

THE STATE OF TEXAS

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KNOW ALL MEN BY THESE PRESENTS:

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COUNTY OF TRAVIS

This Strategic Partnership Agreement (this “SPA”) is between the **City of Austin, Texas**, a home-rule municipality located in Travis, Hays, and Williamson Counties, Texas (“*the City*”) and **Pilot Knob Municipal Utility District No. 2** (the “*District*”), a political subdivision of the State of Texas created under Chapter 8376, Subtitle F, Title 6, Texas Special District Local Laws Code (the “*Enabling Legislation*”) and Chapters 49 and 54 of the Texas Water Code. Carma Easton LLC, a Texas limited liability company (the “*Developer*”), has joined in this SPA for the sole purpose of evidencing its consent to the City’s annexation of its land, as contemplated by this SPA, and the provisions contained in **Exhibit C-1**. In this SPA, the City and, prior to the Conversion Date, as defined below, the District, and, after the Conversion Date, the Limited District are sometimes individually referred to as a “*Party*” and collectively referred to as the “*Parties*”.

RECITALS

A. The District is a municipal utility district that has been created under the Enabling Legislation and currently contains 557.187 acres of land, as more fully described on the attached **Exhibit A** (the “*Land*”). The City has consented to the creation of the District by Ordinance No. 20120322-032 adopted March 22, 2012 (the “*Consent Ordinance*”) and under the terms of the Consent Agreement between the City, the District and the Developer dated effective as of April 13, 2012 (the “*Consent Agreement*”).

B. The Consent Agreement requires, among other things, that the District negotiate and enter into a strategic partnership agreement with the City setting forth the terms on which the District will continue to exist after the full-purpose annexation of the District by the City. The District desires to comply with that requirement through the approval and execution of this SPA.

C. The Enabling Legislation provides that (i) any agreement related to the City's consent to the creation of the District is valid and enforceable, and (ii) a strategic partnership agreement between the City and the District may provide for a term of any number of years and the term limitation contained in Section 43.0751(g)(2), Texas Local Government Code, does not apply to a limited district created under such a strategic partnership agreement.

D. The City and the District are authorized and desire to enter into this SPA to establish the terms and conditions upon which (i) the City will annex all of the land within the District for limited and full purposes, and (ii) following the full purpose annexation of all of the land within the District, the District will be converted to and operate as a limited district under Section 43.0751, Texas Local Government Code.

E. In accordance with Section 43.0751(d), Texas Local Government Code, the District has conducted two public hearings at which members of the public who wished to present testimony or evidence regarding this SPA were given the opportunity to do so, with the first public hearing being held at 9:30 a.m. on Friday, May 18, 2012, and the second public hearing being held at 9:30 a.m. on Wednesday, May 23, 2012, at the offices of Armbrust & Brown, PLLC, 100

Congress Avenue, Suite 1300, Austin, Texas. Notice of the public hearings in the format required by Section 43.123(b) and Section 43.0751(d), Texas Local Government Code, was given on or after the 20th date before each public hearing. Following the public hearings, the Board of Directors of the District approved this SPA on May 23, 2012, in an open meeting held in accordance with Chapter 551, Government Code (the "Texas Open Meetings Act").

F. In accordance with Section 43.0751(d), Texas Local Government Code, the City has also conducted two public hearings at which members of the public who wished to present testimony or evidence regarding this SPA and the City's annexation of the Land were given the opportunity to do so, with the first public hearing being held at 4:00 p.m. on Thursday, April 12, 2012, and the second public hearing being held at 4:00 p.m. on Thursday, April 26, 2012, at 301 West 2nd Street, Austin, Texas. Notice of the public hearings in the format required by Sections 43.123(b), 43.0751(d), and 43.063(c), Texas Local Government Code, was given on or after the 20th date before each public hearing. Following the public hearings, the City Council of the City approved this SPA on _____, 2012, in an open meeting held in accordance with the Texas Open Meetings Act.

NOW, THEREFORE, for and in consideration of the mutual agreements, covenants, and conditions contained in this SPA, and other good and valuable consideration, the City and the District agree as follows:

ARTICLE I. **DEFINITIONS, PURPOSE, AND LEGAL AUTHORITY**

Section 1.01. Confirmation of Recitals; Legal Authority.

The City and the District confirm that the recitals set forth above are true and correct, and that this SPA has been duly approved and adopted in accordance with all applicable requirements of Section 43.0751, Texas Local Government Code, and as authorized by the Enabling Legislation. The District confirms and agrees that this SPA relates to the City's consent to the creation of the District, and is valid and enforceable.

Section 1.02. Definitions.

In addition to the terms defined elsewhere in this SPA, when used in this SPA, each of the following terms will have the meaning indicated below:

Annexation Corridor means a corridor through the Land which may be annexed by the City prior to the full-purpose annexation of the remainder of the Land, as provided in Section 3.07 of this SPA.

Board means the Board of Directors of the District or, after the Conversion Date, the Board of Directors of the Limited District.

City Annexation Notice means the notice of the City's intent to annex the District, to be recorded in the Official Public Records of Travis County, Texas attached as **Exhibit B**.

City Council means the City Council of the City.

City Manager means the City Manager of the City or his designee.

Commission means the Texas Commission on Environmental Quality, or its successor agency.

Conversion Date means the date on which all remaining Land is converted from Limited Purpose Annexation status to full purpose annexation status, and the District is converted to the Limited District, subject to Section 3.08 of this SPA.

District means Pilot Knob Municipal Utility District No. 2.

Drainage Facilities means any drainage improvements designed and constructed to serve the Project, or that naturally receive and convey drainage through the Project, including water quality and flood mitigation facilities, storm drain systems, drainage ditches, open waterways, and other related facilities that convey or receive drainage.

Effective Date means the date the City ordinance approving this SPA is effective, which date is _____, 2012.

Land means the land within the District's boundaries, as those boundaries may be modified from time to time with the consent of the City.

Limited District means Pilot Knob Limited District No. 2, the limited district to be created upon the City's full purpose annexation of all of the Land in accordance with this SPA.

Limited District Facilities means the open space and Recreational Facilities which will be owned, operated, and maintained by the District prior to the Conversion Date and owned, operated, and maintained by the Limited District after the Conversion Date.

Limited Purpose Annexation means annexation by the City for the limited purposes of planning and zoning, as authorized by Article I, Section 7 of the City's Charter.

Notice means any formal notice or communication given by one Party to this SPA to the other.

OA Amenities means swimming pools, splash pads, community centers and other park and recreational facilities for the Project and any related improvements, land and infrastructure that will be owned, operated and maintained by the Owners Association, as approved by the City Manager, which approval will not be unreasonably withheld, conditioned, or delayed. Drainage Facilities or utility infrastructure, public roads and sidewalks, and other utility or public infrastructure that is owned, operated, and maintained by the District, the City, another governmental entity or a public utility will not constitute OA Amenities.

Owners Association means a Texas nonprofit corporation created by the Developer to, among other things, enforce restrictive covenants and own and operate the OA Amenities.

PDRD Director means the City's Director of Planning and Development Review, or his successor.

Project means the master-planned, mixed use community that includes the District.

Project Area means the additional land which is described in the Consent Agreement and may be added to the Land and annexed into the District, subject to the requirements of the Consent Agreement and this SPA.

Reclaimed Water means domestic or municipal wastewater which has been treated to a quality suitable for a Type I Reclaimed Water Use pursuant to the requirements of the Commission

under 30 Texas Administrative Code Chapter 210, and any other applicable regulatory entities with jurisdiction.

