COMPROMISE AND SETTLEMENT AGREEMENT

This Compromise and Settlement Agreement ("Agreement") is between, and is effective on the date last signed by, the City of Houston, a Texas Home Rule Municipal Corporation ("Houston" or "City"), James Robert Jones ("Jones"), and Allen Watson ("Watson") upon the terms and conditions described herein.

WHEREAS the Fourteenth Court of Appeals has reversed and rendered in *Jones v. Whitmire*, 691 S.W.3d 685 (Tex. App.—Houston [14th Dist.] 2024, pet. denied Jan. 31, 2025), in which Court held as follows:

> a. The [City] Officials cannot reduce the proceeds from the City's *ad valorem* tax levy allocated to the Drainage Fund under Article IX, Section 22, Subsection (b)(iii) of the City Charter to an amount less than 11.8 cents per $100 of taxable value, except to the extent such total amount of proceeds is reduced by the amount of the City's debt service obligations; and
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> b. While the Revenue Cap [art. III, § 1] may affect the total tax rate (and thus, the total *ad valorem* tax levy), the Officials cannot otherwise employ the Revenue Cap in calculating the "amount equivalent to proceeds from $0.118 of the City's ad valorem tax levy" under Article IX, Section 22, Subsection (b)(iii) of the City Charter.
>
> We also enjoin the Officials from allocating to the Drainage Fund an amount less than 11.8 cents per $100 of taxable value less the amount of the debt service obligations.

Id. at 696–97 (the "Judgment"); and

WHEREAS, the Supreme Court has denied review of the Judgment in Cause No. 24-0610; and

WHEREAS the Fourteenth Court of Appeals issued its mandate on March 18, 2025; and

WHEREAS in its FY2025 budget, the City of Houston allocated only approximately 57% of an amount equivalent to proceeds from $0.118 of the City's ad valorem tax levy, as such City Charter provision has been construed by the Fourteenth Court of Appeals in its April 23, 2024 opinion;

WHEREAS the parties to this Agreement desire that the will of Houston Residents, as expressed in the Houston City Charter, be fully effectuated no later than the beginning of the 2028 fiscal year;

NOW, THEREFORE, for good and valuable consideration, the sufficiency of which is hereby acknowledged by the parties to this Agreement (the "Parties"), the Parties hereby agree as follows:

The Parties' Mutual Agreements:

1. The Parties agree to work in good faith to identify agreed-upon procedures to monitor and verify the City of Houston's compliance with the terms of this Agreement.

2. The Parties agree that they will jointly seek and take necessary steps to have a court enter the Agreed Modified Injunction attached at Exhibit A hereto.

3. The Parties agree in good faith to work together to select a mutually agreeable auditor to conduct agreed-upon procedures as further defined in this Agreement.

4. The Parties agree that the following table fairly illustrates the projections of financial commitments described below. The Parties acknowledge that use of the word "projections" is included solely to acknowledge that ad valorem, Metropolitan Transit Authority of Harris County's ("METRO") sales tax, and drainage charge revenue streams are dependent on underlying economic factors beyond the control of the City and that are not possible to accurately project at this point in time:

	City of Houston Fiscal Year			
Revenue Description	**2026**	**2027**	**2028**	**2029**
METRO General Mobility Plan	$145.3M	$148.8M	$152.3M	$155.9M
Incremental METRO Infrastructure Investment	$40M	$60M	TBD	TBD
CoH Drainage Charge[1]	$121M	$122M	$123M	$124M
CoH Ad Valorem Incremental Contribution[2]	67%	77%	100% ($0.118)	100% ($0.118)
	($183.8M total)	($214.8M total)	($296.9M total)	($338.5M total)
TIRZ 11.8 cent increment	$0	$50M less credit	$52M less credit	$54M less credits
Total Commitment to Charter Program	**$490.1M**	**$595.6M**	**$624.2M**	**$672.4M**

[1] Change in projected year-over-year values reflects an assumed rate of growth in impervious cover in future years.

[2] City will phase in additional tax revenue at 67% and 77% of the $0.118 of ad valorem levy charter requirement for FY 2026 and FY 2027 respectively.

Houston's Agreements:

Houston agrees to the following terms:

5. Houston has hired, at its sole expense, an auditor annually to conduct an audit to ensure that Houston's financial statements are prepared in accordance with Generally Accepted Accounting Principles (GAAP) and the Governmental Accounting Standards Board (GASB). Houston will also annually hire, at its sole expense, an auditor to perform agreed-upon procedures to ensure that Houston is complying with the terms of this Agreement. Houston shall share all draft and final reports prepared as a part of such audits or agreed-upon procedures with Jones and Watson. The auditor will develop standard operating procedures for the accounting review conducted under this Agreement to be incorporated into the set of standard procedures conducted by third parties engaged by the City to provide independent audits of the City's financial statements.

6. Houston shall make ad valorem tax allocations to the Dedicated Drainage and Street Renewal Fund ("DDSRF") as follows, provided however, under no circumstances shall the City be required for FY2026 or FY2027 to deposit more to the DDSRF than it would have been required by the Judgment in the absence of this Agreement:

    a. For FY 2025, Houston will allocate no less than an amount equivalent to 57% of the amount required by Article IX, Section 22(b)(iii) of the Houston City Charter, as such City Charter provision has been construed by the Fourteenth Court of Appeals in its April 23, 2024 opinion.

    b. For FY 2026, Houston will allocate no less than an amount equivalent to 67% of the amount required by Article IX, Section 22(b)(iii) of the Houston City Charter, as such City Charter provision has been construed by the Fourteenth Court of Appeals in its April 23, 2024 opinion.

    c. For FY 2027, Houston will allocate no less than an amount equivalent to 77% of the amount required by Article IX, Section 22(b)(iii) of the Houston City Charter, as such City Charter provision has been construed by the Fourteenth Court of Appeals in its April 23, 2024 opinion.

    d. Beginning in FY 2028 and thereafter, Houston will allocate the full amount required by Article IX, Section 22(b)(iii) of the Houston City Charter, as such City Charter provision has been construed by the Fourteenth Court of Appeals in its April 23, 2024 opinion.

