

REGIONAL DEVELOPMENT AGREEMENT

THIS REGIONAL DEVELOPMENT AGREEMENT (the "Agreement") is entered into as of the date of countersignature hereinafter set forth, but effective as of the date hereinafter specified, by and among the City of Houston, Texas, a Texas municipality operating under the constitution and laws of the State of Texas and its home rule charter (the "City"), and the undersigned municipal utility districts, each being a conservation and reclamation district organized and operating pursuant to the constitution and laws of the State of Texas, including Chapters 49 and 54, Texas Water Code, and Article XVI, Section 59 of the Texas Constitution (collectively, the "Districts" and separately, the "District").

RECITALS

WHEREAS, The Woodlands is a master planned community of some 25,000 acres situated predominantly in Montgomery County, Texas, some 30 miles from the central business district of the City and originally established pursuant to the Urban Growth and New Community Development Act of 1970; and

WHEREAS, pursuant to such master plan, The Woodlands is being developed by The Woodlands Land Development Company, L.P., a Texas limited partnership owned by a joint venture composed of Crescent Real Estate Equities Limited Partnership and Morgan Stanley Real Estate Fund II, L.P., as successor to The Woodlands Corporation (the "Developer"); and

WHEREAS, substantially all of the territory of The Woodlands has been included within the extraterritorial jurisdiction("ETJ") of the City by petition of the Developer and official actions of the governing body of the City; and

WHEREAS, substantially all of the developed territory of The Woodlands is included within the boundaries of the Districts, the San Jacinto River Authority (the "Authority") and The Woodlands Association, The Woodlands Community Association, Inc. and The Woodlands Commercial Owners Association, each being a Texas non-profit corporation (collectively, the "Associations" and separately, the "Association"). The Districts have developed and are continuing to develop, in cooperation with the Developer and the Authority, regional water supply and distribution, wastewater collection and treatment, and drainage and flood control systems and facilities to serve The Woodlands, and the Associations levy assessments by restrictive covenant against property in The Woodlands and provide full-time, paid professional fire protection, law enforcement enhancement, solid waste collection and disposal, parks and recreation facilities and programs, street lighting and streetscape maintenance, and other services to residents and property owners in The Woodlands; and

WHEREAS, an extensive legislative and public policy debate has been ongoing and is continuing concerning the annexation by a municipality, such as the City, of territory within the ETJ of such municipality; and

WHEREAS, the existence and continuation of such debate has resulted or may result in adverse consequences to (i) the City, (ii) the Districts, the Authority, the Associations and other governmental or quasi-governmental providers of public facilities and services in The Woodlands (herein, collectively, the "Local Governmental Agencies"), (iii) the Developer, (iv) the residents and property owners and (v) the economic vitality of The Woodlands, including, the unnecessary consumption of financial and management resources and the inhibition of cooperative regional planning, public services planning and implementation, and the continuing, orderly development of The Woodlands and the greater Houston area; and

WHEREAS, The Woodlands is distinguishable from other developing areas of the ETJ of the City in that The Woodlands: (i) is being developed pursuant to a comprehensive master plan at an unprecedented scale and pace; (ii) is located at a great distance from the current boundaries of the City and is separated from the City by a large expanse of developed, undeveloped and partially developed lands in multiple ownerships and with different community and public service needs; (iii) has a current population in excess of 50,000, but is only approximately 50% developed to date; (iv) is actively being developed by a single, experienced landowner and developer; (v) has an established, local job base which is nearly sufficient to support its population; (vi) has a well-developed system of local government, community services and public utilities provided and financed entirely by local resources; (vii) has implemented through local resources comprehensive and modern systems of major thoroughfares and highways; (viii) is not located within the jurisdiction of the Harris-Galveston Coastal Subsidence District or any other underground water conservation district and is not subject to regulatory mandates to make conversions to surface water supplies; and (ix) has secured through the Authority reliable, long-term sources of groundwater, as well as surface water, should whole or partial conversion to surface water supplies become necessary or desirable in the future; and