Recreational Facilities means parks, landscaping, parkways, greenbelts, sidewalks, trails, public right-of-way beautification projects, and recreational equipment and facilities, including associated street and security lighting that will be owned, operated and maintained by the District before and by the Limited District after the full purpose annexation of the Land.

Service Plan means the service plan attached as **Exhibit C** which specifies the municipal services to be provided by the City after the City's full annexation of land within the District.

SPA means this Strategic Partnership Agreement between the City and the District.

Type I Reclaimed Water Use means the use of Reclaimed Water where contact between humans and the Reclaimed Water is likely.

Water and Wastewater Facilities means any water or wastewater improvements, including Reclaimed Water improvements, or undivided interests in such improvements, designed and constructed to serve the District, which, upon the Conversion Date, are under construction or have been completed but have not been conveyed to the City for ownership, operation, and maintenance.

Section 1.03. Purpose of SPA.

The purpose of this SPA is to set forth the terms of and conditions of Limited Purpose Annexation and full purpose annexation of the Land by the City, and the terms on which the District will continue to exist as the Limited District after the full purpose annexation of the Land by the City.

Section 1.04. Election

The District agrees to conduct an election on a proposition to authorize the Limited District to levy an operation and maintenance tax, as authorized by Section 49.107, Texas Water Code, to provide funds to operate the Limited District and to operate and maintain the facilities of the Limited District following the Conversion Date. The District agrees that it may not issue bonds until such time as this proposition has been submitted to and approved by the voters within the District.

Section 1.05. Effective Date of SPA; Recordation of SPA; Binding Effect; Applicable to Property Added to the District in the Future.

This SPA will become effective on the Effective Date. On the Effective Date, the City will record this SPA in the Official Public Records of Travis County, Texas, and the terms of this SPA will constitute covenants running with the land comprising the Land and will become binding on each current and future owner of any land included within the Land. If, in the future, additional property is annexed to the District, then, upon the effective date of such annexation, the terms of this SPA will become applicable to that additional property in the same manner and to the same extent as if the additional property had originally been included within the Land.

Section 1.06. Notices.

As required by the Enabling Legislation, the City has filed a notice in the Official Public Records of Travis County, Texas describing the City's intention to annex the District and the anticipated dates of the City's annexation of the District for limited and full purposes, a copy of which is attached as **Exhibit B**. The District agrees that a reference to this SPA, as recorded in the Official Public Records of Travis County, Texas in accordance with Section 1.05 of this SPA, and the information contained in the City's Annexation Notice will be attached as an addendum to the Notice to Purchaser form issued by the District under Sections 49.452 and 49.453, Texas Water Code, and incorporated into the Information Form recorded by the District under Section 49.455, Texas Water Code.

ARTICLE II.

LIMITED PURPOSE ANNEXATION

Section 2.01. Current Status.

The Land is currently located within the extraterritorial jurisdiction of the City, in Travis County, Texas.

Section 2.02. Developer's Consent to Limited Purpose Annexation.

The Developer has consented to the City's Limited Purpose Annexation of the Land and the portions of the Project Area owned by it, either now or in the future, as provided in **Exhibit D**.

Section 2.03. Limited Purpose Annexation.

The District and the City agree that, in accordance with Sections 43.0751(f) and 43.0751(q) of the Texas Local Government Code, Limited Purpose Annexation of land within the District's boundaries, as those boundaries may be modified from time to time with the consent of the City, may be effected by City Council adoption of an ordinance including the land within the City's limited purpose jurisdiction. Except as set out in this SPA, no additional procedural or substantive requirements of State or local annexation law will apply to such annexation or the annexation ordinance.

Section 2.04. Continued Existence of the District Following Limited Purpose Annexation.

Following the City's Limited Purpose Annexation, the District will continue to exist and to have and exercise all of its powers under the Enabling Legislation and the general laws of the State, including the power to levy and collect an ad valorem tax on the Land, and will continue to provide all services which the District has been created and is authorized to provide, subject only to the terms of the Consent Agreement and this SPA. The District agrees that it will not enforce restrictive covenants nor own, operate, or maintain any OA Amenities.

Section 2.05. Rights of District Residents upon Limited Purpose Annexation.

As provided in Article 1, Section 7 of the City's Charter, upon the Limited Purpose Annexation of the District, (a) any resident of that portion of the District annexed for limited purposes will be deemed to be a citizen of the City and be entitled to vote in City elections on every issue where the question before the electorate is the election or recall of a City Council member, or the amendment of the City's Charter; (b) no resident of that portion of the District annexed for limited purposes will be eligible to run for office in the City prior to full purpose annexation; and (c) any resident of that portion of the District annexed for limited purposes will be deemed to be

a citizen of the City in connection with ordinances, rules, or regulations which are applicable to the citizen by virtue of the Limited Purpose Annexation.

ARTICLE III. **FULL PURPOSE ANNEXATION**

Section 3.01. Full Purpose Annexation.

When any portion of the Land then located within the City's limited purpose jurisdiction is converted to full purpose annexation status in accordance with this SPA and as provided by 43.0751, Texas Local Government Code, the conversion may be effected by City Council adoption of an ordinance including the land in question within the full purpose city limits. Except as set out in this SPA, no additional procedural or substantive requirements of State or local annexation law will apply to such annexation or to the annexation ordinance.

Section 3.02. Consent Agreement.

The Consent Agreement, to the extent that it is not inconsistent with the provision of this SPA, will remain in full force until, and will expire upon, the Conversion Date.

Section 3.03. Service Plan.

Following the Conversion Date, the City will provide additional municipal services within the District in accordance with the Service Plan attached as **Exhibit C**, which will be the Service Plan for the District. The City will not assume any obligation or be required to provide any services relating to the Limited District Facilities or OA Amenities. The District affirms that the Service Plan is sufficient, and no further negotiations or public hearings are required for the adoption of the Service Plan. All services and obligations relating to the Limited District Facilities will be assumed and provided by the Limited District following the Conversion Date. The District agrees that it will not contest the Service Plan, which the City and the District agree will be effective for a period of ten years from the Conversion Date.

Section 3.04. Authority of the City Upon Full Purpose Annexation.

Upon the Conversion Date, the City will have all of the authority and power within the Land that the City has in all other areas within the City's incorporated city limits, including the power to levy and collect ad valorem property taxes and sales taxes.

Section 3.05. Rights of District Residents upon Full Purpose Annexation.

Following the Conversion Date, the residents of the Land will be citizens of the City for all purposes and will have all of the rights, privileges, and responsibilities accorded to citizens residing in all other areas within the City's incorporated city limits.

Section 3.06. Post-annexation Surcharge.

The District agrees that, following the Conversion Date, the City may charge and collect a special surcharge on the water and sewer rates charged within the Land for the purpose of wholly or partially compensating the City for its assumption of the debt obligations of the District as provided in this SPA, as authorized by Section 54.016(h), Texas Water Code, and as more fully described in the Consent Agreement.

Section 3.07. Annexation Corridor.

