



Control Number: 45702



Item Number: 22

Addendum StartPage: 0

RECEIVED

APPLICATION OF CITY OF CIBOLO §
 FOR SINGLE CERTIFICATION IN §
 INCORPORATED AREA AND TO §
 DECERTIFY PORTIONS OF GREEN §
 VALLEY SPECIAL UTILITY §
 DISTRICT'S SEWER CERTIFICATE OF §
 CONVENIENCE AND NECESSITY IN §
 GUADALUPE COUNTY §

PUBLIC UTILITY COMMISSION
 2016 MAY 19 12:19
 OF TEXAS

**GREEN VALLEY SPECIAL UTILITY DISTRICT'S CONSOLIDATED REPLY TO
 RESPONSES BY COMMISSION STAFF AND CITY OF CIBOLO TO PLEA TO THE
 JURISDICTION AND MOTION TO DISMISS**

COMES NOW, Green Valley Special Utility District ("District") and files this Consolidated Reply to Responses by Commission Staff and City of Cibolo to the District's Plea to the Jurisdiction and Motion to Dismiss filed May 19, 2016. In support, the District would show as follows.

I. Introduction

Commission Staff incorrectly characterizes the District's Plea, and it should not be denied on the grounds stated in Commission Staff's Response.¹ Further, the District disagrees with City of Cibolo ("City") with respect to: (1) the adequacy of Cibolo's notice provided both in advance and with the filing of its Texas Water Code ("TWC") § 13.255 and P.U.C. SUBST. R. 24.120 application ("Application"); and (2) Cibolo's position that 7 U.S.C.A. § 1926(b) does not protect the District from the City's Application to encroach upon District sewer CCN service areas despite federal preemption of TWC § 13.255 and P.U.C. SUBST. R. 24.120.²

¹ See Commission Staff's Response to Green Valley's Plea to Jurisdiction and Motion to Dismiss ("Staff's Response") (May 19, 2016); *see also* the District's Plea to the Jurisdiction and Motion to Dismiss ("District's Plea") (April 29, 2016).

² See City of Cibolo's Response to Green Valley Special Utility District's Plea to Jurisdiction and Motion to Dismiss ("City's Response") (May 19, 2016).

II. Reply to Commission Staff's Response

Commission Staff's Response contends District's Plea is defective on its face because "Green Valley fails to make an argument as to why the Commission lacks jurisdiction to determine whether or not 7 U.S.C.A. § 1926(b) applies."³ This is untrue. The District is not arguing that the Commission lacks jurisdiction to conclude that § 1926(b) applies. The District is *asking* the Commission to conclude that § 1926(b) applies. While it is also true that because of federal preemption, the Commission is not the ultimate arbiter on the federal issue of whether § 1926(b) applies, the Commission can—and should—rule that § 1926(b) does, in fact, apply. The District's Plea, together with the District's May 12, 2016 List of Issues,⁴ was intended to inform the Commission that § 1926(b) presents a threshold jurisdictional issue with respect to the Commission's ability to hear the merits of the City's Application. Therefore, the Commission's sole stated reason for denying the District's Plea is groundless and must be rejected.

III. Reply to the City of Cibolo's Response

The City's Response involves more issues. The City begins by presenting approximately five pages of argument and nearly 40 pages of documents in an effort to convince the Commission that its Application notices were sufficient—contrary to the District's contention.⁵ Then, the City responds to the District's § 1926(b) issue by contending: (1) federal law does not preclude TWC § 13.255 processing under state law; and (2) the District has not demonstrated "its debt meets the criteria for protection from municipal encroachment into its certificated sewer

³ See Staff's Response, at 1 (May 19, 2016) (typographical errors omitted).

⁴ See Green Valley Special Utility District's List of Issues (May 12, 2016).

⁵ The District does not dispute that P.U.C. SUBST. R. 24.120 applies to the Application in addition to TWC §13.255. The former implements the latter. The District's notices were deficient under either.

service area under 7 U.S.C. § 1926(b).”⁶ The City’s arguments fail on both fronts, and these threshold jurisdictional issues ought to be resolved before the District is forced to expend further resources on a hearing on the merits for an Application that should be dismissed at the outset.

A. Defective Notice Issues

The District is fully aware of the narration that accompanied the City’s map sent to the District with the City’s August 18, 2015 letter, which was also later included with the Application and follow-up notice. However, the City’s map identifies both annexed and non-annexed tracts as areas comprising the “City of Cibolo Requested Decertification from GVSUD Sanitary Sewer CCN.”⁷ By not separately delineating the specific properties actually annexed and intended for City sewer service from properties as yet to be annexed (maybe), the City’s hopelessly confused notice to the District is insufficient, and fails to actually identify which tracts the City actually sought to serve and (perhaps) seek single certification following the requisite 180 days. The Application is apparently part of a systematic and fractured attack on the District’s sewer CCN area (which the District notes is contrary to the Legislature and Commission’s policy preference for regionalized services) without any regard for how the District might be forced to respond and continue sewer service efforts in areas the City has not unilaterally decided to annex (yet).⁸ A January 12, 2016 letter from the City to the District indicates the City intends to serve more than annexed tracts and further obscured its August 18, 2015 attempted notice of intent to serve.⁹ Combining all supposed pieces of the City’s attack in

⁶ City’s Response, at 8-9 (May 19, 2016).

⁷ See Application, at “Attachment A – Notice of Intent to Serve.”

⁸ TWC §13.255 and P.U.C. SUBST. R. 24.120 do not allow single certification without annexation.

⁹ Exhibit A at p. 3 (January 12, 2016 letter from City of Cibolo to Green Valley Special Utility District).

one notice document in the name of “efficiency” equates to lack of notice.¹⁰ Respectfully, the Commission should not permit such a practice as compliant with TWC §13.255 or P.U.C. SUBST. R. 24.120.

B. 7 U.S.C.A. § 1926(b) Federal Debt Protection Issue

Section 1926(b) involves a federal issue. Therefore, federal law is determinative. The City’s response only cites state law and federal case law from other federal jurisdictions outside the Fifth Circuit in support.¹¹ Under governing Fifth Circuit precedent, the City’s arguments fail.

1. Federal § 1926(b) Law Preempts Contrary State Law

There does not need to be a specific provision within a state statute to permit federal preemption as the City contends. Federal law controls whether federal preemption applies. Federal courts have held there is clear intent within § 1926(b) to preempt state law where applicable. *North Alamo* went so far as to describe the service area of a federally indebted association as “sacrosanct” based on 7 U.S.C.A. § 1926(b).¹² *Bear Creek* called the prohibition “absolute.”¹³ In *El Oso Water Supply Corporation*, the court, citing a multitude of federal cases, stated that 7 U.S.C.A. § 1926(b) has been interpreted liberally by federal courts to protect an indebted rural association from municipal encroachment.¹⁴ *North Alamo* explained that there is “a congressional mandate that local governments not encroach upon the services provided by such [FmHA-indebted associations], be that encroachment in the form of competing franchises,

¹⁰ See City’s Response, at 7 (May 19, 2016).

¹¹ *Id.* at 9 FN 15.

¹² *North Alamo Water Supply Corp. v. City of San Juan*, 90 F.3d 910, 915-16 (5th Cir. 1996).

¹³ *City of Madison, Miss. v. Bear Creek Water Ass’n, Inc.*, 816 F.2d 1057, 1059 (5th Cir. 1987).

¹⁴ *El Oso Water Supply Corp. v. City of Karnes City*, 2011 U.S. Dist. LEXIS 156348, at *10-13 (W.D. Tex., Aug. 30, 2011) (Mem. Op.), *aff’d* 2012 U.S. Dist. LEXIS 147760 (W.D. Tex., April 10, 2012) (finding that the entire El Oso Water Supply Corporation’s CCN service area was federally protected under 1926(b) from encroachment actions by the City of Karnes that included a TWC §13.255 application because of the water supply corporation’s outstanding federal loan).

new or additional permit requirements, or similar means.”¹⁵ The congressional purposes recognized in *North Alamo* are: “(1) to encourage rural water development by expanding the number of potential users of such systems, thereby decreasing the per-user cost, and (2) to safeguard the viability and financial security of such associations (and FmHA’s loans) by protecting them from the expansion of nearby cities and towns.”¹⁶

In the *Becker-Jiba Water Supply Corporation* federal Northern District of Texas case, the court found that “Section 1926(b) evinces the clear intent that federal law prevails in adjusting the rights *inter se*” of a federally indebted association and a municipality.¹⁷ “As supreme federal law, § 1926(b) displaces contrary state law.”¹⁸ While a state provision is unnecessary to effect preemption as the City suggests, *Becker-Jiba* observes that “[t]he Texas Water Code provides for this type of possible conflict by stating that ‘[a] rule or order of the regulatory authority may not conflict with the rulings of any federal regulatory body.’”¹⁹ In sum, contrary to the City’s contention, federal § 1926(b) displaces TWC § 13.255 state law directives to the Commission in the event of conflicts as presented here.

¹⁵ *North Alamo*, 90 F.3d at 915 (quoting *City of Madison, Miss. v. Bear Creek Water Ass’n, Inc.*, 816 F.2d 1057, 1059 (5th Cir. 1987)); see also *El Oso*, 2011 U.S. Dist. LEXIS 156348, at *10-13.

¹⁶ *North Alamo*, 90 F.3d. at 915 (quoting *Bear Creek*, 816 F.2d at 1060).

¹⁷ *Becker-Jiba Water Supply Corp. v. City of Kaufman*, 2003 U.S. Dist. LEXIS 10334, at *16-18 (N.D. Tex., June 18, 2003) (Mem. Op.).

¹⁸ *Id.*

¹⁹ *Id.*

2. The District Meets the Criteria for § 1926(b) Protection

The District in its Plea has provided sufficient evidence of its federal indebtedness. The District meets all applicable statutory criteria, because the District is an association, has a qualifying federal loan outstanding, and has provided or made service available.²⁰

Under § 1926(b), the District is included in the list of “associations” to include “public and quasi-public agencies . . . to provide for the . . . conservation, development, use, and control of water, and the installation or improvement . . . of waste disposal facilities” (*i.e.*, both water and sewer providers of the variety described).²¹ The District has continuing indebtedness to the FmHA in the form of a “qualifying federal loan” outstanding as demonstrated: (1) on the face of its federal loan documents that state the loan was authorized under § 1926; and (2) by the District’s Plea where the District’s General Manager provided a sworn affidavit that the District still owes \$500,000 under that loan.²² The District has also “provided or made service available” according to the *North Alamo* application of that phrase, which remains the Fifth Circuit standard today.²³

North Alamo held that the “state law duty to provide service is the legal equivalent to . . . making service available under § 1926(b)” and a CCN provides for that state law duty.²⁴ Further, as a TWC Chapter 65 special utility district, the District has held the legal right to

²⁰ See *North Alamo*, 90 F.3d at 915 (omitting “association” element); see also *El Oso*, 2011 U.S. Dist. LEXIS 156348, at *13 (setting forth “association,” “qualifying federal loan outstanding,” and “provided or made service available” criteria citing *North Alamo* and others).

²¹ 7 U.S.C.A. §1926(a)(1).

²² **Exhibit B**, at p. 11; District’s Plea, Affidavit of Pat Allen, at ¶3.a (April 29, 2016). The District notes that its loan documents, in addition to specifying authorization under §1926, discuss the fact that the Rural Utilities Service (RUS) is the successor agency within the United States Department of Agriculture to the Farmers Home Administration (FmHA). **Exhibit B**, at p. 11.

²³ *North Alamo*, 90 F.3d at 915-916.

²⁴ *Id.*

provide both water and sewer service within the entirety of its political subdivision boundaries with or without a CCN since its conversion in 1992.²⁵ The sewer CCN timing issue the City raises—without citing any actual legal authority—is irrelevant, and regardless, the City does not dispute the timing of the District’s water CCN.²⁶ Further, even under Texas law and the Texas Water Code “service” definition, the District has performed extensive “act(s)” constituting “service” in terms of planning efforts toward actively treating and collecting wastewater for treatment in the area Cibolo seeks to decertify within the District.²⁷ Thus, the District has “made service available” under applicable § 1926(b) standards.

In sum, the District meets the standards for 7 U.S.C.A. § 1926(b) protection. Such protection preempts any state law to the contrary, including TWC §13.255 and P.U.C. SUBST. R. 24.120. Accordingly, dismissal of the City’s Application is warranted.

²⁵ **Exhibit B**, at p. 10; TEX. WATER CODE §65.201(b)(2).