WHEREAS, in order to provide timely and adequate facilities and services for the rapidly developing areas of The Woodlands, the Districts have a continuing need to annex additional undeveloped areas to the existing Districts and to raise capital of as much as \$100 million for each five year planning period; and

WHEREAS, under current law, the City is empowered to annex all or parts of The Woodlands at any time during or after completion of its development, but the City has no present intention of annexing The Woodlands, in whole or in part; and

WHEREAS, a substantial period of time will be required to complete development of The Woodlands; and

WHEREAS, the parties believe that it is in the best interests of the City, the Local Governmental Agencies, the Developer and the residents and property owners in The Woodlands to eliminate the perceived threat of immediate annexation of The Woodlands in order to: (i) facilitate cooperative planning; (ii) permit the continuing, orderly development of The Woodlands as a high quality component of the greater Houston area; (iii) ensure that adequate capital is available for the provision of essential public facilities and services; and (iv) better utilize the financial and management resources of the City and the Local Governmental Agencies in the provision of public facilities and services; and

WHEREAS, as a result of significant changes since passage of the current municipal annexation laws in demographics, development patterns and the nature, extent and costs of required public facilities, modifications to existing laws may be required to permit the establishment of more cost effective and efficient governmental relationships between municipalities and areas within their ETJ; and

WHEREAS, the parties wish to cooperate in the development and implementation of any such modifications of existing laws;

WHEREAS, pursuant to general law including, without limitation, the Interlocal Cooperation Act, and in anticipation of the effectiveness of the legislation hereinafter described, the parties have determined to enter into this Agreement; Now, Therefore,

AGREEMENT

For and in consideration of the mutual promises, benefits, covenants and undertakings herein contained, the City and the Districts do hereby contract and agree as follows:

Section 1: Definitions. As used herein, the following terms and phrases shall have the meaning assigned to them below:

"Agreement" means this Agreement and any and all proper amendments, modifications, supplements, additions, renewals or extensions hereto.

"Associations" or "Association" is defined in the recitals hereto and includes any similar non-profit property owners association or group or combination of one or more of the Associations at any time succeeding to the principal powers, functions and properties of the Associations or any Association and, where appropriate, includes the governing body or bodies of the Associations or any Association.

"Authority" is defined in the recitals hereto and includes any public agency at any time succeeding to the principal governmental powers, functions and properties of the Authority and, where appropriate, includes the governing body of the Authority.

"Authorizing Legislation" means legislation enacted by the 76th Texas Legislature, Regular Session, 1999, and made effective by the signature or nonaction of the Governor of Texas on or before September 30, 1999, in substantially the form set forth in Exhibit "A" hereto.

"City" is defined in the recitals hereto and includes any municipality or public agency at any time succeeding to the principal governmental powers, functions and properties of the City and, where appropriate, includes the governing body of the City.

"Deferral Period" means the period extending twelve (12) years from the effective date of the Authorizing Legislation.

"Developer" is defined in the recitals hereto and includes any successor by merger, consolidation or operation of law or any successor in title to all or substantially all of the lands then owned by the Developer in The Woodlands to whom the beneficial interests of the Developer in and to this Agreement are expressly assigned, in whole, but not in part.

"Districts" or "District" is defined in the recitals hereto and includes any public agency or agencies at any time succeeding to the principal governmental powers, functions and properties of the Districts or any District and, where appropriate, includes the governing body or bodies of the Districts or any District.

"ETJ" is defined in the recitals hereto, but as used hereinafter, includes only the exclusive extraterritorial jurisdiction of the City, as such term is defined by Section 42.001, Texas Local Government Code.

"Local Governmental Agencies" is defined in the recitals hereto.

"The Woodlands" is defined in the recitals hereto, but as used herein, includes only the portion of The Woodlands located within the ETJ of the City.

Section 2: Deferral of Annexation. In consideration of the mutual promises, agreements and undertakings herein, the City agrees during the Deferral Period to defer and forego annexation and inclusion within the corporate limits of the City, either directly or indirectly, and whether for full, limited or other purposes, of all or any part of The Woodlands, whether developed, undeveloped or partially developed.

