

TEXAS ECONOMIC DEVELOPMENT ACT

**AGREEMENT FOR LIMITATION ON APPRAISED VALUE OF PROPERTY
FOR SCHOOL DISTRICT MAINTENANCE AND OPERATIONS TAXES**

between

KLEIN INDEPENDENT SCHOOL DISTRICT,

and

HEWLETT-PACKARD COMPANY

Dated as of

November 14, 2006

WHEREAS, the Board of Trustees has carefully considered the information presented at the Public Hearing together with the recommendation of the Texas Comptroller of Public Accounts and, pursuant to §313.025(g), and the recommendations of its consultants; and,

WHEREAS, October 9, 2006 Applicant requested an extension of the 120 day period for District action on its Application, which request was granted by Board action on November 14, 2006; and.

WHEREAS, the Board of Trustees at its Board meeting held on November 14, 2006 made factual findings, in accordance with the Texas Economic Development Act, that this Agreement is in the best interest of the District; and,

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto agree as follows:

ARTICLE I

AUTHORITY, TERM, DEFINITIONS, AND GENERAL PROVISIONS

Section 1.1. AUTHORITY

This Agreement is executed by the District as its written agreement with the Applicant pursuant to the provisions and under the authority granted to the District by Section 313.027 of the Texas Tax Code.

Section 1.2. TERM OF THE AGREEMENT

This Agreement shall commence and first become effective for the ad valorem property valuations assessed against the qualified property and investments made pursuant to this Agreement beginning with the tax appraisals to be made as of January 1, 2007, which shall be referred to as the Commencement Date. The Parties to this Agreement acknowledge that the limitation on the local ad valorem property values shall not commence until the valuations made as of the second anniversary of the commencement date. These first two years shall be referred to as the Qualifying Time Period as that term is defined in Texas Tax Code § 313.021(4). The limitation on the local ad valorem property values shall terminate, with the expiration of tax year 2016, unless sooner terminated as herein provided. The requirement that Applicant shall maintain a viable presence in the District, as the term is defined herein, shall continue for three (3) years after the expiration of the tax limitation granted by this Agreement.

The tax years for which this Agreement is effective, unless sooner terminated as herein provided, are as follows:

<u>Year of Agreement</u>	<u>Date of Appraisal</u>	<u>School Year</u>	<u>Tax Year</u>	<u>Summary Description of Provisions</u>
1	January 1, 2007	2007-08	2007	No limitation on value. Tax credit in future years.
2	January 1, 2008	2008-09	2008	No limitation on value. Tax credit in future years.
3	January 1, 2009	2009-10	2009	\$ 80 million property value limitation.
4	January 1, 2010	2010-11	2010	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
5	January 1, 2011	2011-12	2011	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
6	January 1, 2012	2012-13	2012	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
7	January 1, 2013	2013-14	2013	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
8	January 1, 2014	2014-15	2014	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
9	January 1, 2015	2015-16	2015	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
10	January 1, 2016	2016-17	2016	\$ 80 million property value limitation. Possible tax credit payment due to Applicant.
11	January 1, 2017	2017-18	2017	No tax limitation. Possible tax credit due to Applicant. Applicant obligated to maintain viable presence if no early termination.
12	January 1, 2018	2018-19	2018	No tax limitation. Applicant obligated to maintain viable presence if no early termination.

<u>Year of Agreement</u>	<u>Date of Appraisal</u>	<u>School Year</u>	<u>Tax Year</u>	<u>Summary Description of Provisions</u>
13	January 1, 2019	2019-20	2019	No tax limitation. Applicant obligated to maintain viable presence if no early termination.

Section 1.3. DEFINITIONS

Wherever used herein, the following terms shall have the following meanings, unless the context in which used clearly indicates another meaning, to-wit:

"Act" means the Texas Economic Development Act set forth in Chapter 313, Texas Tax Code, as amended.

"Agreement" means this Agreement.

"Applicant" means the Hewlett-Packard Company, the company listed in the Preamble of this Agreement who, on May 15, 2006 filed its Application with the District for a Limitation on Qualified Property, pursuant to Chapter 313 of the Texas Tax Code. The term shall also include the Applicant's successors in interest, if any.

"Applicable School Finance Law" means Chapters 41 and 42 of the Texas Education Code, the Texas Economic Development Act (Chapter 313, Texas Tax Code), Chapter 403, Subchapter M, Texas Government Code applicable to the District, and the Constitution and general laws of the State applicable to the independent school districts of the State, including specifically, the applicable rules and regulations of the agencies of the State having jurisdiction over any matters relating the public school systems and school districts of the State, and judicial decisions construing or interpreting any of the above. The term also includes any amendments or successor statutes that may be adopted in the future that could impact or alter the calculation of Applicant's ad valorem tax obligation to the District either with or without the limitation of property values made pursuant to this Agreement.

"Application" means the Application for Appraised Value Limitation on Qualified Property (Chapter 313, Subchapter B or C, Property Tax Code) which filing with the District by Applicant was completed on May 15, 2006 by the tender of its Application fee.

