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SOAH DOCKET NO. 473-16-5739.WS
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APPLICATION OF THE CITY OF
SCHERTZ TO AMEND A SEWER
CERTIFICATE OF CONVENIENCE
AND NECESSITY UNDER WATER
CODE SECTION 13.255 AND TO
DECERTIFY A PORTION OF GREEN
VALLEY SPECIAL UTILITY
DISTRICT'S CERTIFICATE RIGHTS IN
BEXAR COUNTY

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BEFORE THE STATE OFFICE

OF

ADMINISTRATIVE HEARINGS

REBUTTAL TESTIMONY

OF

JACK E. STOWE

ON BEHALF OF

CITY OF SCHERTZ

February 14, 2017

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REBUTTAL TESTIMONY OF JACK E. STOWE

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1 **I. BACKGROUND/QUALIFICATIONS**

2 **Q. PLEASE STATE YOUR NAME AND BUSINESS ADDRESS.**

3 A. My name is Jack E. Stowe, Jr. I am a Director of NewGen Strategies and Solutions,
4 LLC. My business address is 3420 Executive Center Drive, Suite 165, Austin, Texas
5 78731.

6 **Q. PLEASE SUMMARIZE YOUR EDUCATIONAL BACKGROUND AND**
7 **PROFESSIONAL EXPERIENCE.**

8 A. I am a graduate of North Texas State University (now the University of North Texas)
9 with a degree in Accounting. From 1975 until May 1984, I was a member of the
10 National Regulatory Consulting Group of Touche Ross & Co. (now Deloitte Touche).
11 From May 1984 through July 1985, I served as the Chief Financial Officer/Treasurer
12 of International Investment Advisors, Inc. ("IIA") and its subsidiaries and affiliates.
13 IIA was primarily engaged in real estate investment and development. In July 1985,
14 I founded the consulting firm of Aries Resource Management ("Aries"). Aries was
15 contracted by the international consulting firm of Pannell Kerr Forester ("PKF") to
16 establish a municipal consulting practice within their Dallas, Texas office. Upon the
17 expiration of the professional service contract with PKF, Aries entered into a
18 Partnership Agreement with Reed Municipal Services, Inc. to form Reed Stowe &
19 Co. in September 1986. In 1993, the partnership was dissolved to form Reed, Stowe
20 & Co., Inc. In December 1997, Reed, Stowe & Co. Inc. was acquired by the
21 consulting firm of Metzler & Associates (now Navigant Consulting, Inc. ("NCI"))
22 which is publicly traded on the New York Stock Exchange. While at NCI, I served as

1 a Director in the firm's national Energy and Water Consulting Division. In October
2 2000, I was successful in reacquiring my consulting practice from NCI with the
3 formation of Reed, Stowe & Yanke, LLC. In March 2003, Reed Stowe & Yanke
4 LLC was acquired by R.W. Beck, Inc. I served as a Principal and Senior Director of
5 R.W. Beck, Inc. until my resignation in April 2008. Upon my resignation from R.W.
6 Beck, Inc., I founded J. Stowe & Co. where I served as President. In September
7 2012, J. Stowe & Co. reorganized as NewGen Strategies and Solutions, LLC.

8 **Q. HOW LONG HAVE YOU BEEN IN YOUR PROFESSION?**

9 A. 41 years.

10 **Q. ARE YOU A MEMBER OF ANY PROFESSIONAL ORGANIZATIONS OR A**
11 **RECIPIENT OF ANY AWARDS OR HONORS? IF SO, PLEASE IDENTIFY**
12 **THEM.**

13 A. Individually and through firm memberships, I am a member of the Texas Water
14 Conservation Association, the Texas Rural Water Association, Texas Public Power
15 Association, American Public Power Association, American Water Works
16 Association, Governmental Finance Officers Association of Texas and the Texas
17 Municipal Utility Association. I also serve as a board member of the Texas Heritage
18 Protection Association. Throughout my career I have been called upon often to
19 present to some of these various entities on an array of topics, including the valuation
20 of facilities within a water or sewer certificate of convenience and necessity ("CCN").

1 **Q. I AM SHOWING YOU WHAT HAS BEEN MARKED AS EXHIBIT STOWE**
2 **R-A. CAN YOU IDENTIFY THIS DOCUMENT?**

3 A. It is my resume describing my background and experience.

4 **Q. DID YOU PREPARE THIS EXHIBIT?**

5 A. It was prepared under my supervision.

6 **Q. IS THE INFORMATION IN YOUR RESUME TRUE AND CORRECT?**

7 A. Yes.

8 **THE CITY OFFERS EXHIBIT STOWE R-A INTO EVIDENCE.**

9 **Q. I AM SHOWING YOU WHAT HAS BEEN MARKED AS EXHIBIT STOWE**
10 **R-B. CAN YOU IDENTIFY THIS DOCUMENT?**

11 A. Yes, it is my testifying/litigation support resume.

12 **Q. DID YOU PREPARE THIS EXHIBIT?**

13 A. It was prepared under my supervision.

14 **Q. IS THE INFORMATION IN YOUR TESTIFYING RESUME TRUE AND**
15 **CORRECT?**

16 A. Yes.

17 **THE CITY OFFERS EXHIBIT STOWE R-B INTO EVIDENCE.**

18 **Q. ARE YOU FAMILIAR WITH WATER AND SEWER CCNS?**

19 A. Yes.

20 **Q. WHAT IS YOUR EXPERIENCE WITH WATER AND SEWER CCNS?**

1 A. I have assisted water and sewer service corporations, water districts, and
2 municipalities with various types of water and sewer CCN applications. In particular,
3 I have assisted these types of entities with their CCN decertification applications
4 under both Texas Water Code ("TWC") §§ 13.254 and 13.255. This assistance
5 included the analysis and identification of property which was, or was not, rendered
6 useless or valueless by the decertification, including the related compensation, if any;
7 and these findings were included in my appraisals that were filed at the Texas
8 Commission on Environmental Quality ("TCEQ") and Public Utility Commission of
9 Texas ("Commission"). Lastly, I have assisted a retail public utility in the pursuit of
10 a cease and desist order from the TCEQ. I would also note that the CCN valuation
11 methodology regarding CCN decertification that I employ has been presented to the
12 Texas Rural Water Association membership.

13 **Q. ARE YOU FAMILIAR WITH THE DECERTIFICATION OF WATER OR**
14 **SEWER CCNS IN TWC § 13.254?**

15 A. Yes. I have prepared and provided appraisals, and I have participated in the
16 negotiation of settlements in numerous TWC § 13.254 CCN decertification
17 applications.

18 **Q. ARE YOU FAMILIAR WITH THE DECERTIFICATION OF WATER OR**
19 **SEWER CCNS IN TWC § 13.255?**

20 A. Yes. Aside from this matter, I have prepared and provided appraisals, and
21 participated in the negotiation of settlements in numerous TWC § 13.255 CCN
22 decertification applications.

1 **Q. BASED UPON YOUR EXPERIENCES WITH THE DECERTIFICATION OF**
2 **WATER OR SEWER CCNS UNDER TWC § 13.255, WHAT IS YOUR**
3 **UNDERSTANDING OF THE REGULATORY PROCESS FOR**
4 **EVALUATING A TWC § 13.255 CCN DECERTIFICATION APPLICATION?**

5 A. While the regulatory jurisdiction over water and sewer CCNs was at the TCEQ, after
6 the existing CCN holder was provided notice of the municipality's intent to serve, a
7 hearing was conducted, if necessary, to determine the property that would be rendered
8 useless and valueless and what compensation, if any, was due to the former CCN
9 holder. With the transfer of CCN regulatory jurisdiction from the TCEQ to the
10 Commission, there has been a subtle but substantial change in the procedure. Based
11 upon my experiences, it is my opinion that under Commission jurisdiction, a general
12 description would be, after the existing CCN holder was provided notice of the
13 municipality's intent to serve and the decertification application is filed at the
14 Commission, the Commission first conducts a hearing to determine whether such
15 decertification would result in property of the affected CCN holder being rendered
16 useless or valueless. Then, if the Commission finds that there is any such property, a
17 second hearing process commences to determine what is the proper compensation
18 amount for such property, if any. It is my opinion that the Commission is closely
19 tracking TWC § 13.255(c), which provides that, "The utility commission shall also
20 determine whether single certification as requested by the municipality would result
21 in property of a retail public utility being rendered useless or valueless to the retail
22 public utility, and shall determine in its order the monetary amount that is adequate
23 and just to compensate the retail public utility for such property." My experience has

1 been that when there is property rendered useless or valueless, such compensation
2 amount is based upon a statutory list of items under TWC § 13.255(g).

3 **Q. IS THE COMMISSION'S PROCESS FOR EVALUATING A CCN**
4 **DECERTIFICATION APPLICATION UNDER TWC § 13.254 SIMILAR TO**
5 **THE COMMISSION'S PROCESS FOR EVALUATING A CCN**
6 **DECERTIFICATION APPLICATION UNDER TWC § 13.255?**

7 A. Based upon my experiences, it is my opinion that while there are some subtle
8 differences in the Commission's processes between these two types of water or sewer
9 CCN decertification applications, the Commission's review for these two types of
10 applications are very similar in general. That being said, one critical difference
11 between these two types of CCN decertification applications that I have learned is
12 that in a TWC § 13.255 application, the CCN decertification request of the
13 municipality will be granted.

14 **Q. HOW MANY APPRAISALS HAVE YOU PREPARED IN YOUR CAREER**
15 **FOR THE DECERTIFICATION OF A WATER OR SEWER CCN UNDER**
16 **TWC §§ 13.254 AND 13.255?**

17 A. At least 12.

18 **Q. HAVE YOU PROVIDED EXPERT TESTIMONY IN A CONTESTED CASE**
19 **HEARING CONCERNING THE DECERTIFICATION OF A WATER OR**
20 **SEWER CCN?**

21 A. Yes.

1 **Q. HAVE YOU PROVIDED EXPERT TESTIMONY IN A CONTESTED CASE**
2 **HEARING CONCERNING AN APPRAISAL FOR THE DECERTIFICATION**
3 **OF A WATER OR SEWER CCN?**

4 A. Yes.

5 **Q. IN THOSE CONTESTED CASE HEARINGS CONCERNING WATER OR**
6 **SEWER CCN DECERTIFICATION IN WHICH YOU PROVIDED**
7 **APPRAISALS OR EXPERT TESTIMONY, DID YOU PROVIDE OPINIONS**
8 **AS TO WHETHER PROPERTY OF THE CCN HOLDER IS RENDERED**
9 **USELESS OR VALUELESS BY THE DECERTIFICATION?**

10 A. Yes. I have provided opinions regarding whether property is rendered useless or
11 valueless in the following proceedings: Application 35930 of the City of Heath
12 Docket No. unknown; Commission Docket Nos. 42893, 45702, 45244, 45450, 45462,
13 45106, 45107, 45151, 45956, 44394, 44541; and Walker County Water Supply
14 Corporation vs. City of Huntsville, in Texas Federal District Court, Houston, Texas.

15 **Q. IN YOUR CCN DECERTIFICATION APPLICATION EXPERIENCES, HAS**
16 **THE TCEQ OR COMMISSION REQUIRED THE USE OF A LICENSED**
17 **APPRAISER IN DETERMINING WHETHER PROPERTY IS RENDERED**
18 **USELESS OR VALUELESS?**

19 A. No. Also, I am not aware of the TCEQ or Commission indicating that a licensed
20 appraiser is required in TWC §§ 13.254 or 13.255.

21 **Q. IN YOUR CCN DECERTIFICATION APPLICATION EXPERIENCES, HAS**
22 **THE TCEQ OR COMMISSION GIVEN DEFERENCE TO THE USE OF A**

1 **LICENSED APPRAISER IN CCN DECERTIFICATION APPLICATIONS**
2 **FOR DETERMINING WHETHER PROPERTY IS RENDERED USELESS OR**
3 **VALUELESS?**

4 A. Not that I am aware.

5 **Q. ARE YOU FAMILIAR WITH REGIONALIZATION IN REGARDS TO**
6 **WASTEWATER PERMITTING AT THE TCEQ?**

7 A. Yes. I have worked on an application at the TCEQ for a TPDES permit that involved
8 regionalization issues.

9 **Q. ARE YOU FAMILIAR WITH ACCOUNTING/FINANCIAL MATTERS?**

10 A. Yes.

11 **Q. CAN YOU PLEASE DESCRIBE YOUR BACKGROUND IN ACCOUNTING**
12 **AND FINANCE?**

13 A. As noted in my resume, I received my undergraduate degree in Accounting and
14 completed one semester of post-graduate work. After passing the Certified Public
15 Accountancy exam, I accepted a position within the Tax Department of Touche Ross
16 & Co., one of the Big Eight accounting/consulting firms at that time. After six months
17 in the Tax Department, I transferred to the National Regulatory Consulting Group.
18 Nine years later, I became the Chief Financial Officer of International Investment
19 Advisors Inc., a real estate and development company. Since that time, my
20 professional career has required extensive accounting and finance expertise, dealing
21 with, for example, appropriate capital structures, cost of capital, cost of equity,
22 attesting to compliance with various bond covenants, performance of cost of service

1 studies, impact fees, and performance of economic feasibility analyses, such as the
2 integrated pipeline and valuation impacts on water rights due to changes in priority
3 status.