Section 3: Provision of Facilities and Services. During the Deferral Period, the Districts will, to the maximum extent of their lawful authority and in conjunction with the Authority, the Developer, the Associations and other Local Governmental Agencies, continue to plan, design, finance, construct, own, operate and maintain all facilities and services as may be required in The Woodlands for timely and adequate water supply production, treatment, storage, purification, pumping and distribution; wastewater collection, transportation, treatment and disposal; storm water collection, diversion and detention; solid waste collection, processing and disposal; parks, playgrounds and recreation; streets, traffic control devices, major thoroughfares, bridges and highways; law enforcement and public safety; enforcement of protective covenants and restrictions; and similar governmental and community programs and functions, whether local, regional or areawide, without cost or expense to the City (other than as may be required in the implementation of this Agreement and in the ordinary course of the operations of the City), in full compliance with the applicable ordinances, resolutions and planning and subdivision requirements of the City. In particular, the Districts shall assume full responsibility for, and all costs and expenses associated with, any surface water sources or facilities as may be or become necessary or desirable for The Woodlands.

Section 4: Compliance. During the Deferral Period, the Districts will, to the maximum extent of their authority and in conjunction with the Authority, the Developer, the Associations and other Local Governmental Agencies, observe and enforce compliance with all valid ordinances, resolutions and regulatory requirements of the City applicable to The Woodlands as are not inconsistent with the provisions of this Agreement, including, without limitation, all of the applicable requirements of Resolution No. 71-8 of the City and Ordinance No. 97-416 of the City, together with all germane amendments consistent with this Agreement as may be hereafter made thereto by the City.

Section 5: Approvals and Consents. During the Deferral Period, the City agrees to receive and to timely process, evaluate and act upon, in the usual and customary manner, all valid and proper petitions, submissions and applications made to the City in connection with the continuing development of The Woodlands, including, without limitation, for the creation or addition of lands to conservation and reclamation districts, including the Districts, within The Woodlands; the review and approval of construction plans; and the review and approval of subdivision plats; provided, however, that nothing herein shall be deemed or construed to require the giving or withholding of any such consent or approval by the City, as may be deemed appropriate in its sound discretion, so long as such approvals or consents are not arbitrarily or unreasonably delayed or withheld.

Section 6: Issuance of Bonds. Except as currently provided by Resolution No. 71-8 and Ordinance No. 97-416, the City agrees, to the extent permitted by law, that during the Deferral Period, it shall not make, adopt or enforce in The Woodlands any law, rule, ordinance, resolution or charter provision, either general or special, which has the purpose or effect of restricting or rendering impractical or unmarketable in ordinary commercial markets and channels the bonds or refunding bonds of the Districts or other Local Governmental Agencies.

Section 7: Planning and Coordination. Except as limited by the necessity for confidentiality, agreements with third parties or judicial or administrative orders or requirements, the parties agree to periodically consult with each other and to share and make available to each other the results of regional or areawide planning efforts concerning facilities and services of the type and character to be provided by the Local Governmental Agencies hereunder. In particular, the City agrees, in consideration of a one-time, non-refundable, lump sum payment of \$200,000, to be made to the City by the Districts within one (1) year after the effective date hereof, if requested by the Districts, to:

(i) advise the Districts of any future initiative or undertaking by the City to perform or cause to be performed, a comprehensive review, assessment or evaluation of:

(a) the quality, availability or reliability of existing or proposed ground water or surface water sources in the Lake Houston watershed,

(b) the projected demands for ground and surface water supplies in the Lake Houston watershed beyond year 2010,

(c) the feasibility of reuse of water from wastewater return flows or by other means in the Lake Houston watershed,

(d) water quality in the lakes and streams of the Lake Houston watershed, and

(e) projected drainage and flood control regulations, needs or improvement projects within the Lake Houston watershed, including proposed flood plain regulations or flood control, storm water detention or desiltation projects relating to such watershed; and

(ii) afford the Districts a reasonable opportunity to review and comment upon the preliminary draft of any such report, assessment or evaluation, exclusive of any information or data contained therein which is deemed proprietary or confidential by the City.