²⁶ City’s Response, at 9 FN16 (May 19, 2016) (raising the sewer CCN timing issue without any authority for why it is an issue—this is not one of the criteria set forth in *North Alamo*).

²⁷ TEX. WATER CODE §13.002(21) (“Service” means any act performed, anything furnished or supplied, and any facilities or lines committed or used by a retail public utility in the performance of its duties under this chapter to its patrons, employees, other retail public utilities, and the public, as well as the interchange of facilities between two or more retail public utilities.”) The District actively provides water distribution within its boundaries. The District has applied for a TCEQ water quality permit so that it may also actively provide wastewater collection and treatment within its boundaries and the TCEQ Executive Director recently issued its “Notice of Application and Preliminary Decision” in which the TCEQ proposed to approve the permit subject to further public comment and hearing procedures. **Exhibit C**. The City has contested the District’s wastewater permit application. **Exhibit D**. The District has a wastewater master plan for service throughout the District boundaries and an excerpt from the Green Valley SUD 2006 Wastewater Master Plan is included here to show the District’s preliminary plan for a wastewater system that will accommodate growth and development throughout its District boundaries and sewer CCN service area. **Exhibit E**. A 3-mile radius map in the District’s wastewater permit application shows where the wastewater plant would fit in with the District’s master plan extending wastewater collection into territory the City now seeks to decertify. **Exhibit F**.

3. Security Interest Issue Does Not Preclude §1926(b) Protection

Section 1926(b)'s language is straightforward. "The service provided or made available through any such association shall not be curtailed."²⁸ There is no exception based on where the security interest lies.

The City cites no authority for its proposition that service the District has made available within its water or sewer CCN boundaries (or District boundaries) must be tied to the specific security interest pledged to the United States of America as collateral in its § 1926(b) loan documents (*i.e.*, the "sewer-related assets" the City contemplates) to gain § 1926(b) protection.²⁹ Indeed, there is no such authority in the Fifth Circuit. Section 1926(b) itself does not set forth this requirement. *North Alamo* does not state such a proposition. Given this silence, the City's argument fails in light of the mandate in *North Alamo* and other federal cases that § 1926(b) "should be liberally interpreted to protect FmHA-indebted rural water associations from municipal encroachment."³⁰

The District is federally indebted under a § 1926(b) qualifying loan and has made both water and sewer service available within its CCN and District boundaries. Therefore, the Commission cannot curtail the District's service. Depriving the District of any service area, whether water or sewer CCN areas, will have the effect of curtailing the District's service, and will deprive the District of revenues that could otherwise be drawn upon to pay back its qualifying federal loan. This will harm the District's remaining customers and constituents throughout the District. The City is attempting to "skim the cream" of the District's customer

²⁸ 7 U.S.C.A. § 1926(b).

²⁹ City's Response, at 9 (May 19, 2016).

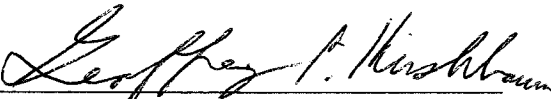
³⁰ *North Alamo*, 90 F.3d at 915; *see also Bear Creek*, 816 F.2d at 1059-60; *El Oso*, 2011 U.S. Dist. LEXIS 156348, at *10-13; *Becker-Jiba*, 2003 U.S. Dist. LEXIS 10334, at *16.

base by annexing and encroaching upon parts of the District's sewer service area with high population density (and thus low per-user cost). This is precisely what § 1926(b) is designed to prevent.³¹ The District implores the Commission to follow the mandates of § 1926(b) and defend the District from the City's advances into the District's sacrosanct service area.

Conclusion and Prayer

Green Valley Special Utility District respectfully requests the ALJ grant its Plea to the Jurisdiction and Motion to Dismiss. A contested case hearing to take further evidence and briefing on the threshold jurisdictional 7 U.S.C.A. § 1926(b) issue is warranted if the Commission is not willing to dismiss the Application at its outset. The District requests all other and further relief to which it is justly entitled at law or in equity.

Respectfully submitted,

By: 

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TERRILL & WALDROP
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Austin, Texas 78701
(512) 474-9100
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**ATTORNEYS FOR GREEN VALLEY SPECIAL
UTILITY DISTRICT**

³¹ See *Bear Creek*, 816 F.2d at 1059-60.

CERTIFICATE OF SERVICE

I hereby CERTIFY that on May 26, 2016, a true and complete copy of the above was sent by the method indicated to counsel of record at the following addresses in accordance with P.U.C. PROC. R. 22.74:

David Klein
Christie Dickenson
Lloyd Gosselink
816 Congress Ave., Suite 1900
Austin, Texas 78701

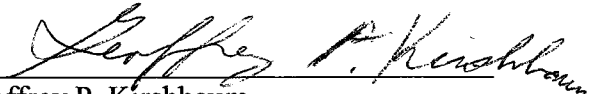
via fax to: (512) 472-0532

ATTORNEY FOR APPLICANT

Landon Lill
Public Utility Commission of Texas
1701 N Congress PO Box 13326
Austin, Texas 78711-3326

via fax to: (512) 936-7268

ATTORNEY FOR COMMISSION STAFF



Geoffrey P. Kirshbaum

EXHIBIT

A

Mr. Klein's Direct Line: (512) 322-5818
Email: dklein@lglawfirm.com

January 12, 2016

Law Offices of Mark H. Zeppa
Attn: Mr. Mark Zeppa
4833 Spicewood Springs, Suite 202
Austin, Texas 78759

VIA FIRST CLASS MAIL

Re: City of Cibolo's Notice of Intent to Provide Retail Sewer Service and Decertify Portions of Green Valley Special Utility District's Sewer CCN No. 20973 under Texas Water Code § 13.255

Dear Mr. Zeppa:

On August 19, 2015, the City of Cibolo (the "City") provided Green Valley Special Utility District ("GVSUD") with notice under Texas Water Code ("TWC") § 13.255 that the City intends to provide retail sewer service and decertify portions of GVSUD's sewer Certificate of Convenience and Necessity ("CCN") No. 20973 that are within the City's corporate limits. The City supplemented that notice on November 3, 2015, requesting a meeting to discuss the terms of an agreement between the City and GVSUD to transfer such sewer service area and avoid the time and costs of a contested case hearing. On December 7, 2015, I called you to follow up on the City's request for a meeting, and it is my understanding from you that GVSUD rejects the City's request for a meeting and does not want to sit down and discuss this matter. If my understanding is incorrect or if GVSUD has changed its mind, then the City is ready to schedule and conduct that meeting.

Additionally, it is important to note that while the City and GVSUD may also have an ongoing disagreement regarding portions of GVSUD's water CCN area, this letter (as well as the August 19th and November 3rd letters) is written solely with regard to GVSUD's sewer CCN service area.

In any event, GVSUD's September 1, 2015 letter invited the City to provide a written proposal to decertify any portion of GVSUD's sewer CCN area. Through this letter, the City responds with the following information and terms that could form the basis of an agreement between the parties:

PROPOSAL

1. **Request:** Identification of the area(s) sought by the City with digital maps and written identification that complies with the Public Utility Commission's ("PUC") certification rules.

Response: At a minimum, the City seeks to decertify the portions of GVSUD's sewer CCN service area that are shaded light blue, within the aqua-colored boundary, as depicted in the City's August 18th letter (attached hereto for your convenience as Attachment A). The City is also very interested in decertifying the portions of GVSUD's sewer CCN service area that are shaded yellow (also within the aqua-colored boundary), as depicted in the City's August 18th letter. The City recognizes that since the yellow areas are all subject to annexation agreements and will be annexed by the City in the upcoming years (and will likely be the subject of future Texas Water Code § 13.255 notifications), it is appropriate for GVSUD to transfer the light blue and yellow service areas to the City now. Accordingly, attached to this letter as Attachment B is a cd-rom with digital data depicting the light blue and yellow tracts of land (collectively, the "Transfer Areas"). To be clear, when projected, this digital data does contain several tiny white holes; however, the intent is for the entire enclosed area to be included. If an agreement is reached, the City will take the necessary steps to revise this digital data accordingly.

2. **Request:** A date on which the City will be prepared to assume all obligations to provide sewer utility service to the identified areas.

Response: It is the City's understanding that GVSUD has no retail sewer customers located within the Transfer Areas as of the date of this letter. Regardless, the City is prepared to provide retail sewer service to customers located within the Transfer Areas on the date on which the PUC issues a final and non-appealable order transferring the Transfer Areas to the City's sewer CCN service area, in accordance with all applicable laws, regulations, and City ordinances/service policies.

3. **Request:** Itemized identification of all real and personal property of GVSUD to which the City wants to take title and possession.

Response: None. The City is not aware of any real or personal property owned or possessed by GVSUD within the Transfer Areas that relate to providing retail sewer service in the Transfer Areas.

4. **Request:** Identification of the cash or other consideration the City will pay to the District and a date on which the payment will be made.

Response: As noted in issues 2 and 3, above, it is the City's understanding that GVSUD does not own or possess any real or personal property within the Transfer Areas that pertains to the provision of retail sewer service to the Transfer Area, and that GVSUD does not have any retail sewer customers in the Transfer Area. Accordingly, in light of the compensation factors in TWC § 13.255(g), there is no property of GVSUD that would be rendered useless or valueless to GVSUD as a consequence of transferring the Transfer Areas to the City, and no consideration is owed. Nevertheless, the City recognizes that there are costs associated with obtaining the PUC's approval to transfer the sewer CCN

service area for the Transfer Areas from GVSUD to the City. Therefore, the City is prepared to pay for the costs to prepare the sewer CCN transfer application, including maps, to file the sewer CCN transfer application at the PUC, and to prosecute such application. The City is also willing to prepare the agreement to transfer the sewer CCN service area from GVSUD to the City. The City asks that GVSUD assist and support such application, as needed.

The City recognizes your assertion that GVSUD has a United States Department of Agriculture- Rural Development ("USDA") loan that requires suitable cash consideration for the release of a service area before the USDA will release a lien on the District's CCN area and affected assets. However, it is the City's understanding that such loan is for water infrastructure and does not pertain to GVSUD's sewer system (to the extent GVSUD possesses a sewer system). Said another way, the City believes that GVSUD has only pledged its water revenue stream and water system assets as collateral to USDA, not its sewer CCN. Thus, the federal government would have no claim to GVSUD's sewer CCN.

If you believe any of the above information is inaccurate or provided in error, please provide us with documentation and information you believe is relevant to this discussion and the City's position. If the City and GVSUD are unable to reach an agreement in this matter, the City is prepared to file an application with the PUC at the earliest date allowed by TWC § 13.255.

Should you have any questions, please feel free to contact me at (512) 322-5818 or dklein@lglawfirm.com.

