

MEMORANDUM OF UNDERSTANDING
BY AND AMONG
TOWN CENTER IMPROVEMENT DISTRICT OF MONTGOMERY COUNTY, TEXAS
THE WOODLANDS COMMUNITY ASSOCIATION, INC.,
THE WOODLANDS ASSOCIATION, INC.,
THE WOODLANDS COMMERCIAL OWNERS ASSOCIATION, INC.,
THE WOODLANDS COMMUNITY SERVICE CORPORATION
THE WOODLANDS RECREATION CENTERS, INC.
AND
THE WOODLANDS FIRE DEPARTMENT, INC.

This Memorandum of Understanding (“MOU”) is hereby made and entered into by and among Town Center Improvement District of Montgomery County, Texas (the “District”), The Woodlands Community Association, Inc. (“WCA”), The Woodlands Association, Inc. (“TWA”), The Woodlands Commercial Owners Association, Inc. (“WCOA”), The Woodlands Community Service Corporation. (“WCSC”), The Woodlands Fire Department, Inc. (“WFD”) and The Woodlands Recreation Centers, Inc. (“WRC”) (collectively, the District, WCA, TWA, WCOA, WCSC, WFD and WRC shall be referred to herein as the “Parties”).

I. OBJECTIVES

The mutual objectives of the Parties are to:

- (i) take reasonable next steps toward avoiding annexation by the City of Houston and preserve local voter control over The Woodlands governance
- (ii) inform the voters of The Woodlands in connection with the proposed November 6, 2007 election, as to how the Parties intend and expect to
- (iii) accomplish a seamless consolidation of the functions and services provided by the Parties into a single, community-wide governmental organization
- (iv) funded by the most efficient and cost effective means to the taxpayers of the community while
- (v) preserving and continuing the current high level and quality of such functions and services by
- (vi) utilizing existing personnel, management, programs and structures, and
- (vii) ensuring continuity of management and elected leadership.

II. PURPOSE

The purpose of this MOU is to express the intentions and expectations of the Parties with respect to the means and timing of accomplishing the objectives. This MOU is not intended to be legally binding on the Parties. The particular terms and means of achieving each of the objectives will be the subject of a definitive written agreement among the Parties to be

undertaken after successful passage of all propositions at the November 6, 2007 election and to be concluded prior to February 1, 2008.

III. CONSTRAINTS PRESENTLY IMPOSED ON THE ASSOCIATIONS

- WCA, TWA and WCOA (the “Associations”) currently provide individual funding for municipal type and community services delivered through the WCSC, WFD and WRC, which may cause some confusion and may entail some added expense to the residents and taxpayers.
- As not-for-profit corporations, the Associations, WCSC, WFD and WRC do not enjoy many of the privileges and immunities of governmental organizations.
- The property assessments currently imposed by the Associations are not tax deductible.
- The Associations currently do not have access to most additional sources of revenue that are available to governmental organizations.

IV. CONSTRAINTS PRESENTLY IMPOSED ON THE DISTRICT

- The District’s boundaries are limited to The Woodlands Town Center and College Park business and commercial areas.
- The principal sources of revenue for the District are currently limited to sales and use taxes and hotel taxes paid by businesses and patrons within the District.
- A portion of the Board of Directors of the District are elected by voters within the District, with the remaining portion being appointed by the Associations and governmental entities outside of or overlapping The Woodlands.
- As a governmental entity, the District may not make grants or payments to non-governmental entities without reserving appropriate oversight authority.
- The authority of the District to directly employ personnel for fire and emergency services is limited until January 1, 2010.