Concurrently with its annexation of any land outside of the Project that the City desires and is legally allowed to annex, the City may annex an Annexation Corridor upon and across the Land as necessary to establish contiguity between the other land to be annexed and the then-existing full purpose city limits in accordance with Section 43.071(e)(1), Texas Local Government Code, as provided in this Section. The Annexation Corridor may be located upon and across land located within future public rights-of-way shown on a proposed preliminary plan for any part of the Land, or upon and across easements, parks, open space or drainage lands owned or to be conveyed to the District. Each of the Developer and the District, for any of such lands owned in fee simple by it, and the Board of the District pursuant to Section 43.071(e)(1), Texas Local Government Code, consent to such annexation so long as the corridor does not exceed 50 feet at its widest point. The full purpose annexation of the Annexation Corridor, as contemplated by this Section, will not require any procedural action of any kind other than the adoption of an annexation ordinance by the City. The Service Plan will be the service plan for the Annexation Corridor, and will be effective for ten years from the date of full purpose annexation of the Annexation Corridor. The Parties agree that the Annexation Corridor will continue to be a part of the District following its full purpose annexation by the City and will continue to receive District and Limited District services during the existence of the District and the Limited District, respectively.

Section 3.08. Conversion of Remaining Land to Full Purpose Annexation Status.

The City may convert all of the remaining land within the District to full purpose annexation status at such time as it determines such conversion to be appropriate, subject to the terms of the Consent Agreement and this SPA, but, except as otherwise provided in the Consent Agreement, in no event sooner than December 31, 2047. In accordance with Sections 43.0751(f)(5) and 43.0751(h), Texas Local Government Code, the District and the City agree that any land within the District which has not been previously annexed by the City for full purposes may be converted to full purpose annexation status on or after December 31, 2042, at the City's sole discretion. This full purpose annexation conversion may be effected by City Council adoption of an ordinance including the area of the District within the full purpose City limits. Except as set out in this SPA, no additional procedural or substantive requirements of State or local annexation law will apply to such annexation or to the annexation ordinance.

The Developer has executed and delivered the Consent and Waiver attached to this SPA as **Exhibit D** to evidence its consent to the annexations contemplated by this SPA, and its waiver of Sections 43.035, 43.071(e)(1)(b), 43.121(b)(2) and 43.127, Texas Local Government Code.

Section 3.09 Water Conservation.

The Limited District will comply with the City's Water Conservation Ordinance, as amended from time to time.

Section 3.10 Ownership, Operation and Maintenance of Recreational Facilities.

The Limited District will not accept the conveyance of any OA Amenities and will not convey or transfer any Recreational Facilities to the Owners Association without the approval of the City. The Limited District will operate and maintain the Recreational Facilities conveyed to it in a good state of repair and in a manner so as not to create a nuisance or danger to the public health

and safety. The City will have no obligation to operate or maintain the Recreational Facilities owned and operated by the Limited District.

ARTICLE IV.
DISTRICT ASSETS, LIABILITIES, AND OBLIGATIONS

Section 4.01. District Tax Rate for Year of Full Purpose Annexation

The District agrees to establish a tax rate for the year of full purpose annexation sufficient to meet its historical operations expenses and its debt service obligations; to timely report its tax rate to the District's tax assessor/collector; to take all other actions required by law for its tax rate to be effective; and to use good faith efforts to cause its tax assessor/collector to collect its tax revenues as they become due.

Section 4.02. Assumption of the District's Outstanding Obligations, Liabilities, and Assets Upon Full Purpose Annexation.

Upon the Conversion Date:

(a) The Limited District Facilities will become the property of the Limited District and the Limited District will thereafter own, operate, and maintain the Limited District Facilities.

(b) The City will assume all of the District's other outstanding obligations, indebtedness, liabilities, and assets, including all obligations on or related to the District's outstanding bonds.

(c) All funds in the District's debt service account will be transferred to the City and will be applied by the City to the debt service on the District's bonds.

(d) All funds in the District's general operating accounts will become the property of and be transferred to the Limited District.

(e) As tax revenues for the year of full purpose annexation are collected, the portion allocable to debt service will be paid to the City and the portion allocable to operations and maintenance will be transferred to the Limited District.

Section 4.03. Limited District Contracts.

On the Conversion Date, any contracts between the District and any governmental entity or private service provider which relate to the Limited District Facilities and/or the functions to be performed by the Limited District will be assumed by the Limited District. On the Conversion Date, any contracts or agreements between the District and any governmental entity or private service provider which relate to any functions of the District that will be assumed and performed by the City will be assumed by the City. Without the prior approval of the City Manager or his designee, which approval will not be unreasonably withheld, conditioned, or delayed, the District will not enter any contracts that extend beyond the Conversion Date that (a) require the payment of a fee for their termination, or (b) are not terminable upon 60 days' notice or less. The prohibition contained in the preceding subsection (b) will not apply to District contracts with utility providers such as Bluebonnet Electric Cooperative or District contracts that will be assumed by the Limited District after full purpose annexation.

Section 4.04. Reimbursement of Developer Upon Full Purpose Annexation.

If, on the Conversion Date, any developer is entitled to receive reimbursement from the District for costs and expenses, including costs of construction, which are eligible for reimbursement under the rules of the Commission, but the District has not issued bonds for such reimbursement, the developer will, upon conveyance of any related facilities, interests in facilities, and associated rights to the City, free and clear of any liens, claims, or encumbrances, be entitled to reimbursement from the City as provided in Section 43.0715, Texas Local Government Code, as modified by the terms of the developer's reimbursement agreement with the District, consistent with Section 10.15 of the Consent Agreement.

Section 4.05. Transfer of Certain Easements and Real Property to City.

Within 90 days after the Conversion Date, the District will convey to the City, at no cost to the City, any real property and/or easements owned or held by the District which contain Water and Wastewater Facilities that are to be transferred to the City in accordance with this SPA. All conveyances will be by appropriate instrument, acceptable in form and substance to the City and the District. If any necessary transfer of title is not accomplished, for any reason, by the Conversion Date, the District agrees that the City will be authorized to finalize such conveyances as the District's successor-in-interest, and the Limited District will cooperate with the City to conclude any such transfer.

ARTICLE V.
LIMITED DISTRICT

Section 5.01. Conversion of District to Limited District; Term of Limited District.

Upon the Conversion Date, the District will be converted to the Limited District, and will thereafter be known as Pilot Knob Limited District No. 2. In accordance with the Enabling Legislation, the Limited District will continue to exist in perpetuity, unless and until the City and the Limited District mutually agree to terminate this SPA and dissolve the Limited District or this SPA is terminated and the Limited District is dissolved by the City as provided in this SPA.

Section 5.02. Limited District Functions.

Following the Conversion Date, the Limited District will own, operate and maintain the Limited District Facilities and will have all powers necessary to do so, including all powers reasonably inferable to provide services related to the Limited District Facilities or to comply with the requirements of State law or this SPA which are applicable to the Limited District. The Limited District will not, however, have any powers which are not expressly set forth in this SPA, reasonably necessary to exercise the powers and provide the services set forth herein, or otherwise approved by the City. If the Limited District exercises or attempts, by formal Board action, to exercise any power not authorized by this SPA or otherwise approved by the City, the City will have the right to seek a writ of mandamus, prohibiting the Limited District from exercising or attempting to exercise any such power.

Section 5.03. Limited District Information to be Provided to City.

(a) The Limited District will provide the PDRD Director with a copy of the agenda for each meeting of its Board concurrently with the posting of the agenda at the Travis County Courthouse. The Limited District will also provide the PDRD Director with a copy of the

minutes of all meetings of the Limited District's Board within five business days of the date of approval of such minutes.

(b) The Limited District will file a copy of its approved budget for each fiscal year with the PDRD Director within 30 days after approval by the Limited District's Board.

(c) The Limited District will obtain an annual audit, prepared by an independent certified public accountant, and will file a copy of its annual audit with the PDRD Director within 30 days after approval by the Limited District's Board.

Section 5.04. No City Liability for Limited District Operations.