"Benefit Account" means the account established by Applicant, pursuant to the provisions of this Subsection 4.3(b).of this Agreement, for the District's purchase of H-P Goods and Services from Applicant.

"Comptroller" means the Texas Comptroller of Public Accounts.

"Comptroller's Rules" means the applicable rules and regulations of the Comptroller set forth at 34 Texas Administrative Code § 9.107 together with any court or administrative decisions interpreting same.

"County" means Harris County, Texas.

"County Appraisal District" means the Harris County Appraisal District.

"District" or "School District" means the Klein Independent School District, being a duly incorporated and operating independent school district in the State of Texas, having the power to levy, assess, and collect ad valorem taxes within its boundaries.

"Employment Positions" shall mean non-temporary full time employment positions of the Applicant, its permitted assigns and affiliates at, or otherwise located in Harris County, Texas in support of, the facility to which this tax limitation agreement applies, including employees of contractors assigned to the facility to which this tax limitation agreement applies as shown on Applicant's internal contingent labor management systems. Two (2) or more part time employees, totaling thirty (30) hours or more per week may be substituted for one (1) full time employee.

"H-P Goods and Services" means products or services that Applicant markets and sells under its brand name to its other customers; provided that H-P Goods and Services shall not include any products or services of Applicant which at the time of the order thereof by District is covered under an existing purchase order, existing sales contract or other pre-existing contractual arrangement between the District and Applicant.

"Maintain Viable Presence" means the operation over the life of this Agreement of the facility or facilities for which the tax limitation agreement is granted and the retention over the entire term of this Agreement, as defined in Section 1.2 above, of not fewer than the number of Qualifying Jobs required, by Texas Tax Code, Chapter 313. Applicant shall be deemed to have maintained a viable presence in the event of a temporary interruption in operations due to strike, judicial decision, weather, or other act of God. In the event a fire, flood, windstorm or other disaster shuts down facility operations, Applicant will be deemed to have maintained a viable presence so long as it commences repairs and/or reconstruction of the damaged within one hundred eighty (180) days after the catastrophic event. In the event of a closure due to environmental reasons, Applicant will be deemed to have maintained a viable presence so long as it commences remediation or otherwise acts in accordance with the order of the court or environmental agency.

"Maintenance and Operations Revenue" means those revenues which the District receives from the levy of its annual ad valorem maintenance and operations tax pursuant to Texas Education Code § 45.002 and Article VII § 3 of the Texas Constitution. The term also includes all state revenues to which the District is or may be entitled under Chapter 42 of the Texas Education Code or any other statutory provision as well as any

amendment or successor statute to these provisions. The term shall exclude any amounts necessary to reimburse the State of Texas or another school district for the education of additional students pursuant to Chapter 41 of the Texas Education Code.

“Net Tax Benefit” for each year of this Agreement, including any period during which Applicant is required to Maintain a Viable Presence, means. the amount of school taxes which Applicant would have paid on the Qualified Property to the District, or any other governmental entity, including the State of Texas in the absence of this Agreement: adding to that amount any credit received by Applicant pursuant to Chapter 313 for the applicable year, Subchapter D of the Texas Tax Code by applicant; and subtracting from that amount the sum of all school taxes actually due to the District or any other governmental entity, including the State of Texas, together with any payments due to the District under Article III, of this Agreement for the applicable year.

“Qualified Investment” means an investment by Applicant in the Reinvestment Zone that will qualify the Applicant for a limitation on the appraised value of qualified property under Chapter 313 of the Texas Tax Code. The term does not include land, but means:

tangible personal property owned and operated on the Qualified Property by Applicant that is described as Section 1245 property by Internal Revenue Code of 1986, § 1245(a), and that is first placed in service in Texas during the applicable qualifying time period.

(B) tangible personal property owned and operated on the Qualified Property by Applicant that is first placed in service in Texas during the applicable qualifying time period, and that is used in connection with the manufacturing, processing, or fabrication in a cleanroom environment of a semiconductor product. For purposes of this subparagraph, tangible personal property is neither required to be affixed to or incorporated into real property, nor required to be actually located in the cleanroom environment. Examples include, but are not limited to, integrated systems, fixtures, and piping; property that is necessary or adapted to reduce contamination or to control environmental conditions (e.g. airflow, temperature, humidity, or chemical purity) or to control manufacturing tolerances; and production equipment and machinery, moveable cleanroom partitions, and cleanroom lighting;

(C) a building or a permanent, non-removable component of a building that is built or constructed, owned and operated on the Qualified Property by Applicant during the applicable qualifying time period, and that houses tangible personal property described by subparagraph (A) or (B) of this paragraph; or,

(D) any property that is described in subparagraphs (A)-(C) of this paragraph that is leased under a capitalized lease, but excludes any property that is leased under an operating lease.