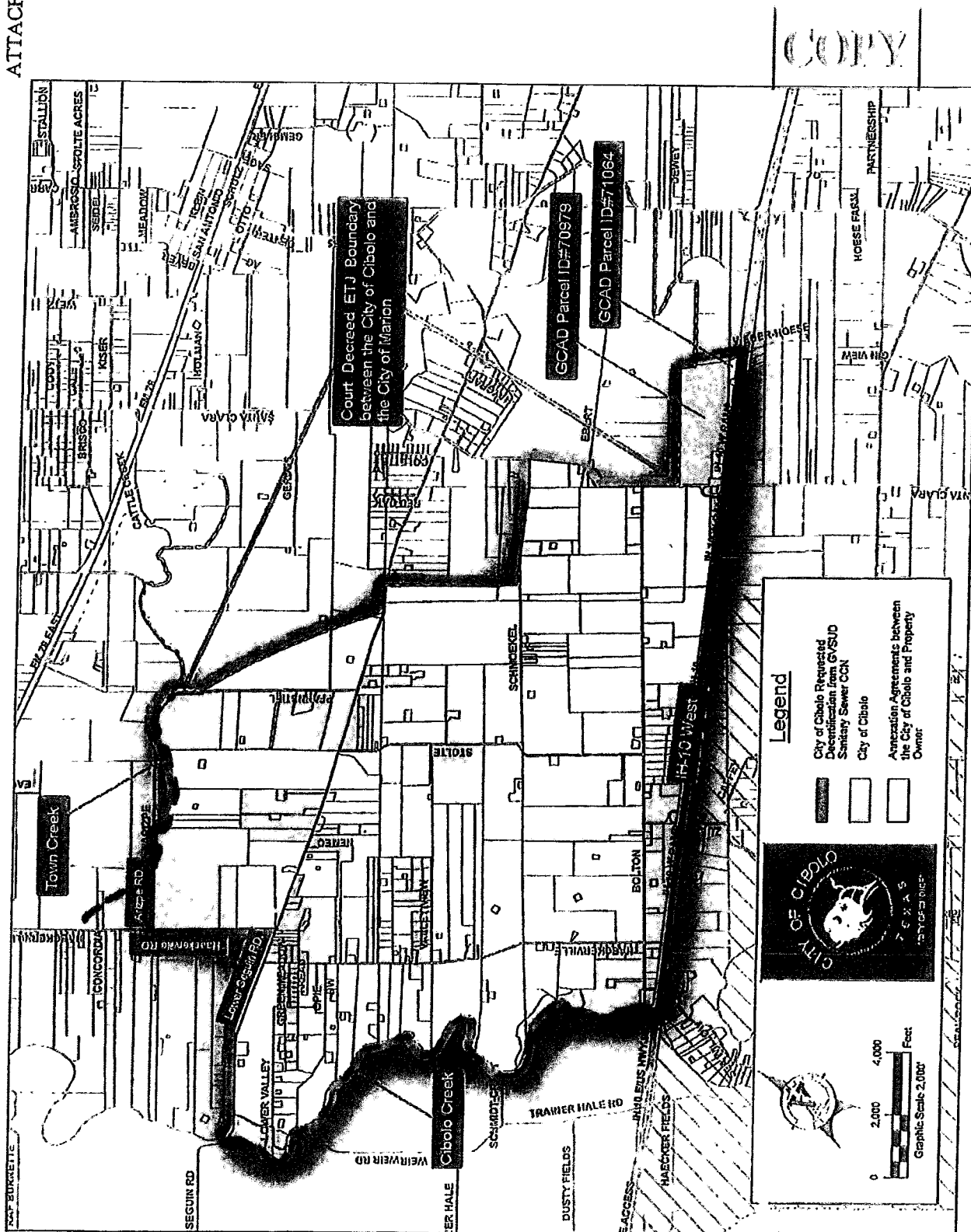
Sincerely,

A handwritten signature in black ink, appearing to read "David J. Klein", with a stylized flourish at the end.

David J. Klein

DJK/dsr
Enclosures

cc: Robert Herrera, City Manager, City of Cibolo (w/o enclosures)
Christie Dickenson, of the Firm (w/o enclosures)



COPY

EXHIBIT

B

STATE OF TEXAS
COUNTY OF GUADALUPE

CERTIFICATE FOR ORDER

We, the undersigned officers of the Board of Directors of GREEN VALLEY SPECIAL UTILITY DISTRICT, hereby certify as follows:

1. The Board of Directors of GREEN VALLEY SPECIAL UTILITY DISTRICT convened in regular session on the 10th day of July, 2003, at the regular meeting place thereof, and the roll was called of the duly constituted officers and members of the Board, to wit:

Richard R. DeMunbrun	President
Marie Garza	Vice-President
James E. Arnst	Secretary/Treasurer
Tommy Zipp	Director
Barry Dietert	Director
Duke Heller	Director
James Robinson	Director

and all of said persons were present except Dietert, thus constituting a quorum. Whereupon among other business, the following was transacted at the meeting;

AN ORDER AUTHORIZING ISSUANCE OF \$584,000 OF THE GREEN VALLEY SPECIAL UTILITY DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2003; PRESCRIBING THE TERMS, PROVISIONS, AND FORM THEREOF; PROVIDING FOR THE PAYMENT THEREOF AND INTEREST THEREON; AWARDING THE SALE OF THE BONDS TO THE UNITED STATES OF AMERICA; AND MAKING OTHER PROVISIONS REGARDING SUCH BONDS AND MATTERS INCIDENT THERETO

was introduced for the consideration of the Board. It was then duly moved and seconded that the ORDER be adopted; and, after due discussion, the motion, carrying with it the adoption of the ORDER, prevailed and carried unanimously.

2. That a true, full and correct copy of the aforesaid ORDER adopted at the meeting described in the above and foregoing paragraph is attached to and follows this certificate; and that the ORDER has been duly recorded in the Board's minutes of the meeting; that the persons named in the above and foregoing paragraph are the duly chosen, qualified and acting officers and members of the Board as indicated therein; that each of the officers and members consented, in advance, to the holding of the meeting for such purpose; that the meeting was open to the public as required by law; and that public notice of the time, place and subject of the meeting was given as required by Chapter 551, Texas Government Code and the Texas Water Code.

SIGNED AND SEALED the 10th day of July, 2003.


SECRETARY OF THE BOARD

District Seal


PRESIDENT OF THE BOARD

AN ORDER AUTHORIZING ISSUANCE OF \$584,000 OF THE GREEN VALLEY SPECIAL UTILITY DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2003; PRESCRIBING THE TERMS, PROVISIONS, AND FORM THEREOF; PROVIDING FOR THE PAYMENT THEREOF AND INTEREST THEREON; AWARDING THE SALE OF THE BONDS TO THE UNITED STATES OF AMERICA; AND MAKING OTHER PROVISIONS REGARDING SUCH BONDS AND MATTERS INCIDENT THERETO

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AN ORDER AUTHORIZING ISSUANCE OF \$584,000 OF THE GREEN VALLEY SPECIAL UTILITY DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2003; PRESCRIBING THE TERMS, PROVISIONS, AND FORM THEREOF; PROVIDING FOR THE PAYMENT THEREOF AND INTEREST THEREON; AWARDING THE SALE OF THE BONDS TO THE UNITED STATES OF AMERICA; AND MAKING OTHER PROVISIONS REGARDING SUCH BONDS AND MATTERS INCIDENT THERETO

THE STATE OF TEXAS
COUNTY OF GUADALUPE
GREEN VALLEY SPECIAL UTILITY DISTRICT

WHEREAS, GREEN VALLEY SPECIAL UTILITY DISTRICT, (hereinafter sometimes called the "Issuer") was originally incorporated as a Texas water supply corporation in 1964; in 1992 said corporation was converted to a special utility district operating under Chapter 65, Texas Water Code, by Order of the Texas Water Commission dated March 18, 1992, and said conversion was confirmed by the voters in the District at an election held for that purpose on May 2, 1992;

WHEREAS, the Issuer is authorized to issue bonds as provided in this Order pursuant to the Constitution and laws of the State of Texas, including but not limited to Chapters 49 and 65, Texas Water Code; and

WHEREAS, Issuer has never before issued bonds, and the District has no outstanding indebtedness other than its Secured Promissory Note dated June 28, 1988, which was issued before the WSC was converted to an SUD, and which has an outstanding balance at this time of approximately \$491,698.58, which Secured Promissory Note pledges the District's net water system as collateral for payment of the debt evidenced by said Note; and

WHEREAS, the Bonds are to be purchased by the US Department of Agriculture, Rural Development, so that pursuant to Section 49.181, Texas Water Code, approval of the Texas Commission on Environmental Quality is not a prerequisite for issuance of the Bonds; and

WHEREAS, the bonds authorized by this Order are to be payable solely from the revenues from the Issuer's Water System as described herein, and no tax revenues shall ever be used to service the debt on the bonds, and said pledge of the revenues from the Issuer's Water System shall be on parity with the District's Secured Promissory Note dated June 28, 1988;

IT IS, THEREFORE, ORDERED BY THE BOARD OF DIRECTORS OF THE GREEN VALLEY SPECIAL UTILITY DISTRICT, THAT:

SECTION 1. INITIAL DATE, AMOUNT, PURPOSE AND DEFINITIONS.

A. INITIAL DATE, AMOUNT, AND PURPOSE OF BONDS. The Issuer's negotiable bonds are hereby authorized to be issued in the aggregate principal amount of \$584,000 (the

"Bonds"). The initial date of the Bonds shall be August 1, 2003. The Bonds are being issued for the purpose of acquiring and improving the Issuer's Water System, and the construction of additions thereto, as authorized by Chapters 49 and 65, Texas Water Code.

B. DEFINITIONS AND INTERPRETATIONS

In this Order, the following acronyms and terms shall have the following meanings, unless the context clearly indicates otherwise:

(a) RUS: The Rural Utilities Service, an agency of the United States of America within the United States Department of Agriculture, and any successor agency thereof.

(b) FmHA: The Farmers Home Administration, a former agency of the United States of America within the United States Department of Agriculture and its successor agency, the RUS.

(c) Loan: The loan in the amount of \$584,000 from the United States of America to the Issuer, which has been authorized under 7. U.S.C. §1926, and which is represented by the United States of America's purchase of the Bonds.

(d) Agency rules: The statutes, rules, regulations and policies of the former FmHA or of the RUS, in effect on the date hereof, which pertain to or which are applicable to the loan and such future statutes, rules, regulations and policies which are not inconsistent with the express provisions hereof.

(e) Loan document provisions: The terms, conditions, requirements and provisions of the loan instruments and loan documents, including but not limited to, loan resolutions, security agreements, assurance agreements, certifications, and equal opportunity agreements, which were signed by the issuer for the benefit of the United States of America and/or of the RUS, and for the purpose of obtaining the loan.

In this Order, All terms defined herein and all pronouns used shall be deemed to apply equally to singular and plural and to all genders. The titles and headings of the articles and sections of this Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the validity of the lien on and pledge of the Net Water System Revenues to secure the payment of the Bonds. the following terms shall have the following meanings, unless the context clearly indicates otherwise:

"Additional Bonds" shall mean the additional bonds permitted to be issued by the District pursuant to this Order.

"Bond" or "Bonds" or "Series 2003 Bonds" shall mean the \$584,000 GREEN VALLEY SPECIAL UTILITY DISTRICT WATER SYSTEM REVENUE BONDS, SERIES 2003, authorized and issued pursuant to this Order.

"District" shall mean the GREEN VALLEY SPECIAL UTILITY DISTRICT of Guadalupe County, Texas, and, where appropriate, the Board of Directors thereof and any successor to the District as owner of the System.

"Delivery Date" shall mean the date of delivery each Bond to, and payment therefor by the United States of America.

"Fiscal Year" shall mean the twelve-month period commencing on the first day of October of any year and ending on the last day of September of such calendar year, or such other period commencing on the date designated by the District and ending one year later.

"Gross Water System Revenues" shall mean all revenues from all sources for the District's Water System (the "Water System").

"Initial Bond" or "Initial Bonds" shall mean the Bond or Bonds authorized, issued, and initially registered with the Texas State Comptroller provided in this Order.

"Interest Payment Date", when used in connection with any Bond, shall mean March 15th and September 15th of each year, commencing the later of March 15, 2004, or the next Interest Payment Date after delivery of an Initial Bond until maturity.

"Dated Date" shall mean August 1, 2003.

"Maintenance and Operation Expenses" shall mean the reasonable and necessary expenses of operation and maintenance of the Water System, including all salaries, labor, materials, repairs and extensions necessary to render efficient service (but only such repairs and extensions as, in the judgment of the governing body of the District, are necessary to keep the Water System in operation and render adequate service to the District and the customers thereof, or such as might be necessary to meet some physical accident or conditions which would otherwise impair the Bonds), and all payments under contracts now or hereafter defined as operating expenses by the Texas Legislature. Depreciation shall never be considered as a Maintenance and Operation Expense.

"Net Water System Revenues" shall mean all Gross Revenues of the District Water System, including interest earning thereon, less Maintenance and Operation Expenses of the Water System.

"Order" shall mean this bond Order and all amendments hereof and supplements hereto.

"Owner" or "Registered Owner", when used with respect to any Bond, shall mean the person or entity in whose name such Bond is registered in the Register. Any reference to a particular percentage or proportion of the Owners shall mean the Owners at a particular time of the specified percentage or proportion in aggregate principal amount of all Bonds then outstanding under this Order, exclusive of Bonds held by the District.

"Paying Agent" shall mean the Registrar.

"Record Date" shall mean the close of business on the 1st business day of the month in which an Interest Payment Date occurs.

"Redemption Date" shall mean the date fixed for redemption of any Bond pursuant to the terms of this Order.

"Register" shall mean the registry system maintained on behalf of the District by the Registrar in which are listed the names and addresses of, and the principal amounts registered to, each Owner.

"Registrar" shall mean Marion State Bank, and its successors in that capacity.

"Replacement Bonds" shall mean the Bonds authorized by the District to be issued in substitution for mutilated, lost, apparently destroyed or wrongfully taken Bonds as provided in this Order.