The City will not be liable for any claims or causes of action which arise out of, or result from, the Limited District's ownership, operation or maintenance of the Limited District Facilities, nor will the City be liable for any claims or causes of action arising out of or resulting from the Limited District's operations, maintenance or other activities on any property owned by the City. To the extent authorized by law, the Limited District will indemnify, defend, and hold harmless the City from any claims, demands, actions, and causes of action whatsoever arising out of or resulting from the Limited District's maintenance, operation, or ownership of the Limited District Facilities, the Limited District's performance of its functions described in this SPA, or the Limited District's maintenance, operations, or other activities on any property owned by the City. The Limited District agrees to cause the City to be added as an additional insured on its general liability insurance, which the Limited District agrees to obtain and maintain in full force and effect for each year of its existence.

Section 5.05. Bonds and Indebtedness of Limited District.

The Limited District may not issue bonds or notes for any purpose without the prior written consent of the City. The Limited District may not incur indebtedness or enter into lease agreements other than in connection with the normal functions and operations of the Limited District, for the operation, maintenance and repair of the Limited District Facilities, or for other purposes authorized in this SPA.

Section 5.06. Limitations on Employment Obligations.

The Limited District will not, without the prior written approval of the City, enter into any contracts for employment that will result in a contractual obligation binding on the City after the date of dissolution of the Limited District.

Section 5.07. Limitation on Limited District Facilities and Related Debt.

After the Conversion Date, the Limited District may not acquire, purchase, construct, or lease additional Limited District Facilities, expand any existing Limited District Facilities, or incur debt, liabilities, or obligations to construct additional Limited District Facilities, other than Limited District Facilities which are provided for under the Consent Agreement or any Planned Unit Development approved by the City which have not been completed as of the Conversion Date, without the prior approval of the City, which approval will not be unreasonably withheld, conditioned, or delayed. Nothing in this SPA will be deemed or construed to prohibit the Limited District from repairing or replacing any Limited District Facilities, or from modifying or upgrading any Limited District Facilities as may be required by applicable law or a regulation of any governmental entity with jurisdiction, or from accepting property contemplated to be

conveyed to the District under the Consent Agreement or any Planned Unit Development approved by the City.

Section 5.08. Restrictive Covenants.

The Limited District may not, without the prior written approval of the City, impose any restrictive covenants on property owned by the Limited District, other than restrictive covenants required by the Consent Agreement or otherwise required or approved by the City. All restrictive covenants imposed by the Limited District on its property will be submitted to the PDRD Director and will be subject to his or her review and approval prior to execution and recordation, which approval will not be unreasonably withheld, conditioned, or delayed.

Section 5.09. Dissolution of the Limited District.

If, in any year, the Limited District fails to levy an operation and maintenance tax sufficient to perform its duties and functions as provided in this SPA, the Limited District may be unilaterally dissolved by the City, and no consent of the Limited District or any property owner in the Limited District will be required. Upon the adoption of a resolution by City Council dissolving the Limited District under this Section, the City will assume all obligations, liabilities, indebtedness, and assets of the Limited District. The Board of Directors of the Limited District will cooperate with the City to ensure an orderly transition, and will execute any documents necessary to transfer the assets, obligations, indebtedness and liability of the Limited District to the City in a manner reasonably acceptable to the City Attorney. If any transfer has not been completed for any reason by the dissolution date, the Limited District agrees that the City will be authorized to finalize such conveyances as the District's successor-in-interest.

ARTICLE VI.
DEFAULT AND REMEDIES FOR DEFAULT

Section 6.01. Notice of Default; Opportunity to Cure.

If a Party defaults in the performance of any obligation under this SPA, the nondefaulting Party may give written notice to the other Party, specifying the alleged event of default and extending to the defaulting Party 30 days from the date of the notice in order to cure the default complained of or, if the curative action cannot reasonably be completed within 30 days, 30 days to commence the curative action and a reasonable additional period to diligently pursue the curative action to completion.

Section 6.02. Dispute Resolution.

If any default is not cured within the curative period specified in Section 6.01, the Parties agree to use good faith, reasonable efforts to resolve any dispute among them by agreement, including engaging in mediation or other non-binding alternative dispute resolution methods, before initiating any lawsuit to enforce their respective rights under this SPA. The Parties will share the costs of any mediation or arbitration equally. The Parties further agree that the City is not obligated to resolve any dispute based on an arbitration decision under this SPA if the arbitration decision compromises the City's sovereign immunity.

Section 6.03. Other Legal or Equitable Remedies.

If the Parties are unable to resolve their dispute through mediation or arbitration, the nondefaulting Party will have the right to enforce the terms and provisions of this SPA by a suit

seeking specific performance or such other legal or equitable relief as to which the nondefaulting Party may be entitled. Any remedy or relief described in this SPA will be cumulative of, and in addition to, any other remedies and relief available to such Party. The Parties acknowledge that the City's remedies will include the right, in the City's sole discretion, to terminate this Agreement and dissolve the Limited District.

Section 6.04. Reservation of Rights.

To the extent not inconsistent with this SPA, each Party reserves all rights, privileges and immunities under applicable law.

Section 6.05. Applicable Laws; Waiver of Sovereign Immunity Relating to Claims by the City.

Except as expressly set forth in this SPA, this SPA is not intended to waive or limit the applicability of laws, regulations and ordinances applicable to the District or the Limited District, nor does it waive the jurisdiction or sovereignty of any governmental body. Upon the issuance of bonds by the District, the District and the Limited District will be deemed to have waived sovereign immunity in connection with any suit by the City for the purpose of adjudicating a claim for breach of this SPA, as provided in the Enabling Legislation.

Section 6.06. Changes in Law Affecting the Rights of the City.

(a) The City may terminate this SPA, or seek any other remedy, on 30 days' written notice to the District or, after the Conversion Date, the Limited District, if, during the term of this SPA, the District or the Limited District directly sponsors, requests, lobbies for, or secures the adoption of state or federal legislation that impairs, undermines, restricts, eliminates, or otherwise adversely affects the rights of the City under this SPA.

(b) Notwithstanding Subsection (a), the District or Limited District's tender of comments or analyses with regard to proposed legislation or rules of a government agency affecting this SPA will not give rise to a right of the City to terminate this SPA pursuant to this Section.

ARTICLE VII.
MISCELLANEOUS PROVISIONS

Section 7.01. Effective Date; Counterparts.

This SPA may be executed in multiple counterparts. The District and the Developer each agree that, upon its execution of this SPA, it will be bound by this SPA; however, the obligations of the District and the Developer under this SPA are subject to the condition that the City execute this SPA and deliver a fully executed original to each of the District and the Developer on or before 5:00 p.m. on August 31, 2012, and to the approval of this SPA by the voters within the District as provided in Section 1.04.

Section 7.02. Entire Agreement.

There are no agreements, oral or written, between the Parties which are in conflict with this SPA. This SPA and the Consent Agreement, together with all attachments, constitute the entire agreement between the Parties with respect to the annexation of the District. Except as expressly provided by this SPA and the Consent Agreement, no representations or agreements

other than those specifically included in this SPA and the Consent Agreement will be binding on the City, the Developer or the District.

Section 7.03. Notice.

