter charge such customer(s) a reconnection fee in an amount established by, and for the sole account of, the City, and/or (iii) assign such delinquent account(s) to the District for collection, in which event the City shall assist and fully cooperate with the District in the District's collection efforts. If requested by the City, Owner and/or the District, the agreement establishing the terms and provisions of the fees, charges and collection of such charges as set forth in this Section 4.4 shall be more specifically delineated in a separate agreement to be executed by the City, the District and the Owner.

(c) City Resale Water Rate. The City shall charge the District, and the District shall pay to the City, for the greater of (i) the water usage by the District and the residents living in the area served by the District, or (ii) the portion of the City's water usage quantity included in the "take or pay" quota in the Supply Contract attributable to the District and the residents living in the area served by the District, which portion shall be determined based on the District's and District resident's usage in the prior measurement year. Such charges shall be based on the City Resale Water Rate established in the manner set forth on Exhibit L attached hereto and

incorporated herein by reference. The District's water usage shall be determined by a master meter to be installed by the Owner and/or the District at the Rose Lane Water Facilities.

(d) Water Meter Fees. The District and/or the Owner will purchase all water meters for use on the Property, which meters shall be installed by the City upon request by the District, the Owner, and/or the builders building homes on the lots in the area served by the District. Each initial first time connection within the Property to the water distribution system shall require the payment (by the builder or the Owner at or prior to the time of connection or installation of a meter) to the District of a fee (the "Water Meter Fee") in the amount to be determined by the Owner and the District to pay for the meter and the meter installation. Notwithstanding the foregoing, the Owner hereby reserves the right to collect from the builder(s), at each closing of the purchase of a lot by such builder(s), the Water Meter Fee applicable to each lot acquired by the builder(s), and the Owner shall (i) retain from the Water Meter Fee collected from the builder(s) that portion of such Water Meter Fee sufficient to reimburse the Owner for any amounts prepaid and/or advanced by the Owner to the District and/or the City for such meter and/or meter installation for such lot, and (ii) remit to the District the portion of the Water Meter Fee in excess of the amounts retained by Owner pursuant to the preceding subparagraph (i).

(e) Water Connection Fees. Each initial first time connection within the Property to the Property Water Distribution System shall require payment to the City (by the Owner and/or the District at or prior to the time of such connection) of a connection fee (the "Water Connection Fee") in the amount of One Hundred and No/100 Dollars (\$100.00) per connection (or such other amount as the Owner, City and District may agree upon from time to time). The Water Connection Fee (i) compensates the City for reserving to Owner and the District capacity in the City's water distribution system, (ii) reimburses the City for a portion of the costs and expenses paid or incurred by the City to operate and maintain the City's water distribution system, and (iii) reimburses the City for the costs and expenses incurred in connection with installing the water meter on such lot. Owner and/or the District shall have the right, but not the obligation, to prepay such Water Connection Fees from time to time in amounts approved by the City, and the Owner and/or the District reserve the right to be reimbursed for the amount of the Water Connection Fees prepaid and/or advanced by the District and/or Owner, as applicable, by collecting from each builder a per lot fee at the closing of the purchase of a lot by such builder. In this regard, the Owner and/or the District reserve the right to collect such Water Connection Fees from the builder(s) at each closing of the purchase of lots by such builder(s), and both the Owner and/or District shall be entitled to retain from the amounts collected from the builder(s) that portion of such Water Connection Fees prepaid and/or advanced by the Owner and/or District, as applicable. Notwithstanding the foregoing, the City may charge homeowners in the area served by the District connection and reconnection fees for new or reconnection service by such homeowners after the initial first time connection referenced above, provided that such connection and reconnection fees shall not exceed the fees charged by the City to the City's other water customers for such services.