"Special Project" shall mean, to the extent permitted by law, any waterworks or property, improvement or facility declared by the District not to be part of the Water System and substantially all of the costs of acquisition, construction, and installation of which is paid from proceeds of a financing transaction other than the issuance of bonds payable from Net Water System Revenues, and for which all maintenance and operation expenses are payable from sources other than revenues of the Water System, but only to the extent that and for so long as all or any part of the revenues or proceeds of which are or will be pledged to secure the payment or repayment of such costs of acquisition, construction and installation under such financing transaction.

"Water System" shall mean all properties, facilities, improvements, equipment, interests and rights constituting the Water System of the District, including all future extensions, replacements, betterment, additions and improvements to the Water System. The Water System shall include the District's Water System only, and shall not include any special Project, sanitary sewer system or drainage system of the District.

SECTION 2. FORM OF BONDS AND CERTIFICATES.

A. FORMS GENERALLY. The Bonds, the Registration Certificate of the Comptroller of Public Accounts of the State of Texas, the Certificate of Registration, and the form of Assignment to be printed on the Bonds, shall be substantially in the forms set forth in this Order with such appropriate insertions, omissions, substitutions, and other variations as are permitted or required by this Order, and may have such letters, numbers, or other marks of identification (including identifying numbers and letters of the Committee on Uniform Securities Identification Procedures of the American Bankers Association) and such legends and endorsements (including any reproduction of an opinion of counsel) thereon as may, consistently herewith, be established by the Issuer or determined by the officers executing such Bonds as evidenced by their execution thereof. If bond insurance is obtained, the Bonds may bear an appropriate legend as provided by the insurer. Any Portion of the text of any of the Bonds may be set forth on the reverse thereof, with an appropriate reference thereto on the face of the Bond.

The definitive Bonds shall be printed, lithographed, laser printed, engraved, or produced by any combination of these methods, or photocopied or produced in any other similar manner, all as determined by the officers executing such Bonds as evidenced by their execution thereof, and the initial Bonds submitted to the Attorney General of Texas may be typewritten or photocopied or otherwise reproduced.

B. MATURITY SCHEDULE AND INTEREST RATES. The Bonds will bear interest at the rate of 4.25% per annum and are payable on September 15th in the years and maturities stated in the maturity schedule set forth below:

(remainder of this page intentionally left blank)

<u>Bond Nos.</u>	<u>Year Due</u>	<u>Principal Amount</u>
1	2005	6,000.00 ✓
2	2006	6,000.00 ✓
3	2007	7,000.00 ✓
4	2008	7,000.00 ✓
5	2009	7,000.00 ✓
6	2010	8,000.00
7	2011	8,000.00
8	2012	8,000.00
9	2013	9,000.00
10	2014	9,000.00
11	2015	9,000.00
12	2016	10,000.00
13	2017	10,000.00
14	2018	11,000.00
15	2019	11,000.00
16	2020	11,000.00
17	2021	12,000.00
18	2022	12,000.00
19	2023	13,000.00
20	2024	13,000.00
21	2025	14,000.00
22	2026	15,000.00
23	2027	15,000.00
24	2028	16,000.00
25	2029	17,000.00
26	2030	17,000.00
27	2031	18,000.00
28	2032	19,000.00
29	2033	20,000.00
30	2034	20,000.00
31	2035	21,000.00
32	2036	22,000.00
33	2037	23,000.00
34	2038	24,000.00
35	2039	25,000.00
36	2040	26,000.00
37	2041	27,000.00
38	2042	28,000.00
39	2043	30,000.00
TOTAL		\$584,000.00

C. INTEREST ACCRUAL

Interest shall begin to accrue on each Bond on the date the Bond is delivered to the United States of America by the Paying Agent/Registrar and payment is received by the Issuer for the Bond so delivered. The Bonds are to be delivered and paid for in installments as the Issuer needs the funds for the Project. The date of the delivery of each Bond shall be marked on the Bond by the Paying Agent/Registrar at the time of the delivery of the Bond in the space provided on each Bond as shown in Section 2H of this Order.

Interest payments shall be made semi-annually, on March 15th and September 15th of each year, commencing March 15, 2004. Notwithstanding any other term, condition, requirement or provision contained in this Order, interest on a Bond shall continue to accrue and be payable to the United States of America so long as the Bond remains unpaid and outstanding. Interest will not cease to accrue for any reason (including the establishment of a redemption date or prepayment date) until the date when payment in full has been received at the agency office designated to receive payments. For the purpose of determining the date when payment in full has been received at the agency office designated to receive payments, such date shall be:

1. When payment is made by hand delivery, the date when such payment has been physically delivered into the possession of such agency at the address given to the Issuer;
2. When payment is made by first class mail, the third day following Issuer's mailing of the payment, postage prepaid, using the U.S. Postal Service and Issuer's receipt of written proof of the mailing from the U.S. Postal Service identifying the date of mailing;
3. When payment is made by overnight delivery, the first day following Issuer's sending of the payment, using the U.S. Postal Service or another delivery service, such as Federal Express, and Issuer's receipt of written proof of sending from the delivery service identifying the date of sending;
4. when payment is made by electronic transfer of funds, the date that the electronic transfer of funds for the payment is completed; or
5. When payment is made by preauthorized electronic debit or draft, the date that the electronic debt or draft for the payment is paid.

D. FULLY REGISTERED FORM. The Bonds are issuable in fully registered form only, both principal thereof and interest thereon to be payable to the registered owner thereof. No Bond shall be entitled to right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Bond a certification by the Paying Agent/Registrar of the initial delivery date of the Bond (or its predecessor Bond) to its initial purchaser, from which date interest shall accrue on the Bond, and (a) either a certificate of registration substantially in the form provided by this Order, executed by the Comptroller of Public Accounts of the State of Texas or his duly authorized agent by manual signature, or (b) a certificate of registration substantially in the form provided in this Order, executed by the Paying Agent/Registrar by manual signature, and such certification upon any Bond shall be conclusive evidence, and the only evidence, that such Bond has been duly certified or registered and delivered.

E. DENOMINATIONS. The Bonds shall be in the denominations of \$1,000 or any integral multiple thereof.

F. FORM OF BOND. The initial Bonds will be numbered "R-1" to "R-39." The Bonds shall be in substantially the following form:

REGISTERED
NO. _____

REGISTERED
\$ _____

United States of America
State of Texas
GREEN VALLEY SPECIAL UTILITY DISTRICT
WATER SYSTEM REVENUE BOND
SERIES 2003

Interest Rate: 4.25%
Maturity Date: September 15, 20__

Initial Date:
August 1, 2003

CUSIP NO.

GREEN VALLEY SPECIAL UTILITY DISTRICT, (hereafter, "the Issuer"), a special utility district of the State of Texas, duly organized and existing under and by virtue of the laws of the State of Texas, including but not limited to Chapters 49 and 65, Texas Water Code, for value received,

hereby promises to pay to THE UNITED STATES OF AMERICA, or registered assigns, on the maturity date specified above the sum of _____ DOLLARS and to pay interest thereon from the later of the date of delivery to the initial purchaser or the most recent interest payment date to which interest has been paid or duly provided for, semiannually on March 15 and September 15 in each year until maturity, commencing March 15, 2004, at the per annum rate of interest specified above. The principal of this Bond is payable at the principal office of the Paying Agent/Registrar, Marion State Bank of Marion, Texas, or its successor, upon presentation and surrender of this Bond. The interest payable on any interest payment date will be paid to the person in whose name this Bond (or one or more predecessor Bonds), is registered at the close of business on the Record Date for such interest, which shall be the 1st day of the month in which an Interest Payment Date occurs. All such payments may be made by the Paying Agent/Registrar by check dated as of the interest payment date and mailed to the registered holder.

Notwithstanding any provision of this Bond or the Order to the contrary, as long as the registered owner is the United States of America, payment shall be made by the Issuer directly to the current servicing office as directed by the owner.

This Bond is one of the series specified in its title issued in the aggregate principal amount of \$584,000 (herein referred to as the "Bonds") pursuant to an Order adopted by the Board of Directors of the Issuer (herein referred to as the "Order"), for the purpose of acquiring and improving the Issuer's Water System, and the construction of additions thereto, for said Issuer, under and by virtue of the Constitution and laws of the State of Texas, particularly Chapters 49 and 65, Texas Water Code.

The Bonds of this series are payable from and secured by a lien on and pledge of the Issuer's Net Water System Revenues in parity with the District's Secured Promissory Note dated June 28, 1988, to wit; all income or increment which may grow out of the ownership and operation of the Issuer's water facilities, less such portion of such revenue income as reasonably may be required to provide for the administration, efficient operation and adequate maintenance of said service facilities in the manner authorized by law and to the extent provided in the Order. The holder hereof shall never have the right to demand payment of this obligation out of any funds raised or to be raised by taxation.

On March 15, 2014, or any interest payment date thereafter, the Issuer reserves the option to redeem the Bonds of this Series in whole or in part, in principal amounts of \$1,000 or any multiple thereof, in inverse order of maturity, at a price equal to the principal amount of the Bonds called for redemption plus accrued interest from the most recent Interest Payment Date on which interest has been paid or duly provided for to the redemption date. Furthermore, Bonds held by the United States of America may be redeemed at the option of the Issuer at any time and in inverse order of their stated Maturities at the redemption price of par together with accrued interest to the date of redemption. The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown on the Register. By the date fixed for any such redemption, due provision shall be made with the Paying Agent for the payment of the principal amount of the Bonds which are to be redeemed and accrued interest thereon to the date fixed for redemption. If such notice of redemption is given and if due provision for payment is made, all as provided above, the Bonds which are to be so redeemed thereby automatically shall be redeemed prior to their scheduled maturities, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as outstanding except for the right of the Registered Owner to receive the redemption price from the Paying Agents out of the funds provided for such payment, and the right of the Registered Owner to collect interest on such Bonds which would otherwise accrue after such date shall terminate on such date.

As provided in the Order and subject to certain limitations therein set forth, this Bond is transferable on the Bond Register of the Issuer, upon surrender of this Bond for transfer at the principal office of the Paying Agent/Registrar, duly endorsed by, or accompanied by a written instrument of transfer in form satisfactory to the Paying Agent/Registrar duly executed by the registered holder hereof or his attorney duly authorized in writing, and thereupon one or more new fully registered Bonds of the same stated maturity, of authorized denominations, bearing the same rate of interest, and for the same aggregate principal amount will be issued to the designated transferee or transferees.

The Issuer, the Paying Agent/Registrar, and any agent of either of them may treat the person in whose name this Bond is registered as the owner hereof for the purpose of receiving payment as herein provided and for all other purposes, whether or not this Bond be overdue, and neither the Issuer, the Paying Agent/Registrar, nor any such agent shall be affected by notice to the contrary.

The Issuer has reserved the right to issue additional bonds which may be secured by a lien on and pledge of the income and increment from the Issuer's System on a parity with the lien on and pledge of such income and increment to the payment of this Bond and the series of which it is a part, in addition to the right to issue bonds of inferior liens. Such additional bonds may be payable solely from Issuer taxes, or solely from the income or increment of the System, or may be payable from a combination of taxes and such income or increment. Reference is made to the Order for a complete description of the right to issue additional bonds.

It is hereby certified, recited and represented that the issuance of this Bond and the series of Bonds of which it is a part is duly authorized by law; that all acts and conditions required to be done and to exist precedent to and in the issuance of this Bond and said series of bonds to render the same lawful and valid have been properly done and have happened in due time, form, and manner as required by law; that due provision has been made for the payment of the interest on and the principal of this Bond and the series of bonds of which it is a part by irrevocably pledging the Net Water System Revenues of the Issuer's System; and that the issuance of this series of bonds does not exceed any Constitutional or statutory limitation.

IN WITNESS WHEREOF, the Issuer has caused this Bond to be duly executed under its official seal.

GREEN VALLEY SPECIAL UTILITY DISTRICT

BOARD SECRETARY
(District Seal)

BOARD PRESIDENT

G. INITIAL PAYING/AGENT REGISTRAR. The initial Paying Agent/Registrar for the Bonds will be Marion State Bank, of Marion, Texas. The Issuer reserves the right to change the Paying Agent/Registrar at the sole discretion of the Issuer.

H. FORM OF CERTIFICATE OF PAYING AGENT/REGISTRAR. The Certificate of the Paying Agent/Registrar to appear on all bonds shall be in substantially the following form:

CERTIFICATE OF PAYING AGENT/REGISTRAR

This is one of the Bonds referred to in the within-mentioned Order, which Bond, or a Predecessor Bond for which, has been approved by the Attorney General of the State of Texas and registered by the Comptroller of Public Accounts of the State of Texas. This Bond, or the initial predecessor Bond of this Bond, was delivered to its initial purchaser on the ____ day of _____, 20 ____.