Any Notice may be given by: (i) delivering the Notice to the Party to be notified; (ii) depositing the Notice in the United States Mail, certified, return receipt requested, postage prepaid, addressed to the Party to be notified; or (iii) sending the Notice by telecopier or electronic mail, with confirming copy sent by hand delivery or by certified mail to the Party to be notified. Notice deposited in the United States mail in the manner described above will be deemed effective on the earlier of (i) the date of actual receipt or (ii) three days after the date of its deposit in the mail. Notice given in any other manner will be effective only if and when received by the Party to be notified. For purposes of Notice, the addresses of the Parties will, until changed as provided in this section, be as follows:

City of Austin:	City Manager City of Austin P.O. Box 1088 Austin, Texas 7867 Fax: (512) 974-2833
with required copy to:	City Attorney City of Austin P.O. Box 1088 Austin, Texas 78767 Fax: (512) 974-2894
District or Limited District:	Pilot Knob Municipal Utility District No. 2 c/o Armbrust & Brown, PLLC 100 Congress Avenue, Suite 1300 Austin, Texas 78701 Fax: (512) 435-2360
with required copy to:	Carma Easton LLC Attn: Vice-President 9737 Great Hills Trail, Ste. 260 Austin, Texas 78759 Fax: (512) 391-1333

A Party may change its address for purpose of Notice by providing Notice of the new address to the other Party in accordance with this Section.

Section 7.04. Time.

Time is of the essence in all matters pertaining to the performance of this SPA. If any date or period provided in this SPA ends on a Saturday, Sunday, or legal holiday, the applicable period will be extended to the first business day following the Saturday, Sunday, or legal holiday.

Section 7.05. Waiver.

Any failure by a Party to this SPA to insist upon strict performance by another Party of any provision of this SPA will not be deemed a waiver of that provision or any other provision of this

SPA and a Party will have the right at any time to insist upon strict performance of all of the provisions of this SPA.

Section 7.06. Applicable Law and Venue.

The construction and validity of this SPA will be governed by the laws of the State of Texas (without regard to conflict of law principles). Venue will be in Travis County, Texas.

Section 7.07. Incorporation of Exhibits by Reference.

The following exhibits are attached to this SPA, and are incorporated into this SPA by reference:

- | | | |
|-------------|---|---|
| Exhibit A | - | The Land |
| Exhibit B | - | City's Annexation Notice |
| Exhibit C | - | Service Plan |
| Exhibit C-1 | - | Addendum to City of Austin Service Plan |
| Exhibit D | - | Property Owner's consent to Limited Purpose and Full Purpose annexation; consent to Service Plan and waiver of Sections 43.035, 43.071(e)(1)(b), 43.121(b)(2) and 43.127, Texas Local Government Code |

Section 7.08. Assignability, Successors, and Assigns.

This SPA will not be assignable by the District or the City without the prior written consent of the City Council and the Board of the District prior the Conversion Date or the Board of the Limited District after the Conversion Date. This SPA will be binding upon and inure to the benefit of the Parties and their respective representatives, successors and permitted assigns.

Section 7.09. Amendment.

This SPA may only be amended in writing upon the approval of the City Council and the Board of the District prior to the Conversion Date or the Board of the Limited District after the Conversion Date.

Section 7.10. Further Documents and Acts.

Each of the Parties agrees that, following the Effective Date, it will, upon the request of any other Party, execute such further documents and do such further acts and things as may reasonably be necessary to effectuate the terms of this SPA.

Section 7.11. Conflict.

This SPA and the Consent Agreement are intended to be harmonious and consistent with each other and, to the extent of any potential conflict, the Parties agree that the Consent Agreement and this SPA will, to the extent possible, be read and interpreted in a manner that resolves any such potential conflict and effects the intent of the Parties in connection with the other agreement. If there is a conflict between the Consent Agreement and this SPA which cannot be resolved, the terms of this SPA will control.

DISTRICT:

**PILOT KNOB MUNICIPAL UTILITY
DISTRICT NO. 2**

By: _____
Jennifer Fadal, President
Board of Directors

Date: _____

ATTEST:

By: _____
James C. Parker, Secretary
Board of Directors

Date: _____

CITY:

CITY OF AUSTIN, TEXAS

By: _____

Name: _____

Title: City Manager

Date: _____

APPROVED AS TO FORM:

By: _____

Name: _____

Title: Assistant City Attorney

Date: _____

EXECUTED SOLELY FOR PURPOSES OF EVIDENCING ITS CONSENT TO THE CITY'S
ANNEXATION OF ITS LAND AND PROJECT AREA, AS DESCRIBED IN THIS SPA, AND THE
PROVISIONS CONTAINED IN EXHIBIT C-1.

DEVELOPER:

CARMA EASTON LLC, a Texas limited
liability company

By: _____
Shaun E. Cranston, P.Eng.
Vice President

Date: _____

EXHIBIT A



Professional Land Surveying, Inc.
Surveying and Mapping

Office: 512-443-1724
Fax: 512-389-0943

3500 McCall Lane
Austin, Texas 78744

557.187 ACRES (DISTRICT TWO)

**OVERALL 557.672 ACRES
SAVE AND EXCEPT 0.485 ACRES**

A DESCRIPTION OF 557.672 ACRES IN THE SANTIAGO DEL VALLE GRANT IN TRAVIS COUNTY, TEXAS, BEING A PORTION OF A 138.540 ACRE TRACT DESCRIBED IN A GENERAL WARRANTY DEED TO JONA ACQUISITION INC., DATED MARCH 2, 2007 AND RECORDED IN DOCUMENT NO. 2007038642 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 20.807 ACRE TRACT DESCRIBED IN A SPECIAL WARRANTY DEED TO JONA ACQUISITION INC., DATED JANUARY 3, 2007 AND RECORDED IN DOCUMENT NO. 2007003159 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF AN 81.018 ACRE TRACT DESCRIBED IN A SPECIAL WARRANTY DEED TO JONA ACQUISITION INC., DATED DECEMBER 12, 2006 AND RECORDED IN DOCUMENT NO. 2006246454 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 103.415 ACRE TRACT DESCRIBED IN A SPECIAL WARRANTY DEED TO JONA ACQUISITION INC., DATED NOVEMBER 20, 2006 AND RECORDED IN DOCUMENT NO. 2006224021 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 167.748 ACRE TRACT DESCRIBED IN A GENERAL WARRANTY DEED TO JONA ACQUISITION INC., DATED DECEMBER 13, 2006 AND RECORDED IN DOCUMENT NO. 2006241307 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 42.558 ACRE TRACT DESCRIBED IN A GENERAL WARRANTY DEED TO JONA ACQUISITION INC., DATED MAY 16, 2008 AND RECORDED IN DOCUMENT NO. 2008083861 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 20.005 ACRE TRACT DESCRIBED IN A WARRANTY DEED WITH VENDOR'S LIEN TO JOHN T. HALDENSTEIN AND JOSHUA N. HALDENSTEIN, DATED DECEMBER 14, 2000 AND RECORDED IN DOCUMENT NO. 2000203669 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 198.302 ACRE TRACT DESCRIBED IN A GENERAL WARRANTY DEED TO JONA ACQUISITION INC., DATED DECEMBER 20, 2006 AND RECORDED IN DOCUMENT NO. 2006244772 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 232.233 ACRE TRACT DESCRIBED IN A SPECIAL WARRANTY DEED WITH VENDOR'S LIEN TO JONA ACQUISITION INC., DATED JANUARY 8, 2009 AND RECORDED IN DOCUMENT NO. 2009003190 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF A 37.390 ACRE TRACT DESCRIBED IN A GENERAL WARRANTY DEED TO JONA ACQUISITION INC., DATED OCTOBER 30, 2008 AND RECORDED IN DOCUMENT NO. 2008179828 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS, A PORTION OF COLTON BLUFF SPRINGS ROAD (APPARENT RIGHT-OF-