4 **Q. ARE YOU FAMILIAR WITH BALANCE SHEETS AND INCOME**
5 **STATEMENTS?**

6 A. Yes.

7 **Q. ARE YOU FAMILIAR WITH CLASSIFYING ASSETS?**

8 A. Yes.

9 **Q. ARE YOU FAMILIAR WITH CLASSIFYING EXPENSES AND**
10 **EXPENDITURES?**

11 A. Yes.

12 **Q. ARE YOU FAMILIAR WITH CLASSIFYING INVESTMENTS?**

13 A. Yes.

14 **Q. ARE YOU FAMILIAR WITH CLASSIFYING PROPERTY?**

15 A. Yes.

16 **Q. HAVE YOU PROVIDED EXPERT TESTIMONY REGARDING**
17 **ACCOUNTING AND FINANCIAL MATTERS?**

18 A. Yes.

19 **Q. CAN YOU PLEASE IDENTIFY THOSE INSTANCES?**

1 A. Exhibit Stowe R-B provides my testifying/litigation support resume. Virtually every
2 proceeding listed would include some level of testimony and/or litigation support
3 regarding accounting/financial matters.

4 **Q. ARE YOU FAMILIAR WITH SOAH DOCKET NO. 473-16-5739.WS AND**
5 **PUC DOCKET NO. 45956?**

6 A. Yes. It is the application (“Application”) of the City of Schertz (“City”) for single
7 sewer CCN certification filed at the Commission under TWC § 13.255, seeking to
8 decertify portions of Green Valley Special Utility District’s (“GVSUD”) sewer CCN
9 No. 20973 that are within the City’s corporate limits. That Application is the subject
10 matter of this Docket and hearing.

11 **Q. ON WHOSE BEHALF ARE YOU TESTIFYING IN THIS CASE?**

12 A. The City.

13 **Q. HOW DID YOU BECOME FAMILIAR WITH THE APPLICATION?**

14 A. In the spring of 2016, I was contacted by the City’s legal counsel and a City
15 representative to inquire about my availability to assist them with the appraisal
16 component of the Application.

17 **Q. PLEASE DESCRIBE YOUR INVOLVEMENT WITH THE APPLICATION?**

1 A. I prepared the City's appraisal in this matter, filed at the Commission on July 15,
2 2016, which determined that no property of GVSUD was rendered useless or
3 valueless, and that if an analysis of the compensation factors was going to be
4 conducted at that time, no compensation is due to GVSUD. I have also reviewed the
5 appraisal filed by GVSUD and the prefiled testimony of its witnesses.

6 **Q. I AM SHOWING YOU WHAT HAS BEEN MARKED AS EXHIBIT STOWE**
7 **R-C. WHAT IS THIS DOCUMENT?**

8 A. It is a Commission-certified copy of the City's appraisal in this matter, which is
9 available as Item 23 in the Commission's Interchange for this docket.

10 **Q. WHO PREPARED EXHIBIT STOWE R-C?**

11 A. It was prepared by me and my administrative staff under my direct supervision.

12 **Q. IS EXHIBIT STOWE R-C A TRUE AND CORRECT COPY OF THE**
13 **APPRAISAL THAT YOU PREPARED?**

14 A. Yes.

15 **THE CITY OFFERS EXHIBIT STOWE R-C INTO EVIDENCE.**

16 **II. PURPOSE OF TESTIMONY**

17 **Q. WHAT IS YOUR UNDERSTANDING OF THE PURPOSE OF THIS**
18 **CONTESTED CASE HEARING?**

19 A. After I reviewed the Commission's Preliminary Order and the Administrative Law
20 Judge's Order No. 2 in this matter, it is my understanding that the purpose of this

1 contested case hearing is to address the three issues listed below, identified in that
2 Preliminary Order as Issue Nos. 8-10:

3 1. What property, if any, will be rendered useless or valueless to Green Valley
4 by the decertification sought by Schertz in this proceeding?

5 2. What property of Green Valley, if any, has Schertz requested to be transferred
6 to it?

7 3. Are the existing appraisals limited to valuing the property that has been
8 determined to have been rendered useless or valueless by decertification and
9 the property that Schertz has requested be transferred?

10 **Q. WHAT IS THE PURPOSE OF YOUR TESTIMONY IN THIS PROCEEDING?**

11 A. The purpose of my testimony is to rebut the assertions and opinions provided in the
12 prefiled direct testimonies and accompanying exhibits of the GVSUD witnesses in
13 this matter regarding Issue Nos. 8 and 10 of the Commission's Preliminary Order.

14 **Q. WHAT MATERIALS HAVE YOU REVIEWED IN PREPARATION FOR**
15 **INVOLVEMENT IN THIS PROCEEDING?**

16 A. I have reviewed the following documents in preparation for this proceeding:

- 17 • Commission's Preliminary Order and the Administrative Law Judge's Order No. 2;
- 18 • City's Application;
- 19 • the City's appraisal ("City Appraisal"), filed at the Commission on July 15, 2016;
- 20 • GVSUD's appraisal ("GVSUD Appraisal"), filed at the Commission on July 15,
- 21 2016;

- 1 • the discovery requests and responses in this matter;
- 2 • TWC §§ 13.255 and 26.029;
- 3 • Chapter 395 of the Texas Local Government Code;
- 4 • 16 Tex. Admin. Code (“TAC”) §§ 24.116 and 24.120;
- 5 • 30 TAC Chapter 293, Subchapter N;
- 6 • Merriam-Webster Dictionary;
- 7 • The prefiled direct testimony of Robert F. Adams, D.E., P.E., in this Docket, and the
- 8 attachments thereto;
- 9 • The prefiled direct testimony of Joshua M. Korman in this Docket, and the
- 10 attachments thereto;
- 11 • The prefiled direct testimony of David “Pat” Allen in this Docket, and the
- 12 attachments thereto;
- 13 • The prefiled direct testimony of Garry Montgomery, P.E., CFM in this Docket, and
- 14 the attachments thereto;
- 15 • The prefiled direct testimony of Stephen H. Blackhurst, P.E. in this Docket, and the
- 16 attachments thereto; and
- 17 • Proposal for Decision, *City of Celina’s Notice of Intent to Provide Water and Sewer*
- 18 *Service to Area Decertified from Aqua Texas, Inc. in Denton County*, SOAH Docket
- 19 No. 473-16-5011.WS, PUA Docket No. 45848 (Jan. 27, 2017).

1 **Q. HAVE YOU CONSIDERED WHETHER ANY PROPERTY OF GVSUD**
2 **WOULD BE RENDERED USELESS OR VALUELESS BY VIRTUE OF THE**
3 **PROPOSED DECERTIFICATION?**

4 A. Yes.

5 **Q. HAVE YOU CONSIDERED WHETHER THE CITY'S APPRAISAL IN**
6 **EXHIBIT STOWE R-C AND GVSUD'S APPRAISAL CONTAINED IN**
7 **EXHIBIT D OF MR. ADAMS'S PREFILED TESTIMONY ARE LIMITED TO**
8 **PROPERTY THAT HAS BEEN DETERMINED TO BE RENDERED**
9 **USELESS OR VALUELESS BY DECERTIFICATION?**

10 A. Yes.

11 **Q. WHAT QUALIFIES YOU TO DRAW CONCLUSIONS AS TO WHETHER**
12 **CERTAIN PROPERTY WOULD BE RENDERED USELESS OR**
13 **VALUELESS AND WHETHER THE APPRAISALS IN THE PROCEEDING**
14 **ARE LIMITED TO PROPERTY THAT WOULD BE RENDERED USELESS**
15 **OR VALUELESS?**

16 A. As the Chief Financial Officer and Treasurer of an international real estate firm; my
17 accounting and financial experiences; my 40 plus years of experience in the Texas
18 water and wastewater industry; my direct experience in identifying property that is, or
19 is not, rendered useless and valueless in CCN decertification proceedings; and
20 providing expert testimony in support of my work, I believe I am uniquely qualified
21 in this matter.

1 **Q. ARE YOU FAMILIAR WITH THE UNIFORM STANDARDS OF**
2 **PROFESSIONAL APPRAISAL PRACTICE ("USPAP")?**

3 A. Yes.

4 **Q. HOW DID YOU COME TO BE KNOWLEDGEABLE OF USPAP?**

5 A. Towards the end of my tenure as Chief Financial Officer of IIA the real estate
6 industry was beginning the 1980's collapse. There were a number of real estate
7 licensed appraisers who IIA had used and relied upon to make substantial property
8 acquisitions. Some of these appraisers along with some of the Savings and Loan
9 officers we had dealt with were under criminal investigation. During that period, I
10 made it a point to become familiar with not only the USPAP but S&L lending
11 regulations as well. Then again in the early 2000's, I performed a valuation of
12 developer groundwater rights in Michigan. The developer had donated the
13 groundwater rights to a Michigan Township. The developer relied upon my valuation
14 to support the federal tax deduction, which was in the millions of dollars. In
15 performing that valuation, I applied the USPAP. The developer's tax return was
16 audited by the IRS. To my knowledge the IRS auditors agreed that my valuation and
17 report were conducted in accordance with the USPAP, albeit I was not a licensed
18 appraiser.

19 **THE CITY TENDERS MR. JACK STOWE AS AN EXPERT WITNESS.**

20 **Q. DO YOU HAVE TO BE A LICENSED APPRAISER TO APPLY THE USPAP?**

21 A. No.

22 **Q. PLEASE EXPLAIN.**

23 A. Anyone can apply the USPAP, but a licensed appraiser has to apply the USPAP.

1 **Q. IS THE USPAP APPLICABLE IN DETERMINING WHETHER PROPERTY**
2 **HAS BEEN RENDERED USELESS OR VALUELESS AS A RESULT OF**
3 **DECERTIFICATION UNDER TWC § 13.255?**

4 A. No.

5 **Q. PLEASE EXPLAIN.**

6 A. Simply put, based upon my experiences, the appraisal process is separate and distinct
7 from the process for determining whether property is rendered useless or valueless
8 under TWC § 13.255.

9 **Q. IS THE USPAP APPLICABLE IN PERFORMING A VALUATION OF**
10 **PROPERTY THAT HAS BEEN DETERMINED TO BE USELESS OR**
11 **VALUELESS AS A RESULT OF DECERTIFICATION?**

12 A. Not really.

13 **Q. PLEASE EXPLAIN.**

14 A. While some of the general disclosure standards of the USPAP could apply, the
15 valuation criteria set forth in 13.255(g) does not conform to the USPAP. Thus, the
16 USPAP contains the “Jurisdiction Exception Rule”, which states: “If any applicable
17 law or regulation precludes compliance with any part of the USPAP, only that part of
18 the USPAP becomes void for that assignment.”

1 **Q. WAS THE GVSUD APPRAISAL SUBMITTED IN MR. KORMAN'S**
2 **PREFILED TESTIMONY IN THIS PROCEEDING CONDUCTED UNDER**
3 **THE USPAP STANDARDS?**

4 A. No. The GVSUD Appraisal acknowledges that it was conducted under the
5 Jurisdiction Exception Rule and thus did not apply USPAP standards. Additionally,
6 Mr. Korman testified on page 10, lines 10-15 of his direct prefiled testimony that the
7 GVSUD Appraisal was "to determine just compensation as considered by the Public
8 Utility Commission of Texas that falls outside of Standards Rules 1-10 of the
9 *Uniform Standards of Professional Appraisal Practices*, 2016-2017 Edition."

10 **Q. WHAT IS YOUR INTERPRETATION OF MR. KORMAN'S TESTIMONY**
11 **AT PAGE 10, LINES 10-15, REGARDING THE APPLICABILITY OF THE**
12 **USPAP IN THIS MATTER?**

13 A. That due to the provisions set forth in TWC §13.255(g), the USPAP is not applicable
14 to the determination of the just and reasonable compensation for property that has
15 been identified as being rendered useless or valueless as a result of decertification.

16 **III. REBUTTAL OF GVSUD TESTIMONY**

17 A. **Issue 8 – Whether any property of GVSUD is rendered useless or**
18 **valueless by virtue of the decertification**

19 **Q. BASED UPON YOUR ACCOUNTING EXPERIENCES AND EXPERIENCES**
20 **WITH WATER AND SEWER CCN DECERTIFICATION APPLICATIONS,**
21 **WHAT, IN YOUR OPINION, IS "PROPERTY"?**

1 A. The term “property” is undefined in TWC § 13.255. But, it is my opinion that
2 property includes real property and personal property.

3 **Q. IN YOUR EXPERIENCES WITH TWC § 13.255 CCN DECERTIFICATION**
4 **APPLICATIONS AT THE COMMISSION, WHEN COULD A DECERTIFIED**
5 **CCN HOLDER RECEIVE COMPENSATION?**

6 A. Initially, there must be a finding that the alleged property is, in fact, property. Then,
7 if there is such finding, that property must be deemed to be rendered useless or
8 valueless by the CCN decertification. Next, if there is property rendered useless or
9 valueless by the CCN decertification, then the Commission will consider whether the
10 decertified CCN holder should be compensated.

11 **Q. BASED UPON YOUR WORK FOR THE CITY IN PREPARING THE CITY**
12 **APPRAISAL, YOUR EDUCATION, EXPERIENCE, EXPERTISE, AND**
13 **YOUR REVIEW OF THE OTHER MATERIALS THAT YOU PREVIOUSLY**
14 **NOTED, HAVE YOU FORMED OPINIONS WITH REGARD TO WHETHER**
15 **ANY PROPERTY OF GVSUD HAS BEEN RENDERED USELESS OR**
16 **VALUELESS TO GVSUD BY THE PROPOSED DECERTIFICATION?**

17 A. I have.

18 **Q. IN YOUR EXPERT OPINION, DO YOU BELIEVE THAT ANY OF GVSUD’S**
19 **WITNESSES HAVE IDENTIFIED IN THEIR TESTIMONIES AND**
20 **ACCOMPANYING EXHIBITS ANY PROPERTY THAT WOULD BE**
21 **RENDERED USELESS OR VALUELESS TO GVSUD BY VIRTUE OF THE**
22 **PROPOSED DECERTIFICATION IN THE APPLICATION?**

1 A. No. The testimony and accompanying exhibits of GVSUD's witnesses in this matter
2 all fail to identify any property, real or personal, of GVSUD that is rendered useless
3 or valueless to GVSUD, in whole or in part, by the Application.