Dated: _____

By: _____
Authorized signatory
Marion State Bank, Paying Agent/Registrar

I. COMPTROLLER REGISTRATION. The following Delivery Date and Registration Certificate of Comptroller of Public Accounts shall appear on the Initial Bonds:

REGISTRATION CERTIFICATE OF COMPTROLLER OF PUBLIC ACCOUNTS

OFFICE OF THE COMPTROLLER

X

OF PUBLIC ACCOUNTS

X

THE STATE OF TEXAS

X

REGISTER NO. _____

I HEREBY CERTIFY THAT there is on file and of record in my office a certificate to the effect that the Attorney General of the State of Texas has approved this Bond, and further that this Bond has been registered this day by me.

WITNESS my signature and seal of office this ____ day of _____, 20 ____.

(SEAL)

Comptroller of Public Accounts of the State of Texas

J. FORM OF ASSIGNMENT. The Certificate of Assignment shall be in substantially the following form:

ASSIGNMENT

FOR VALUE RECEIVED the undersigned hereby sells, assigns, and transfers unto (Print or typewrite name, address, and zip code of transferee: _____)
(Social Security or other identifying number: _____) the within Bond and rights thereunder, and hereby irrevocably constitutes and appoints _____ attorney to transfer the within Bond on the books kept for registration thereof, with full power of substitution in the premises.

Dated: _____

Signature Guaranteed by: _____

NOTICE: The signature on this assignment must correspond with the name of the registered owner as it appears on the face of the within Bond in every particular and must be guaranteed by an officer of a federal or state bank or a member of the National Association of Securities Dealers.

K. EXECUTION. The bonds shall be executed on behalf of the Issuer by the Board President of the Issuer and attested by the Board Secretary of the Issuer. The signature of either or both of said officers on the Bonds may be manual or facsimile. The seal of the Issuer may be printed, photocopied, lithographed or impressed on each Bond. Bonds bearing the manual or facsimile signatures of individuals who at the time were the proper officers of the Issuer shall be deemed to be duly executed on behalf of the Issuer notwithstanding that such individuals, or either of them,

shall cease to hold such offices prior to the certification or registration and delivery of such Bonds or shall not have held such offices at the date of such Bonds, all as provided and authorized in the Texas Public Securities Procedures Act, Texas Government Code, Sections 1201.001, et seq.

L. MUTILATED, LOST OR STOLEN BONDS. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Registrar shall authenticate and deliver in exchange therefor a Replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding. The District or the Registrar may require the Owner of such Bond to pay a sum sufficient to cover any tax or other governmental charge that may be imposed in connection therewith and any other expenses connected therewith, including the fees and expenses of the Registrar.

If any Bond is lost, apparently destroyed or wrongfully taken, the District, pursuant to the applicable laws of the State of Texas and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall execute, and the Registrar shall authenticate and deliver, a Replacement Bond of like maturity, interest rate and principal amount, bearing a number not contemporaneously outstanding, provided that the Owner thereof shall have:

(a) furnished to the District and the Registrar satisfactory evidence of the ownership of and the circumstances of the loss, destruction or theft of such Bond;

(b) furnished such security or indemnity as may be required by the Registrar and the District to save them harmless, provided, however, that as long as the United States of America is holder of the bonds, no security or indemnity shall be required;

(c) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees of the Registrar and any tax or other governmental charge that may be imposed; and

(d) met any other reasonable requirements of the District and the Registrar.

If, after the delivery of such Replacement Bond, a bona fide purchaser of the original Bond in lieu of which such Replacement Bond was issued presents for payment such original Bond, the District and the Registrar shall be entitled to recover such Replacement Bond from the person to whom it was delivered or any person taking therefrom, except a bona fide purchaser, and shall be entitled to recover upon the security or indemnity provided therefor to the extent of any loss, damage, cost or expense incurred by the District or the Registrar in connection therewith.

If any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the District in its discretion may, instead of issuing a Replacement Bond, authorize the Registrar to pay such Bond.

Each Replacement Bond delivered in accordance with this section shall be entitled to the benefits and security of this Resolution to the same extent as the Bond or Bonds in lieu of which such Replacement Bond is delivered.

SECTION 3. OUTSTANDING BONDS. The Issuer has no outstanding bonds.

SECTION 4. PLEDGE AND DEFINITION OF NET WATER SYSTEM REVENUES.

A. The term "Net Water System Revenues" as used in this Order shall include and mean all income and increment which may grow out of the ownership and operation of the Issuer's water

plants, facilities, and improvements (as same are purchased, constructed, or otherwise acquired), being the gross revenue income less that portion thereof as reasonably may be required to provide for the administration, efficient operation, and adequate maintenance of the Issuer's water plants, improvements, and facilities, and less that portion thereof derived from the contracts with private corporations, municipalities, or political subdivisions, which under the terms of the authorizing Orders may be pledged for the requirements of the Issuer's revenue bonds issued particularly to finance the facilities needed in performing any such contract.

B. The Issuer covenants and agrees that its Net Water System Revenues are hereby pledged for payment of the Bonds and such Additional Bonds, hereinafter defined, as may hereafter be issued and delivered, on parity with the District's Secured Promissory Note dated June 28, 1988, which was issued before the WSC was converted to an SUD, and which has an outstanding balance as of the date of this Order of approximately \$491,698.58.

SECTION 5. CREATION AND MANAGEMENT OF FUNDS.

A. CREATION OF FUNDS. The Issuer hereby establishes the following funds to be established and maintained on the books of the Issuer, and accounted for separate and apart from all other funds of the Issuer:

(a) The "Water System Revenue Fund," into which all Gross Water System Revenues shall be credited immediately upon receipt. All current expenses of Operation and Maintenance of the System shall be paid from the Gross Revenues credited to the Water System Revenue Fund, as a first charge against same.

(b) The "Interest and Sinking Fund," which is for the sole purpose of paying the principal of and interest on all Bonds and any Additional Bonds, as the same come due.

(c) The "Reserve Fund", which shall be used solely for the purpose of finally retiring the last of any Bonds or Additional bonds when and to the extent the amounts in the Interest and Sinking fund are insufficient for such purpose.

(d) The "Series 2003 Construction Fund," in which the proceeds of sale of the Bonds, as received, after making provision for the payment of the expenses incident to the issuance of the Bonds, including fiscal, legal and engineering fees and expenses, shall be deposited and shall be used solely for the purpose of the construction or acquisition of improvements, additions and/or extensions to the Issuer's Water System.

B. SECURITY OF FUNDS. Any cash balance in any fund shall be continuously invested and maintained in compliance with the Texas Public Funds Investment Act, Texas Government Code 2256.001, et. seq.

C. DEPOSITS OF NET WATER SYSTEM REVENUES: INVESTMENTS.

(a) The Net Water System Revenues shall be deposited into the Interest and Sinking Fund and the Reserve Fund when and as required by this Order.

(b) Money in any fund established pursuant to this Order shall be continuously invested and maintained in compliance with the Texas Public Funds Investment Act, Texas Government Code 2256.001, et. seq.; provided that all such deposits and investments shall be made legally in such manner that the money required to be expended from any fund will be available at the proper time or times. Such investments shall be valued by the Issuer in terms of current market value as of the

20th day of June of each year. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the fund from which the deposit or investment was made, and surpluses in any fund shall or may be disposed of as hereinafter provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

D. DEBT SERVICE REQUIREMENTS. The Issuer shall transfer from its Net Water System Revenues and deposit to the credit of the Interest and Sinking Fund the amount, at the times, as follows:

(a) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Bonds and any Additional Bonds on the next succeeding interest payment date; and

(b) such amounts, deposited in approximately equal monthly installments on or before the 25th day of each month hereafter, commencing with the month during which the bonds are delivered, or the month thereafter if delivery is made after the 25th day thereof, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Sinking Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Bonds and any Additional Bonds on the next succeeding principal payment date.

E. RESERVE REQUIREMENTS.

(a) Beginning on the 25th day of the month following delivery of the first Bond to its initial purchaser, and on the 25th day of each month hereafter, there shall be deposited in the Reserve Fund \$486.67 until \$58,400 has been accumulated in the Reserve Fund which is equal to ten percent of the approved loan amount. If all the Bonds are not delivered, then the Reserve Fund shall be accumulated to an amount equal to ten percent for the Bonds actually delivered.

(b) That at any time the investments and money in the Reserve Fund do not at least equal the average annual principal and interest requirements on all then outstanding bonds (the "Required Amount"), then, subject and subordinate to making the required deposits to the credit of the Interest and Sinking Fund, the Issuer shall transfer from the Net Water System Revenues and deposit to the credit of the Reserve Fund, on or before the 25th day of each month \$486.67 or a sum equal to the monthly deposit of the Required Amount until the Reserve Fund is restored to the Required Amount. Revenues accumulated over and above that needed to pay operating and maintenance, debt service and reserves may only be retained or used to make prepayments on the Bonds. Revenue cannot be used to pay any expenses which are not directly incurred for the facility financed by the Bonds so long as any of the Bonds are outstanding. No free service or use of the facility will be permitted.

5840.00/yr.

F. DEFICIENCIES, EXCESS NET WATER SYSTEM REVENUES.

(a) That if on any occasion there shall not be sufficient Net Water System Revenues to make the required deposits into the Interest and Sinking Fund and the Reserve Fund, then such deficiency shall be made up as soon as possible from the next available Net Water System Revenues, or from any other sources available for such purpose.

(b) That, subject to making the required deposits to the credit of the Interest and Sinking Fund and the Reserve Fund when and as required by this Order, or any orders authorizing the issuance of Additional Bonds, Net Water System Revenues may only be retained or used by the Issuer to maintain a prudent operating reserve and to make prepayments on the Bonds.

G. PAYMENT OF BONDS AND ADDITIONAL BONDS. On or before March 15, 2014, and semiannually on or before each March 15 and September 15 thereafter, while any of the Bonds or Additional Bonds are outstanding and unpaid, the Issuer shall make available to the "Paying Agent/Registrar" thereafter, out of the Interest and Sinking Fund and the Reserve Fund, if necessary, money sufficient to pay such interest on and such principal of the Bonds and Additional Bonds as will accrue or mature on such dates, respectively. Notwithstanding any provision on this Bond or the Order to the contrary, as long as the registered owner is the United States of America, payment shall be made by the Issuer directly to the current servicing office as directed by the owner. *Chose to begin paying in 2006*

SECTION 6. PERIOD OF CONSTRUCTION. The Board of Directors finds, upon the advice of the Issuer's Engineers, that the time required to complete the acquisition and construction of the facilities for which the Bonds are to be issued and sold may be as much as two years.

SECTION 7. REDEMPTION OF BONDS BEFORE MATURITY

A. OPTIONAL REDEMPTION.

(a) On March 15, 2014, or any interest payment date thereafter, the Issuer reserves the option to redeem the Bonds of this Series in whole or in part, in principal amounts of \$1,000 or any multiple thereof, in inverse order of maturity, at a price equal to the principal amount of the Bonds called for redemption plus accrued interest from the most recent Interest Payment Date on which interest has been paid or duly provided for to the redemption date. Furthermore, Bonds held by the United States of America may be redeemed at the option of the Issuer at any time and in inverse order of their stated Maturities at the redemption price of par together with accrued interest to the date of redemption.

(b) The Issuer, at least 45 day before the redemption date (unless a shorter period shall be satisfactory to the Paying Agent/Registrar), shall notify the Paying Agent/Registrar of such redemption date and of the principal amount of Bonds to be redeemed.

B. PARTIAL REDEMPTION.

(a) If less than all of the Bonds are to be redeemed, the Issuer shall determine the maturity or maturities and the amounts thereof to be redeemed and shall direct the Paying Agent/Registrar to call by lot Bonds, or portions thereof within such maturity or maturities and in such principal amounts, for redemption.

(b) Notwithstanding any other term, condition, requirement or provision contained in this Order, redemption or prepayment of a Bond may occur without presentation or presentment of the Bond, but only for so long as any of the Bonds issued under this Order are owned or held by the United States of America or any agency thereof, provided, however, the provisions of this section shall not be used to or shall not be construed so as to allow the order to violate any applicable provision of Texas law to the extent that such law is not otherwise preempted by applicable federal statute, regulation or rule.