7. As required by Article IX, Section 22(b) of the Houston City Charter, Houston shall dedicate to the Dedicated Drainage and Street Renewal Fund the following sources:

    a. All proceeds from drainage impact fees collected pursuant to Chapter 47, Article XV Sec. 47-884 of the City of Houston Code of Ordinances.

b. All proceeds from third party contracts, grants or payments of any kind earmarked or dedicated to drainage or streets (such revenues include 100% of the City of Houston's share from the ¼ cent METRO General Mobility Plan funds).

c. All revenues from the municipal drainage utility charge collected pursuant to Chapter 47, Article XIV Sec. 47-822 of the City of Houston Code of Ordinances.

8. Houston will ensure that at least $0.118/$100 levied and collected by Houston on the captured growth portion of the appraised value of real property located in Tax Increment Reinvestment Zones ("TIRZs") is allocated each year to the DDSRF, and will ensure that such allocation is done in compliance with Chapter 311 of the Texas Tax Code as well as the terms of any applicable bonds, notes, or other outstanding obligations. All funds expended on TIRZ drainage and street projects outside the DDSRF allocation in a fiscal year shall be considered an offset to the allocation obligation required by this paragraph in the following fiscal year; however, no offset shall be allowed for TIRZ debt service payments.

9. Houston shall coordinate with METRO such that METRO dedicates the amounts below for METRO street and drainage projects to be funded and performed by METRO within the City of Houston. These dedicated METRO infrastructure investment amounts are expenditures beyond the METRO General Mobility Plan payments that the City is entitled to receive from METRO:

    a. In FY2026, $40 million;

    b. In FY2027, $60 million,

10. Houston also shall:

    a. Consider modifications to the manner in which it evaluates project ranking, selection, and delivery to consider capital funding over a rolling 20-year period.

    b. Reevaluate its basic design, bidding, contract administration, and project delivery process.

    c. Consider the use of contract management team(s) to speed total project delivery.

11. Houston further agrees that it will pay Jones and Watson $500,000 to cover their attorney's fees incurred in the *Jones v. Whitmire* litigation and appeals.

Jones's and Watson's Agreements:

Jones and Watson agree to the following terms:

12. Jones and Watson will not move or otherwise seek in court to enforce the Judgment until the earlier of (1) FY 2028, or (2) a date on which the City has failed to materially comply with any portion of Paragraphs 5-11 above.

13. If Jones and Watson become aware that Houston has not performed its obligations under this Agreement, Jones and Watson will notify Houston's Mayor, Chief Procurement Officer, Director of Houston Public Works, and City Attorney in writing within 10 calendar days of becoming aware of such event. The Parties agree to work together in good faith to address Jones and Watson's concerns within 30 days of the City's receipt of notice. The Parties agree the City's responsibilities under Sections 5 and 10 shall terminate on July 30, 2029, or unless earlier terminated by mutual agreement between the Mayor and Jones/Watson.

14. Jones and Watson do not waive their right to any remedies available to enforce this Agreement.

15. Jones and Watson hereby represent that they have not assigned to any person, corporation or entity any claims or causes of action, at law or in equity, known or unknown, which it may have or may have had against the City in any way arising out of, relating to or touching upon the lawsuit Jones and Watson filed against the City.

Headings:

The headings used in this Agreement are, unless specified otherwise, for convenience only and shall not be deemed to limit, amplify, or modify the terms of this Agreement, nor to affect the meaning thereof.

Governing Law:

This Agreement is being executed and delivered, and is intended to be performed in Houston, Texas, and the Charter and the Ordinances of the City of Houston, Texas, and the laws of the State of Texas and of the United States of America, shall govern the rights and the duties of the Parties hereto and the validity, construction, enforcement and interpretation of this Agreement.

Entire Agreement:

This Agreement embodies the entire agreement between the Parties, supersedes all prior agreements and understandings, if any, relating to the subject matter hereof, and may be amended only by an instrument in writing executed jointly by each of the Parties. The terms of this instrument are contractual and are not mere recitals, and the undersigned specifically represent that the contents and effects hereof are fully and completely agreed to and understood.

Multiple Counterparts:

This Agreement may be executed in a number of identical counterparts, each of which shall be deemed an original for all purposes and all of which constitutes, collectively, one agreement.

Interpretation:

This Agreement shall not be construed against or unfavorably to any party because of such party's involvement in the preparation or drafting of this Agreement.

Disclaimer of Reliance:

Each party to this Agreement expressly warrants and represents that no promise or agreement which is not herein expressed has been made to it in executing this Agreement, and that no party is relying upon any statement or representation of the party being released hereby. Each party is relying upon its own judgment and each party has been represented by counsel of its choosing.

EXECUTED on this the_____day of _____ , 2025.

_____
James Robert Jones

_____
Allen Watson

EXECUTED on this the_____day of _____ , 2025.

_____
Mayor John Whitmire

ATTEST/SEAL

_____
City Secretary

COUNTERSIGNED BY:

_____
Chris Hollins
City Controller
Date Countersigned: _____

APPROVED AS TO FORM:

_____
Arturo G. Michel
City Attorney