V. ACTIONS REQUIRED TO ALLEVIATE CONSTRAINTS

- Ensure that The Woodlands prevents annexation by the City of Houston and the City of Conroe and determines its own future of governance by passing *both* of the following propositions at the November 6, 2007 election:
 - Proposition to expand the boundaries of The Woodlands; and

- Proposition to restructure the Board of Directors of the District to be elected by the qualified voters of The Woodlands.
- Ensure that The Woodlands has the ability to:
 - (i) achieve an overall reduction in tax and assessment burden and
 - (ii) fund a cost effective centralized government by
 - (iii) minimizing or eliminating the need for property assessments
 - (iv) through the use of fully deductible sales and use taxes and ad valorem taxes
 - (v) by passing the proposition to institute an ad valorem tax at the November 6, 2007 election.
- Devise a means for consolidating governmental service delivery in The Woodlands Township (the "Township").
- Institute methodologies for the orderly and systematic transfer of services and functions currently provided and funded by or through the Associations to the Township, such that the implementation of an expanded sales and use tax and ad valorem tax, in lieu of Community Association assessments, results in a dollar for dollar reduction in the property assessments of the Associations.
- Establish a definitive time for and means of executing the transfer of services and functions, facilities and assets currently being provided, held or owned by the Associations, WCSC, WFD and WRC to the Township.
- Ensure a seamless continuation of services and functions through December 31, 2011, by contractual agreement.
- Ensure continuity of existing staffing and personnel to avoid interruptions in services and functions.
- Establish appropriate oversight for program and budgetary development processes, relative to funding responsibility, to take advantage of institutional experience and knowledge.

VI. INTENTIONS OF THE PARTIES

The mutual intentions and expectations of the Parties are that:

- A contractual agreement will be executed by and among the Associations and the Township on or before November 30, 2007, to provide (i) joint funding for the WFD operations for the calendar year 2008, (ii) the imposition and collection of the expanded sales and use tax by April, 2008, and (iii) a partial reduction in property assessments by the Associations for 2008.

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October 2, 2007

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- A definitive transition agreement and related Mutual Benefits Agreement amendments and revisions to corporate Articles and Bylaws will be concluded and executed prior to February 1, 2008.
- The Calendar of Events attached hereto as **Schedule "A"** should be implemented with the definitive agreement setting forth the details of implementation of the Calendar of Events.

IN WITNESS WHEREOF, the parties have approved and entered into this Memorandum of Understanding as of the last date entered below.

TOWN CENTER IMPROVEMENT DISTRICT OF MONTGOMERY COUNTY, TEXAS

BY: _____
NAME: _____
TITLE: _____
DATE: _____

THE WOODLANDS COMMUNITY ASSOCIATION, INC.,

BY: _____
NAME: _____
TITLE: _____
DATE: _____

THE WOODLANDS ASSOCIATION, INC.,

BY: _____
NAME: _____
TITLE: _____
DATE: _____

THE WOODLANDS COMMERCIAL OWNERS ASSOCIATION, INC.,

BY: _____
NAME: _____
TITLE: _____
DATE: _____

[SIGNATURES CONTINUE ON FOLLOWING PAGE]

THE WOODLANDS COMMUNITY SERVICE CORPORATION

BY: _____
NAME: _____
TITLE: _____
DATE: _____

THE WOODLANDS RECREATION CENTERS, INC.

BY: _____
NAME: _____
TITLE: _____
DATE: _____

THE WOODLANDS FIRE DEPARTMENT, INC.

BY: _____
NAME: _____
TITLE: _____
DATE: _____

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SCHEDULE "A" **CALENDAR OF EVENTS**