C. NOTICE OF REDEMPTION TO BONDHOLDERS.

- (a) The Paying Agent/Registrar shall give notice of any redemption of Bonds by sending notice by first class United States mail, postage prepaid, not less than 30 days before the date fixed for redemption, to the Owner of each Bond (or part thereof) to be redeemed, at the address shown on the Register.
- (b) The notice shall state the redemption date, the redemption price, the place at which the Bonds are to be surrendered for payment, and, if less than all the Bonds outstanding are to be redeemed, an identification of the Bonds or portions thereof to be redeemed.
- (c) Any notice given as provided in this Section shall be conclusively presumed to have been duly given, whether or not the Bondholder receives such notice.

D. PAYMENT UPON REDEMPTION.

- (a) Before or on each redemption date, the Paying Agent/Registrar shall make provision for the payment of the Bonds to be redeemed on such date by setting aside and holding in trust an amount from the Interest and Sinking Fund or otherwise received by the Paying Agent/Registrar from the Issuer sufficient to pay the principal of, premium, if any, and accrued interest on such Bonds.
- (b) Upon presentation and surrender of any Bond called for redemption at the principal corporate office of the Paying Agent/Registrar on or after the date fixed for redemption, the Paying Agent/Registrar shall pay the principal of, premium, if any, and accrued interest on such Bond to the date of redemption for the money set aside for such purpose.

E. EFFECT OF REDEMPTION.

- (a) Notice of redemption having been given as provided in this Order, the Bonds or portions thereof called for redemption shall become due and payable on the date fixed for redemption and, unless the Issuer defaults in payment of the principal thereof, premium, if any, or accrued interest thereon, such Bonds or portions thereof shall cease to bear interest from and after the date fixed for redemption, whether or not such Bonds are presented and surrendered for payment on such date.
- (b) If any Bond or portion thereof called for redemption is not so paid upon presentation and surrender of such Bond for redemption, such Bond or portion thereof shall continue to bear interest at the rate stated on the Bond until paid or until due provision is made for the payment of same.

F. LIMITATION ON REDEMPTION. The bonds shall be subject to redemption before scheduled maturity only as provided in this Order, provided that to the extent allowed by Texas state law, the Issuer covenants to refinance the unpaid balance, in whole or in part, of its bonds upon the request of the United States of America if at any time it shall appear to the United States of America that the Issuer is able to refinance its bonds by obtaining a loan for such purposes from responsible cooperative or private sources at reasonable rates and terms for loans for similar purposes and periods of time as required by section 333(c) of the Consolidated Farm and Rural Development Act (7 U.S.C. 1983(c)).

SECTION 8. ADDITIONAL BONDS.

- (a) In addition to the right to issue bonds of inferior liens, the Issuer shall hereafter have the right to issue Additional Bonds payable from and equally secured by a pledge of Net Water System Revenues all to the same extent as pledged for and in all things on a parity with the lien of the

Bonds; or the Issuer may issue bonds payable from Issuer tax revenues, or revenue bonds payable solely from contracts with private corporations, municipalities, or political subdivisions issued particularly to finance facilities needed in performing any such contract and not payable from Net Water System Revenues as defined herein.

(b) However, each order under which Additional Bonds are issued shall provide and require that, in addition to the amounts required by the provisions of this Order and the provisions of any other order or orders authorizing Additional Bonds to be deposited to the credit of the Interest and Sinking Fund, the Issuer shall deposit to the credit of the Interest and Sinking Fund at least such amounts as are required for the payment of all principal of and interest on said Additional Bonds then being issued, as the same come due; and that the aggregate amounts to be accumulated and maintained in the Reserve Fund shall be increased (if and to the extent necessary) to an amount not less than the average annual principal and interest requirement of all bonds and Additional Bonds which will be outstanding after the issuance and delivery of the then proposed Additional Bonds; and that the required additional amount shall be so accumulated by the deposit in the Reserve Fund of all or any part of said required additional amount in cash immediately after the delivery of the then proposed Additional Bonds, or, at the option of the Issuer, by the deposit of said required additional amount (not deposited in cash as permitted above) in monthly installments, made on or before the 25th day of each month following the delivery of the then proposed Additional Bonds, of not less than 1/120th of said required additional amount (or 1/120th of the balance of said required additional amount not deposited in cash as permitted above.)

(c) That all calculations of average annual principal and interest requirements made pursuant to this Section shall be made as of and from the date of the Additional Bonds then proposed to be issued.

(d) That the principal of all Additional Bonds must be scheduled to be paid or mature on September 15 of the year in which such principal is scheduled to be paid or mature; and all interest thereon must be payable on March 15 and September 15.

(e) that while any of the Bonds or Additional Bonds are held by the United States of America, Additional Bonds may not be issued until prior written consent has been received from the United States of America.

(f) The Additional Bonds shall be issued only in accordance with this Order, but notwithstanding any provisions of this Order to the contrary, no installment, series or issue of Additional Bonds shall be issued or delivered unless:

1. The Board President and Secretary of the Issuer sign a written certificate to the effect that the Issuer is not in default as to any covenant, condition, or obligation in connection with all outstanding Bonds and Additional Bonds, and the orders authorizing same, and that the Interest and Sinking Fund and the Reserve Fund each contain the amount then required to be therein.
2. An independent certified public accountant, or independent firm of certified public accountants, signs a written certificate to the effect that, during the next preceding fiscal year, prior to the passage of the Order authorizing this issuance of the then proposed Additional bonds, the Net Water System Revenues were, in his or its opinion, at least equal to 1.20 times the average annual principal and interest requirements of all outstanding Bonds and Additional bonds, if any, and the proposed Additional Bonds.
3. The Order authorizing the issuance of the installment or series of Additional Bonds provides that the aggregate amount to be accumulated and maintained in the Reserve Fund shall be

increased by an additional amount not less than the average annual principal and interest requirement for said Additional Bonds, and that such additional amount shall be so accumulated within 120 months from the date of the Additional Bonds, by the deposit in the Reserve Fund of the necessary sums in equal monthly installments; provided, however, that the aggregate amount to be accumulated in the Reserve Fund shall never be required to exceed the average annual principal and interest requirements for all bonds and Additional Bonds; and

4. That all calculations of average annual principal and interest requirements made pursuant to this Section are made as of and from the date of the Additional Bonds then proposed to be issued.

(g) Parity Bonds may be issued to complete the Water System Project. Otherwise, parity bonds may not be issued unless the Net Water System Revenues (that is, unless otherwise defined by the State statute, gross revenues less essential operation and maintenance expense) for the fiscal year preceding the year in which such parity bonds are to be issued, were 120 percent of the average annual debt service requirements on all bonds then outstanding and those to be issued; provided, that this limitation may be waived or modified by the written consent of bondholders representing 75 percent of the then outstanding principal indebtedness.

(h) Additional bonds issued to refund any series of the outstanding Bonds may be issued without complying with subsection (f)(2), above.

(i) The Issuer reserves the right to issue Additional Bonds, being additional parity revenue bonds, in such amounts as are necessary for the purpose of completing the acquisition and construction of the Water System Project without the necessity of complying with subsection (f)(2) above if the Issuer's consulting engineer executes a certificate to the effect that such series of bonds are necessary to complete the acquisition and construction of the Water System Project and provided that the Issuer has received the prior written consent from the United States of America.

(j) The Issuer reserves the right to issue Special Project Bonds to acquire or construct a separate project which is expected to be self-liquidating. Special Project Bonds shall be payable from revenues received pursuant to contractual agreements. All revenues received for the Special Project in excess of revenues required to pay principal and interest on the Special Project bonds and to establish reserves and to secure, maintain and operate the Special Project shall be considered as part of the Gross Revenues.

SECTION 9. USE OF REVENUES. The Issuer shall deposit as collected all revenues derived from the operation of the Water System into an account called the "Water System Revenue Fund" which shall be kept separate and apart from all other funds of the Issuer. From the money in the Water System Revenue Fund, the Issuer shall first pay all reasonably administration, efficient operation, and adequate maintenance expenses of the Issuer. After the payment of all such expenses, the Issuer shall periodically transfer Net Water System Revenues in the Water System Revenue Fund pursuant to Section 5, "CREATION AND MANAGEMENT OF FUNDS," of this Order for so long as any part of the principal of or interest on the Bonds is outstanding.

SECTION 10. SPECIFIC OBLIGATIONS OF ISSUER'S BOARD OF DIRECTORS. The Board of Directors on behalf of the Issuer expressly stipulates and covenants that for the benefit of the original purchasers and any and all subsequent holders of the Bonds, or any part thereof (and enforceable by any one or all of said holders) and in addition to all other provisions and covenants that it will:

A. SERVICE RATES. Fix, maintain, and collect charges for the facilities and services rendered by the Issuer which will provide revenues sufficient at all times to pay for all reasonable administration, efficient operation, and adequate maintenance expenses of the System; to establish and maintain the Bond Funds (which are the interest and sinking fund for the Bonds, the Outstanding Bonds, and any Additional Bonds hereafter issued in accordance with the terms of this Order); and to pay all other outstanding indebtedness against the System as and when the same becomes due. The Board of Directors has enacted and will maintain in effect an Order fixing rates and charges for said facilities and service which contains, among other provisions, a requirement for periodic billing of all customers of the Issuer and a prohibition against furnishing of water service without charge to any person, firm, organization, or corporation;

B. NO ENCUMBRANCES. Not mortgage or otherwise encumber the physical properties of the System, or any part thereof, or sell, lease, or otherwise dispose of any substantial portion of the physical properties of the System;

C. MAINTENANCE. Maintain the System in good condition and operate it in an efficient manner and at a reasonable cost;

D. INSURANCE. Maintain insurance on the System of a kind and in an amount which usually would be carried by other water districts engaged in a similar type of operation;

E. RECORDS AND AUDITS. Keep records and accounts and employ an independent certified public accountant of recognized integrity and ability to direct the installation of the required accounting procedure and to audit its affairs at the close of each fiscal year. Said audits shall include a statement in detail of the income and expenditures of the System for each year; a balance sheet as of the end of the year; the auditor's comments regarding the manner in which the Issuer has carried out the requirements of all Bond Orders; his recommendations, if any, for changes or improvements in the operation of the Issuer's plants, facilities, and improvements; a list of insurance policies in force as of the date of the audit including the amount, expiration date, risk covered, and name of the insurer for each such policy; the number of properties connected to the System as of the end of the fiscal year; total gallons of water purchased and/or produced; total gallons of water sold; and percent of water lost. One written report of the audit shall be delivered to each member of the Board of Directors not later than 90 days after the close of each fiscal year, and so long as the United States of America owns any of the Bonds, a copy of said audit shall also be sent to the United States of America; upon request a copy of the audit shall be delivered to the holders of at least 25% of the then-outstanding bonds of the Issuer; and a copy of the audit shall be retained and filed in the office of the auditor. At least 5 copies of said audit shall be delivered to the office of the Issuer, one of which shall be kept on file, and said copies shall constitute a public record open to inspection by any interested person or persons during normal office hours.

F. CONTINUING DISCLOSURE UNDERTAKING

(a) Definitions.

As used in this Section, the following terms have the meanings ascribed to such terms below:

"MSRB" means the Municipal Securities Rulemaking Board.

"NRMSIR" means each person whom the SEC or its staff has determined to be a nationally recognized municipal securities information repository within the meaning of the Rule from time to time.

"Rule" means SEC Rule 15c2-12, as amended from time to time.

"SEC" means the United States Securities and Exchange Commission.

"SID" means any person designated by the State of Texas or an authorized department, officer, or agency thereof as, and determined by the SEC or its staff to be, a state information depository within the meaning of the Rule from time to time.

(b) Annual Records.

The District shall provide annually to each NRMSIR and any SID, within six months after the end of each fiscal year ending in or after 2003, financial information and operating data with respect to the District as follows:

1. The District's annual audit prepared pursuant to Chapter 49, Texas Water Code.
2. The District will update and provide this information within six months after the end of each fiscal year ending in or after 2003. The District will provide the updated information to each nationally recognized municipal securities information repository ("NRMSIR") and to any state information depository ("SID") that is designated by the State of Texas and approved by the staff of the United States Securities and Exchange Commission (the "SEC").

Any financial statements so to be provided shall be (1) prepared in accordance with the accounting principles, and (2) audited, if the District commissions an audit of such statements and the audit is completed within the period during which they must be provided. If audited financial statements are not so provided, then the District shall provide audited financial statements for the applicable fiscal year to each NRMSIR and any SID, when and if the audited financial statements become available.