4 **Q. HOW DOES YOUR OPINION DIFFER FROM THE TESTIMONIES AND**
5 **EXHIBITS PROVIDED BY GVSUD'S WITNESSES IN THIS MATTER?**

6 A. Simply put, the property rights alleged by the GVSUD's witnesses, through their
7 testimonies and exhibits, which includes the GVSUD Appraisal, are either not
8 property or not property that is rendered useless or valueless to GVSUD by the
9 decertification.

10 **Q. WHAT IS YOUR UNDERSTANDING OF GVSUD'S IDENTIFICATION OF**
11 **PROPERTY WHICH GVSUD ALLEGES WOULD BE RENDERED USELESS**
12 **OR VALUELESS TO GVSUD BY THE DECERTIFICATION?**

13 A. After reviewing the GVSUD's witnesses' testimonies and exhibits in this matter,
14 which includes the GVSUD Appraisal, I understand their alleged property rendered
15 valueless or useless to be (1) the following alleged intangible property rights that they
16 assume to be attached to the wastewater CCN, contained in GVSUD's compensation
17 calculations: (a) future lost net revenue from future customers; and (b) increased cost
18 to future consumers through an impact fee in the amount of \$20.00 per equivalent
19 dwelling unit ("EDU"); and (2) alleged real and personal property pertaining to the
20 planning, design, and attempted permitting of a wastewater system that is yet to be
21 permitted or built, or the alleged money spent by GVSUD for such alleged real and
22 personal property.

1 **Q. WHY DOES GVSUD'S ALLEGED INTANGIBLE PROPERTY NOT**
2 **AMOUNT TO PROPERTY BEING RENDERED USELESS OR VALUELESS?**

3 A. First, these allegations are not for wastewater infrastructure, much less wastewater
4 infrastructure located in the GVSUD sewer CCN area that will be decertified by the
5 Application ("Decertified Area"). Second, to the extent that property outside of the
6 Decertified Area could be considered in this matter, as alleged by GVSUD in its
7 testimony, GVSUD is prohibited from constructing a sewerage system to serve the
8 Decertified Area under the TCEQ's regionalization regulations, as noted by Mr.
9 Adams, P.E., in this matter, as well as from my own understanding of and experience
10 with regionalization at the TCEQ. It is my opinion that no GVSUD property outside
11 of the Decertified Area, if there was any, could be rendered useless or valueless by
12 the decertification if it pertains to the provision of establishing a sewerage system to
13 serve the Decertified Area, under the TCEQ's regionalization rules in Chapter 351.
14 Third, and fatal to GVSUD's case, GVSUD's above-listed alleged intangible property
15 is derived from TWC § 13.255(g) compensation components, developed on the
16 notion of "economic opportunity," which has been misapplied by GVSUD in the
17 GVSUD Appraisal and is not applicable in this case. Consequently, such alleged
18 intangible property is not property in this TWC § 13.255 case and certainly is not
19 property rendered useless or valueless to GVSUD by the decertification.

20 **Q. WHAT IS AN ECONOMIC OPPORTUNITY PROPERTY INTEREST?**

21 A. Basically, an economic opportunity property interest is an intangible property right
22 arising from the ownership and/or possession of some other vested property interest.

23 In short, it is the ownership of and ability to use that vested property interest that

1 creates the economic opportunity and gives it any value. Without such other vested
2 property interest from which an economic opportunity can be derived, an economic
3 opportunity property interest simply has no value and cannot be considered intangible
4 property.

5 **Q. WHY ARE GVSUD'S ABOVE-LISTED COMPENSATION COMPONENTS**
6 **NOT INTANGIBLE PROPERTY UNDER ECONOMIC OPPORTUNITY?**

7 A. In this case, GVSUD alleges that it has an economic opportunity property interest that
8 arises from its potential operation of a wastewater treatment facility that will generate
9 net revenues from future wastewater customers and a \$20 "increase" in impact fees.
10 In my opinion, there are four reasons why GVSUD's above-listed compensation
11 components are not intangible property under the economic opportunity concept and
12 it TWC § 13.255, and amount to a misuse and misapplication of this concept by
13 GVSUD in this matter.

14 **Q. WHAT IS THE FIRST REASON?**

15 A. First, in general, it is my opinion that GVSUD's alleged intangible property cannot be
16 considered intangible property because the portion of GVSUD's sewer CCN over the
17 Decertified Area is not a vested property right. As such, the alleged intangible
18 property cannot be derived from, associated with, or attached to this portion of the
19 CCN. Through my experiences with TWC § 13.255 matters, it is my opinion that the
20 City has the exclusive right to provide water or sewer service to any portion of the
21 CCN area previously granted to a special utility district, so long as that area is within
22 the corporate limits of the City, should the City decide to do so. With TWC §
23 13.255(b) providing that, "The utility commission shall grant single certification to

1 the municipality,” my experiences regarding applications filed by a municipality to
2 decertify any portion of a special utility district’s CCN within the corporate limits of a
3 City are that the TCEQ and Commission grant those applications. Said another way,
4 a special utility district’s sewer CCN area and its right to provide wastewater service
5 in that area is and will always be subject to sewer CCN decertification, to the extent it
6 overlaps with the corporate limits of a municipality. Accordingly, “economic
7 opportunity” property interests, like those alleged by GVSUD in this case, cannot be
8 intangible property because there is no viable, vested property right that the alleged
9 intangible property can be associated with or attached to that gives the economic
10 opportunity any value. This is exactly the scenario in this matter, where the
11 Decertified Area is located within the corporate limits of the City. That being said, if
12 GVSUD actually utilized its CCN to full extent authorized under law such that it
13 actually had sewer customers or a viable sewer system in the Decertified Area, then,
14 as described in more detail below, the alleged intangible property may attach to the
15 value that is generated by virtue of those interest. However, merely holding a CCN
16 that is continuously subject to decertification in those areas that overlap with a city’s
17 corporate limits is not and cannot be the basis for a claim of intangible property such
18 as an economic opportunity property interest. Consequently, GVSUD’s alleged
19 intangible property is not property in this matter.

20 **Q. WHAT IS THE SECOND REASON?**

21 A. Second, for alleged lost net revenue from future customers and an increase in impact
22 fees to be considered intangible property under the economic opportunity concept,
23 GVSUD must obviously be able to provide wastewater service in the first place so

1 that such interests can attach to a vested property interest (*i.e.*, the authorization to
2 provide service) other than the CCN and subsequently generate value from such an
3 authorization. To this end, GVSUD must have a Texas Pollutant Discharge
4 Elimination System (“TPDES”) permit from the TCEQ. Not only that, but GVSUD
5 must also construct the wastewater treatment facility authorized by the permit, and
6 collect, treat, and dispose of wastewater. My understanding from TWC § 26.029 is
7 that a TPDES permit itself is not a vested property right. In other words, the TPDES
8 permit and the subsequent construction and operation of the permitted facility is the
9 property that GVSUD’s alleged intangible property needs to attach to and from which
10 it will derive its value, but GVSUD cannot construct or operate a wastewater
11 treatment plant or system without first securing a TPDES permit. However, GVSUD
12 currently does not even have a TPDES permit. And to assume that GVSUD will
13 obtain a TPDES permit, as asserted by GVSUD’s witnesses in this matter, is very
14 speculative and far from certain. In fact, GVSUD’s application has been protested,
15 and the Commissioners of the TCEQ have referred the application to SOAH for a
16 contested case hearing on 7 issues, including the issue of whether the permit violates
17 the TCEQ’s regionalization regulations declaring CCMA the TCEQ-designated
18 regional entity to operate a wastewater treatment plant and sewerage system.
19 Therefore, absent a final approval of GVSUD’s pending TPDES permit application
20 by the TCEQ, the alleged “economic opportunity” property interests do not amount to
21 intangible property because they cannot attach to, at least at this time, the necessary
22 authorization to provide wastewater service. In other words, unless and until GVSUD
23 obtains the TPDES permit and constructs and operates a wastewater treatment facility

1 authorized by that permit, if ever, GVSUD is prohibited from providing the very
2 service that represents the economic opportunity that GVSUD alleges to exist.

3 **Q. WHAT IS THE THIRD REASON?**

4 A. Third, these compensation components cannot be considered intangible property
5 under the economic opportunity theory because GVSUD does not have an approved
6 sewer impact fee. In my experiences in ratemaking, impact fees are a charge or
7 assessment imposed, typically by a district or municipality, to new customers to
8 generate revenue for funding or recouping the costs of capital improvements or
9 facility expansions necessitated by and attributable to the new development. A
10 district, like GVSUD, can establish an impact fee either by following the rigorous
11 process in Chapter 395 of the Texas Local Government Code or obtaining TCEQ
12 approval of an application to charge an impact fee. In other words, for there to be lost
13 revenues or an increase in impact fees- no matter how small- GVSUD must first have
14 an approved impact fee that it is legally authorized to charge customers. However, it
15 is my understanding that GVSUD has not taken the procedural steps to establish or
16 obtain an authorization to charge a sewer impact fee. Accordingly, like the TPDES
17 permit application, absent a final approval of a legal sewer impact fee, GVSUD's
18 alleged "economic opportunity" property interests are not intangible property because
19 they cannot be attached to any other existing property right, namely the necessary
20 authorization to collect an impact fee. Therefore, GVSUD has no economic
21 opportunity to be gained from its nonexistent sewer impact fee. Clearly, GVSUD has
22 misapplied the economic opportunity concept to its alleged intangible property
23 interests. In short, the reasons I have described thus far all come down to the fact that

1 GVSUD's alleged economic opportunity is premised on the ownership of rights that
2 GVSUD simply does not have. Without those rights, the economic opportunity
3 interests alleged by GVSUD cannot exist.

4 **Q. ARE THERE ANY OTHER REASONS WHY GVSUD'S ALLEGED**
5 **INTANGIBLE PROPERTY ARE NOT PROPERTY RENDERED USELESS**
6 **OR VALUELESS?**

7 A. Yes. The components in the GVSUD Appraisal and GVSUD's testimony, to the
8 extent they could be property, simply do not reach the threshold of being property
9 rendered "useless or valueless". In forming my opinion, I have relied upon my
10 knowledge of basic accounting principles, as well as the Merriam-Webster definitions
11 for "useless" and "valueless." To this end, "useless" is defined as "not at all useful;
12 not doing or able to do what is needed; not able to produce the effect you want"; and
13 "valueless" is defined as "having no usefulness". GVSUD fails to explain how these
14 interests could be considered not at all useful or having no usefulness and, based on
15 my experience, I would not consider any of the interests that GVSUD has to be not at
16 all useful or having no usefulness.

17 **Q. WHAT IS THE DIFFERENCE BETWEEN MONIES SPENT ON AN**
18 **INVESTMENT AND MONIES SPENT ON A COST OR EXPENSE OF A**
19 **UTILITY?**

20 A. An investment is purchasing an asset or putting money or capital toward something
21 capable of providing a service or function over an extended period of time and may,
22 in some cases, provide the opportunity to earn a profitable return. In this case
23 however, since GVSUD is a nonprofit political subdivision, there can be no profitable

1 return. Money spent on expenses, on the other hand, are a cost of doing business and
2 help the individual or business to function and/or generate revenue. In this way, the
3 expenses protect or perpetuate the investments made by an individual or business. For
4 examples money spent on fuel for a car is an expense while money spent on the car
5 payment, excluding interest, would be an investment. Another example would be
6 money spent on property taxes would be an expense while the mortgage payment on
7 the property, excluding interest, would represent an investment.

8 **Q. HOW WOULD YOU CHARACTERIZE GVSUD'S PLANNING**
9 **EXPENDITURES?**

10 A. At this point, these expenditures are just a general cost or expense of GVSUD's for
11 planning on a broad scale. To treat them as an investment in the traditional sense or to
12 characterize those expenditures as maintaining some sort of continued property
13 interest for GVSUD inaccurate. Once that money has left GVSUD's pockets, it does
14 not always move to some other form of property – GVSUD's planning expenditures
15 are not an investment and are not personal property, the expenditures are an expense
16 of GVSUD doing its business. If we followed GVSUD's flawed logic to its
17 conclusion, then any money expended would always be considered property and thus
18 no expenses would be reflected on the individual's or business's Profit and Loss
19 Statement.

20 **Q. WHY DOES GVSUD'S ALLEGED PROPERTY FOR PLANNING AND**
21 **DESIGN PURPOSES NOT AMOUNT TO PROPERTY BEING RENDERED**
22 **USELESS OR VALUELESS TO GVSUD BY THE APPLICATION?**

1 A. After reviewing the testimony and exhibits of GVSUD's witnesses in this matter, it
2 my opinion, aside from any engineering issues noted by Mr. Adams in his rebuttal
3 testimony, that GVSUD's alleged planning and design expenditures have been for
4 proposed facilities to be located outside of the Decertified Area and are not rendered
5 useless or valueless by the decertification. GVSUD's alleged expenditures for an
6 approximate 65 acre tract of land, engaging consultants to prepare a wastewater
7 collection system design, wastewater treatment facility design, operations and
8 maintenance plans, other wastewater utility service issues relevant to the purchased
9 land, TPDES permit application, and other related consulting costs are all items
10 necessary for the construction of the wastewater treatment plant, and are not rendered
11 useless or valueless to GVSUD by the Application. GVSUD's argument that a
12 percentage of these expenditures are somehow rendered useless or valueless based
13 upon the percentage of acreage to be decertified out of the total CCN acreage is
14 unrealistic, because to provide wastewater service, GVSUD would still need to make
15 all of those expenditures. GVSUD still needs a TPDES permit, land for a wastewater
16 treatment plant, and other high-level design and planning documents prepared by
17 engineers and other consultants. Plus, without even having an approved TPDES
18 permit in place, all designs and plans are certainly subject to change. Therefore,
19 GVSUD's alleged expenditures cannot be rendered useless or valueless by this
20 decertification.