“Qualified Property” means property that is owned by the Applicant and is used either as an integral part, or, as described in the Comptroller’s Rules set forth 34 Tex. Admin. Code § 9.107(b)(6), as a necessary auxiliary part, in manufacturing, research and development, or renewable energy generation and consists of:

(A) a new building or other new improvement that does not exist before the date on which the Applicant applies for an appraised value limitation;

(B) land that is not subject to a tax abatement agreement into which a school district has entered under Tax Code, Chapter 312; and is located in an area that is designated as a reinvestment zone under Tax Code, Chapter 311 or Chapter 312, or as an enterprise zone under Government Code, Chapter 2303, on which the Applicant:

i. proposes to construct, erect, or affix a new building or new improvement that does not exist before the date on which the Applicant applies for an appraised value limitation; and,

ii. in connection with that new building or new improvement, also proposes to make at least the minimum amount of qualified investment required by Section 313.023 of the Texas Tax Code; and,

iii. proposes to create at least 10 new jobs if the land is in a rural school district as defined by the Comptroller pursuant to 34 Tex. Admin. Code § 9.107(e)(1)(B), or at least 25 new jobs if the land is in a school district that is not a rural school district.

(C) tangible personal property owned and occupied by Applicant that is either first placed in service in the new building or in or on the new improvement that did not exist before the date on which the Applicant applies for an appraised value limitation (unless the property is considered a semiconductor fabrication cleanroom or equipment under Tax Code, § 151.318(q)) or first placed in service on the land on which that new building or new improvement is located, if the personal property is ancillary and necessary to the business that is conducted in that new building or in or on that new improvement. To qualify, tangible personal property may not be subject to a tax abatement agreement into which a school district has entered under Tax Code, Chapter 312.

“Qualifying Job” means a new permanent full-time job that:

(A) requires at least 1,600 hours of work per year;

(B) is not transferred from one area in this state to another area in this state;

(C) is not created to replace a previous employee;

(D) is covered by a group health benefit plan, as defined by Texas Government Code, § 481.151, for which the business pays or offers to pay at least 80% of the premiums or other charges that are assessed for employee-only coverage under the plan; and,

(E) pays at least 110% of the county average weekly wage for manufacturing jobs as computed by the Texas Workforce Commission for the county where the job is located.

“Reinvestment Zone” means the Reinvestment Zone created pursuant to the Texas Tax Code, by action of the District on November 14, 2006. The legal description of said Reinvestment Zone is:

All of Block 1, Restricted Reserve "B" of Compaq Center East, Section One, a subdivision in Harris County, Texas, according to the map or plat thereof recorded in the Map Records of Harris County, Texas, *(A copy of which is attached hereto and incorporated herein by reference for all purposes as EXHIBIT 1.)*

“State” means the State of Texas.

“Tax Credit” means the credit to be paid by the District to the Applicant computed under the provisions of Subchapter D of the Texas Economic Development Act and 34 Tex. Admin. Code § 9.107(o), provided that the Applicant complies with the requirements under such provisions, including the timely filing of a completed application under Section 313.103 of the Texas Tax Code and 34 Tex. Admin. Code § 9.107(o)(2).

“Tax Limitation Amount” means Eighty Million Dollars (\$80,000,000.00) for purposes of this Agreement and Texas Tax Code § 313.027(a)(2).

“Third Party” means the individual or firm selected under Section 3.4, below, to make the calculations required by the terms of this Agreement.

ARTICLE II

PROPERTY DESCRIPTION

Section 2.1. LOCATION WITHIN A QUALIFIED REINVESTMENT OR ENTERPRISE ZONE

The land included within the Qualified Property upon which the Qualified Investment will be made and the remainder of the Qualified Property will be located constitutes the entirety of the Reinvestment Zone. The legal description of the Reinvestment Zone, and map showing the location thereof are attached to this Agreement as **EXHIBIT 1** and incorporated herein by reference for all purposes.

Section 2.2. LOCATION OF QUALIFIED PROPERTY

The location of the Qualified Property upon which the Qualified Investment will be located in the Reinvestment Zone is described in **EXHIBIT 1**. The parties to this Agreement expressly agree that the boundaries of the Qualified Property may not be materially changed from its current configuration without the express authorization of each of the Parties.

Section 2.3. DESCRIPTION OF QUALIFIED INVESTMENT

The Qualified Investment with respect to which Applicant is seeking to use in order to qualify for this tax limitation Agreement is described in **EXHIBIT 2**, which is incorporated herein by reference for all purposes. Property which is not specifically described or referenced in **EXHIBIT 2** shall not be considered by the District or the County Appraisal District to be a Qualified Investment for purposes the Agreement. Qualified Investments may not be added to **EXHIBIT 2** except by an official determination of the Board of Trustees of the District made pursuant to Texas Tax Code § 313.027(e).

Section 2.4. EXISTING IMPROVEMENTS AND PERSONAL PROPERTY

Prior to the date the Applicant submitted the Application to the District, certain improvements and personal property existed in the Reinvestment Zone. The Parties to this Agreement mutually understand that a portion of the project set forth in the Application is being constructed in an existing building. Applicant's execution of the project set forth in the Application will require significant modifications to the existing structure. Under the provisions of Chapter 313 of the Texas Tax Code the taxable value of real estate improvements and/or business personal property which are in existence prior to the approval of an Application are not eligible to be considered as Qualified Investment or Qualified Property as defined by law or by this Agreement. New construction and/or business personal property are eligible to be considered as Qualified Investment and, together with the land, as Qualified Property.