- *October, 2007:* The MOU is approved and executed by the Parties
- *November, 2007:* Subject to approval of propositions 1 and 2 on November 6, 2007, the contract for WFD services for 2008 is executed by and among the Township and the Associations. The Township would agree to apply the expanded sales and use tax revenue and the Associations agree to reduce the property assessment for WFD purposes for calendar year 2008 based on the funding received from the Township (dollar for dollar reduction in assessments)
- *February, 2008:* The definitive agreement is approved and executed by the Parties to implement the agreed upon MOU general provisions:
 - Transfer of the Associations' assets in escrow or trust to WCSC, WFD and WRC on or before February 1, 2008; assets to be held in trust by WCSC, WFD and WRC until December 31, 2011
 - Assignment of the Associations' covenants responsibilities to the Township with a delayed effective date of January 1, 2010
 - Establish contracts between the Township and the WFD for services for 2009
 - Changes in WFD Board composition in 2008
 - Establish contracts between the Township and the WFD, WCSC and WRC for services for 2010 and 2011
 - Changes in WCSC and WRC Board composition in 2009
 - Conforming amendments to the Mutual Benefits Agreement with the Developer necessitated by this Agreement
 - Except for an appropriate capital reserve for assets to be transferred to the Township, the agreement shall exclude from transferred assets cash assets held by the WCA in excess of debt requirements, other cash reserves and the office building located at 2201 Lake Woodlands Drive
 - The Township appointments to the WCSC, WFD and WRC Boards will be only those Township/Town Center Improvement District Directors who have been elected or who were elected to any Association Board and appointed to the Township/Town Center Improvement District Board.
- *May, 2008:* Election of five at large Township Board positions

- *June, 2008:* The Township and the Associations make appointments to the WFD Board to serve until successors are appointed:
 - 1 member – WCA appointment
 - 1 member – TWA appointment
 - 1 member – WCOA appointment
 - 4 members – Township appointments (elected Township Directors)
- *July through September, 2008:* The WFD staff and management develop proposed contracts and related budgets with the Township for services for 2009.
- *September, 2008:* The Township Board considers the services contract with WFD for 2009.
- *November, 2008:* The Township and the Associations agree to address and consider resolving issues regarding tax abatements, covenant assignment and enforcement, fire service contracting, contractual assignment issues and other matters as deemed necessary by mutual agreement.
- *June, 2009:* If resolution of the issues identified in November 2008 is reached, and the Township Board in 2009 implements the ad valorem property tax (for the budget year 2010), the representation on the WCSC and WRC Boards will change in 2009 and January 2010 as provided below.

NOTE: The Township ad valorem tax will not be implemented unless and until the Township offers to business owners then having tax abatement agreements with both WCOA and Montgomery County tax abatement agreements with the Township comparable in terms and remaining duration to those with Montgomery County. **Postponement of the levying and implementation of the ad valorem property tax by the Township in 2009 for the budget year 2010 will extend all implementation dates (beginning in June 2009 and beyond) by one full year for each year that the levy of the ad valorem property tax is postponed.**

- *June, 2009:* Subject to the items provided for in the June, 2009 “NOTE;” above, the Township makes appointments to the WCSC and WRC Boards to serve until successors are appointed:
 - *WCSC*
 - 1 member – WCA
 - 1 member – TWA
 - 1 member – WCOA
 - 4 members – Township Directors

- *WRC*

- 1 member – WCA

- 1 member – TWA

- 3 members – Township Directors

- *September, 2009:* Subject to the items provided for in the June, 2009 “NOTE;” above, the Township Board and the WCSC, WFD and WRC Boards consider the service contracts and budgets and upon approval, the Township Board establishes the ad valorem tax levy for the Township’s 2010 budget year (all existing WCSC, WFD and WRC services are anticipated to be funded through the Township for calendar year 2010) and the Associations implement a dollar for dollar reduction in assessments for calendar year 2010 in relation to the Township levy
- *January 1, 2010:* The WCSC, WFD and WRC begin the new operations and services contract with the Township, with the WCSC President, the WFD General Manager and the WRC General Manager reporting directly to the Township Board (on behalf of the WCSC, WFD and WRC Boards) and attending meetings of the Township Board as the official representatives of the WCSC, WFD and WRC
- *May, 2010:* Election of two new at large Township Board positions and re-election of two at large Township Board positions
- *January, 2011:* The Township makes appointments of all members of the WCSC, WFD and WRC Boards to serve until successors are appointed
- *September, 2011:* The Township Board considers service requirements, budgets and extensions of contracts, or dissolution of WCSC, WFD and WRC and direct employment of staff of those corporations, for the 2012 calendar year and subsequent years