WAY WIDTH VARIES), AND ALL OF A 67.339 ACRE ACRE TRACT DESCRIBED IN A SPECIAL WARRANTY DEED TO JONA ACQUISITION INC., DATED NOVEMBER 7, 2007 AND RECORDED IN DOCUMENT NO. 2007204509 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY, TEXAS; SAID 557.672 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 1/2" iron pipe found for an interior ell corner in the north line of said 138.540 acre tract, same being an angle point in the south line of a 380.080 acre tract described in a deed to Ernest Collins and Floretta Collins, recorded in Volume 12791, Page 11 of the Real Property Records of Travis County, Texas;

THENCE crossing said 138.540 acre tract, said 20.807 acre tract, Colton Bluff Springs Road, said 81.018 acre tract, said 103.415 acre tract, said 167.748 acre tract, said 42.558 acre tract, said 20.005 acre tract, said 198.302 acre tract, said 232.233 acre tract, and said 37.390 acre tract, the following thirty (30) courses and distances:

1. South 27°05'52" West, a distance of 3.20 feet to a calculated point;
2. South 47°34'32" East, a distance of 42.94 feet to a calculated point;
3. With a curve to the left, having a radius of 2002.94 feet, a delta angle of 22°31'58", an arc length of 787.70 feet, and a chord which bears South 58°50'31" East, a distance of 782.64 feet to a calculated point;
4. South 19°53'30" West, a distance of 342.26 feet to a calculated point;
5. With a curve to the left, having a radius of 499.99 feet, a delta angle of 41°14'55", an arc length of 359.95 feet, and a chord which bears South 00°43'58" East, a distance of 352.23 feet to a calculated point;
6. South 21°21'01" East, a distance of 1149.03 feet to a calculated point;
7. With a curve to the right, having a radius of 800.00 feet, a delta angle of 04°05'43", an arc length of 57.18 feet, and a chord which bears South 19°18'34" East, a distance of 57.17 feet to a calculated point;
8. South 27°06'32" West, a distance of 1006.99 feet to a calculated point;
9. North 62°55'07" West, a distance of 393.93 feet to a calculated point;
10. South 27°04'42" West, a distance of 1090.01 feet to a calculated point;
11. South 62°55'07" East, a distance of 393.35 feet to a calculated point;
12. South 27°05'07" West, a distance of 1284.12 feet to a calculated point;

13. South 27°11'27" West, a distance of 450.14 feet to a calculated point;
14. With a curve to the left, having a radius of 1399.96 feet, a delta angle of 31°05'54", an arc length of 759.86 feet, and a chord which bears North 77°33'02" West, a distance of 750.56 feet to a calculated point;
15. South 86°54'01" West, a distance of 948.14 feet to a calculated point;
16. With a curve to the right, having a radius of 1399.96 feet, a delta angle of 31°17'38", an arc length of 764.63 feet, and a chord which bears North 77°27'10" West, a distance of 755.16 feet to a calculated point;
17. North 61°48'21" West, a distance of 1135.34 feet to a calculated point;
18. North 28°11'39" East, a distance of 910.01 feet to a calculated point;
19. With a curve to the right, having a radius of 431.98 feet, a delta angle of 53°14'32", an arc length of 401.42 feet, and a chord which bears North 58°50'30" East, a distance of 387.13 feet to a calculated point;
20. North 16°01'51" West, a distance of 256.62 feet to a calculated point;
21. With a curve to the left, having a radius of 606.85 feet, a delta angle of 50°15'23", an arc length of 532.29 feet, and a chord which bears North 37°39'34" West, a distance of 515.39 feet to a calculated point;
22. North 62°55'18" West, a distance of 292.66 feet to a calculated point;
23. With a curve to the right, having a radius of 1466.51 feet, a delta angle of 180°00'00", an arc length of 4607.17 feet, and a chord which bears North 27°04'42" East, a distance of 2933.02 feet to a calculated point;
24. South 62°55'18" East, a distance of 292.66 feet to a calculated point;
25. With a curve to the left, having a radius of 606.85 feet, a delta angle of 50°15'23", an arc length of 532.29 feet, and a chord which bears South 88°11'02" East, a distance of 515.39 feet to a calculated point;
26. North 70°11'14" East, a distance of 260.49 feet to a calculated point;
27. With a curve to the right, having a radius of 428.50 feet, a delta angle of 57°46'46", an arc length of 432.12 feet, and a chord which bears North 02°55'38" West, a distance of 414.04 feet to a calculated point;
28. North 25°57'45" East, a distance of 891.49 feet to a calculated point;

29. With a curve to the right, having a radius of 750.00 feet, a delta angle of 16°27'44", an arc length of 215.49 feet, and a chord which bears North 34°11'36" East, a distance of 214.75 feet to a calculated point;

30. North 42°25'28" East, a distance of 130.83 feet to a calculated point in the common line of said 138.540 acre tract and said 380.080 acre tract, from which a 3/4" iron pipe found for an angle point in said common line bears North 47°34'32" West, a distance of 1131.25 feet;

THENCE South 47°34'32" East, with said common line, a distance of 1475.59 feet to the **POINT OF BEGINNING**, containing 557.672 acres of land, more or less.

SAVE AND EXCEPT 0.485 ACRES:

BEING ALL OF A 21,064 SQUARE FOOT TRACT DESCRIBED IN A WARRANTY DEED AND ACCESS EASEMENT TO CREEDMOOR-MAHA WATER SUPPLY CORPORATION, DATED MAY 24 1999 AND RECORDED IN DOCUMENT NO. 1999070566 OF THE OFFICIAL PUBLIC RECORDS OF TRAVIS COUNTY TEXAS; SAID 0.485 ACRE TRACT BEING MORE PARTICULARLY DESCRIBED BY METES AND BOUNDS AS FOLLOWS:

BEGINNING at a 1/2" rebar found for the south corner of said 21,064 square foot tract, same being an angle point in the southwest line of said 232.233 acre tract, also being in the northeast line of said 37.390 acre tract;

THENCE North 62°15'58" West, with the southwest line of said 21,064 square foot tract, same being the northeast line of said 37.390 acre tract, a distance of 84.16 feet to a 1/2" rebar with Chaparral cap found for the west corner of said 21,064 square foot tract, same being an angle point in the southwest line of said 232.233 acre tract;

THENCE with the common line of said 21,064 square foot tract and said 232.233 acre tract, the following three (3) courses and distances:

1. North 27°03'32" East, a distance of 251.09 feet to a 1/2" rebar found;
2. South 62°00'51" East, a distance of 84.16 feet to a 1/2" rebar found;
3. South 27°03'32" West, a distance of 250.72 feet to the **POINT OF BEGINNING**, containing 0.485 acres of land, more or less.

Based on surveys made on the ground by Chaparral from May 2006 through July 29, 2008. Bearing Basis: Grid Azimuth for Texas Central Zone, 1983/93 HARN values from LCRA control network. Attachments: Drawing 500-001-BD-EX2.

This document was prepared under 22 TAC §663.21, does not reflect the results of an on the ground survey, and is not to be used to convey or establish interests in real property except those rights and interests implied or established by the creation or reconfiguration of the boundary of the political subdivision for which it was prepared.