21 **Q. HOW DO YOUR FINDINGS APPLY TO THE GVSUD APPRAISAL?**

22 A. Mr. Korman asserts in his testimony that GVSUD's Appraisal includes his findings
23 concerning the GVSUD property that would be rendered useless or valueless by the

1 decertification. And again, after having reviewed the GVSUD Appraisal and the
2 testimonies and other exhibits of the GVSUD witnesses in this matter, I realized that
3 Mr. Korman's appraisal skips past the analysis of what property is rendered useless
4 and valueless and instead jumps ahead and makes allegations regarding the
5 compensation elements in TWC § 13.255(g). In fact, Exhibit GVSUD-1, on pages
6 GVSUD 200002 of the GVSUD Appraisal in the section entitled "Factors for
7 Compensation," clearly indicates that the subsequent analysis is not about property
8 that is rendered useless or valueless. It is my understanding of the bifurcated process
9 that if and only if property is identified as being rendered useless or valueless as a
10 result of the decertification in this first phase of the process will compensation be
11 addressed in the second phase of the process. If in the first phase of the process no
12 property is identified as being rendered useless or valueless, then there would not be a
13 second phase. In any event, to be thorough, I will explain in further detail why
14 GVSUD's allegations in each of those compensation factors do not result in property
15 rendered useless or valueless by the decertification requested in the Application, as
16 they are presented in the GVSUD Appraisal.

17 **1. Factor 1 – Impact on Existing Indebtedness of the Retail Public Utility**
18 **and Its Ability to Repay that Debt.**

19 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD'S APPRAISAL**
20 **CONCERNING THE ALLEGED IMPACT ON ITS EXISTING**
21 **INDEBTEDNESS AND ABILITY OF GVSUD TO REPAY THAT DEBT**
22 **BASED UPON THE CCN DECERTIFICATION?**

1 A. Yes. This factor is listed in the GVSUD Appraisal, Exhibit GVSUD-1, on pages
2 GVSUD 200002-200004. In the first full paragraph on page GVSUD 200003, of this
3 Exhibit, GVSUD alleges that its outstanding **Water** System Debt, which arose from
4 the United States Department of Agriculture's ("USDA") approval to issue Water
5 System Revenue Bonds in 2003. Mr. Korman, GVSUD's appraiser, mistakenly
6 concludes on this page that, "The increased costs to future customers, the loss of
7 revenues from potential customers, and the costs incurred by Green Valley SUD to
8 date regarding the area to be decertified could impact its ability to repay bonds that
9 were issued in 2003." However, while noting the water system debt- the only
10 **existing indebtedness** listed by GVSUD in the GVSUD Appraisal- Mr. Korman's
11 analysis for this section fails to actually take such water system debt into
12 consideration or make any allegation regarding the repayment of such debt. Rather, it
13 appears Mr. Korman is merely attempting to make a connection between an alleged
14 loss of potential future **sewer** service revenues and an alleged inability to pay debt
15 service on the **water** bonds.

16 **Q. HAVE YOU REVIEWED GVSUD'S RESPONSE TO THE CITY'S FIRST**
17 **REQUESTS FOR ADMISSION AND REQUESTS FOR INFORMATION IN**
18 **THIS MATTER?**

19 A. Yes.

20 **Q. I AM SHOWING YOU WHAT HAS BEEN MARKED AS EXHIBIT STOWE**
21 **R-D. WHAT IS THIS DOCUMENT?**

22 A. It is a copy of the bond order for GVSUD Water System Revenue Bonds, Series
23 2003.

1 **Q. WHO PREPARED EXHIBIT STOWE R-D?**

2 A. The City received this along with a number of other bond-related documents from
3 GVSUD in GVSUD's response to the City's First Requests for Admission and
4 Requests for Information in this matter.

5 **Q. IS EXHIBIT STOWE R-D A TRUE AND CORRECT COPY OF THE**
6 **DOCUMENT THAT THE CITY RECEIVED FROM GVSUD IN ITS**
7 **RESPONSE TO THE CITY'S FIRST REQUESTS FOR ADMISSION AND**
8 **REQUESTS FOR INFORMATION IN THIS MATTER?**

9 A. Yes.

10 **THE CITY OFFERS EXHIBIT STOWE R-D INTO EVIDENCE.**

11 **Q. I AM SHOWING YOU WHAT HAS BEEN MARKED AS EXHIBIT STOWE**
12 **R-E. WHAT IS THIS DOCUMENT?**

13 A. It is a copy of a letter from the United States Department of Agriculture to Geoffrey
14 Kirshbaum, the attorney for GVSUD in this Docket, and such docket is also cited in
15 this letter. The letter is dated May 3, 2016.

16 **Q. WHO PREPARED EXHIBIT STOWE R-E?**

17 A. It appears to be written by Mr. Joe E. De Ochoa, III. The City received this letter
18 from GVSUD in GVSUD's response to the City's First Requests for Admission and
19 Requests for Information in this matter.

20 **Q. IS EXHIBIT STOWE R-E A TRUE AND CORRECT COPY OF THE LETTER**
21 **THAT THE CITY RECEIVED FROM GVSUD IN ITS RESPONSE TO THE**

1 CITY'S FIRST REQUESTS FOR ADMISSION AND REQUESTS FOR
2 INFORMATION IN THIS MATTER?

3 A. Yes. I believe so.

4 Q. DID YOU RELY ON THIS LETTER IN FORMING YOUR OPINIONS IN
5 THIS TESTIMONY?

6 A. Yes.

7 THE CITY OFFERS EXHIBIT STOWE R-E INTO EVIDENCE.

8 Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD'S
9 ALLEGED IMPACT ON ITS EXISTING INDEBTEDNESS AND ABILITY
10 TO REPAY THAT DEBT BASED UPON THE CCN DECERTIFICATION IS
11 PROPERTY RENDERED USELESS OR VALUELESS?

12 A. I have formed an opinion.

13 Q. WHAT IS YOUR OPINION REGARDING WHETHER GVSUD'S ALLEGED
14 IMPACT ON ITS EXISTING INDEBTEDNESS AND ABILITY TO REPAY
15 THAT DEBT BASED UPON THE CCN DECERTIFICATION IS PROPERTY
16 RENDERED USELESS OR VALUELESS?

17 A. There is absolutely no property rendered useless or valueless based upon the alleged
18 loss of net revenue of future sewer customers and the ability of GVSUD to pay debt
19 service on the water bonds. Mr. Korman fails to demonstrate or provide any
20 explanation in the GVSUD Appraisal as to any property interest at all, much less a
21 property interest rendered useless or valueless. The existing debt is for water
22 infrastructure and not wastewater infrastructure, and there will be no water customers

1 affected by the City's decertification request associated with GVSUD's wastewater
2 CCN. GVSUD's position that the ability to repay this water system related debt will
3 be impacted by this wastewater CCN decertification request is absurd.

4 **Q. EVEN IF GVSUD'S ALLEGED IMPACT ON ITS EXISTING**
5 **INDEBTEDNESS AND ABILITY TO REPAY THAT DEBT BASED UPON**
6 **THE CCN DECERTIFICATION IS PROPERTY, WHAT IS YOUR OPINION**
7 **REGARDING WHETHER THE ALLEGED IMPACT OF ON THE ABILITY**
8 **TO REPAY DEBT LOST REVENUE IN PROPERTY RENDERED USELESS**
9 **OR VALUELESS?**

10 A. GVSUD has identified no property, real or personal, which is in any way associated
11 with the repayment of the 2003 bond issue, and as such, there is nothing of GVSUD
12 rendered useless or valueless. GVSUD has admitted that it does not have any retail
13 sewer service customers in this area. So, the decertification of this CCN area from
14 GVSUD's sewer CCN area will have no impact on GVSUD's ability to provide retail
15 water service in the decertified area, to the extent it has or will have customers.
16 Accordingly, with no impact on the ability of GVSUD to obtain water customers,
17 there will be no impact on the repayment of such water debt. Additionally, as noted
18 in the GVSUD Appraisal and at Exhibit Stowe R-D, pages GVSUD 000959-000960
19 and 000962-000963, of the bond order, the bonds of this series are payable from and
20 secured by a lien on and pledge of GVSUD's net water system revenues. GVSUD
21 did not grant a lien to USDA on the wastewater facilities. My opinion is further
22 supported by USDA's letter to GVSUD dated May 3, 2016, which GVSUD provided
23 to the City through discovery in this matter, that the bonds are payable solely from the

1 revenues from GVSUD's water system, and that the USDA has no lien on any current
2 or future wastewater revenues relating to this debt issue. Indeed, as is consistent with
3 my experience with USDA financings, GVSUD has covenanted to establish water
4 rates sufficient to repay this bond issue, which is clearly agreed to on pages GVSUD
5 000968-000969 of Exhibit Stowe R-D.

6 **2. Factor 6 – the Impact on Future Revenues Lost from Existing Customers.**

7 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD'S APPRAISAL**
8 **CONCERNING THE ALLEGED IMPACT ON FUTURE REVENUES LOST**
9 **BASED UPON THE CCN DECERTIFICATION?**

10 A. Yes. On the one hand, GVSUD alleges that Factor 6 applies to the portion of
11 GVSUD's Appraisal, Exhibit GVSUD-1, on pages GVSUD 200002-200004.
12 However, on page GVSUD 200006, it states that Factor 6 is "Not Applicable."

13 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD'S**
14 **ALLEGED FUTURE REVENUES LOST IS PROPERTY RENDERED**
15 **USELESS OR VALUELESS BY THE APPLICATION UNDER FACTOR 6?**

16 A. I have formed an opinion.

17 **Q. WHAT IS YOUR OPINION REGARDING WHETHER GVSUD'S ALLEGED**
18 **LOST NET REVENUES FROM FUTURE CUSTOMERS IS PROPERTY**
19 **RENDERED USELESS OR VALUELESS BY THE APPLICATION UNDER**
20 **FACTOR 6?**

21 A. The alleged lost net revenues from future customers are not property rendered useless
22 or valueless to GVSUD by the Application under Factor 6. As discussed above, Mr.

1 Korman's application of the alleged economic opportunity in the GVSUD Appraisal
2 is erroneous in as much as GVSUD does not have a final TPDES permit and therefore
3 cannot provide service. Also, the fact that the Decertified Area is within the
4 corporate limits of the City, which has the exclusive right to provide wastewater
5 service, should it decide to do so, would preclude the application of the economic
6 opportunity concept at least as long as no facilities and/or customers exist. Further, if
7 lost net revenues from **future customers** was, conceptually, considered property,
8 then GVSUD has still not identified any property real or personal which is anyway
9 associated with the alleged future revenues lost **from existing customers**- which is
10 the applicable analysis under Factor 6. GVSUD's appraiser makes a fatal error in his
11 analysis, alleging in the GVSUD Appraisal that "The increased costs to future
12 customers, the loss of revenues from potential customers, and the costs incurred by
13 Green Valley SUD to date regarding the area to be decertified could impact its ability
14 to repay bonds that were issued in 2003." In short, Mr. Korman misstated the
15 compensation statute, as the statute states "the impact on future revenues lost from
16 **existing** customers," and Mr. Korman stated "the loss of revenues from potential
17 customers".

18 **Q. DOES MR. KORMAN'S MISSTATEMENT AFFECT HIS ANALYSIS IN THE**
19 **GVSUD APPRAISAL?**

20 A. Yes. Mr. Korman's misstatement is not just a typo. His analysis on page 200004 of
21 Exhibit GVUSD-1 is based upon future customers, not existing wastewater
22 customers- of which there are none.

1 **3. Factor 8 – Factors Relevant to Maintaining the Current Financial**
2 **Integrity of the Retail Public Utility.**

3 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD'S APPRAISAL**
4 **CONCERNING THE ALLEGED IMPACT ON MAINTAINING THE**
5 **CURRENT FINANCIAL INTEGRITY OF GVSUD BASED UPON THE CCN**
6 **DECERTIFICATION?**

7 A. Yes. Factor 8 is also within the GVSUD Appraisal, Exhibit GVSUD-1, on pages
8 GVSUD 200002-200004. However, while GVSUD lists this factor on the analysis
9 contained in these pages of Exhibit GVSUD-1, there is no actual allegation of an
10 impact on maintaining the **current** financial integrity of GVSUD by the
11 decertification.

12 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD'S**
13 **ALLEGED IMPACT ON MAINTAINING THE CURRENT FINANCIAL**
14 **INTEGRITY OF GVSUD BASED UPON THE DECERTIFICATION IS**
15 **PROPERTY RENDERED USELESS OR VALUELESS BY THE**
16 **APPLICATION UNDER FACTOR 8?**

17 A. I have formed an opinion.

18 **Q. WHAT IS YOUR OPINION REGARDING WHETHER GVSUD'S ALLEGED**
19 **IMPACT ON MAINTAINING ITS CURRENT FINANCIAL INTEGRITY**
20 **BASED UPON THE DECERTIFICATION IS PROPERTY RENDERED**
21 **USELESS OR VALUELESS BY THE APPLICATION UNDER FACTOR 8?**

1 A. There is no real and/or personal property identified by Mr. Korman in this portion of
2 the GVSUD Appraisal that would be rendered “useless or valueless” to GVSUD by
3 the Application. The analysis is purely focused on alleged future effects from lost
4 revenues from future sewer service customers, which has no bearing on the
5 maintaining the current financial integrity of GVSUD at the time the CCN
6 decertification will occur. Further, the GVSUD appraiser attempts to apply the
7 economic opportunity concept to this item to make it an intangible asset by
8 mistakenly relating it to the CCN. However, as previously discussed, the fact that the
9 Decertified Area is within the corporate limits of the City means that such Area is
10 always subject to a TWC § 13.255 application, which in my opinion, inhibits the use
11 of economic opportunity theory since there is no wastewater service presently
12 existing in the area. Moreover, an economic opportunity interest cannot be applied
13 unless GVSUD obtains a TPDES permit; otherwise, GVSUD is prohibited from
14 providing wastewater service and is thus unable to obtain any financial benefit from
15 such service.