Due to the nature of the improvements contemplated by Applicant, the Parties agree that it will be difficult, if not impossible to separately appraise the value of the portion of the new construction that is affixed to, or is a modification or alteration of the pre-existing improvements separate and distinct from the preexisting improvements.

Therefore, the Parties agree, with respect to the taxable valuation of Applicant's property within the Reinvestment Zone for Tax Years One (2007) through Tax Year Ten (2016) of this Agreement as set forth in **EXHIBIT 3**.

Section 2.5. QUALIFYING USE

The Qualified Investment described above in Section 2.3 qualifies for a tax limitation agreement under Texas Tax Code § 313.024(b)(12) as a research and development facility.

ARTICLE III

PROTECTION AGAINST LOSS OF FUTURE DISTRICT REVENUES

Section 3.1. INTENT OF THE PARTIES

It is the intent of the Parties executing this agreement that the District shall, in addition to the receipt of payments in lieu of taxation as set forth below in Article IV of this Agreement, be compensated by the Applicant for any loss that the District incurs in its Maintenance and Operations Revenue by virtue of its decision to participate in this Agreement under the Act. This Agreement is being executed to ensure that the risk of any negative financial consequence to the District in making the decision to participate in this Agreement is borne by the Applicant and not by the District.

Section 3.2. CALCULATING AMOUNT OF LOSS OF REVENUES BY KLEIN ISD

The amount to be paid by the Applicant to compensate the District for loss of Maintenance and Operations Revenues for each year under this Agreement shall be determined in accordance with Applicable School Finance Law. The parties intend that any such calculation make the District whole for any losses in accordance with the following formula:

The M&O amount owed by Applicant to District will equal:

Original M&O Revenue *minus* New M&O Revenue;

Where:

- i.* Original M&O Revenue means the total State and local Maintenance & Operations Revenue that the District would have received for the school year under the Applicable School Finance Law had this Agreement not been in effect.
- ii.* New M&O Revenue means the total State and local Maintenance & Operations Revenue that the District actually received under the Applicable School Finance Law for the school year.

In making the calculations required by this Section:

- iii* The taxable value of property for each school year will be determined under the Applicable Finance School Law.
- iv.* All calculations made for years three (3) through ten (10) of this Agreement under Subsection *ii* of this Section will be based upon the limitation of value on the Qualified Property of Eighty Million Dollars (\$80,000,000.00).

- v. All calculations made under this Section shall be made by a methodology which isolates only the revenue impact caused by this Agreement. Applicant shall not be responsible to reimburse the District for other revenue losses created by other agreements or any other factors.
- vi. The calculation made under this Section cannot result in a negative number. In the event that a negative number is calculated the loss to the District under this Section will be considered to be zero.
- vii. It is the express understanding of the parties, that in the event subsequent changes in the Applicable School Finance Law reduce or ameliorate the loss of revenue by the District as calculated by this Section, the obligation of Applicant to reimburse the District under this Section shall be similarly reduced.
- viii. All calculations under this Section shall be made by a methodology which isolates only the revenue impact caused by this Agreement. Applicant shall not be responsible to reimburse the District for other revenue losses created by other agreements or any other factors.

SECTION 3.3. COMPENSATION FOR LOSS OF OTHER REVENUES

To the extent not included within the amounts determined pursuant to Section 3.2 above, Applicant, on an annual basis shall also indemnify the District for all non-reimbursed costs it incurs in paying or otherwise crediting to the account of Applicant, including, but not limited to:

- i. Any applicable tax credit to which the Applicant may be entitled pursuant to Chapter 313, Subchapter D, Texas Tax Code, for which the District does not receive reimbursement from the State whether pursuant to Texas Education Code § 42.2515, or otherwise.
- ii. Any loss incurred by the District which accrues to the District in the event of a successful judicial challenge to this Agreement
- iii. Any attorneys' fees or other costs incurred by the District while engaged in any legal defense of this Agreement whether or not the Agreement is ultimately determined to be valid. In the event that the District intends to seek reimbursement for its attorney's fees under this Section, the District shall notify Applicant of its intent, and the Parties shall agree on the selection of counsel.

Section 3.4. CALCULATIONS TO BE MADE BY THIRD PARTY

All calculations under this Agreement shall be verified annually by an independent Third Party selected jointly by the Applicant and the District. Applicant will

be solely responsible for the payment of any fees charged by the Third Party, not to exceed, however, Five Thousand Dollars, (\$5,000.00) per year. All calculations shall originally be based upon estimates and then be adjusted to reflect “final” or “actual” data for the applicable year as the data becomes available.

Section 3.5. DATA USED FOR CALCULATIONS

The initial calculations for any payments which may become owing under this Agreement shall be based upon the valuations placed upon the Qualified Property by the County Appraisal District in its annual certified tax roll submitted to the District pursuant to Texas Tax Code § 26.01 on or about July 25 of each year of this Agreement. Immediately upon receipt of this information by the District, it will be transmitted to the Third Party selected under Section 3.4 of this Agreement. The certified tax roll data shall form the basis of the calculation of any and all amounts due under this Agreement. The data utilized by the Third Party will be adjusted from time to time to reflect any subsequent adjustments by the County Appraisal District to the District’s tax roll.