The Districts agree that, to the maximum extent permitted by law, any and all of such information, data or preliminary draft materials shall be kept confidential and shall not be published, reproduced or distributed, in whole or in part, without the prior written consent of an authorized representative of the City.

Section 8: Support of Comprehensive Legislation. The parties agree to use reasonable, good faith efforts to promote, support and encourage the development and enactment of mutually acceptable legislative modifications to the existing municipal annexation laws to permit the establishment and implementation of cost effective, efficient, participatory and responsive governmental relationships between the City and the Local Governmental Agencies.

Section 9: Breach, Cure and Remedies. In the event of breach or default hereunder by any party, any non-defaulting party or parties may give written notice and particulars concerning such claimed breach or default to the defaulting party and to the other non-defaulting parties and demand that such breach or default be remedied. If such breach or default is not cured within a reasonable period of time (to be determined after consideration of the circumstances, the gravity of the claimed breach or default, the damages or injuries which may result from the continuation of such breach or default, and the difficulty of curing same), then the non-defaulting party or parties may pursue any remedies available, at law or in equity, including, without limitation, injunctive relief or mandamus, to enforce compliance herewith.

Section 10: Third Party Beneficiaries. In consideration of the undertakings and efforts that will be required of each in the implementation and performance of this Agreement, the Developer and each of the Associations shall be deemed and considered an express, third party beneficiary, for valuable and sufficient consideration, of each and all of the terms, conditions, covenants and provisions hereof. Accordingly, this Agreement may not be repealed, revoked, rescinded, terminated, amended or modified in any manner adversely affecting the Developer or any of the Associations without the express written consent of the Developer or such affected Association, which consent may be given or withheld in its sole discretion.

Section 11: Modifications and Joinder. Subject to the provisions of the immediately preceding Section, this Agreement may be amended or modified only by written instrument duly authorized, executed and delivered by the appropriate officials of the City and each and all of the Districts, including any similar conservation and reclamation districts created and organized after the date hereof in The Woodlands; provided, however, that any such conservation and reclamation district hereafter created and organized may become a party hereto, without further actions or proceedings of any other party or third party beneficiary, by delivering to all other parties and

third party beneficiaries certified proceedings evidencing the passage or adoption of an order or resolution consenting to, approving and agreeing to abide by the terms and conditions hereof, without condition or qualification.

Section 12: Assignability. This Agreement shall not be assignable, in whole or in part, except by operation of law, by any party hereto without the express, written consents of the other parties hereto, and the benefits of this Agreement may not be transferred or assigned by the Developer or any of the Associations, except by merger, consolidation or operation of law; provided, however, that with notice to the parties and the Associations, but without further consent or approval, the Developer may make an express assignment in whole, but not in part, of its benefits hereunder to any successor in title to all or substantially all of the lands then owned by the Developer in The Woodlands.

Section 13: Exclusive Agreement. This Agreement constitutes the complete and entire agreement between the parties on the subject matter hereof, and all prior agreements and understandings between the parties on the subject matter hereof, whether oral or written, are hereby superseded, terminated and replaced.

Section 14: Severability. The provisions of this Agreement are severable, and if any word, phrase, clause, sentence, paragraph, section or other part of this Agreement, or the application thereof, to any person or circumstance shall ever be finally held by any court of competent jurisdiction to be invalid or unconstitutional for any reason, the remainder of this Agreement, or the application thereof, to other persons or circumstances shall not be affected thereby; provided, however, that if Section 2 of this Agreement is so held invalid or unconstitutional, this Agreement shall terminate, and any payment made pursuant to Section 7 hereof shall thereupon be refunded on a pro rata basis relative to the remaining term of the Deferral Period.