(f) Water and Wastewater Deficit Connection Fees. The Parties acknowledge and agree that the City does not have the resources to meet the water and wastewater service demands (the "District Service Demands") of the District and the residents to be located in the area served by the District without significant increases in manpower, equipment and operating

expenses and without experiencing significant operating deficits. Therefore, in addition to the Water Connection Fees and the Wastewater Connection Fees (as defined in Section 5.3 below), the Owner and/or the District agree to pay additional "Water and Wastewater Deficit Connection Fees" (herein so called) to reimburse the City for certain costs and expenses incurred or to be incurred by the City to meet the District Service Demands and to induce the City to meet the District Service Demands and allow the District and/or the Owner to utilize the City's existing water and wastewater distribution systems. It is hereby acknowledged and understood by the Parties that, without this inducement and payment of the Water and Wastewater Deficit Connection Fees, the City would not have entered into this Agreement. Without limiting the foregoing, the following provisions shall apply to the Water and Wastewater Deficit Connection Fees:

(i) Attached hereto as Exhibit N and incorporated herein by reference is a schedule reflecting the permitted costs and expenses (the "Water and Wastewater Qualified Deficit Costs") anticipated and permitted to be incurred by the City and to be recouped through the assessment and collection of the Water and Wastewater Deficit Connection Fees from the Owner and/or the District. The City shall notify the Owner and the District in writing when the City incurs any of the Water and Wastewater Qualified Deficit Costs, which notice shall be accompanied by copies of invoices and other documents supporting and evidencing the expenditure of such Water and Wastewater Qualified Deficit Costs.

(ii) If the Water and Wastewater Qualified Costs set forth in the City's notice are also set forth on Exhibit N attached hereto, the Owner and/or the District, whichever applies, shall pay to the City the Water and Wastewater Deficit Connection Fees equal to the amount of the Water and Wastewater Qualified Deficit Costs set forth in the City's notice. Such payment shall be made within thirty (30) days after receipt of the City's notice.

(iii) Notwithstanding anything contained herein to the contrary, in no event shall (A) the aggregate amount of all Water and Wastewater Deficit Connection Fees exceed Four Hundred Seventy Five Thousand and No/100 Dollars (\$475,000.00), or (B) the Owner, the District, or their successors and assigns be liable for any Water and Wastewater Deficit Connection Fees for which the above-required written notice is given after the date which is 5 years from the effective date of this Agreement.

(iv) The City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, the TCEQ and/or the Texas Attorney General so that the Water and Wastewater Deficit Connection Fees paid by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be limited to, evidence of the reservation and use of capacity in the City's water and wastewater transmission and distribution systems to serve Full Development of the Property.

(v) If the Owner and/or the District are not reimbursed as provided in subparagraph (iv) above, then the Owner and/or the District reserves the right to be

reimbursed for the amount of the Water and Wastewater Deficit Connection Fees paid by the District and/or Owner, as applicable, to the City by collecting from each builder a per lot fee at the closing of the purchase of a lot by such builder. In this regard, the Owner and/or the District reserve the right to collect such Water and Wastewater Deficit Connection Fees from the builder(s) at each closing of the purchase of lots by such builder(s), and both the Owner and/or District shall be entitled to retain from the amounts collected from the builder(s) that portion of such Water and Wastewater Deficit Connection Fees previously paid to the City by the Owner and/or District, as applicable. Notwithstanding the foregoing, the amount of the per lot fee to be collected from builders as described above will be determined by the Owner and the District.

Section 4.5 Construction Water. To the extent available in the City's current water distribution system, the City agrees to sell "construction water" out of the City's water distribution system to Owner and the District throughout development of the Property or until such time as the Water Facilities are completed and water is supplied to the District via the Rose Lane Water Line, which sale shall occur upon the same terms and conditions as the City sells construction water to other developers and builders within the corporate limits of the City.