Section 3.6. DELIVERY OF CALCULATIONS

On or before November 1 of each year for which this Agreement is effective, the calculations required under Sections 3.2 and/or 3.3 of this Agreement, shall be made by the Third Party appointed pursuant to Section 3.4 of this Agreement, who shall forward to the Applicant a certification containing the required calculations in sufficient detail to allow the Parties to understand the manner in which the calculations were made. The Third Party shall simultaneously submit his or her invoice for services rendered to the Applicant, if any fee is being claimed.

Section 3.7. PAYMENT BY APPLICANT

On or before the January 31 next following the tax levy for each year for which this Agreement is effective, the Applicant shall pay any amount determined to be due and owing to the District.

Section. 3.8. EFFECT OF PROPERTY VALUE APPEAL OR OTHER ADJUSTMENT

In the event that the taxable value of the Qualified Property is changed after an appeal of its valuation or is otherwise altered, once the determination of a new value becomes final, the calculations required by Sections 3.2 and 3.3 of this Agreement will be remade by the Third Party using the new valuations. Upon completion of the new calculations, the Third Party shall transmit same to the Parties to this Agreement. Upon receipt of the new calculations, the Party owing funds to the other Party to this Agreement shall pay any amounts owed within thirty (30) days after receipt of the calculations from the Third Party.

Section 3.9. EFFECT OF STATUTORY OR OTHER LEGAL CHANGES

Notwithstanding any other provision in this Agreement, in the event that, by virtue of Applicable School Finance Law, administrative interpretations by either the office of the Comptroller, the Commissioner of Education or the Texas Education Agency, or the Courts of the State of Texas, the District will receive less Maintenance and Operations Revenue, or, if applicable, will be required to increase its payment of funds to the State, because of its participation in this Agreement, the Applicant shall make payments to the District, up to the amount of the limit on the revenue protection amount set forth in Section 3.10 of this Agreement, that are necessary to offset any negative impact on the District as a result of its participation in the Agreement in order that the District obtains an amount equal to that which the District would have received from State and local funds had the District not participated in this Agreement. Such calculation shall take into account any adjustments to the amount calculated for the current fiscal year that should be made in order to reflect the actual impact on the District.

Section 3.10. LIMITATION OF REVENUE PROTECTION AMOUNT IN YEARS FOUR THROUGH TEN OF THIS AGREEMENT

In years four (tax year 2010) through ten (tax year 2016) of this Agreement Applicant shall not be responsible for payment of a revenue protection amount to the District in excess of the amount of taxes which the Applicant would have paid to the District in ad valorem Maintenance and Operations taxes on the Qualified Property for the applicable year had this Agreement not been made. The comparison of these amounts shall be included in the calculations made pursuant to Section 3.4 of this Agreement. In making this calculation the Third Party shall include in his or her determination of the revenue protection limit a credit for the amount of taxes actually paid by the Applicant on the Qualified Property.

Section 3.11. OPTION TO CANCEL AGREEMENT

i. For years four (tax year 2010) through ten (tax year 2016) of this Agreement, in the event that payments by Applicant to the District become limited in accordance with the provisions of Section 3.10, above, the Applicant shall have the option to terminate this Agreement. Applicant may exercise the option, created by this Subsection, by notifying the District of its election in writing not later than the July 31 of any year next following the tax year in which the annual limitation set forth in Section 3.10 has been reached. The cancellation of the Agreement under this Subsection shall be effective as of the commencement of the second tax year next following the year in which said annual limitation giving rise to the option occurred.

ii. For years three (tax year 2009) through ten (tax year 2016) of this Agreement, in the event that the appraised value of the Qualified Property falls below the Tax Limitation Amount, as defined herein, the Applicant shall have the option to terminate this Agreement. Applicant may exercise the option, created by this Subsection,

to cancel the Agreement by notifying the District and the County Appraisal District of its election in writing not later than the October 31 of any year. The cancellation of the Agreement under this Subsection shall be effective immediately.

IV. PAYMENTS IN LIEU OF TAXATION

Section 4.1. AMOUNT EXCLUSIVE OF INDEMNITY AMOUNTS

In addition to undertaking the responsibility for the payment of all of the amounts set forth under Article III of this Agreement, and as a portion of the consideration for the execution of this Agreement by the District, Applicant agrees to make the payment to the District in lieu of taxation and to provide the support to the District all as set forth in this Article. It is the express intent of the Parties that the obligation for said payment in lieu of taxation is separate and independent of the obligation of Applicant to pay the amounts described in Article III.

Section 4.2. PAYMENT IN LIEU OF TAXES

Upon its execution of this Agreement Applicant will make a one-time contribution to the District in the amount of One Hundred Seventy Thousand Dollars (\$170,000.00) in order to provide support for the District's programs.

