

PROPOSED REGIONAL PARTICIPATION AGREEMENT
BETWEEN
THE CITY OF HOUSTON, TEXAS
AND
THE WOODLANDS

Background

The City of Houston is not only the 4th largest city in America but is the epicenter of one of the most vibrant and livable metropolitan areas in the world. With a welcoming climate, a bustling economy, a booming population, affordable and desirable housing, a plentiful and skilled labor market, world-class airport, seaport, healthcare, entertainment, sports, educational and cultural facilities and a free enterprise, can-do spirit, Houston now includes within its territorial limits some 640 square miles in portions of 3 counties (5 counties including ETJ) and projects an extraterritorial jurisdiction of more than 1266 square miles. It is inevitable that Houston's energy and economic and cultural influence will continue to grow and expand in the future.

The Woodlands began in the early 1970's as an experiment in improved urban living and community design and has blossomed into an award-winning, master-planned "new town" of more than 40 square miles, with a growing population of more than 85,000, a permanent employment base for some 40,000 jobs, a destination for shopping, recreation, outdoor enjoyment and business development and a true "home town" for both residents and businesses from all over the world who contribute to and relish its urban amenities and suburban, environmentally friendly style.

Both Houston and The Woodlands are unique and complementary in many respects and contribute greatly to the diversity and attractiveness of the metropolitan region. Yet, each, according to its size, population and resources, has a responsibility and duty to preserve and protect its unique community values, while jointly contributing to the maintenance, improvement and future success of the region as a whole. The benefits enjoyed by the citizens and taxpayers of both Houston and The Woodlands have been well-earned and paid for dearly in the taxes, fees and assessments they contribute toward their governmental and community services, facilities and amenities that support them.

The Woodlands is located predominantly within the extraterritorial jurisdiction of Houston, which means, of course, that under current Texas law, the area is subject to future annexation by Houston. As one of our premier suburban communities, The Woodlands benefits greatly from our highways and transportation

systems, our renowned Texas Medical Center, our airports and seaports, our lakes, parks and open spaces, our museums, theaters and cultural and fine arts facilities and our employment centers and economy -- just as Houston benefits from the business and economic advantages, housing, entertainment and lifestyle choices that The Woodlands brings to our region.

But the facts are that: The Woodlands is located more than 30 miles from downtown Houston; it already has a population equal to the 33rd largest city in Texas; and between the current corporate limits of Houston to the north and The Woodlands, there are areas of more than 39 square miles (about 6% of the current total area of Houston's corporate limits) with a population of more than 85,000, that have yet to be included within the territorial limits of Houston; to maintain its vitality and character, The Woodlands has its own needs for improved community facilities and services, including the need we all share to convert our future water supply from groundwater to surface water sources.

Between us, working together, there is much that can be accomplished in building and improving this great metropolitan area in the future. There is little to be accomplished by ignoring these realities and leaving inevitable territorial frictions and anxieties about future governance to grow and divide us.

Purposes

We went through a similar period in our recent past when, in 1999, Houston and The Woodlands entered into an historic "Regional Development Agreement" (which some refer to today as the "Moratorium Agreement"). The purposes of this Agreement were to avoid:

(i) the emotional and divisive legislative and public policy debates over unilateral annexation of such a large and unique area of Houston's ETJ;

(ii) the unnecessary consumption of financial, management and political resources in maintaining such a policy debate; and

(iii) inhibiting cooperative regional planning, public services planning and implementation and the continuing orderly development and growth of The Woodlands and the greater Houston region.

This forward-looking agreement also recognized that since the original passage of our municipal annexation laws, significant

changes have occurred in demographics, development patterns and the nature, extent and costs of required public facilities and services, and that modifications to existing laws may be required in special circumstances to permit the establishment of more cost-effective and efficient governmental relationships between municipalities and certain areas of their ETJ. It is the recognition of these special circumstances in the relationship between Houston and The Woodlands, the need to establish a better, more cost-effective and more efficient governmental relationship between our communities, and the current absence of a suitable legislative framework to permit proportionate participation in regional governmental programs that form the foundation and purpose of the agreement we seek today.

Proposed Agreement

The regional participation agreement we agree to seek today is straightforward. We will jointly seek passage of enabling legislation in the upcoming Regular Session of the Texas Legislature to enter into a formal agreement between our communities whereby:

(i) The Woodlands, at some point in the future of its own choosing after May 29, 2014, which is the first date on which Houston could commence annexation of The Woodlands under current law and the Moratorium Agreement, may be released from Houston's ETJ and will be free to simultaneously incorporate as a city or form some other means of local self-government; and;

(ii) In return, The Woodlands will agree to make a significant current and continuing financial commitment to identified regional public works projects and programs that Houston undertakes or participates in and that mutually benefit Houston and The Woodlands, as well as the entire region. Houston will agree to provide oversight and accountability for expenditures made on these regional projects with funding provided by The Woodlands. The parties will work in good faith to ensure security for the financial commitments.