Section 4.6 City Water Capacity Increase. If the City should desire Owner and/or the District to increase the capacity of and/or enhance the Rose Lane Water Line, the Rose Lane Water Facilities or the Property Water Distribution System, or any portions or components thereof, beyond what is set forth in the plans and specifications for the improvements delivered to the City for approval as described in this Section 4.3 and which capacity improvements and/or enhancements are intended to increase and/or enhance the water delivery capacity in order to serve any development or service needs outside the Property or for any purposes other than to serve the Full Development of the Property, the City shall notify Owner and the District in writing of the nature and extent of the desired capacity increases and/or enhancements (the "City Water Capacity Increase") within thirty (30) days after Owner and/or the District first provide plans and specifications to the City for the above described improvements affected by the City Water Capacity Increase (and the City's failure to so notify Owner and the District shall waive the City's right to insist upon or request the City Water Capacity Increase). If the City notifies Owner and the District within such thirty (30) day period of the City's desire for the City Water Capacity Increase, then the City shall have the right, at its sole cost and expense, to cause the Rose Lane Water Line, Rose Lane Water Facilities, and/or Property Water Distribution System, whichever applies, to be designed and constructed by the Owner and/or the District to include the City Water Capacity Increase. The City shall pay all additional costs and expenses (the "City Water Capacity Increase Costs") attributable to the City Water Capacity Increase as and when due under the design and construction contracts awarded by Owner and/or the District for the applicable work and improvements. If the City fails to timely make all such payments, the Owner and/or the District shall have the right to (a) proceed with the design and construction of the Rose Lane Water Line, Rose Lane Water Facilities, and/or Property Water Distribution System, whichever applies, without the City Water Capacity Increase and without any liability to the City for funds spent by the City on the City Water Capacity Increase, (b) design and construct the City Water Capacity Increase, in which event all of the additional capacity shall belong to Owner and/or the District until all of the City Water Capacity Increase Costs spent by Owner and/or the District for such City Water Capacity Increase (plus interest at the rate, whichever is less, equal to one percent (1%) per month, twelve percent (12%) per annum or the

maximum rate allowed by law) have been reimbursed by the City to Owner and/or the District, whichever applies, (c) offset the unreimbursed City Water Capacity Increase Costs against any amounts due to the City for any reason in connection with the Full Development of the Property and/or pursuant to this Agreement, and/or (d) pursue any and all remedies available at law or in equity to recover such City Water Capacity Increase Costs.

ARTICLE V

WASTEWATER SERVICE/INFRASTRUCTURE

Section 5.1 Commitment for Wastewater Service. The City shall provide to Owner and the District wastewater service to serve Full Development of the Property unless a larger number of connections is agreed to by the Parties hereto. Wastewater service for Full Development of the Property shall be provided in phases as the Property is developed based on Owner's development schedule. The City reserves to Owner and the District, for the benefit of the Property, capacity in the City's existing wastewater collection and wastewater treatment system (as described in Section 5.4 of this Agreement) and in the City's expanded wastewater collection and wastewater treatment system (as described in Section 5.2(b) of this Agreement) capable of serving Full Development of the Property, and the City will take no action (including, but not limited to, reserving capacity for, or providing service to, any other developers or wastewater customers) that would interfere with the reservation and providing of service to Owner and the District as described above. Wastewater service will be provided to Owner and the District for the benefit of the Property as described above on a continuous, uninterrupted, and non-discriminatory basis and without restrictions (subject only to such emergency use rules as may be adopted by the City Council and uniformly applied to all wastewater customers of the City) or events beyond the control of the City including acts of God that may temporarily interrupt wastewater service).

Section 5.2 Wastewater Infrastructure Improvements. The following wastewater infrastructure improvements (all of the wastewater improvements described in this Section 5.2 shall hereinafter be collectively referred to as the "Wastewater Infrastructure Improvements") shall be constructed pursuant to the terms and provisions of this Section 5.2.

(a) **Wastewater Transmission Line.** Owner and/or the District shall construct or cause to be constructed a wastewater transmission line, including one or more lift stations if necessary (the wastewater transmission line and lift station(s) are hereinafter collectively referred to as the "Wastewater Transmission Line"), to serve the Property and the Full Development of the Property. The Wastewater Transmission Line shall be constructed from a point within the Property to the City's existing wastewater treatment plant as generally depicted on Exhibit G attached hereto and incorporated herein by reference, and will be constructed based on Owner's development schedule for the Property. Without limiting the foregoing, the following provisions shall apply to the Wastewater Transmission Line:

(i) Plans and specifications for, and all other documents submitted in connection with, the Wastewater Transmission Line shall comply with the requirements of this Agreement and shall be submitted to and approved by the City (which approval shall not be unreasonably withheld or delayed), the District and the TCEQ, as required. The City will cooperate fully with Owner and/or the District to approve the plans and

specifications and other documents as provided above, and the City will obtain and provide to Owner and the District easements or other rights-of-way necessary or appropriate for the construction, maintenance and operation of the Wastewater Transmission Line including, but not limited to, the exercise by the City of its condemnation power and obtaining all necessary or appropriate easements from Frisco, the County and/or any entities or persons not a Party to this Agreement for the construction, maintenance and operation of the Wastewater Transmission Line. Furthermore, Owner and/or the District will provide (and dedicate to the public and/or the District) such easements or other rights-of-way within the Property as reflected or to be reflected on the final plat(s) of the Property that are reasonably necessary for the maintenance and operation of the Wastewater Transmission Line. Copies of all approved plans and specifications for the Wastewater Transmission Line shall be provided to the Owner, the City and the District.

(ii) Construction contracts shall be awarded by or on behalf of the District in accordance with the competitive bidding requirements applicable to the District (including, if required, payment and performance bonds) so that costs paid or incurred under such contracts are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources. Without limiting the foregoing, Owner and/or the District will pay all reasonable costs and expenses in connection with (A) the design and construction of the Wastewater Transmission Line, and (B) all costs and expenses associated with or incurred in connection with obtaining and providing any easements or other rights-of-way, or in exercising the City's condemnation power, as described above. Furthermore, the City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, or the TCEQ so that the costs of the Wastewater Transmission Line paid by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be limited to, evidence of the reservation of capacity in the City's wastewater water collection and treatment system and the Wastewater Transmission Line to serve the Full Development of the Property.

(iii) During construction, the City and the District will have the continuous right to inspect the Wastewater Transmission Line. The Owner will exercise good faith efforts to provide timely prior written notice to the City and the District of the performance of any and all tests. Upon completion of construction and successful testing (if applicable), the Wastewater Transmission Line may be inspected by the City and the District within fifteen (15) days of written request by Owner, and the City and the District may object in good faith within such fifteen (15) day period to any portion of the Wastewater Transmission Line which has not been constructed substantially in accordance with applicable regulations and the approved plans and specifications relating thereto. If the City or the District fails to deliver a written objection notice to Owner within such fifteen (15) day period, the City and/or the District, whichever applies, shall be deemed to have approved the Wastewater Transmission Line. If a written objection notice is delivered to Owner within such fifteen (15) day period, the Owner shall use reasonable good faith efforts to correct any objections within a reasonable period of time

after receipt of such objection notice, and the process set forth above shall be repeated until the City and the District have approved or are deemed to have approved the Wastewater Transmission Line. Notwithstanding anything contained herein to the contrary, approval of the Wastewater Transmission Line shall not be unreasonably withheld or delayed, and objections to the Wastewater Transmission Line may only be made if they are reasonable and made in good faith and only to the extent the applicable objectionable components of the Wastewater Transmission Line are not constructed substantially in accordance with applicable regulations and the approved plans and specifications relating thereto.

(iv) Upon inspection and approval (or deemed approval) of the Wastewater Transmission Line by the City and the District as provided above, the Wastewater Transmission Line will be conveyed to and accepted by the District. The Wastewater Transmission Line shall be conveyed free of liens and other monetary encumbrances, and upon such conveyance shall become part of the District's wastewater collection and treatment system. Upon such conveyances, a complete set of as-built construction drawings shall be provided to Owner and each grantee of any portion of the Wastewater Transmission Line. Furthermore, from and after such conveyance, the Wastewater Transmission Line shall be maintained, operated and repaired by the District, subject to the one year maintenance agreement and maintenance bond if required by the District.