Section 4.3. OTHER SUPPORT OF THE DISTRICT

Applicant agrees to provide the following support for the District's academic program:

(a) ***Employee Support Opportunities.*** - During the term of this Agreement, Applicant agrees to confer with the District for the purpose of identifying opportunities for employees of Applicant to participate in programs sponsored by the District for the benefit of students and faculty of the District. Applicant agrees to disseminate the information developed from these conferences to Applicant's employees. Applicant further agrees to provide a reasonable opportunity for groups of students of the District to make District-sponsored tours of facilities of the Applicant at times convenient to Applicant and the District and consistent with Applicant's security policies.

(b) ***Provision of H-P Goods and Services.*** - Applicant agrees that the District shall have the right during the Term of this Agreement, including any year during which Applicant is required to Maintain a Viable Presence, to use the positive balance then contained in the "Benefit Account" (*defined below*) toward payment of the full sales costs of "H-P Goods and Services" that the District elects to purchase for use by the District's students or personnel primarily in a school or other facilities owned by the District through the following process:

- i.* As a part of its computations for the District, the Third Party designated pursuant to Section 3.4, above, annually will calculate the Applicant's Net Tax Benefit, as defined under Subsection 1.3, above.
- ii.* Commencing with tax year 2009 and continuing for each calendar year thereafter while this Agreement remains in effect, including any period during which Applicant has agreed to Maintain a Viable Presence, Applicant shall maintain a Benefit Account for the District. Applicant shall increase the Benefit Account balance on an annual basis on or before the payment date established by Section 3.7, below, by an amount equal to Fifteen Percent (15%) of the Net Taxable Benefit computed by the Third Party.
- iii.* The initial deposit into the Benefit Account in the year 2009 shall be reduced by \$ 170,000.00.
- iv.* The balance in the Benefit Account shall be reduced from time to time by the sales price of H-P Goods and Services which the District in its sole discretion, elects to purchase from Applicant pursuant to the following provisions of this Subsection 4.3(b). Recording of the reductions in the balance of the Benefit Account shall be made by Applicant if, as and when the basis of said reductions occurs.
- v.* For purposes of this Subsection, the sales prices that will be charged by Applicant to District on District's acquisition of H-P Goods and Services through use of the Benefit Account shall be the lowest available published pricing at which Applicant would sell the equipment or services to District without regard to the District's ability to use the Benefit Account for the payment of all or some portion of the sales price.
- vi.* District agrees that, without Applicant's prior written consent, it will not resell or dispose of any H-P Goods and Services it acquires through the use of the Benefit Account until at least one (1) year after the date of the delivery of the Qualified Goods or Services to the District.
- vii.* All acquisitions of H-P Goods and Services by District through the use of the Benefit Account shall be subject to Applicant's standard terms and conditions of sale and standard software and hardware licenses.
- viii.* In no event shall District be entitled to any cash payment by Applicant on account of any positive balance in the Benefit Account.

(c) It is expressly understood and agreed by the parties that the obligations created by this Section are to be considered to be material terms and the remedies set forth in Sections 5.3 and 5.4 of the Agreement will be available to the

District in the event of a breach of the obligations created by this Section in addition to any obligations created by the Agreement itself.

ARTICLE V

ADDITIONAL OBLIGATIONS OF APPLICANT

Section 5.1. DATA REQUESTS

During the life of this Agreement Applicant shall be obligated to provide the District and the County Appraisal District all data under the Texas Tax Code, including but not limited to employment data, necessary to determine whether all obligations under this Agreement are being met. In the event that the District requests information which the Applicant regards as being technical or proprietary business information, a trade secret or confidential in nature, or which is subject to a confidentiality agreement with any third party, or which is prohibited under any applicable law for disclosure, Applicant shall inform the District of its concerns and suitable arrangements shall be made for the District to have access to the information it needs in order to make its determination in a manner which does not compromise the proprietary or confidential nature of the information to other third parties, or breach any applicable confidentiality agreement, or subject Applicant to claims under applicable law.

Section 5.2. APPLICANT'S OBLIGATION TO MAINTAIN VIABLE PRESENCE

By entering into this Agreement, Applicant agrees that it will abide by all of the terms of the Agreement and that it will "Maintain a Viable Presence" in the District as that term is defined in Section 1.3, above, and for an additional period of at least three (3) years after the termination date of this Agreement, howsoever said termination shall occur.

Section 5.3. CONSEQUENCES OF EARLY TERMINATION OR OTHER MATERIAL BREACH BY APPLICANT

In the event that Applicant terminates this Agreement without the consent of the District, other than a termination in accordance with Section 3.11, or in the event that the Applicant or its successor in interest fails to comply with the terms of this Agreement or to meet any material obligation under this Agreement, the Applicant shall as liquidated damages to the District pay within thirty (30) days after receiving written notice of termination from the District ad valorem taxes for the three (3) tax years immediately preceding the year in which the default occurred that otherwise would have been paid to the District, without the benefit of this Agreement with the addition of penalty and interest. For purposes of this calculation the Applicant shall be entitled to credits: 1.) for any payments made to the District as protection against loss of revenue pursuant to Article III of this Agreement if and to the extent that Article III payments were made in any of the three (3) prior years upon which the liquidated damage calculation is made; and 2.) for the aggregate amount of reductions to the Benefit

Account that have been made on account of the use of the Benefit Account by the District as provided in Section 4.3.