If the District changes its fiscal year, it will notify each NRMSIR and any SID of the change (and of the date of the new fiscal year end) prior to the next date by which the District otherwise would be required to provide financial information and operating data pursuant to this Section.

The financial information and operating data to be provided pursuant to this Section may be set forth in full in one or more documents or may be included by specific reference to any document (including an official statement or other offering document, if it is available from the MSRB) that theretofore has been provided to each NRMSIR and any SID or filed with the SEC.

(c) Material Event Notices.

The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any of the following events with respect to the Bonds, if such event is material within the meaning of the federal securities laws:

- A. Principal and interest payment delinquencies;
- B. Non-payment related defaults;
- C. Unscheduled draws on debt service reserves reflecting financial difficulties;
- D. Unscheduled draws on credit enhancements reflecting financial difficulties

- E. Substitution of credit or liquidity providers, or their failure to perform;
- F. Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- G. Modifications to rights of Holders of the Bonds;
- H. Bond calls;
- I. Defeasances;
- J. Release, substitution, or sale of property securing repayment of the Bonds; and
- K. Rating changes.

The District shall notify any SID and either each NRMSIR or the MSRB, in a timely manner, of any failure by the District to provide financial information or operating data in accordance with Section 10.01 of this Resolution by the time required by such Section.

(d) Limitations, Disclaimers, and Amendments.

The District shall be obligated to observe and perform the covenants specified in this Article for so long as, but only for so long as, the District remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the District in any event will give the notice required by Section 10.02 of any Bond calls and defeasance that cause the District to be no longer such an "obligated person."

The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing in this Article, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The District undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Article and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the District's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Article or otherwise, except as expressly provided herein. The District does not make any representation or warranty concerning such information or its usefulness to a decision to invest in or sell Bonds at any future date.

UNDER NO CIRCUMSTANCES SHALL THE DISTRICT BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BONDS OR ANY OTHER PERSON, ON CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE DISTRICT, WHETHER NEGLIGENT OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS ARTICLE, BUT EVERY RIGHT AND REMEDY OF ANY SUCH PERSON, IN CONTRACT OR TORT, FOR OR ON ACCOUNT OF ANY SUCH BREACH SHALL BE LIMITED TO AN ACTION FOR MANDAMUS OR SPECIFIC PERFORMANCE.

No default by the District in observing or performing its obligations under this Article shall comprise a breach of or default under the Resolution for purposes of any other provision of this Resolution.

Nothing in this Article is intended or shall act to disclaim, waive, or otherwise limit the duties of the District under federal and state securities laws.

The provisions of this Article may be amended by the District from time to time to adapt to changed circumstances that arise from a change in legal requirements, a change in law, or a change in the identity, nature, status, or type of operations of the District, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Bonds in the primary offering of the Bonds in compliance with the Rule taking into account any amendments or interpretations of the Rule to the date of such amendments, as well as such changed circumstances,

and (2) either (a) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision in this Resolution that authorizes such amendment) of the Outstanding Bonds consent to such amendment or (b) a Person that is unaffiliated with the District (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. If the District so amends the provisions of this Article, it shall include with any amended financial information or operating data next provided in accordance with Section 10.01 an explanation in narrative form of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided.

G. COMPLIANCE WITH AGENCY RULES.

(a) To the extent permitted by State Law and if such law is not otherwise preempted by federal statute, regulation or rule, the Issuer shall comply with all agency rules and loan document provisions.

(b) Notwithstanding any other term, condition, requirement or provision contained in this Order, the agency rules and loan document provisions shall, to the extent permitted by State law and if such law is not otherwise preempted by federal statute, regulation, or rule, control to the extent of any conflict between the Order and such agency rules or such loan document provisions.

SECTION 11. REMEDIES OF HOLDERS. In addition to all rights and remedies of any holder of the Bonds provided by the laws of the State of Texas, the Issuer covenants and agrees that in the event the Issuer defaults in the payment of the principal of or interest on any of the Bonds when due, fails to make the payments required by this Order to be made into the Bond Fund, or defaults in the observance or performance of any of the covenants, conditions, or obligations set forth in this Order, the holder of any of the Bonds shall be entitled to a writ of mandamus issued by a court of proper jurisdiction compelling and requiring the Board of Directors and other officers of the Issuer to observe and perform any covenant, obligation, or condition prescribed in this Order. No delay or omission by any holder to exercise any right or power accruing to him upon default shall impair any such right or power, or shall be construed to be a waiver of any such default or acquiescence therein, and every such right or power may be exercised from time to time and as often as may be deemed expedient. The specific remedies mentioned in this Order shall be available to any holder of any of the Bonds and shall be cumulative of all other existing remedies.

SECTION 12. GENERAL COVENANTS. The Issuer covenants and represents that:

A. It has lawful power to pledge the Net Water System Revenues supporting the Bonds and has lawfully exercised said power under the Constitution and laws of the State of Texas;

B. The Bonds shall be ratably secured in such manner that no one bond shall have preference over other bonds of the Series of which it is a part; and

C. The Net Water System Revenues have not been in any manner pledged to the payment of any debt or obligation of the Issuer or of the System and the System is free and clear of all encumbrances whatsoever, except as hereinabove stated.

SECTION 13. ISSUER OFFICERS' DUTIES.

A. The Board President and Board Secretary are hereby instructed and directed to do any and all things necessary in reference to the installation, completion, and maintenance of the Issuer's

plants, facilities, and improvements and to make monies available for the payment of the Bonds in the manner provided by law.

B. The Board President and the Board of Directors shall submit the bonds, the record of the proceedings authorizing the issuance of the Bonds, and any and all other necessary orders, certificates, and records to the Attorney General of the State of Texas for his investigation. After obtaining the approval of the Attorney General, the Board President shall cause the Bonds to be registered by the Comptroller of Public Accounts of the State of Texas.

C. The Board President is authorized to execute and the Board Secretary is authorized to attest this Order on behalf of the Issuer and to do any and all things proper and necessary to carry out the intent hereof.

SECTION 14. SALE AND DELIVERY OF BONDS. The Bonds are hereby sold and shall be delivered to the UNITED STATES OF AMERICA, for the negotiated price of par value at an interest rate of 4.25% per annum with the principal maturity deferred for two years from delivery. Upon the registration of the Bonds, the Comptroller of Public Accounts of the State of Texas is authorized and instructed to deliver all of the Bonds to the Paying Agent/Registrar. Delivery of the Bonds to the aforementioned Purchaser shall be made incrementally as funds are needed for the project. The date of delivery of each bond shall be affixed on the Bonds, and the interest pertaining thereto will commence as of said delivery date. The Bonds will be delivered in the order of their numbers. The Paying Agent/Registrar shall (a) hold the Bonds pending delivery to the Purchaser, (b) deliver the Bonds at the direction of the Issuer, and (c) affix the date of delivery on the Bonds.

SECTION 15. COVENANTS REGARDING TAX EXEMPTION. The Issuer covenants to refrain from taking any action which would adversely affect, and to take any required action to ensure, the treatment of the Bonds as obligations described in Section 103 of the Internal Revenue Code of 1986, as amended (the "Code"), the interest on which is not includable in the "gross income" of the holder for purposes of federal income taxation. In furtherance thereof, the Issuer covenants as follows:

(a) to take any action to assure that no more than 10 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited to a reserve fund, if any) are used for any "private business use," as defined in Section 141(b)(6) of the Code or, if more than 10 percent of the proceeds or the projects financed therewith are so used, such amounts, whether or not received by the Issuer, with respect to private business use, do not, under the terms of this Order, or any underlying arrangement, directly or indirectly, secure or provide for the payment of more than 10 percent of the debt service on the Bonds, in contravention of Section 141(b)(2) of the Code;

(b) to take any action to assure that in the event that the "private business use" described in Subsection (a) hereof exceeds 5 percent of the proceeds of the Bonds or the projects financed therewith (less amounts deposited into a reserve fund, if any) then the amount in excess of 5 percent is used for a "private business use" which is "related" and not "disproportionate," within the meaning of Section 141(b)(3) of the Code, to the governmental use;

(c) to take any action to assure that no amount which is greater than the lesser of \$5,000,000, or 5 percent of the proceeds of the Bonds (less amounts deposited into a reserve fund, if any) is directly or indirectly used to finance loans to persons, other than state or local governmental units, in contravention of Section 141(c) of the Code;

(d) to refrain from taking any action which would otherwise result in the Bonds being treated as "private activity bonds" within the meaning of Section 141(b) of the Code;

(e) to refrain from taking any action that would result in the Bonds being "federally guaranteed" within the meaning of Section 149(b) of the Code;

(f) to refrain from using any portion of the proceeds of the Bonds, directly or indirectly, to acquire or to replace funds which were used, directly or indirectly, to acquire investment property (as defined in Section 148(b)(2) of the Code) which produces a materially higher yield over the term of the Bonds, other than investment property with—

(1) proceeds of the Bonds invested for a reasonable temporary period of 3 years or less, or, in the case of a refunding bond, for a period of 30 days or less until such proceeds are needed for the purpose for which the Bonds are issued,

(2) amounts invested in a bona fide debt service fund, within the meaning of Section 1.103-13(b)(12) of the Treasury Regulations, and

(3) amounts deposited in any reasonably required reserve or replacement fund to the extent such amounts do not exceed 10 percent of the proceeds of the Bonds;

(g) to otherwise restrict the use of the proceeds of the Bonds or amounts treated as proceeds of the Bonds, as may be necessary, so that the Bonds do not otherwise contravene the requirements of Section 148 of the Code (relating to arbitrage) and, to the extent applicable, Section 149(d) of the Code (relating to advance refundings);

(h) to pay to the United States of America at least once during each five-year period (beginning on the date of delivery of the bonds) an amount that is at least equal to 90 percent of the "Excess Earnings" within the meaning of Section 148(f) of the Code and to pay to the United States of America, not later than 60 days after the Bonds have been paid in full, 100 percent of the amount then required to be paid as a result of "Excess Earnings" under Section 148(f) of the Code; and to maintain such records as will enable the Issuer to fulfill its responsibilities under this Section and Section 148 of the Code and to retain such records for at least six years following the final payment of principal and interest on the Bonds.

In order to facilitate compliance with the above covenants (g), (h), and (i), a "Rebate Fund" is hereby established by the Issuer for the sole benefit of the United States of America, and such Fund shall not be subject to the claim of any other person, including without limitation, the bondholders. The Rebate Fund is established for the additional purpose of compliance with Section 148 of the Code.

It is the understanding of the Issuer that the covenants contained herein are intended to assure compliance with the Code and any regulations or rulings promulgated by the U.S. Department of the Treasury pursuant thereto. In the event that regulations or rulings are hereafter promulgated which modify, or expand provisions of the Code, as applicable to the Bonds, the Issuer will not be required to comply with any covenant contained herein to the extent that such failure to comply, in the opinion of a nationally-recognized bond counsel, will not adversely affect the exemption from federal income taxation of interest on the Bonds under Section 103 of the Code. In the event that regulations or rulings are hereafter promulgated which impose additional requirements which are applicable to the Bonds, the Issuer agrees to comply with additional requirements to the extent necessary, in the opinion of nationally-recognized bond counsel, to preserve the exemption for federal income taxation of interest on the Bonds under Section 103 of the Code. In furtherance of such intention, the Issuer hereby authorizes and directs the Board President to make such elections, on behalf of the Issuer, which may be permitted by the Code as are consistent with the purpose for the issuance of the Bonds.

SECTION 16. DESIGNATION AS QUALIFIED TAX-EXEMPT BONDS. The Issuer hereby designates the Bonds as "qualified tax-exempt obligations" as defined in Section 265(b)(3) of the Code. In furtherance of such designation, the Issuer represents, covenants and warrants the following: (a) that during the calendar year in which the Bonds are issued, the Issuer (including any subordinate entities) has not designated nor will designate obligations, which when aggregated with the Bonds, will result in more than \$10,000,000 of "qualified tax-exempt obligations" being issued; and (b) that the Issuer reasonably anticipates that the amount of tax-exempt obligations issued during the calendar year in which the Bonds are issued by the Issuer (or any subordinate entities) will not exceed \$10,000,000.

SECTION 17. FINAL ACCOUNTING AND AS-BUILT PLANS. The Issuer shall maintain in the Issuer's office a final accounting of the total cost incurred by the Issuer for the improvements to the Issuer's utility system funded with the proceeds of the sale of the Bonds, together with a copy of "as-built" plans of the project upon completion.