16 **4. Factor 9 – Other Relevant Factors.**

17 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD’S APPRAISAL**
18 **CONCERNING THE ALLEGED IMPACT OF OTHER RELEVANT**
19 **FACTORS BASED UPON THE CCN DECERTIFICATION?**

20 A. Yes. This factor is also within the GVSUD Appraisal, Exhibit GVSUD-1, on pages
21 GVSUD 200002-200004. It is my opinion that the flawed allegations and analysis on
22 these pages of the GVSUD Appraisal all fall under Factor 9.

1 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER ANY ALLEGED**
2 **OTHER RELEVANT FACTORS ARE PROPERTY RENDERED USELESS**
3 **OR VALUELESS TO GVSUD BY THE CCN DECERTIFICATION?**

4 A. I have formed an opinion.

5 **Q. WHAT YOUR OPINION REGARDING WHETHER ANY ALLEGED OTHER**
6 **RELEVANT FACTORS ARE PROPERTY RENDERED USELESS OR**
7 **VALUELESS TO GVSUD BY THE CCN DECERTIFICATION?**

8 A. The GVSUD appraiser's alleged lost net revenue from future customers as an "other
9 relevant factor" is not property rendered useless or valueless by the CCN
10 decertification. Again, in my opinion, Mr. Korman's application of the alleged
11 economic opportunity in the GVSUD Appraisal is erroneous in as much as the
12 GVSUD does not have a final TPDES permit. Since GVSUD cannot provide the
13 wastewater services unless it has the TPDES permit and builds the sewer system,
14 such future lost revenues from future customers cannot be attached to the CCN
15 decertification and, thus, such future lost net revenue cannot become intangible
16 property. Also, the fact that the Decertified Area is within the corporate limits of the
17 City, which has the exclusive right to provide wastewater service should it decide to
18 do so, would preclude the application of the economic opportunity concept as long as
19 no facilities and/or customers exist.

1 **5. Factor 2 – The Value of the Service Facilities of the Retail Public Utility**
2 **Located within the Area in Question.**

3 **Q. HAVE YOU REVIEWED THE PORTION OF THE GVSUD APPRAISAL**
4 **CONCERNING THE ALLEGED IMPACT ON THE VALUE OF THE**
5 **SERVICE FACILITIES OF GVSUD LOCATED WITHIN THE AREA IN**
6 **QUESTION?**

7 A. Yes. This allegation is within the GVSUD Appraisal, Exhibit GVSUD-1, on pages
8 GVSUD 200004-200005.

9 **Q. WHAT IS YOUR OPINION REGARDING THIS PORTION OF GVSUD'S**
10 **APPRAISAL?**

11 A. The GVSUD Appraisal does not identify any GVSUD service facilities located within
12 the Decertified Area. Further, as noted in Exhibit G of Mr. Adams's prefled
13 testimony, GVSUD has admitted in its discovery responses in this matter that it does
14 not have any facilities within the Decertified Area. Therefore, with no property
15 present, it is my opinion that there is no property of GVSUD located within the
16 Decertified Area, and certainly no property within that Area rendered useless or
17 valueless to GVSUD by the decertification.

18 **6. Factor 3 – the Amount of any Expenditures for Planning, Design, or**
19 **Construction of Service Facilities Outside the Incorporated or Annexed**
20 **Area that Are Allocable to Service to the Area in Question.**

21 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD'S APPRAISAL**
22 **CONCERNING THE ALLEGED AMOUNT OF EXPENDITURES FOR**

1 **PLANNING, DESIGN, OR CONSTRUCTION OF SERVICE FACILITIES**
2 **OUTSIDE THE INCORPORATED OR ANNEXED AREA THAT ARE**
3 **ALLOCABLE TO SERVICE TO THE AREA IN QUESTION, BASED UPON**
4 **THE CCN DECERTIFICATION?**

5 A. Yes. This allegation is also within the GVSUD Appraisal, Exhibit GVSUD-1, on
6 pages GVSUD 200004-200005.

7 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD'S**
8 **ALLEGED EXPENDITURES FOR PLANNING, DESIGN, OR**
9 **CONSTRUCTION OF SERVICE FACILITIES OUTSIDE THE**
10 **INCORPORATED OR ANNEXED AREA THAT ARE ALLOCABLE TO**
11 **SERVICE TO THE AREA IN QUESTION, ARE PROPERTY RENDERED**
12 **USELESS OR VALUELESS TO GVSUD BY THE CCN**
13 **DECERTIFICATION?**

14 A. I have formed an opinion.

15 **Q. WHAT YOUR OPINION REGARDING WHETHER GVSUD'S ALLEGED**
16 **EXPENDITURES FOR PLANNING, DESIGN, OR CONSTRUCTION OF**
17 **SERVICE FACILITIES OUTSIDE THE INCORPORATED OR ANNEXED**
18 **AREA THAT ARE ALLOCABLE TO SERVICE TO THE AREA IN**
19 **QUESTION, ARE PROPERTY RENDERED USELESS OR VALUELESS TO**
20 **GVSUD BY THE CCN DECERTIFICATION?**

21 A. First, after reviewing the testimony and exhibits of GVSUD's witnesses in this
22 matter, it my opinion that GVSUD has failed to allege that there have been any

1 service facilities constructed outside the Decertified Area that are allocable to
2 providing sewer service to the Decertified Area. Accordingly, there is no property
3 rendered useless or valueless to GVSUD by the CCN decertification under this factor.
4 Second, as to whether there has been planning and design work completed that could
5 be allocable to providing sewer service to the Decertified Area, I reassert my answer
6 provided earlier in this testimony.

7 **7. Factor 4 – the Amount of the Retail Public Utility’s Contractual**
8 **Obligations Allocable to the Area in Question.**

9 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD’S APPRAISAL**
10 **CONCERNING THE ALLEGED AMOUNT OF GVSUD’S CONTRACTUAL**
11 **OBLIGATIONS ALLOCABLE TO THE AREA IN QUESTION?**

12 A. Yes. This factor is also within the GVSUD Appraisal, Exhibit GVSUD-1, on page
13 GVSUD 200006.

14 **Q. WHAT YOUR OPINION REGARDING THE ALLEGED AMOUNT OF**
15 **GVSUD’S CONTRACTUAL OBLIGATIONS ALLOCABLE TO THE AREA**
16 **IN QUESTION THIS PORTION OF THE GVSUD’S APPRAISAL?**

17 A. I agree with Mr. Korman’s Appraisal. This factor is not applicable in this matter. It
18 is my opinion that the GVSUD Appraisal does not allege that there are any
19 contractual obligations that are rendered useless or valueless to GVSUD by the
20 decertification, and I concur that there are no contractual obligations allocable to the
21 Decertified Area, to the extent they could even be property at all.

1 **8. Factor 5 – any Demonstrated Impairment of Service or Increase of Costs**
2 **to Consumers of the Retail Public Utility Remaining after Single**
3 **Certification.**

4 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD’S APPRAISAL**
5 **CONCERNING THE ALLEGED IMPAIRMENT OF SERVICE OR**
6 **INCREASE OF COSTS TO GVSUD CONSUMERS AFTER SINGLE**
7 **CERTIFICATION TO THE CITY?**

8 A. Yes. This allegation concerning Factor 5 is within the GVSUD Appraisal, Exhibit
9 GVSUD-1, on pages GVSUD Bates No. 200005-200006. In this portion of the
10 Appraisal, Mr. Korman asserts that given GVSUD’s 2006 Wastewater Master Plan,
11 there would be an increase in costs to GVSUD customers based upon an estimated
12 \$842 per EDU sewer impact fee for Drainage Areas E and F, and that with the
13 decertification, the anticipated increase would have been reconciled at a \$20 per EDU
14 increase to the consumer. The Appraisal does not contain any allegations concerning
15 impairment of service.

16 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD’S**
17 **ALLEGED IMPAIRMENT OF SERVICE OR INCREASE OF COSTS TO**
18 **GVSUD CONSUMERS AFTER SINGLE CERTIFICATION IS PROPERTY**
19 **RENDERED USELESS OR VALUELESS TO GVSUD BY THE**
20 **APPLICATION?**

21 A. I have formed an opinion.

1 **Q. WHAT YOUR OPINION REGARDING WHETHER GVSUD'S ALLEGED**
2 **IMPAIRMENT OF SERVICE OR INCREASE OF COSTS TO GVSUD**
3 **CUSTOMERS AFTER SINGLE CERTIFICATION IS PROPERTY**
4 **RENDERED USELESS OR VALUELESS TO GVSUD BY THE**
5 **APPLICATION?**

6 **A.** First, it is my opinion, like GVSUD, that there will be no impairment of service to
7 GVSUD customers based upon the decertification. This opinion is further based
8 upon the fact that GVSUD has noted in the GVSUD Appraisal and its testimony that
9 GVSUD currently does not have any wastewater customers or a permit or
10 authorization to construct or operate a wastewater treatment plant. Second, the
11 alleged increase in sewer impact fees does not constitute property rendered useless or
12 valueless by the Application. Once more, Mr. Korman's application of the alleged
13 economic opportunity in the GVSUD Appraisal is erroneous in as much as the
14 GVSUD does not have a final TPDES permit. Since GVSUD cannot legally or
15 physically provide the wastewater services unless it has the TPDES permit and builds
16 the sewer system, such future lost revenues from future customers cannot be
17 attributed to the CCN decertification because there are no revenues to lose.
18 Additionally, the Decertified Area is within the corporate limits of the City, which
19 has the exclusive right to provide wastewater service to such Area should it decide to
20 do so, and would preclude the application of the economic opportunity concept as
21 long as no facilities and/or customers exist. Plus, the alleged increase to the sewer
22 impact fee is ridiculous, as GVSUD does not have a legally approved sewer impact
23 fee.

1 **Q. WHAT WOULD GVSUD NEED TO DO TO CHARGE A SEWER IMPACT**
2 **FEE?**

3 A. Based upon my experiences in the water and wastewater industry, a special utility
4 district, like GVSUD, may only approve and charge a sewer impact fee if either:

5 (1) the impact fee is adopted by the entity in accordance with Chapter 395 of the
6 Local Government Code, after completion of all of the following:

7 (a) establishing an impact fee advisory committee,

8 (b) preparing land use assumptions,

9 (c) preparing a capital improvements plan,

10 (d) holding a meeting of the impact fee advisory committee prior to the
11 district approving the land use assumptions and capital improvements
12 plan;

13 (e) posting notice and holding a public hearing regarding the proposed
14 land use assumptions or capital improvements plan,

15 (f) holding a meeting of the impact fee advisory committee prior to
16 approving the impact fee, and

17 (g) posting notice and holding a public hearing regarding the proposed
18 impact fee; or

19 (2) the district establishes land use assumptions, a capital improvements plan, and
20 a proposed impact fee amount, and then files an application with the TCEQ

1 for approval, which is subject to TCEQ jurisdiction and approval, after notice
2 and the opportunity for a contested case hearing.

3 Based upon my review of the materials in this case, it is my opinion that GVSUD
4 does not have an approved sewer impact fee. Thus, the alleged impact fee and
5 increase thereto is all speculative and uncertain, and certainly does not amount to
6 property of any sort.

7 **Q. HOW DOES GVSUD NOT HAVING AN APPROVED SEWER IMPACT FEE**
8 **IMPACT YOUR ANALYSIS?**

9 In addition to my other opinions, without an approved, enforceable sewer impact fee,
10 GVSUD's alleged increase in cost in a hypothetical, imaginary impact fee amount in
11 this section of the GVSUD Appraisal cannot be attributable to the CCN
12 decertification. Thus, the alleged increase in cost cannot be an economic opportunity
13 property interest that is rendered useless or valueless by the CCN decertification.

14 **9. Factor 7 – necessary and reasonable legal expenses and professional fees.**

15 **Q. HAVE YOU REVIEWED THE PORTION OF GVSUD'S APPRAISAL**
16 **CONCERNING THE ALLEGED NECESSARY AND REASONABLE LEGAL**
17 **EXPENSES AND PROFESSIONAL FEES DUE TO THE**
18 **DECERTIFICATION?**

19 A. Yes. This allegation is within the GVSUD Appraisal, Exhibit GVSUD-1, on page
20 GVSUD 200007. In this portion of the Appraisal, Mr. Korman asserts that GVSUD
21 has incurred legal fees and appraisal expenses in "defending the decertification."

1 **Q. DO YOU HAVE AN OPINION REGARDING WHETHER GVSUD'S**
2 **ALLEGED NECESSARY AND REASONABLE LEGAL EXPENSES AND**
3 **PROFESSIONAL FEES DUE TO THE DECERTIFICATION AFTER SINGLE**
4 **CERTIFICATION IS PROPERTY RENDERED USELESS OR VALUELESS**
5 **TO GVSUD BY THE DECERTIFICATION?**

6 A. I have formed an opinion.

7 **Q. WHAT IS YOUR OPINION?**

8 A. As noted in my testimony, the GVSUD Appraisal, including this allegation, skips
9 over the first part of the analysis as to whether any property is rendered useless or
10 valueless. It is my understanding that Factor 7, like all of the other TWC § 13.255(g)
11 factors, are not considered until there is the initial finding that there is property
12 rendered useless or valueless by the CCN decertification. Thus, as to the legal fees,
13 such fees for "defending the decertification," should not be considered unless there is
14 property rendered useless or valueless to GVSUD. As to the appraisal expenses, the
15 alleged amount is to prepare the appraisal for second phase of this matter, not the first
16 phase. Thus, such fees should not be considered at this time.