Section 5.4. DETERMINATION OF BREACH

Prior to making a determination that Applicant has failed to Maintain a Viable Presence in the District as required by Section 5.2 or has otherwise committed a material breach of this Agreement, the District's administration shall provide the Applicant with a written notice of the facts which it believes have caused the material breach of this Agreement, and if cure is possible, the cure proposed by the District. After receipt of the notice, Applicant shall be given sixty (60) days to present any facts or argument to the District's Board of Trustees showing that it is not in material breach of its obligations under the Agreement, or that it has cured any such material breach.

After providing an opportunity for response, the District's Board of Trustees shall conduct a hearing. At the hearing the Board shall make findings as to whether or not a material breach of this Agreement has occurred, and the date such material breach occurred, if any. In the event that the Board determines that a material breach has occurred, it shall also determine the amounts of recaptured taxes under Section 5.3 of this Agreement which are owed to the District.

After making its determination regarding any alleged material breach, the Board shall cause Applicant to be notified of its determination.

Section 5.5. CALCULATION OF PENALTY AND INTEREST

In determining the amount of penalty and interest due under this Agreement in the event of a breach, the District shall determine the base amount of taxes owed less any credit under Section 5.3 of this Agreement for each of the three (3) years prior to the year in which the breach of the Agreement occurred. For each of the three (3) years, the District shall calculate penalty and interest in accordance with the methodology set forth in Chapter 33 of the Texas Tax Code as if the base amount calculated for that year of the Agreement under Section 4.3 above, had become due and payable on January 31 of each applicable year. Penalties on said amounts shall be calculated in accordance with the methodology set forth in Tax Code § 33.01(a), or its successor statute. Interest on said amounts shall be calculated in accordance with the methodology set forth in Tax Code § 33.01(c), or its successor statute.

Section 5.6. DISTRICT'S REMEDIES AFTER DETERMINATION OF MATERIAL BREACH

After receipt of notice of the Board's determination of a breach under Section 5.4 of this Agreement, Applicant shall have ninety (90) days in which to tender payment. In the event that payment is not received before the expiration of ninety days, the District shall have the remedies for the collection of the amounts determined under section 5.3 as are set forth at Texas Tax Code Chapter 33, Subchapters B and C, for the collection of

delinquent taxes. In the event that the District is required to initiate proceedings under this section for collection, Applicant acknowledges that it may be responsible for the payment of attorney's fees and a tax lien on the qualified property and investment pursuant to Texas Tax Code § 33.07 to the attorneys representing the District pursuant to Texas Tax Code § 6.100.

ARTICLE VI

MISCELLANEOUS PROVISIONS

Section 6.1. INFORMATION AND NOTICES

All notices required to be sent under this Agreement shall be given in writing via certified mail, return receipt requested to the parties hereto as follows:

To the District:

Dr. James W. Cain, Superintendent
Klein Independent School District
7200 Spring-Cypress Road
Klein, Texas 77379-3299
Fax: (832) 249-4055

With a copy to:

David Feldman
Feldman & Rogers L.L.P.
5718 Westhiemer Ste 1200
Houston, Texas, 77057
Fax: (713) 960-6025

To the Applicant:

Ken Gray, Vice President Information Technology
Hewlett-Packard Company
20555 State Highway 249, Mail Stop 130109
Houston, Texas 77070
Fax: (713) 514-6838

With a copy to:

R. G. "Jerry" Converse
Fulbright & Jaworski L.L.P.
600 Congress Avenue, 24th Floor
Austin, Texas 78701
Fax: (512) 536-4598

Section 6.2. EFFECTIVE DATE, TERMINATION OF AGREEMENT

(a) This Agreement shall be and become effective on and after January 1, 2007 the effective date upon which the Tax Limitation Agreement is first made effective by the District.

(b) The obligation to maintain a viable presence under this Agreement shall remain in full force and effect for three (3) years after the termination date of the Agreement.

Section 6.3. AMENDMENTS TO AGREEMENT

No amendments to this Agreement Plans shall be effective until the same are approved and accepted by the Parties.

Section 6.4. AMENDMENTS AND MODIFICATIONS

This Agreement may be modified, amended, or terminated by written mutual agreement of the District and the Applicant.

Section 6.5. ASSIGNMENT

Applicant may assign this Agreement, or a portion of this Agreement, to a new Applicant or lessee of the Qualified Property upon the written approval of the District, and approval shall not be unreasonably withheld. It shall not be unreasonable for the District to withhold approval if the Applicant is liable to the District for outstanding taxes or other obligations arising under this Agreement.

Section 6.6. MERGER

The Parties agree that this Agreement contains all of the terms and conditions of the understanding of the Parties relating to the subject matter hereof. All prior negotiations, discussions, correspondence, and preliminary understandings between the Parties and others relating hereto are superseded by this Agreement.

Section 6.7. MAINTENANCE OF APPRAISAL DISTRICT RECORDS

When appraising an Applicant's Qualified Investment subject to a limitation on appraised value under this Agreement, the chief appraiser of the Appraisal District shall determine the market value of the property and include both the market value and the appropriate value under this Agreement in its appraisal records.