Section 15: Effective Date. This Agreement is also entered into in anticipation of the effectiveness of the Authorizing Legislation and shall be and remain in full force and effect from and after the effective date of the Authorizing Legislation until the expiration of the Deferral Period, without further actions or proceedings by the City Council of the City or the governing bodies of the Districts. If, for any reason, other than pending judicial or administrative proceedings or orders, the Authorizing Legislation shall not become effective on or prior to September 30, 1999, this Agreement shall terminate and be of no force and effect.

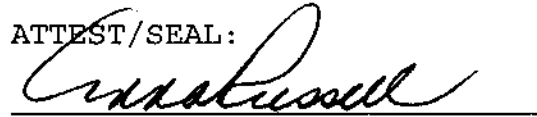
IN WITNESS WHEREOF, the parties have executed this Agreement in multiple copies, each of which shall be deemed to be an original.

CITY OF HOUSTON, TEXAS



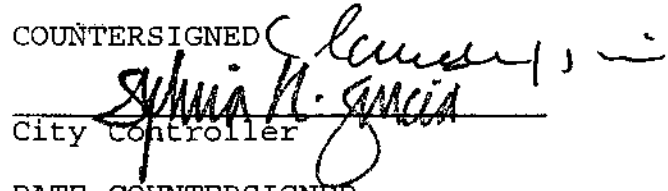
Mayor

ATTEST/SEAL:



City Secretary

COUNTERSIGNED

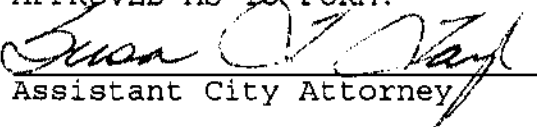


City Controller

DATE COUNTERSIGNED:

10/8/99

APPROVED AS TO FORM:



Assistant City Attorney

APPROVED:



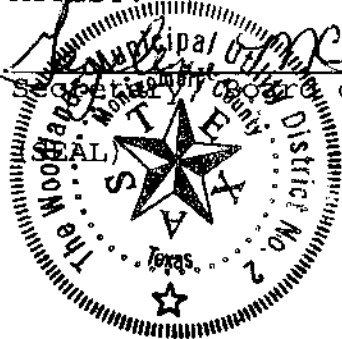
Director of Public Works
and Engineering

THE WOODLANDS MUNICIPAL
UTILITY DISTRICT NO. 2

ATTEST:

[Signature]
Vice President Board of Directors

[Signature]
Secretary Board of Directors

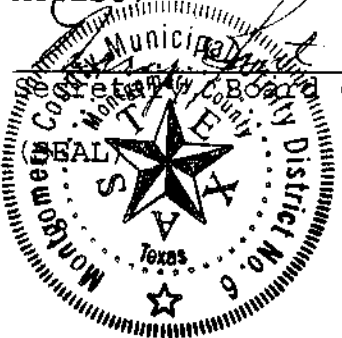


MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 6

ATTEST:

Marion R. Smith
President, Board of Directors,

[Signature]
Secretary Board of Directors

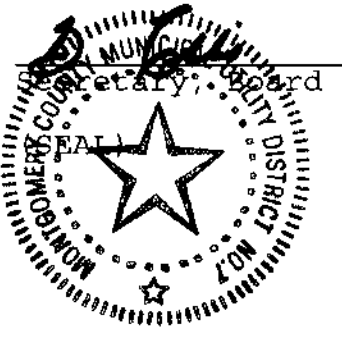


MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 7

ATTEST:

[Signature]
President, Board of Directors

[Signature]
Secretary Board of Directors



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 36

ATTEST:

Bill [Signature]
President, Board of Directors

[Signature]
Secretary Board of Directors



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 40

Gail H. Hoggan

President, Board of Directors

ATTEST:

Phil Paul

Secretary, Board of Directors

Secretary, Board of Directors



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 46

Mark E. Vonderam

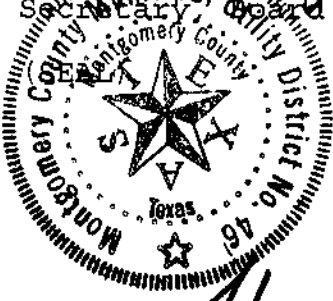
President, Board of Directors

ATTEST:

John Paul

Secretary, Board of Directors

Secretary, Board of Directors



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 47

[Signature]

President, Board of Directors

ATTEST:

[Signature]

Secretary, Board of Directors

Secretary, Board of Directors



MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 60

Roy Clark

President, Board of Directors

ATTEST:

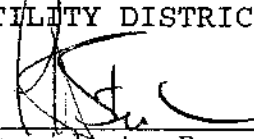
Leon D. George

Secretary, Board of Directors

Secretary, Board of Directors

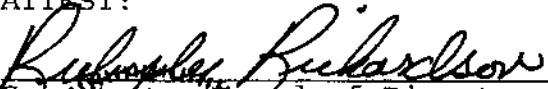


MONTGOMERY COUNTY MUNICIPAL
UTILITY DISTRICT NO. 67



President, Board of Directors


ATTEST:



Secretary, Board of Directors

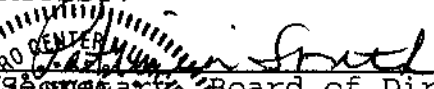


THE WOODLANDS METRO CENTER
MUNICIPAL UTILITY DISTRICT



President, Board of Directors

ATTEST:



Secretary, Board of Directors

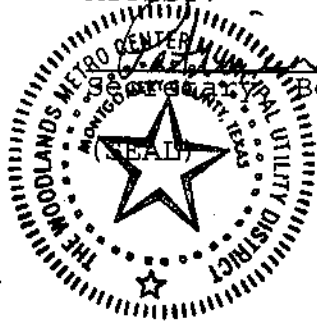


EXHIBIT "A"
FORM OF AUTHORIZING LEGISLATION

By _____

__ B. _____

A BILL TO BE ENTITLED

AN ACT

Amending Chapter 43, Subchapter D, Local Government Code, by adding Section 43.0752 relating to the authority of certain districts and municipalities to enter into regional development agreements and related agreements; containing legislative findings; and declaring an emergency.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

SECTION 1. That Chapter 43, Subchapter D, Local Government Code, is amended by adding Section 43.0752 as follows:

"§ 43.0752 Regional Development Agreements.

"(a) It is the intent of the legislature to make certain and expand the authority of certain municipalities and conservation and reclamation districts located in an extraterritorial jurisdiction to negotiate and enter into mutually acceptable agreements in lieu of annexation.

"(b) In this section:

(1) "Municipality" means a home rule municipality having a population of 1,600,000 or more.

(2) "District" means a conservation and reclamation district created or operating pursuant to Chapters 49 and 54, Water Code and situated entirely within a planned community and entirely within the extraterritorial jurisdiction of a municipality.

(3) "Planned community" means a planned community of 10,000 acres or more that is subject, in whole or in part, to restrictive covenants containing ad valorem based assessments on real property used or to be used, in whole or in part, to fund governmental or quasi-governmental services and facilities within and for the planned community.

(4) "Regional development agreement" means a contract or agreement entered into pursuant to or in anticipation of the authority granted by this section, and any amendments, modifications, supplements, additions, renewals or extensions thereto, and any proceedings evidencing the addition of one or more districts as parties thereto.

"(c) Notwithstanding any general or special law or any home rule charter provision to the contrary, the governing body of a municipality and the governing body of one or more districts may enter into a regional development agreement to further regional cooperation between the district(s) and the municipality. A regional development agreement may provide for any one or more of the following:

(1) Deferral of the annexation of all or any portion of the lands in the district(s) for full, limited or other purposes for a mutually agreeable period of time;

(2) Provision of facilities and services by the parties or others to the lands that may be included from time to time within the district(s) included or added as parties thereto, including, without limitation, optional, backup, emergency, mutual aid or supplementary facilities or services;

(3) One or more payments to be made by the municipality to the district(s) included or added as parties thereto or to others for services provided by such district(s) or others;