(v) Any reasonable expenses incurred by the City relating to the inspection or approval of the Wastewater Transmission Line will be paid by the Owner within thirty (30) days following Owner's receipt, subject to the Owner's approval, of the invoices reflecting such expenses, which approval process will not extend the time of payment by Owner to the City of reimbursable expenses. Without limiting the foregoing, if the City anticipates incurring any expenses associated with taking any such action pursuant to this Section 5.2(a), the City shall notify the Owner and the District in writing prior to taking such action, which notice shall provide an estimate of the expenses expected to be incurred by the City, and the provisions of Section 2.8(b) hereof shall apply.

(b) Treatment Plant Expansions. Owner and/or the District shall design and construct or cause to be constructed one or more expansions (the "Treatment Plant Expansions") of the City's existing wastewater treatment plant (in phases, as needed, based on the earlier of when such expansions are required by TCEQ regulations or the Owner's development schedule for the Property and in accordance with all applicable laws) to provide additional treatment capacity adequate to serve the Full Development of the Property. Without limiting the foregoing, the following provisions shall apply to the Treatment Plant Expansions:

(i) Plans and specifications for, and all other documents submitted in connection with, the Treatment Plant Expansions shall comply with the requirements of this Agreement and applicable regulations, and shall be submitted to and approved by the City (which approval shall not be unreasonably withheld or delayed) and the District. The City will cooperate fully with Owner and/or the District to approve the plans and specifications and other documents as provided above, and the City will obtain and provide, at the expense of the Owner and District, to Owner and the District easements or other rights-of-way necessary or appropriate for the construction, maintenance and

operation of the Treatment Plant Expansions including, but not limited to, the exercise by the City of its condemnation power and obtaining all necessary or appropriate easements from any entities or persons not a Party to this Agreement for the construction, maintenance and operation of the Treatment Plant Expansions. Copies of all plans and specifications for the Treatment Plant Expansions approved by the City and TCEQ shall be provided to the Owner, the City and the District.

(ii) Construction contracts shall be awarded by or on behalf of the City and/or the District in accordance with the competitive bidding requirements applicable to the City and/or the District (including, if required, payment and performance bonds) so that costs paid or incurred under such contracts are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources. Without limiting the foregoing, Owner and/or the District will pay all reasonable costs and expenses in connection with the design and construction of the Treatment Plant Expansions, subject to the provisions of Section 5.2(b)(v) below. Furthermore, the City shall cooperate fully with Owner and the District to provide such documentation as may reasonably be required by Owner, the District, or the TCEQ so that the costs of the Treatment Plant Expansions paid by Owner and/or the District are eligible for reimbursement from the proceeds of District Bonds and/or PID Bonds and/or from other District funds generated from other District revenues or sources, which documentation shall include, but not be limited to, evidence of the reservation of capacity in the City's wastewater collection and treatment system and the Treatment Plant Expansions to serve the Full Development of the Property.

(iii) During construction, the City and the District will have the continuous right to inspect the Treatment Plant Expansions. The Owner will exercise good faith efforts to provide timely prior written notice to the City and the District of the performance of any and all tests. Upon completion of construction and all required testing (if applicable), the Treatment Plant Expansions may be inspected by the City and the District within fifteen (15) days of written request by Owner, and the City and the District may object in good faith within such fifteen (15) day period to any portion of the Treatment Plant Expansions which has not been constructed substantially in accordance with the approved plans and specifications relating thereto. If the City or the District fails to deliver a written objection notice to Owner within such fifteen (15) day period, the City and/or the District, whichever applies, shall be deemed to have approved the Treatment Plant Expansions. If a written objection notice is delivered to Owner within such fifteen (15) day period, the Owner shall use reasonable good faith efforts to correct any objections within a reasonable period of time after receipt of such objection notice, and the process set forth above shall be repeated until the City and the District have approved or are deemed to have approved the Treatment Plant Expansions. Notwithstanding anything contained herein to the contrary, approval of the Treatment Plant Expansions shall not be unreasonably withheld or delayed, and objections to the Treatment Plant Expansions may only be made if they are reasonable and made in good faith and only to the extent the applicable objectionable components of the Treatment Plant Expansions are not constructed substantially in accordance with the approved plans and specifications relating thereto.