Section 6.8. GOVERNING LAW

This Agreement and the transactions contemplated hereby shall be governed by and interpreted in accordance with the laws of the State of Texas without giving effect to principles thereof relating to conflicts of law rules that would direct the application of the laws of another jurisdiction.

Section 6.9. AUTHORITY TO EXECUTE AGREEMENT

Each of the Parties listed below expressly warrants that he or she has been expressly authorized to execute this Agreement for and on behalf of the respective parties.

Section 6.10. SEVERABILITY

If any term or provision of this Agreement, or the application thereof to any person or circumstance, shall to any extent be held to be invalid or unenforceable, then such invalidity or unenforceability shall not affect any other term or provision of this Agreement or the application thereof which can be given effect without the invalid or unenforceable provision, and the Parties agree that the provisions of this Agreement are and shall be severable.

Section 6.11. EXECUTION OF COUNTERPARTS

This Agreement may be executed in counterparts, each of which shall be deemed an original, and all of which, taken together, shall constitute but one and the same instrument, which may be sufficiently evidenced by one counterpart.

IN WITNESS WHEREOF, this Agreement has been executed by the District and the Applicant in duplicate originals on this 14th day November, 2006.

HEWLETT-PACKARD COMPANY

KLEIN INDEPENDENT SCHOOL DISTRICT

By: _____
KEN GRAY, VICE PRESIDENT
INFORMATION TECHNOLOGY

By: _____
STEVE SZYMCZAK, PRESIDENT

ATTEST:

By: _____
DR. NANCY RADCLIFFE, SECRETARY

EXHIBIT 1

DESCRIPTION OF REINVESTMENT ZONE

The legal description of said Reinvestment Zone as set forth in the maps attached to this notice and incorporated herein by reference for all purposes is:

All of Block 1, Restricted Reserve "B" of Compaq Center East, Section One, a subdivision in Harris County, Texas, according to the map or plat thereof recorded in the Map Records of Harris County, Texas.

EXHIBIT 2

DESCRIPTION OF QUALIFIED INVESTMENT

All improvements and attachments to real property, and personal property other than inventory, which have been or will be placed by Applicant within the Reinvestment Zone on or after May 15, 2006, and which will be used in the course of the Applicant's operations within the Reinvestment Zone, at any time during the duration of this Agreement.

EXHIBIT 3

AGREEMENTS ON TAXABLE VALUATION

(REFERENCE SECTION 2.4)

Tax Year One (2007) - The Applicant agrees that the ad valorem taxes levied by the District for the year 2007 upon its taxable property in the Reinvestment Zone will be based upon the tax rate adopted by the District for 2007 and applied against the fair market values, as of January 1, 2007, of certain components of said taxable property which in the aggregate include all said taxable property (real and personal). The components of said taxable property and the respective fair market values of said components are agreed to be as follows, *unless material changes to said properties occur prior to January 1, 2007*:

- i. The land in the Reinvestment Zone \$ _____
- ii. The improvements that were located in the Reinvestment Zone both as of May 15, 2006 and January 1, 2007
\$ _____
- iii. The improvements that were located in the Reinvestment Zone as of May 15, 2006 but not on January 1, 2007
\$0.00
- iv. The personal property that was located in the Reinvestment Zone both as of May 15, 2006 and January 1, 2007
\$ _____
- v. The personal property that was located in the Reinvestment Zone as of May 15, 2006 but not on January 1, 2007
\$0.00

Tax Year Two (2008) - The Applicant agrees that the ad valorem taxes levied by the District for the year 2008 upon its taxable property in the Reinvestment Zone will be based upon the tax rate adopted by the District for 2008 and applied against the fair market values, as of January 1, 2008, of certain components of said taxable property which in the aggregate include all said taxable property (real and personal). The components of said taxable property are agreed to be as follows:

- i.* The land in the Reinvestment Zone;
- ii.* The improvements that were located in the Reinvestment Zone both as of May 15, 2006 and January 1, 2008;
- iii.* All other improvements that were located in the Reinvestment Zone as of January 1, 2008 that are not included in component *ii* next above;
- iv.* The personal property that was located in the Reinvestment Zone both as of May 15, 2006 and January 1, 2008; and
- v.* The personal property that was located in the Reinvestment Zone as of January 1, 2008 that are not included in component *iv* next above.

Tax Years Three (2009) through Ten (2016) - Applicant and District agree that the ad valorem taxes levied by the District for each of the years 2009 through 2016, both inclusive, upon its taxable property in the Reinvestment Zone will be based upon (i) the tax rate adopted by the District for that year, applied against (ii) the lesser of \$100 Million as to all of Applicant's Qualified Property (including, among that Qualified Property, the lands in the Reinvestment Zone), and the fair market value as to all of Applicant's taxable property in the Reinvestment Zone which does not qualify in that year as Qualified Property.

All Tax Years as to Inventory - Any inventory owned by Applicant that is located in the Reinvestment Zone will be fully taxable at fair market value and not included in Applicant's Qualified Property for any tax year.