17 **Q. IRRESPECTIVE OF THE TIMING OF THE CONSIDERATION OF**
18 **ATTORNEY'S FEES, DO YOU HAVE AN OPINION REGARDING**
19 **WHETHER ATTORNEY'S FEES SHOULD BE CONSIDERED PROPERTY**
20 **RENDERED USELESS OR VALUELESS UNDER THIS TWC § 13.255**
21 **APPLICATION?**

22 A. I have formed an opinion.

1 **Q. WHAT IS THAT OPINION?**

2 A. In my experience, I have never seen legal fees for litigation-type work such as
3 “defending the decertification” treated as property. Again, it is just an expense of this
4 particular business. Regardless, such fees are for GVSUD to be represented in this
5 matter, and GVSUD is represented by counsel in this matter, and that representation
6 is not something that can be rendered useless or valueless.

7 **B. Issue 10 –Are the Existing Appraisals Limited to Valuing the Property**
8 **that has been Determined to have been Rendered Useless or Valueless by**
9 **Decertification and the Property that Schertz has Requested be**
10 **Transferred?**

11 **Q. BASED UPON YOUR WORK FOR THE CITY IN PREPARING THE**
12 **APPRAISAL, YOUR EDUCATION, EXPERIENCE, AND EXPERTISE, AND**
13 **YOUR REVIEW OF THE OTHER MATERIALS THAT YOU PREVIOUSLY**
14 **NOTED, HAVE YOU FORMED OPINIONS WITH REGARD TO WHETHER**
15 **THE GVSUD APPRAISAL AND CITY APPRAISAL ARE LIMITED TO**
16 **PROPERTY THAT HAS BEEN DETERMINED TO BE RENDERED**
17 **USELESS OR VALUELESS BY DECERTIFICATION?**

18 A. I have.

19 **Q. IN YOUR EXPERT OPINION, DO YOU BELIEVE THAT THE CITY**
20 **APPRAISAL IS LIMITED TO PROPERTY THAT HAS BEEN**
21 **DETERMINED TO BE RENDERED USELESS OR VALUELESS BY**
22 **DECERTIFICATION?**

1 A. In my opinion, my City Appraisal has properly limited the analysis to only property
2 that would be rendered useless or valueless.

3 **Q. IN YOUR EXPERT OPINION, DO YOU BELIEVE THAT THE GVSUD**
4 **APPRAISAL IS LIMITED TO PROPERTY THAT HAS BEEN**
5 **DETERMINED TO BE RENDERED USELESS OR VALUELESS BY**
6 **DECERTIFICATION?**

7 A. In my opinion, the GVSUD Appraisal is not limited to the property that has been
8 rendered useless or valueless. Rather, as noted in Section III.A. of my testimony,
9 above, the GVSUD Appraisal has improperly included items that do not constitute
10 property and/or has failed to provide sufficient evidence that any property, real or
11 personal, has been rendered useless or valueless, in whole or in part.

12 **Q. DOES THIS CONCLUDE YOUR TESTIMONY AT THIS TIME?**

13 A. Yes.



Jack E. Stowe, Jr.

Executive Consultant

jstowe@newgenstrategies.net

Jack Stowe's Public Sector consulting career began in 1975. His experience is highlighted by the major roles he has fulfilled in serving public sector entities to achieve major cost savings through contract negotiations for services and implementation of organizational and operational enhancements. His experience encompasses utility ratemaking under federal, state and municipal jurisdictions, as well as significant experience in the following areas:

- Organization and operations for investor owned utilities and municipal utilities
- Financial projections and operating system requirements
- Contract Negotiations
- Breach of Franchise Agreements
- Economic Feasibility Studies

His career includes nine years in a "big-eight" public accounting and consulting firm where he held the title of Manager at the time of his resignation. After serving as Chief Financial Officer and Treasurer of an International Real Estate firm, Mr. Stowe founded Aries Resource Management as a consulting group dedicated to serving the public sector. In 1986, Aries Resource Management entered into a partnership agreement with Reed Municipal Services, Inc., to form Reed-Stowe & Co. The company was subsequently acquired by R. W. Beck, Inc. During his tenure with R.W. Beck, Mr. Stowe served as the Local Practice Leader for the Firm's Utility Services Practice - Gulf Coast Region. In March 2008, Mr. Stowe founded J. Stowe & Co. which became NewGen Strategies & Solutions in 2012.

EDUCATION

- Bachelor of Arts in Accounting, North Texas State University

PROFESSIONAL AFFILIATIONS

- Texas Water Conservation Association (TWCA)
- American Water Works Association (AWWA)

RELEVANT EXPERIENCE

Cost of Service and Rate Design – Water and Wastewater

Mr. Stowe conducts reviews of cost of service and rate design practices for various water and wastewater utilities. He is knowledgeable in cost allocation theories and develops cost of service unbundling of utility functions. He calculates revenue requirements over multiple year planning horizons, ensuring the utility's ability to meet its debt service and coverage requirements and providing results that are reliable and defensible. Mr. Stowe frequently presents study findings and recommendations to utility management, boards, city councils, and other governing bodies. The following is a sample list of clients for whom Mr. Stowe has performed water and/or wastewater cost of service, customer class cost allocation, and/or rate design study, including wholesale clients.

- | | |
|--|---|
| ▪ City of Arlington, Texas | ▪ Kempner Water Supply Corporation, Texas |
| ▪ Argyle Water Supply Corporation, Texas | ▪ City of Kilgore, Texas |
| ▪ Barton Creek Lakeside, Texas | ▪ City of Knollwood, Texas |
| ▪ City of Bellaire, Texas | ▪ City of Lewisville, Texas |
| ▪ City of Borger, Texas | ▪ City of Lubbock, Texas |
| ▪ Cameron County Fresh Water Supply, | ▪ City of Mesquite, Texas |

Jack E. Stowe, Jr.

Executive Consultant

- District No.1, Texas
- City of Celina, Texas
- City of Copperas Cove, Texas
- City of Corsicana, Texas
- Dallas Water Utilities, Texas
- City of Denton, Texas
- Devers Canal System, Texas
- El Oso Water Supply Corporation, Texas
- City of Farmers Branch, Texas
- City of Ft. Worth, Texas
- City of Georgetown, Texas
- City of Gilmer, Texas
- City of Glenn Heights, Texas
- City of Grapevine, Texas
- City of Hobbs, New Mexico
- City of Kaufman, Texas
- City of Midlothian, Texas
- Montgomery County Municipal Utility District, Texas
- City of North Myrtle Beach, South Carolina
- City of North Richland Hills, Texas
- City of Paris, Texas
- City of Richmond, Virginia
- Rockett Special Utility District, Texas
- City of Rowlett, Texas
- City of Sachse, Texas
- City of Sanger, Texas
- Tarrant Regional Water District, Texas
- United Irrigation District, Texas
- City of Weatherford, Texas
- City of Westminster, Colorado
- City of Wylie, Texas

Cost of Service and Rate Design – Public Service Commissions

Specifically, Mr. Stowe has conducted and supervised analyses of rate base, operating income, rate of return, revenue requirements, fully allocated cost of service and rate design for rate case proceedings under state or local jurisdictions. The various jurisdictions Mr. Stowe has performed consulting services in are as follows:

- Arizona Corporation Commission
- Federal Energy Regulatory Commission
- Illinois Commerce Commission
- Kentucky Public Service Commission
- Mississippi Public Service Commission
- New Mexico Public Service Commission
- Oklahoma Corporation Commission
- Public Utility Commission of Texas
- Railroad Commission of Texas
- Texas Commission of Environmental Quality
- Utah Public Service Commission
- Wyoming Public Service Commission

Valuation Analysis - Water

Mr. Stowe has also been actively involved in water utility system valuation, with the results of the valuations serving as the foundation for the sale or transfer of ownership for the utilities or the donation of the assets in accordance with Section 170 of the Internal Revenue Service Code of 1986. He has performed such studies for the following entities:

- RCH Water Supply Corporation, Texas
- Kelly Air Force Base, Texas
- Walker County Water Supply Corporation, Texas
- Johnson County Water Supply Corporation, Texas
- Liberty City Water Supply Corporation, Texas
- Royse City, Texas / BHP Water Supply Corporation
- Wood Wind Water System, LLC Oakland County, Michigan
- Oakland Explorations Water System, LLC Oakland County, Michigan

- High Point Water Supply Corporation, Texas

Contract Negotiations Support

Mr. Stowe has provided contract negotiation support for a variety of entities. He supported raw water contract negotiations between a water district and a city and represented a group of 21 customer cities in a detailed wastewater cost of service study that provided the foundation for contract renewal negotiations with their wholesale provider. Mr. Stowe has also participated in negotiations of operation, maintenance and management privatization/outsourcing contracts.

Additionally, he supported a city in its acquisition of the street lighting system from the incumbent provider, which was consummated after a six-month study and purchase negotiation. Purchase pay back was achieved within three years with annual operating cost reduction currently accruing at the annual rate of approximately \$700,000.

Mr. Stowe's negotiation support clients include:

- City of Arlington and Texas Electric Service Company, Texas
- City of Arlington and the Tarrant County Water Improvement District No. 1 (now Tarrant Regional Water District), Texas
- Red River Redevelopment Authority, Texas
- Wastewater service contract negotiations between the Customer Cities and the City of Fort Worth, Texas
- Southwest Division of United States Navy

Load Aggregation

Mr. Stowe assisted a client in the electric load aggregation of its 15 members. This effort has resulted in the release of a Request for Bid on approximately 800,000,000 kWh brought to market. His projects include:

- TWCA-USA, Inc.

Financial Projections

Mr. Stowe assisted clients in examining the financing alternatives, obtaining state funding, and establishing the cost allocation methodology associated with the \$1.9 billion pipeline project. Mr. Stowe also performed a comprehensive examination of the impact of energy costs on the proposed project alternatives, including developing a forecasting model of electricity costs through 2060. He also developed an impact fee econometric model used by the municipal clients to calculate the maximum allowable fee under S.B. 336. Mr. Stowe was also responsible for the development and implementation of administrative procedures and systems modifications enabling these Cities to comply with the monitoring requirements of S.B. 336. His financial projections clients include:

- Dallas Water Utilities and Tarrant Regional Water District, Texas
- Cities of North Richland Hills, Grapevine, Lewisville and Wylie, Texas

Feasibility Study

Mr. Stowe performed an economic feasibility study for a municipal client for alternative wastewater diversion. The study provided a twenty-year projected population growth within defined service areas, discharge characteristics, and related capital improvement requirements for each alternative. He also assisted a group of clients in assessing the feasibility and economic impact of a water supply project, which proposed to supply at least 600,000 acre-feet of raw water to the area. His clients include:

- City of Arlington, Texas
- Dallas Water Utilities, North Texas Municipal Water District, Sabine River Authority of Texas, and Tarrant Regional Water District, Texas

Jack E. Stowe, Jr.

Executive Consultant

Other utility company clients served by Mr. Stowe are presented below. Mr. Stowe has conducted numerous engagements during his career for many of these clients.

- Arkansas-Oklahoma Gas Corporation, Arkansas
- Arizona Public Service, Arizona
- Central Power & Light (now AEP), Texas
- Canadian River Municipal Water Authority, Texas
- Denton County Electric Cooperative (now CoServ), Texas
- Detroit Edison, Michigan
- Gulf States Utilities (now Entergy), Texas
- Houston Lighting & Power (now Reliant), Texas
- Indianapolis Power & Light, Indiana
- Kentucky Power & Light, Kentucky
- Lake Dallas Telephone Company, Texas
- Lower Colorado River Authority, Texas
- Lone Star Gas Company (now ATMOS), Texas
- Magnolia Gas, Mississippi
- Mississippi Power & Light, Mississippi
- Mojave Electric Cooperative, Arizona
- Southwest Electric Service Company (now TXU), Texas
- Southwestern Public Service Company, Texas
- San Miguel Electric Cooperative, Texas
- Texas Electric Service Company (now TXU), Texas
- Texas-New Mexico Power Company, Texas
- Texas Power & Light (now TXU), Texas
- Tucson Gas & Electric, Arizona
- Utah Power & Light, Utah
- West Texas Utilities (now AEP), Texas

PRESENTATIONS AND PUBLICATIONS

Mr. Stowe has given numerous presentations and participated in training and workshops in several states. These activities have focused on cost of service, ratemaking, and competitive issues. Host organizations and the topics Mr. Stowe presented on or published information are displayed below.

In addition, Mr. Stowe authored a report on behalf of the Texas Water Development Board. This study analyzes and presents the status of privatization of water utility operations within the State of Texas contrasted against national activity. Also for the Texas Water Development Board, Mr. Stowe authored the below study.