 9/13/2010
Eric J. Dannheim
Registered Professional Land Surveyor
State of Texas No. 5848

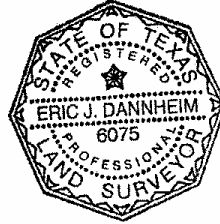


EXHIBIT B

NOTICE TO PURCHASERS OF PROPERTY IN PILOT KNOB MUNICIPAL UTILITY DISTRICT NO. 2

THE STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

The City of Austin, Texas (the "City") hereby gives notice, in accordance with Section 8382.252, Texas Special District Local Laws Code, as follows:

1. The City has consented to the creation of Pilot Knob Municipal Utility District No. 2 (the "District") over the land described on the attached **Exhibit A**, which is incorporated herein by reference.
2. The City has approved a Strategic Partnership Agreement ("SPA") with the District for the purpose of establishing terms and conditions upon which (a) the City will annex all of the land within the District for limited and full purposes and (b) following full purpose annexation of all of the land in the District, the District will be converted to a Pilot Knob Limited District No. 2 (the "Limited District").
3. In accordance with the SPA; Title 6, Subtitle F, Chapter 8376, Texas Special District Local Laws Code; and Section 43.0751, Texas Local Government Code, (a) the City has the authority and intention to annex all of the land within the District for limited purposes on or before _____, 20__; and (b) the City has the authority and intention to annex all of the land within the District for full purposes at such time as the City finds such annexation to be feasible, but in no event sooner than December 31, 2042.

Any interested person may request a copy of the SPA or the Consent Agreement by contacting the City of Austin Planning and Development Review Department, P.O. Box 1088, Austin, Texas 78767-1088. Questions concerning these agreements may be directed to the District, or, after full purpose annexation of the District, the Limited District, or the City of Austin Planning and Development Review Department.

(The remainder of this page has been intentionally left blank, and the signature page or pages follow.)

CITY OF AUSTIN, TEXAS

By: _____

THE STATE OF TEXAS §
 §
COUNTY OF TRAVIS §

 This instrument was acknowledged before me on the ____ day of
_____, 2012 by _____,
_____ of the City of Austin, Texas, on behalf of said City.

Notary Public Signature

(SEAL)

EXHIBIT C



CITY OF AUSTIN DRAFT ANNEXATION SERVICE PLAN

Case Name: Pilot Knob MUD No. 2
Subject to the Strategic Partnership Agreement
Date: _____, 2012

INTRODUCTION

This Service Plan ("Plan") is made by the City of Austin, Texas ("City") in accordance with a Strategic Partnership Agreement ("SPA") between the City and Pilot Knob Municipal Utility District No. 2 ("MUD") pursuant to Texas Local Government Code Section 43.0751. This Plan relates to the annexation to the City of land ("annexation area") known as the Pilot Knob MUD No. 2 area. The MUD was created under Chapter 8376, Subtitle F, Title 6, Special District Local Laws Code, and Chapters 49 and 54 of the Texas Water Code. The annexation area is located in Travis County and is currently in the City's limited purpose jurisdiction.

The annexation area is described by metes and bounds in **Exhibit A**, which is attached to this Plan and to the annexation ordinance of which this Plan is a part. The annexation area is also shown on the map in **Exhibit A**.

EFFECTIVE TERM

This Plan shall be in effect for a ten-year period commencing on the effective date of the annexation, unless otherwise stated in this Plan. Renewal of this Plan shall be at the option of the City. Such option may be exercised by the adoption of an ordinance by the City Council, which refers to this Plan and specifically renews this Plan for a stated period of time.

INTENT

It is the intent of the City that services under this Plan shall provide full municipal services as described in Section 43.056 of the Texas Local Government Code.

The City reserves the right guaranteed to it by the Texas Local Government Code to amend this Plan if the City Council determines that changed conditions or subsequent occurrence or any other legally sufficient circumstances exist under the Local Government Code or other Texas laws to make this Plan unworkable or obsolete or unlawful.

SERVICE COMPONENTS

In General. This Plan includes three service components: (1) the Early Action Program, (2) Additional Services, and (3) a Capital Improvement Program.

As used in this Plan, providing services includes having services provided by any method or means by which the City extends municipal services to any other area of the City. This may include causing or allowing private utilities, governmental entities and other public service organizations to provide such services by contract, in whole or in part. It may also include separate agreements with associations or similar entities.

EARLY ACTION PROGRAM

The following services will be provided in the annexation area commencing on the effective date of the annexation, unless otherwise noted.

- a. Police Protection. The Austin Police Department (“APD”) will provide protection and law enforcement services in the annexation area.
- b. Fire Protection. The Austin Fire Department (“AFD”) will provide emergency and fire prevention services in the annexation area.
- c. Emergency Medical Service. The City of Austin/Travis County Emergency Medical Services (“EMS”) Department will provide emergency medical services in the annexation area.
- d. Solid Waste Collection. The Austin Resource Recovery Department will provide services in the annexation area. Services will be provided by City personnel or by solid waste service providers under contract with the City.
- e. Maintenance of Water and Wastewater Facilities. Water and wastewater service will be provided to areas that are not within the certificated service area of another utility through existing City facilities located within or adjacent to the area, unless otherwise mutually agreed upon by the utilities. The facilities will be maintained and operated by Austin Water as governed by standard policies and procedures, and under the provisions of the attached City service extension policy as amended from time to time. Water and wastewater services to new development and subdivisions will be provided according to the standard policies and procedures of Austin Water, which may require the developer of a new subdivision or site plan to install water and wastewater lines. The extension of water and sewer service will be provided in accordance with the attached water and wastewater service extension policy as amended from time to time.
- f. Maintenance of Roads and Streets, Including Street Lighting. The Public Works Department will maintain public streets over which the City has jurisdiction.

The Transportation Department will also provide regulatory signage services in the annexation area.

Street lighting will be maintained in accordance with the City of Austin ordinances, Austin Energy criteria and state law. The City will maintain the street lights and pay for the electricity for any streetlights located within the public right-of-way that the MUD

maintained under the night watchman light program in place at the time of full purpose annexation.

- g. Maintenance of Parks, Playgrounds, and Swimming Pools. The Limited District Facilities and OA Amenities, as defined, in the SPA, will continue to be the assets and responsibilities of the Pilot Knob Limited District No. 2 (the “*Limited District*”) and Owners Association, respectively.

Recreational facilities and area amenities, including parks, pools, splash pads, community centers, and medians, that are privately owned, maintained, or operated will be unaffected by the annexation.

- h. Maintenance of Any Other Publicly-Owned Facility, Building, or Service. Should the City acquire any other facilities, buildings, or services necessary for municipal services located within the annexation area, an appropriate City department will provide maintenance services for them.

ADDITIONAL SERVICES

Certain services, in addition to the above services, will be provided within the annexation area if they are provided elsewhere in the city limits. They are as follows:

- a. Watershed Protection. The Watershed Protection Department will provide drainage services in accordance with and as limited by applicable codes, laws, ordinances and special agreements. Drainage planning and maintenance are fee-based services.
- b. Planning and Development Review. The Planning and Development Review Department will provide comprehensive planning, land development and building review and inspection services in accordance with and as limited by applicable codes, laws, ordinances and special agreements.
- c. Code Compliance. In order to attain compliance with City codes regarding land use regulations and the maintenance of structures, the City’s Code Compliance Department will provide education, cooperation, enforcement and abatement relating to code violations
- d. Library. Upon annexation, residents may utilize all Austin Public Library facilities.
- e. Public Health, Social, and Environmental Health Services. The Austin/Travis County Health and Human Services Department will continue to work in partnership with the community to promote health, safety, and well being.
- f. Austin Energy. Austin Energy will continue to provide electric utility service to all areas which the City is authorized to serve by the Public Utility Commission of Texas.
- g. Anti-litter Services. The Austin Resource Recovery Department will provide anti-litter services in the annexed area. Anti-litter is a fee-based service.
- h. Other Services. All other City Departments with jurisdiction in the area will provide services according to City policy and procedure.