The legislation we jointly will seek would first expand the current power, authority and boundaries of The Woodlands Town Center Improvement District to:

(a) include all of the area of The Woodlands in Montgomery County which is within the current ETJ of Houston;

(b) provide additional sales tax authority to TCID in order to make available a source of funding for the regional participation agreement;

(c) expand the authority of TCID to provide and improve existing local government services;

(d) authorize a change in name for TCID to a more comprehensive and descriptive term;

(e) convert the governing board of TCID to a fully elected board;

(f) authorize TCID to enter into and perform its obligations under the regional participation agreement;

(g) authorize TCID to call and conduct an election on the release of its area from Houston's ETJ and/or the incorporation or inclusion of the area into a new local government after May 29, 2014; and

(h) provide for the dissolution of TCID and the assumption by the new municipality or local government of the assets and obligations of TCID, including the regional participation agreement, upon incorporation or creation and election of a governing body for the new government.

Secondly, we will seek legislation for certain municipalities, including Houston, and certain defined communities in their ETJ and local governments within these communities, such as The Woodlands and their various MUD's and road district and community associations, to enter into and perform their obligations under these regional participation agreements. If we are successful in our legislative efforts, a formal regional participation agreement between Houston, TCID and other local governments and organizations within The Woodlands could be completed by June of 2007.

Regional Participation Funding

Within one (1) year after concluding a regional participation agreement, The Woodlands would provide to designated regional programs not less than \$16 million in initial funding for use in carrying out these projects. Funding could come from any lawful sources of the participating local governments or organizations, including proceeds from the sale of bonds, net operating revenues or other funds on hand. Of the initial \$16 million: \$3 million

shall be used for improvements to the park property, largely within Montgomery County, acquired by the City of Houston, and formerly known as Lake Houston State Park; \$3 million will be used for improvements in major regional parks, including MacGregor Park, Memorial Park and Hermann Brown Park; \$5 million will be dedicated to improvements allowing for better entry and exit from the Texas Medical Center, including the MacGregor and Cambridge bridge projects; and \$5 million will be dedicated to road and street improvements funded by the City of Houston that would facilitate entry to and exit from, and other improvements related to, the extension of the Hardy Toll Road from IH-610 to the Central Business District.

In addition, The Woodlands would make a continuing payment quarterly, as received, equal to the proceeds collected from 1/16¢ (one sixteenth of 1%) of a generally applicable sales and use tax within The Woodlands, but if authorized by the Texas Legislature and requested by Houston, this continuing payment could be utilized, instead, to pay debt service on one or more bond issues by The Woodlands in order to make these proceeds available in a lump sum amount. The projected present value of this stream of continuing payments over the next 30 years is approximately \$29 million, making the total commitment of The Woodlands to participation in these regional public works projects equal to approximately \$45 million. This pledge is real, substantial and meaningful, and it is indicative of the strength and depth of the commitment of The Woodlands to our future in the Houston region.

Because of the lack of existing programs and legislation to generate funding for regional projects, this agreement may help to pave the way for participation by other local governments and groups in the funding and support of greater Houston's future. And to be fair, should Texas laws change in the future to require financial participation by local governments in the ETJ toward these types of projects, appropriate credit will be given to The Woodlands for any amounts paid or to be paid under the regional participation agreement, so as to not require The Woodlands or any other participating local government, to duplicate their contributions or to pay more than their fair share.

Eligible Regional Projects

For purposes of this enabling legislation, which may be broader than the projects that Houston and The Woodlands are targeting today, eligible regional projects may include:

(i) mobility projects, including highways, traffic circulation and air, rail or other transportation and people movement facilities and systems;

(ii) healthcare treatment, research, teaching or educational facilities and infrastructure;

(iii) parks, recreation and open space acquisition, construction, improvement, operation or maintenance;

(iv) regional water supply and/or conservation projects;

(v) drainage and flood control projects;

(vi) public safety and security projects, including law enforcement, firefighting, emergency medical services and homeland security projects;

(vii) environmental improvement projects, including air and water quality improvements and noise abatement; and

(viii) such other similar projects or programs as the Texas Legislature may define as having significant mutual benefits to the participants and the region as a whole.

For purposes of the proposed regional participation agreement between Houston and The Woodlands, the parties intend that of the approximately \$45 million in funding to be made available during the first 30 years, approximately \$20 million will be dedicated to the mobility projects described above, some \$10 million will be applied to the infrastructure improvements for the Texas Medical Center described above, and approximately \$15 million will be used for the regional parks and recreation projects described above.

Effects of Agreements

Pending conclusion of a definitive regional participation agreement, the existing Moratorium Agreement will continue in full force and effect, without modification. Once the regional participation agreement becomes effective, the remaining term of the Moratorium Agreement would be suspended until May 29, 2014, and would then terminate, unless the regional participation agreement is terminated prior to that date by operation of law or by final court decision. In that case, the Moratorium Agreement would resume its effectiveness and continue in effect for the remainder of its original term. As a result, neither party will be in any

worse position for having entered into and attempted this great venture.