Texas Water Development Board

Report - *Market Strategies for Improved Service by Water Utilities*

Study - *Socioeconomic Impact of Interbasin Transfers in Texas*

Texas Rural Water Association

- *SBI Deregulation 101*
- *Innovative Financing for Water and Wastewater Utilities*
- *Encroachment Issues: Your Service Area is Worth How Much*
- *Allocating the Costs of Population Growth in Wholesale Water Contracts*

Water Environmental Association of Texas

- *Rate Alternative Funding for Capital Improvements*
- *Construction Management and Financing Alternatives*

Texas Water Conservation Association

- *The Benefits of Electric Aggregation*
- *The Rate Impact of Water Conservation Pricing*
- *SBI Deregulation 101*
- *Water Retail Wholesale Ratemaking*
- *Management Audits*

American Association of Water Board Directors

- *Ins and Outs of Rate Making*

Texas Natural Resource Conservation Commission

- *Solid Waste Full Cost Accounting*

Texas Association of City Managers

- *The Impact of Senate Bill No. 336*

Government Financial Officers Association of Texas Newsletter

- *A New Challenge for Municipal Gas Regulation*
- *The Case of the Vanishing Gross Receipts Tax*
- *Impact of Senate Bill 336" (Assessment of Developer Impact Fees)*
- *Street Lighting Cost Reduction Through Municipal Ownership*

Texas Government Financial Officers Association

- *The Impact of Senate Bill No. 336*

Texas Chapter of the Public Works Association

- *Electric Deregulation in Texas*

Texas Institute of Traffic Engineers

- *Street Lighting Cost Reduction, a Game Plan for the 80's*

Exhibit Stowe R-B

JACK E. STOWE, JR. EXPERT WITNESS RESUME

CASE	JURISDICTION	TOPIC
Case No. 9355, Baltimore Gas and Electric Company	Maryland Public Service Commission	Filing For General Rate Increase for Electric and Gas Service
Cause No. D-1-GN-12-002156, LCRA vs. Central Texas Electric Cooperative, Inc., Fayette Electric Cooperative, Inc., and San Bernard Electric Cooperative, Inc	District Court of Travis County, Texas (261st Judicial District)	Damages Associated with Wholesale Pricing Practices
Docket No. 17751, Phase I, Texas-New Mexico Power Company	Public Utility Commission of Texas	Test Year Cost of Service, Revenue Requirements, Rate of Return
Docket No. 17751, Phase II, Texas-New Power Company	Public Utility Commission of Texas	Transition to Competition
City of Lacy Lakeview vs. City of Waco	Texas Natural Resource Conservation Commission	Ratemaking Methodology, Cost of Service, Rate Design
Cause No. 96-1702-4, Lee Washington vs. Checker Bag Company	170th District Court, McLennan County	Damages, Product Liability
Walker County Water Supply Corporation vs. City of Huntsville, Texas	Federal Court, Houston, Texas	Application of Federal Law 1926B, System Valuation under Texas Water Code 13.255
Cause No. 97-00070, Garland Independent School District vs. Lone Star Gas Company	14th District Court	Damages - Breach of Contract
City of Parker, Texas vs. City of Murphy, Texas	Collin County District Court	Identification of Water-Related Stranded Investment
Cause No. 95-5530, Tal-Tex, Inc. vs. Southland Corporation	State District Court	Damages - Gross Negligence
Cause No. H-94-4106, StarTel, Inc. vs. TCA, Inc., et. al.	Federal Court, Houston, Texas	Damages - Predatory Pricing, Anti-Trust
Docket No. 15560, Texas-New Mexico Power Company	Public Utility Commission of Texas	Community Choice - Competitive Transition Plan
No. 67-164085-96, Tarrant Regional Water District vs. City of Bridgeport, Texas	67th Judicial District	Damages - Breach of Contract
GUD No. 8664, Statement of Intent Filed by Lone Star Gas Company to Increase Intracompany City Gate Rate	Railroad Commission of Texas	System Revenue Requirements, Class Cost of Service Allocations, Unbundling, Cost of Gas Sold
Docket No. 95-0132-UCR, Cameron County FWSD #1 (now Laguna Madre Water District)	Texas Natural Resource Conservation Commission	Conservation Rate Making Policies
Docket No. 95-0295-MWD, Dallas County Water Control and Improvement District No. 6	Texas Natural Resource Conservation Commission	Wastewater Permitting, Concepts of Regionalization
Cause No. H-94-1265, Canyon Services, Inc. vs. Southwestern Bell, et. al.	Federal Court, Houston, Texas	Damages - Anti-Trust
GUD No. 8623, Dallas Independent School District Appeal of City of Dallas Rate Decision	Railroad Commission of Texas	Cost of Service, 2nd Rate Design, Public Free Schools
Docket No. 12900, Texas-New Mexico Power Company	Public Utility Commission of Texas	Revenue Requirements, Cost of Service, Prudence

Exhibit Stowe R-B
JACK E. STOWE, JR.
EXPERT WITNESS RESUME
(continued)

CASE	JURISDICTION	TOPIC
No. 89-CV-0240, Metro-Link vs. Southwestern Bell Telephone Company, et. al.	56th Judicial District Court, Galveston County, Texas	Lost Profits and Market Value from Breach of Contract
Docket No. 10200, Texas-New Mexico Power Company	Public Utility Commission of Texas	Revenue Requirements, System Cost of Service, Prudence
Cause No. 95-50259-367, GTE of the Southwest, Inc. vs. City of Denton, Texas	367th Judicial District Court, Denton County, Texas	Damages - Breach of Franchise Agreement
Cause No. 91-1519, Trinity Water Reserve, Inc., et. al. vs. Texas Water Commission, et. al.	126th Judicial District Court, Travis County, Texas	Temporary Injunction Eminent; Probable, and Irreparable Damages
Docket No. 12065, Houston Lighting & Power Company Section 42	Public Utility Commission of Texas	Accounting Issues, Actual Taxes, FASB 106 and 112, Nuclear Decommissioning, Depreciation Rates, Street Lighting Cost of Service and Rate Design
Docket No. 8748-A and 9261-A, City of Arlington, Texas vs. City of Fort Worth, Texas	Texas Natural Resource Conservation Commission	Interim Rate Hearing, Rate Case, Public Interest
Arkansas Oklahoma Gas Corporation on behalf of the Oklahoma Attorney General	Oklahoma Corporation Commission	Cost of Service Determination and Rate Design
Cause No. PUD 001346, Arkansas Oklahoma Gas Corporation	Oklahoma Corporation Commission	Affiliated Transactions
Cause No. 89-4703-F, City of Sachse and City of Rowlett, Texas vs. City of Garland, Texas	116th Judicial District Court	Contract Pricing Violation
Docket No. 8293-M, Sharyland Water Supply Corporation vs. United Irrigation District	Texas Natural Resource Conservation Commission	Revenue Requirements, System Cost of Service
Docket No. 9892, Denton County Electric Cooperative, Inc.	Public Utility Commission of Texas	Rate Case Increase Application, Revenue Requirements
Docket No. 10034, Texas-New Mexico Power Company	Public Utility Commission of Texas	Deferred Accounting Treatment for Unit 2
Docket No. 8291-A, City of Arlington, Texas vs. City of Fort Worth, Texas	Texas Natural Resource Conservation Commission	Wholesale Service Pricing
Docket No. 8388-M, Devers Canal Rice Producers Association, Inc., et. al. vs. Trinity Water Reserve, Inc., et al.	Texas Natural Resource Conservation Commission	Interim Rate Relief and Test Year Cost of Service and Rate Design
Docket Nos. 7796-M and 7831-M, City of Kilgore, Texas vs. City of Longview, Texas	Texas Natural Resource Conservation Commission	Wholesale Service Pricing
Docket No. 9491, Texas-New Mexico Power Company	Public Utility Commission of Texas	Revenue Requirements, System Cost of Service, Prudence
Docket No. 8338-A, City of Highland Village, Texas vs. City of Lewisville, Texas	Texas Natural Resource Conservation Commission	Wholesale Service Pricing
Docket No. 8585, Petition of the General Counsel to Inquire into the Reasonableness of the Rates and Services of Southwestern Bell	Public Utility Commission of Texas	Current System Revenues Treatment of Unprotected Excess Deferred Income Taxes Consolidated Tax Saving

Exhibit Stowe R-B

JACK E. STOWE, JR.

EXPERT WITNESS RESUME

(continued)

CASE	JURISDICTION	TOPIC
Cause No. 3-89-0115-T, City of Mesquite, Texas vs. Southwestern Bell Telephone Company	Federal Court	Breach of Franchise Agreement
Cause No. D-142, 176, City of Port Arthur, et.al., vs. Southwestern Bell Telephone Company	136 th Judicial District, Jefferson County, Texas	Breach of Franchise Agreement
Docket No. 8928, Texas-New Mexico Power Company	Public Utility Commission of Texas	Revenue Requirements, System Cost of Service
Docket No. 8095, Texas-New Mexico Power Company	Public Utility Commission of Texas	Revenue Requirements, System Cost of Service
House Bill 2734	House of Representatives Sub-Committee on Natural Resources	Statutory Clarification
Cause No. 17-173694-98, Computer Translation Systems Support vs. EDS	17 th Judicial District Tarrant County, Texas	Damages due to breach of Intellectual Property Contract
City of Lacy Lakeview vs. City of Waco	Texas Natural Resource Conservation Commission	Motion to compel service under just and reasonable rates
A.R. No.: 2005/1999 Coastal Aruba Refining Co. N.V. vs. Water-EN ENGERGIEBEDRIJF ARUBA NV.	Court of First Instance of Aruba	Breach of Contract, Damage Calculations
Edwards Machine and Tool vs. Time-Condor, Inc.	District Court McLennan County	Breach of Contract, Damage Calculations
Jerry Lefler and Larry West vs. ERGOBILT, ERGOGONIKS et. al.	Arbitration	Damages due to breach of Intellectual Property of contract
Docket No.582-01-1618 Mustang Water Supply Corporation vs. Little Elm, Texas	Texas Natural Resource Conservation Commission	CCN application - Ability to serve
Docket No. 2000-0817-UCR SOAH Docket No. 582-01-0802 Sun Communities, Inc. vs. Maxwell Water Supply Corporation	Texas Natural Resource Conservation Commission	Breach of contract, cost of service and rate design
Fort Worth Independent School District vs. City of Fort Worth	348 th Judicial District Tarrant County, Texas	Valuation of Easements, Rebuttal testimony
San Antonio Zoo vs. Edwards Aquifer Authority	Texas Natural Resource Conservation Commission	Permitted annual allotment of water from Edwards Aquifer
Docket No. 2001-1583-UCR Docket No. 582-02-2470 City of McAllen v. Hidalgo County WCID #3	Texas Commission on Environmental Quality	Public Interest
Docket No. 2001-1220-DIS Docket No. 582-02-2664 Platinum Ocean v. Montgomery County, MUD No. 15	Texas Commission on Environmental Quality	Stand-by fees
Docket No. 2001-1298-UCR Docket No. 582-02-1255 East Medina Valley SUD v. Old Hwy 90 WSC	Texas Commission on Environmental Quality	CCN Application

Exhibit Stowe R-B
JACK E. STOWE, JR.
EXPERT WITNESS RESUME
(continued)

CASE	JURISDICTION	TOPIC
Cause No. 200115173 Seabrook Partners LTD v. City of Seabrook	215th Judicial District Court Harris County, Texas	Damage Calculations
City of Uvalde vs. Edwards Aquifer Authority	Texas Commission on Environmental Quality	Permitted annual acre-feet of water from Edwards Aquifer
Clarksville City vs. City of Gladewater TCEQ Docket No. 2002-1260-UCR Docket No. 582-03-1252	Texas Commission on Environmental Quality	Incremental cost to serve and capacity constraints water and wastewater
Canyon Regional Water Authority and Bexar Metropolitan Water District vs. Guadalupe Blanco River Authority SOAH Docket No. 2002-1400-UCR TCEQ Docket No. 582-03-1991	Texas Commission on Environmental Quality	Public Interest
City of Garland Transmission Cost of Service Rate Application PUCT Docket No. 28090	Public Utility Commission of Texas	Transmission Cost of Service Rate Application
Bill Burch and International Mercantile Incorporated vs. Nextel Communications	Arbitration Tarrant County, Texas	Breach of contract
GUD No. 9400 – Statement of Intent filed by TXU Gas Company to Change Rates	Railroad Commission of Texas	Rate Design
Docket No. 2003-0153-UCR; Appeal of Tall Timbers Utility Company, Inc. to review the Rate Making Actions of the City of Tyler	Texas Commission on Environmental Quality	Retail Wastewater Cost of Service, Rate Design, and Cost Allocation
Docket Nos. 2001-1300-UCR, 2001-0813-UCR, 2002-1278-UCR, & 2002-1281-UCR Cities of McKinney, Melissa, and Anna vs. North Collin Water Supply Corporation	Texas Commission on Environmental Quality	CCN Application – Ability to Provide Service
Application of Denton Municipal Electric to Change Rates for Wholesale Transmission Service, PUCT Docket No. 30358	Public Utility Commission of Texas	Transmission Cost of Service Rate Application
Application of San Antonio City Public Service to Change Rates for Wholesale Transmission Service, PUCT Docket No. 28475	Public Utility Commission of Texas	Transmission Cost of Service Rate Application
Application of City of Garland for Update of Wholesale Transmission Rates Pursuant to PUC Subst. R 25.192(g)(1), PUCT Docket No. 31617	Public Utility Commission of Texas	Interim Transmission Cost of Service Rate Application
Docket Nos. 582-05-7095 and 582-05-7096; Application of the City of Leander to Amend Certificate of Convenience and Necessity No. 10302 and Sewer CCN No. 20626	Texas Commission on Environmental Quality	CCN Application – Ability to Provide Service
Docket No. 582-06-0968; Application from the City of Shenandoah to Obtain Water and Sewer Certificates of Convenience and Necessity in Montgomery County. Applications Nos. 34997- C and 34998-C.	Texas Commission on Environmental Quality	CCN Application – Ability to Provide Service
Petition for Review of Municipal Actions Regarding ATMOS Energy Corp., Mid-Texas Division's Annual Gas Reliability Infrastructure Program Rate Adjustment, GUD Docket Nos. 9598, 9599, 9603	Railroad Commission of Texas	Gas Reliability Infrastructure Program

Exhibit Stowe R-B
JACK E. STOWE, JR.
EXPERT WITNESS RESUME
(continued)