CAPITAL IMPROVEMENTS PROGRAM

The City will initiate the construction of capital improvements necessary for providing municipal services for the annexation area as necessary.

Each component of the Capital Improvement Program is subject to the City providing the related service directly. In the event that the related service is provided through a contract service provider, the capital improvement may not be constructed or acquired by the City but may be provided by the contract provider. The City may also lease buildings in lieu of construction of any necessary buildings.

The annexation area will be included with other territory in connection with planning for new or expanded facilities, functions, and services. No capital improvements are necessary at this time to provide the following services:

- Police Protection
- Fire Protection
- Emergency Medical Services
- Solid Waste Collection
- Water and Wastewater Facilities
- Roads and Streets
- Street Lighting
- Parks, Playgrounds and Swimming Pools
- Watershed Protection

SERVICES TO BE PROVIDED BY LIMITED DISTRICT

The Limited District created under the SPA will retain ownership of the Limited District Facilities, as more particularly described in the SPA. The Limited District shall be responsible for maintenance and any necessary capital improvements for all such Limited District Facilities. Maintenance services may be provided by Limited District personnel or by private service providers under contract with the Limited District.

SERVICES TO BE PROVIDED BY CITY IF LIMITED DISTRICT IS DISSOLVED

If the Limited District is dissolved or ceases to exist for any reason prior to the expiration of this Plan, title to all land and facilities owned by the Limited District shall vest in the City on the date of dissolution.

AMENDMENT: GOVERNING LAW

This Plan may not be amended or repealed except as provided by the Texas Local Government Code or other controlling law. Neither changes in the methods or means of implementing any part of the service programs nor changes in the responsibilities of the various departments of the City shall constitute amendments to this Plan, and the City reserves the right to make such changes. This Plan is subject to and shall be interpreted in accordance with the Constitution and laws of the United States of America and the State of Texas, the Texas Local Government Code, and the orders, rules and regulations of governmental bodies and officers having jurisdiction.

FORCE MAJEURE

In case of an emergency, such as force majeure as that term is defined in this Plan, in which the City is forced to temporarily divert its personnel and resources away from the annexation area for humanitarian purposes or protection of the general public, the City obligates itself to take all reasonable measures to restore services to the annexation area of the level described in this Plan as soon as possible. Force majeure shall include, but not be limited to, acts of God, acts of the public enemy, war, blockages, insurrection, riots, epidemics, landslides, lightning, earthquakes, fires, storms, floods, washouts, droughts, tornadoes, hurricanes, arrest and restraint of government, explosions, collisions and other inability of the City, whether similar to those enumerated or otherwise, which is not within the control of the City. Unavailability or shortage of funds shall not constitute force majeure for purposes of this Plan.

SUMMARY OF THE WATER AND WASTEWATER UTILITY SERVICE EXTENSION POLICY

The following information is a summary of Austin Water's Service Extension Policy, as set out in Chapters 25-1 through 25-5 and 25-9 of the Austin City Code, in conformance with the Texas Local Government Code requirement that the Plan have a summary of the service extension policy.

Water and wastewater service is only provided to lots that have been properly subdivided and platted or are a legal lot. For property that is required by subdivision regulations to construct water or wastewater facilities connecting to the City system, funding and construction of those facilities will remain the responsibility of the developer. If the specific undeveloped property does not have City water or wastewater service fronting the property, the owner may make an application for an extension of service to the Director of Austin Water for review. If the Director determines that adequate capacity is available, or will be, and if the project does not include City cost participation or reimbursement, and if the proposed facilities are a logical extension of the City's water and wastewater system and the requested extension otherwise meets the requirements of Chapter 25-9, the extension size, capacity, and routing may be approved by the Director for funding and construction by the developer.

Depending on the size of the new facilities and other conditions, with City Council approval, the City may reimburse the developer for part of the cost of constructing certain facilities. With City Council approval, the City may cost participate by reimbursing costs associated with the oversize capacity of wastewater mains larger than 8 inches but less than 18 inches in diameter, and of water mains greater than 12 inches but less than 24 inches in diameter. With City Council approval, the City may reimburse to the developer the construction cost of the full capacity of wastewater facilities 18 inches in diameter or larger, and water facilities 24 inches in diameter or larger, as well as other facilities such as reservoirs or pumps. The actual calculation of the cost participation and reimbursement amounts, including limits and the schedules for the payments, are included in the Land Development Code.

For lots served by an existing on-site well or septic system that have water or wastewater lines within 100 feet of the lot at the time of annexation, the owner will not be required to pay the impact fees if a tap permit is obtained by the property owner on or before the second anniversary of the date of annexation. For lots served by an existing well or septic system that do not have water or wastewater lines within 100 feet of the lot, the owner will not be required to pay the impact fees if a tap permit is obtained by the property owner on or before the second

anniversary of the date of acceptance of the water or sewer line to within 100 feet of their lot. In either case the owner will still be required to pay other applicable connection fees.

As long as a property is using a septic system, the property owner remains responsible for the operation and maintenance of the septic system. If the septic system fails before the City sewer service is extended to the property, the property owner must repair the system. Under certain circumstances the Austin/Travis County Health and Human Services Department may require connection to the City sewer facilities.

This policy is set by the City Council and can be amended in the future by ordinance.

Anything herein to the contrary notwithstanding, if there is any conflict between the provisions of Exhibit C-1 and this Service Plan, the provisions of Exhibit C-1 shall control.

EXHIBIT C-1

ADDENDUM TO CITY OF AUSTIN SERVICE PLAN

Following the City's full purpose annexation of Pilot Knob Municipal Utility District No. 2 (the "District") and continuing during the term of the Service Plan, the City shall not, except as provided in Section 4.04 of the "Strategic Partnership Agreement Between the City of Austin and Pilot Knob Municipal Utility District No. 2 dated effective as of _____, 2012, be required to reimburse a developer of land within the former boundaries of the District for any water and wastewater facilities required to provide service to such land. If the City requires any water and wastewater facilities to be oversized to serve areas outside such land, the City will only pay the incremental costs associated with such oversizing in accordance with City ordinances, as amended from time to time.

EXHIBIT D

[PROPERTY OWNER'S CONSENT TO LIMITED PURPOSE AND FULL PURPOSE ANNEXATION, APPROVAL OF THE SERVICE PLAN AND WAIVER OF SECTIONS 43.035, 43.071(e)(1)(b), 43.121(b)(2), and 43.127, TEXAS LOCAL GOVERNMENT CODE]

Consent to Annexation

Carma Easton LLC, a Texas limited liability company (the "Developer"), is the owner of the Land, as such term is defined in the Strategic Partnership Agreement dated _____, 2012 (the "SPA") by and between the City of Austin, Texas (the "City") and Pilot Knob Municipal Utility District No. 2.

Developer hereby consents to limited and full purpose annexation by the City of the Land and the portions of the Project Area, as defined in the SPA, owned either now or in the future by the Developer. Developer waives the requirements of Sections 43.035, 43.071(e)(1)(b), 43.121(b)(2) and 43.127(a) of the Texas Local Government Code and consents to the limited and full purpose annexation in accordance with the SPA. Developer certifies that it is the present owner of this property and understands that annexation is at the sole discretion of the City, and that this request does not obligate the City to annex the property at any time. Developer also understands that full purpose annexation extends full municipal jurisdictional control, including taxation, onto this property. Developer makes this request on behalf of itself, and its successors and assigns.

CARMA EASTON LLC

By: _____
Shaun E. Cranston, P.Eng.
Vice President

Date: _____, 2012