SECTION 18. CUSIP NUMBERS. The Issuer authorizes the imprinting of CUSIP (the American Bankers Association's Committee on Uniform Securities Identification Procedures) numbers of the Bonds; provided, however, that the failure of such CUSIP numbers to appear on the Bonds, or the imprinting of incorrect CUSIP numbers, shall in no way affect the validity or enforceability of the Bonds or relieve the purchaser of any obligation to accept delivery of and make payment for the Bonds.

SECTION 19. CHAPTER 9, BUSINESS AND COMMERCE CODE REQUIREMENTS. Chapter 1208, Texas Government Code, applies to the issuance of the Bonds and the pledge of the revenues granted by the Issuer under this Order, and such pledge is therefore valid, effective and perfected. If Texas law is amended at any time which the Bonds are outstanding and unpaid such that the pledge of the revenues granted by the Issuer under this Order is to be subject to the filing requirements of Chapter 9, Business & Commerce Code, then in order to preserve to the registered owners of the Bonds the perfection of the security interest in said pledge, the Issuer agrees to take such measures as it determines are reasonable and necessary under Texas law to comply with the applicable provisions of "Chapter 9, Business & Commerce Code" and enable a filing to perfect the security interest in said pledge to occur.

SECTION 20. TITLES NOT RESTRICTIVE. The titles assigned to the various sections of this Order are for convenience only and are intended to be descriptive of the matters following said titles. The titles shall not be considered restrictive of the subject matter of any section or of any part of this Order.

SECTION 21. SEVERABILITY. If any word, phrase, clause, paragraph, sentence, part, portion, or provision of this Order or the application thereof to any person or circumstance shall be held to be invalid, the remainder of this Order shall nevertheless be valid and the Board of Directors hereby declares that this Order would have been enacted without such invalid word, phrase, clause, paragraph, sentence, part, portion, or provision.

SECTION 22. COMPLIANCE WITH TEXAS OPEN MEETINGS ACT. The Board of Directors officially finds, determines, and declares that this order was adopted at a duly called regular meeting of the Board and that sufficient written notice of the date, hour, place, and subject of this meeting was posted at a place readily accessible and convenient to the public within the Issuer and on a bulletin board located at a place convenient to the public in the Montgomery County Courthouse for the time required by law preceding this meeting, as required by the Texas Open Meetings Act, Chapter 551, Texas Government Code, and that this meeting has been open to the public as required by law at all times during which this Order and the subject matter hereof has been

discussed, considered, and acted upon. The Board of Directors further ratifies, approves, and confirms such written notice and the contents and posting thereof.

EXHIBIT

C

Texas Commission on Environmental Quality



NOTICE OF APPLICATION AND PRELIMINARY DECISION FOR TPDES PERMIT FOR MUNICIPAL WASTEWATER NEW

PERMIT NO. WQ0015360001

APPLICATION AND PRELIMINARY DECISION. Green Valley Special Utility District, P.O. Box 99, Marion, Texas 78124, has applied to the Texas Commission on Environmental Quality (TCEQ) for new Texas Pollutant Discharge Elimination System (TPDES) Permit No. WQ0015360001, to authorize the discharge of treated domestic wastewater at an annual average flow not to exceed 5,000,000 gallons per day. TCEQ received this application on April 1, 2015.

The facility will be located at 3930 Linne Road, Seguin, in Guadalupe County, Texas 78155. The treated effluent will be discharged to Santa Clara Creek; thence to Lower Cibolo Creek in Segment No. 1902 of the Guadalupe River Basin. The unclassified receiving water use is high aquatic life use for Santa Clara Creek. The designated uses for Segment No. 1902 are high aquatic life use and primary contact recreation. In accordance with 30 Texas Administrative Code Section 307.5 and the TCEQ implementation procedures (June 2010) for the Texas Surface Water Quality Standards, an antidegradation review of the receiving waters was performed. A Tier 1 antidegradation review has preliminarily determined that existing water quality uses will not be impaired by this permit action. Numerical and narrative criteria to protect existing uses will be maintained. A Tier 2 review has preliminarily determined that no significant degradation of water quality is expected in Santa Clara Creek, which has been identified as having high aquatic life use. Existing uses will be maintained and protected. The preliminary determination can be reexamined and may be modified if new information is received.

The TCEQ Executive Director has completed the technical review of the application and prepared a draft permit. The draft permit, if approved, would establish the conditions under which the facility must operate. The Executive Director has made a preliminary decision that this permit, if issued, meets all statutory and regulatory requirements. The permit application, Executive Director's preliminary decision, and draft permit are available for viewing and copying at Marion City Hall, 303 South Center Street, Marion, in Guadalupe County, Texas. This link to an electronic map of the site or facility's general location is provided as a public courtesy and is not part of the application or notice. For the exact location, refer to the application.

<http://www.tceq.texas.gov/assets/public/hb610/index.html?lat=29.5253&lng=-98.114166&zoom=13&type=r>

PUBLIC COMMENT / PUBLIC MEETING. You may submit public comments or request a public meeting about this application. The purpose of a public meeting is to provide the opportunity to submit comments or to ask questions about the application. TCEQ holds a public meeting if the Executive Director determines that there is a significant degree of public interest in the application or if requested by a local legislator. A public meeting is not a contested case hearing.

OPPORTUNITY FOR A CONTESTED CASE HEARING. After the deadline for submitting public comments, the Executive Director will consider all timely comments and prepare a response to all relevant and material, or significant public comments. **Unless the application is directly referred for a contested case hearing, the response to comments will be mailed to everyone who submitted public comments and to those persons who are on the mailing list for this application. If comments are received, the mailing will also provide instructions for requesting a contested case hearing or reconsideration of the Executive Director's decision.** A contested case hearing is a legal proceeding similar to a civil trial in a state district court.

TO REQUEST A CONTESTED CASE HEARING, YOU MUST INCLUDE THE FOLLOWING ITEMS IN YOUR REQUEST: your name; address, phone number; applicant's name and permit number; the location and distance of your property/activities relative to the facility; a specific description of how you would be adversely affected by the facility in a way not common to the general public; and the statement "I/we request a contested case hearing." If the request for contested case hearing is filed on behalf of a group or association, the request must designate the group's representative for receiving future correspondence; identify an individual member of the group who would be adversely affected by the proposed facility or activity; provide the information discussed above regarding the affected member's location and distance from the facility or activity; explain how and why the member would be affected; and explain how the interests the group seeks to protect are germane to the group's purpose.

Following the close of all applicable comment and request periods, the Executive Director will forward the application and any requests for reconsideration or for a contested case hearing to the TCEQ Commissioners for their consideration at a scheduled Commission meeting.

The Commission will only grant a contested case hearing on disputed issues of fact that are relevant and material to the Commission's decision on the application. Further, the Commission will only grant a hearing on issues that were raised in timely filed comments that were not subsequently withdrawn.

EXECUTIVE DIRECTOR ACTION. The Executive Director may issue final approval of the application unless a timely contested case hearing request or request for reconsideration is filed. If a timely hearing request or request for reconsideration is filed, the Executive Director will not issue final approval of the permit and will forward the application and request to the TCEQ Commissioners for their consideration at a scheduled Commission meeting.

MAILING LIST. If you submit public comments, a request for a contested case hearing or a reconsideration of the Executive Director's decision, you will be added to the mailing list for this specific application to receive future public notices mailed by the Office of the Chief Clerk. In addition, you may request to be placed on: (1) the permanent mailing list for a specific applicant name and permit number; and/or (2) the mailing list for a specific county. If you wish to be placed on the permanent and/or the county mailing list, clearly specify which list(s) and send your request to TCEQ Office of the Chief Clerk at the address below.

All written public comments and public meeting requests must be submitted to the Office of the Chief Clerk, MC 105, Texas Commission on Environmental Quality, P.O. Box 13087, Austin, TX 78711-3087 or electronically at www.tceq.texas.gov/about/comments.html within 30 days from the date of newspaper publication of this notice.

AGENCY CONTACTS AND INFORMATION. If you need more information about this permit application or the permitting process, please call the TCEQ Public Education Program, Toll Free, at 1-800-687-4040. Si desea información en Español, puede llamar al 1-800-687-4040. General information about the TCEQ can be found at our web site at www.TCEQ.texas.gov.

Further information may also be obtained from Green Valley Special Utility District at the address stated above or by calling Mr. Pat Allen at 830-914-2330.

Issuance Date: October 12, 2015

FACT SHEET AND EXECUTIVE DIRECTOR'S PRELIMINARY DECISION

For draft Texas Pollutant Discharge Elimination System (TPDES) Permit No. WQ0015360001, TX0136352, to discharge to water in the state.

Issuing Office: Texas Commission on Environmental Quality
P.O. Box 13087
Austin, Texas 78711-3087

Applicant: Green Valley Special Utility District
P.O. Box 99
Marion, Texas 78124

Prepared By: Larry Diamond
Municipal Permits Team
Wastewater Permitting Section (MC 148)
Water Quality Division
(512) 239-0037

Date: August 13, 2015 and October 2, 2015

Permit Action: New Permit

1. EXECUTIVE DIRECTOR RECOMMENDATION

The Executive Director has made a preliminary decision that this permit, if issued, meets all statutory and regulatory requirements. The draft permit includes an expiration date of **March 1, 2020**, according to 30 Texas Administrative Code (TAC) § 305.71, Basin Permitting.

2. APPLICANT ACTIVITY

The applicant has applied to the Texas Commission on Environmental Quality (TCEQ) for a new permit to authorize the discharge of treated domestic wastewater at an annual average flow not to exceed 0.25 million gallons per day (MGD) in the Interim I phase, an annual average flow not to exceed 2.5 MGD in the Interim II phase, and an annual average flow not to exceed 5.0 MGD in the Final phase. The proposed wastewater treatment facility will serve proposed developments in the Santa Clara Creek watershed in Guadalupe County, Texas.

3. FACILITY AND DISCHARGE LOCATION

The plant site will be located at 3930 Linne Road, Seguin, in Guadalupe County, Texas 78155.

The treated effluent will be discharged to Santa Clara Creek; thence to Lower Cibolo Creek in Segment No. 1902 of the Guadalupe River Basin. The unclassified receiving water use is high aquatic life use for Santa Clara Creek. The designated uses for Segment No. 1902 are high aquatic life use and primary contact recreation.

4. TREATMENT PROCESS DESCRIPTION AND SEWAGE SLUDGE DISPOSAL

The Santa Clara Creek No. 1 Wastewater Treatment Facility will be an activated sludge process plant operated in the extended aeration mode. Treatment units in the Interim I phase will include a lift station, bar screen, equalization basin, aeration basin, final clarifier, sludge digester, a belt filter press, a chlorine contact chamber, and disk filter. Treatment units in the Interim II and Final phase will include a lift station, bar screen, two sequencing batch reactor basins, equalization basin, sludge digester, a belt filter press, a UV disinfection system, and disk filter. The facility has not been constructed.

The draft permit also authorizes the disposal of sludge at a TCEQ-authorized land application site, co-disposal landfill, or wastewater treatment facility.

5. INDUSTRIAL WASTE CONTRIBUTION

The draft permit includes pretreatment requirements that are appropriate for a facility of this size and complexity. The Green Valley Special Utility District facility is not yet constructed and does not appear to receive significant industrial wastewater contributions upon time of operation.

6. SUMMARY OF SELF-REPORTED EFFLUENT ANALYSES

Self-reporting data is not available since the facility is not yet constructed.

7. DRAFT PERMIT CONDITIONS AND MONITORING REQUIREMENTS

The effluent limitations and monitoring requirements for those parameters that are limited in the draft permit are as follows:

A. INTERIM I PHASE EFFLUENT LIMITATIONS AND MONITORING REQUIREMENTS

The daily average flow of effluent shall not exceed 0.25 MGD, nor shall the average discharge during any two-hour period (2-hour peak) exceed 521 gallons per minute (gpm).

<u>Parameter</u>	<u>30-Day Average</u>		<u>7-Day</u>	<u>Daily</u>
	<u>mg/l</u>	<u>lbs/day</u>	<u>Average</u> <u>mg/l</u>	<u>Maximum</u> <u>mg/l</u>
CBOD ₅	10	21	15	25
TSS	15	31	25	40
NH ₃ -N	3	6.3	6	10
Total Phosphorus (P)	0.5	1.0	1	2
DO (minimum)	4.0	N/A	N/A	N/A
<i>E. coli</i> , colony forming units (CFU) or most probable number (MPN) per 100 ml	126	N/A	N/A	N/A

The pH shall not be less than 6.0 standard units nor greater than 9.0 standard units and shall be monitored once per month by grab sample. There shall be no