(4) One or more payments to be made by the district(s) included or added as parties thereto or by others to the municipality for services provided by the municipality;

(5) The procedures or standards for receiving any required approvals and consents of the municipality;

(6) The standards for the issuance of bonds, notes, refunding bonds or other indebtedness by the district(s) included or added as parties thereto;

(7) Coordination of local, regional and areawide planning efforts;

(8) Remedies not inconsistent with general law in the event of breach thereof;

(9) Modification, amendment, renewal, extension, rescission or termination thereof;

(10) Joinder or addition of other districts as parties thereto;

(11) Designation of express third party beneficiaries thereto and, to the extent not inconsistent with general law, the rights and remedies of such designated beneficiaries;

(12) Such other lawful terms that the parties consider appropriate.

"(d) A regional development agreement must be in writing and shall not be effective until approved by the governing bodies of the municipality and the district(s) included as parties thereto;

provided, however, that a subsequent joinder or addition of other districts as parties may be authorized and evidenced in the manner provided therein. Upon approval, a regional development agreement is binding on subsequent governing bodies of the district(s) included or added as parties thereto and of the municipality throughout the term thereof.

"(e) A regional development agreement need not include a description of the lands contained within the boundaries of the district(s) included or added as parties thereto, but shall be recorded in the deed records of the county or counties in which the lands contained in the district(s) included or added as parties thereto are located.

"(f) Upon recordation, a regional development agreement, and any proceedings evidencing the joinder or addition of one or more other district(s) as parties thereto, shall also bind each owner and each future owner of land which may from time to time be included within the boundaries of the district(s) that are included or added as parties thereto. Upon compliance with the requirements for recordation included in Subchapter J, Chapter 49, Water Code or in any similar general or special law, relating to the addition or exclusion of lands, the owners and future owners of such added or excluded lands shall likewise be bound thereby or released therefrom.

"(g) The provisions of Section 42.023 and Section 42.041(b) through (e), Local Government Code, shall not be applicable to any land or owner of land within district(s) included or added as parties to a regional development agreement during the period of

deferral of annexation established in a regional development agreement, and any proceedings initiated pursuant thereto but not completed prior to the effective date of this section shall be suspended during such deferral period.

"(h) Nothing herein shall be deemed or construed to permit or require a district to provide public services and facilities or to make payment of public funds from sources not otherwise authorized by law; provided, however, that in consideration of the mutual benefits to be received by the implementation of a regional development agreement or for other lawful consideration, a district may contract with any person for the provision of any service or facility or the payment of funds by such person, at no cost or expense to the district, directly or indirectly, in support or furtherance of a regional development agreement to which the district is a party.

"(i) A regional development agreement and any action taken pursuant thereto by the parties are not subject to approval or an appeal brought under the Water Code.

"(j) This section shall be liberally construed so as to give effect to its legislative purposes and to sustain the validity of regional development agreements, whether entered into pursuant to or in anticipation of the authority granted by this section."

SECTION 2. An agreement entered into in anticipation of the passage or effectiveness of this Act, or any portion of such an agreement, shall not be invalid because of its authorization, execution or delivery prior to the effective date of this Act.

SECTION 3. This Act is intended as remedial legislation to facilitate and to relieve any uncertainty under existing law as to the authority of certain municipalities and districts to enter into regional development agreements.

SECTION 4. The legislature finds that there exists a public necessity to make certain the law governing the authority of municipalities and certain conservation and reclamation districts to enter into mutually acceptable agreements providing for the joint funding of services in lieu of annexation.

SECTION 5. The public benefits and the furtherance of the legislative goal of conservation and development of the natural resources of the state to be derived from making certain the existing law so as to facilitate regional development agreements, and the importance of this legislation and the crowded condition of the calendars in both houses create an emergency and an imperative public necessity that the constitutional rule requiring bills to be read on three several days in each house be suspended and this rule is hereby suspended, and that this Act take effect and be enforce from and after its passage, and it is so enacted.