CASE	JURISDICTION	TOPIC
Cease and Desist Petition of Wax Mid, Inc. against the City of Midlothian, SOAH Docket No 582-06-2332, TCEQ Docket No. 2006-0487-UCR	Texas Commission on Environmental Quality	Response to Cease and Desist Motion
Woodcreek Ratepayers' Coalition Petition to Appeal the City of Woodcreek's Decision to Establish Water and Sewer Rates Charged by Aqua Utilities, SOAH Docket No. 582-06-1366, TCEQ Docket No 2006-0072-UCR	Texas Commission on Environmental Quality	Cost of Service, Revenue Requirements, Cost Allocation, Rate Design
Application of the Town of Lindsay to Amend Water and Sewer Certificates of Convenience and Necessity Nos. 13025 and 20927, SOAH Docket No. 582-06-2023, TCEQ Docket No. 2006-0272-UCR	Texas Commission on Environmental Quality	CCN Application – Ability to Provide Service
Petition of BHP Water Supply Corporation Appealing the Wholesale Water Rate Increase of Royse City, Texas and Request for Interim Rates, SOAH Docket No. 582-07-2049, TCEQ Docket No. 2007-0238-UCR	Texas Commission on Environmental Quality	Public Interest
The Bank of New York Mellon, Financial Guaranty Insurance Company, and Syncora Guarantee Inc. (f/k/a XL Capital Assurance, Inc.) v. Jefferson County, Alabama, Civil Action File No. CV-08-P-1703-S	U.S. District Court, Northern District of Alabama, Southern Division	Just and Reasonable Rates, Affordability
Application of Mustang Special Utility District to Decertify a Portion of Sewer Certificate of Convenience and Necessity No. 20867 From AquaSource Development, Inc. DBA Aqua Texas Inc., and to Amend Sewer CCN No. 20930 In Denton County, Texas, Application No. 35709-C, SOAH Docket No. 582-08-1318, TCEQ Docket No. 2007-1956-UCR	Texas Commission on Environmental Quality	CCN Application – Ability to Provide Service
Appeal of the Retail Water and Wastewater Rates of the Lower Colorado River Authority, SOAH Docket No. 582-08-2863, TCEQ Docket No. 2008-0093-UCR	Texas Commission on Environmental Quality	Choice of Test Year, Revenue Requirements, Indirect Cost Determination, Cost Allocation, Affiliated Transactions
Appeal of Navarro County Wholesale Ratepayers to Review the Wholesale Rate Increase Imposed by the City of Corsicana SOAH Docket No. 582-10-1977 TCEQ Docket No. 2009-1925-UCR	Texas Commission on Environmental Quality	Public Interest
Petition to Revoke CCN No. 20694 from Tall Timbers Utility Company, Inc. in Smith County SOAH Docket No. 582-10-1923 TCEQ Docket No. 2009-2064-UCR	Texas Commission on Environmental Quality	Capacity Fees
Application of Texas-New Mexico Power Company for Authority to Change Rates, PUCT Docket No: 36025	Public Utility Commission of Texas	Accounting Issues, Transmission Cost of Service, Functionalization, Consolidated Tax Savings Adjustment, Hurricane Ike Cost Recovery
Application of City of Garland to Change Rates for Wholesale Transmission Service, PUCT Docket No. 36439	Public Utility Commission of Texas	Transmission Cost of Service Rate Application

Exhibit Stowe R-B
JACK E. STOWE, JR.
EXPERT WITNESS RESUME
(continued)

CASE	JURISDICTION	TOPIC
Cause No. D-1-GV-09-001199 City of Garland, Texas v. Public Utility Commission of Texas	200th Judicial District Court Travis County, Texas	Damage Calculation
Application of City of Garland to Change Rates for Wholesale Transmission Service, PUCT Docket No. 38709	Public Utility Commission of Texas	Transmission Cost of Service Rate Application
Application of Upper Trinity Regional Water District for Water Use Permit No. 5821, SOAH Docket No. 582-12-5232; TCEQ Docket No. 2012-0065-WR	Texas Commission on Environmental Quality	Economic and Rate Impact of Granting Water Use Permit Relating to Lake Ralph Hall
Joint Petition of Citizens Water of Westfield, LLC, Citizens Wastewater of Westfield, LLC and the City of Westfield, Indiana for approvals in connection with the proposed transfer of certain Water Utility Assets to Citizens Water of Westfield, LLC and the proposed transfer of certain Wastewater Utility Assets to Citizens Wastewater of Westfield, LLC, Cause No. 44273	Indiana Regulatory Commission	Calculation of Investor Supplied Capital
Application of North Texas Municipal Water District for Water Use Permit No. 12151, SOAH Docket No. 582-15-0690; TCEQ Docket No. 2014-0913-WR	Texas Commission on Environmental Quality	Economic and Rate Impact of Granting Water Use Permit Relating to Lower Bois d'Arc Creek Reservoir
Cause No. 2011-60876-393 for the Transfer of Providence Village WCID Facilities and CCN per Contract.	Texas Commission on Environmental Quality	Economic, Public Benefit and Rate Impact of Granting Water Use Permit
Application 35930 of City of Heath to Amend and Decertify a Portion of RCH WSC CCN	Texas Commission on Environmental Quality	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Tall Timbers Utility Company's CCN within the City Service Area of Tyler under PUC Docket No. 42893	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Green Valley SUD CCN within the City Limits of Cibolo under PUC Docket No. 45702	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Aqua Texas CCN within the City of Ft. Worth Service Area under PUC Docket Nos. 45244	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Aqua Texas CCN within the Mustang SUD Boundaries under PUC Docket Nos. 45450 and 45462	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Mustang SUD CCN within the City of Aubrey Service Area under PUC Docket Nos. 45106 and 45107	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Mustang SUD CCN within the City Limits of Celina under PUC Docket No. 45151	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets

Exhibit Stowe R-B

JACK E. STOWE, JR.

EXPERT WITNESS RESUME

(continued)

CASE	JURISDICTION	TOPIC
Valuation Pursuant to Petition for the Decertification of Green Valley SUD CCN within the City Limits of Schertz under PUC Docket No. 45956	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Valuation Pursuant to Petition for the Decertification of Mountain Peak SUD CCN within the City Limits of Midlothian under PUC Docket No. 44394	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
Professional Review of Ker-Seva LTD., ADC West Ridge L.P., and Center for Housing Resources, Inc. Filed Complaint Against the City of Frisco under PUC Docket No. 45870	Public Utility Commission of Texas	Litigation Support and Review of Procedural Compliance with CCN Holder's Duty to Serve
Valuation Pursuant to Petition for the Decertification of Forney Lake WSC CCN within the Service Area of City of Heath under PUC Docket No. 44541	Public Utility Commission of Texas	Litigation Support and Valuation of Any Related Assets
City of Lampasas Notice of Intent to protect water service to area decertified from Kempner Water Supply Corporation in Lampasas Court. Docket No. 46140	Public Utility Commission of Texas	Identification of property rendered useless or valueless and valuation of same due to decertification

DOCKET NO. 45956

RECEIVED

APPLICATION OF THE CITY OF §
 SCHERTZ 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 §

2016 JUL 15 PM 2: 26
 PUBLIC UTILITY COMMISSION
 PUBLIC UTILITY COMMISSION
 FILING CLERK
 OF TEXAS

CITY OF SCHERTZ'S APPRAISAL

COMES NOW, the City of Schertz and files this its Appraisal pursuant to Tex. Water Code § 13.255(l) and 16 Tex. Admin. Code § 24.120(m). According to the Administrative Law Judge's Order No. 3 in this matter, the City's Appraisal is to be filed by July 15, 2016. This Appraisal is timely filed. As noted in the Appraisal, there is no Green Valley Special Utility District ("District") property that will be rendered useless and valueless as a result of the decertification of this portion of the District's sewer certificate of convenience and necessity No. 20973, or the provision of wastewater service by the City to the area in question. Thus, no determination of monetary compensation is necessary under the Texas Water Code § 13.255 or Commission rule 16 Tex. Admin. Code § 24.120. However, in the event that there are legal and professional fees associated with property that will be rendered useless and valueless (of which there is none), then compensation for the reimbursement of **reasonable** legal and professional fees may be appropriate.

CITY OF SCHERTZ'S APPRAISAL
 7131825.1

CERTIFIED TO BE A TRUE AND CORRECT
 COPY OF THE ORIGINAL ON FILE WITH THE
 PUBLIC UTILITY COMMISSION OF TEXAS
 CENTRAL RECORDS DIVISION

BY: *Debra Medina*

DATE: 11-14-16

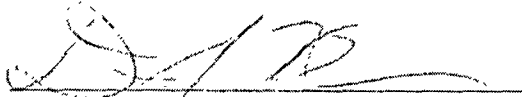
62



Respectfully submitted,

**LLOYD GOSSELINK ROCHELLE &
TOWNSEND, P.C.**

816 Congress Avenue, Suite 1900
Austin, Texas 78701
(512) 322-5800
(512) 472-0532 (Fax)



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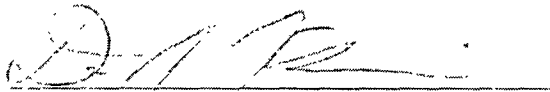
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ATTORNEYS FOR THE CITY OF SCHERTZ

CERTIFICATE OF SERVICE

I hereby certify that a true and correct copy of the foregoing document was transmitted by fax, hand-delivery and/or regular, first class mail on this 15th day of July, 2016 to the parties of record.


David J. Klein



Strategies & Solutions

3420 Executive Center Drive
Suite 165
Austin, TX 78731
Phone: (512) 479-7900
Fax: (512) 479-7905

July 15, 2016

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

Subject: Appraisal of Green Valley Special Utility District (GVSUD) in support of the City of Schertz's Application under 13.255 for Single Certification

Dear Mr. Klein:

I have completed my review of the area, which is the subject of the City of Schertz's Certificate of Convenience and Necessity ("CCN") application under Chapter 13.255 of the Texas Water Code for wastewater single certification, Public Utility Commission Docket No. 45956. Based on our understanding, per Public Utility Commission ("PUC") Substantive Rule § 24.120 (formally TCEQ Rule 291.120 which was migrated to the PUC with the change in jurisdiction), the City of Schertz ("City") must make a determination of the monetary amount of compensation due to Green Valley Special Utility District ("GVSUD") for the decertified area now that the City has applied for single certification in City's incorporated area and to decertify portions of GVSUD's sewer CCN in said area.

Specifically, Substantive Rule § 24.120, Paragraph c states:

"The commission shall grant single certification to the municipality. The Commission shall also determine whether single certification as requested by the municipality would result in property of a retail public utility **being rendered useless or valueless** to the retail public utility, and shall determine in its order the monetary amount that is adequate and just to compensate the retail public utility for such property." (emphasis added)

In performing this analysis, I must first determine if there is any property that has been rendered useless and valueless as a result of the decertification in PUC Docket No. 45956. In the event this determination finds such property, then compensation must be determined under Substantive Rule § 24.120(g).

At the time of the issuance of my report the City had yet to receive responses to the City's discovery request which had been served on GVSUD. As such in performing my analysis I have reviewed and relied on the GVSUD responses to the City of Cibolo's request for Admissions and request for information in Docket No. 45702, filed at the PUC on June 20, 2016. Docket No. 45702 is an application filed by the City of Cibolo under section 13.255 of the Texas Water Code, seeking wastewater single CCN certification – also decertifying a portion of GVSUD's sewer CCN No. 20973.

Based on my review of the available documentation, I present the following findings:

- Based on available documentation, there are no sewer customers within the area in question (See GVSUD response to City of Cibolo's RFA 1-1). GVSUD's response to RFA 1-1 admits that GVSUD **does not have any wastewater customers throughout their sewer CCN**;
- Based on the review of available documentation, I have found no evidence of plans in place and/or funding committed related to GVSUD's provision of service to the area in question. GVSUD maintains

Mr. David Klein
 July 15, 2016
 Page 2

that the subject area is incorporated in the historic Wastewater Master Plan as well as the current wastewater system design contract, both of which are based upon GVSUD's total CCN area which encompasses 76,000 (+) acres. The area subject to the City's application is only approximately 405 acres which, if excluded, would have no or little impact and would not render these planning/design documents "useless or valueless". While GVSUD has argued that their outstanding water related debt issues to the TWDB and USDA constitute debt outstanding against the "to be built" wastewater system. The USDA's responses to lien request verification letters submitted by GVSUD clearly demonstrate that these agencies have no lien on the non-existent wastewater revenues of GVSUD.

- My analysis has also discovered that the wastewater property owned at this time by GVSUD only includes a parcel of land (approximately 65 acres) purchased to serve as the site of the yet to be built wastewater treatment plant. Further, CCMA having been designated as the Regional Entity to provide wastewater treatment to the City of Schertz would exclude treatment service at this site even if a wastewater treatment plant were constructed by GVSUD (See Attachment A). This Regional designation of CCMA specifically states,

"All future permits and amendments to existing permits pertaining to discharges of domestic wastewater effluent within the Cibolo Creek regional area shall be issued only to the Authority"

- My review has also established that GVSUD has not obtained the Commission's approved final TPDES discharge permit, and the permit application is currently being contested.
- In addition, my review has established that GVSUD is subject to the Local Government Code, Title 12, Subtitle C Chapter 395 which, at this time, prohibits GVSUD from assessing and collecting any "Capital Recovery or Impact Fees" related to the non-existent waste water facilities due to the fact that GVSUD has failed to properly establish Impact Fees in accordance with the statute.

Conclusion

Based upon the above findings, and in compliance with PUC Substantive Rule § 24.120(c), it is my conclusion that there is no property that will be rendered useless and valueless as a result of decertification by the PUC and the provision of service by the City to the area in question. As such, no determination of monetary compensation is necessary under the rules.

However, if a monetary compensation determination were to be made, it is my opinion that the compensation to be provided is \$0.00 based on the following:

- There are no facilities in the area in question;
- There is no debt that has been used to fund facilities to serve the area in question;
- GVSUD has not demonstrated the expenditure of any funds associated with planning, designing, or constructing facilities specifically associated with the area in question;
- To my knowledge, GVSUD has no contractual obligations associated with the area in question;
- Given that GVSUD does not currently incur cost associated with the area, have facilities within the area, and off-site assets consist only of a 65 acre of land to be used for the wastewater treatment plant, assuming a discharge permit is issued and a plant is constructed, there is no demonstrated impairment or foreseeable cost increases to customers since there are NO existing wastewater customers;
- As noted above, the Cibolo Creek Municipal Authority (CCMA) has been designated as the governmental entity to provide the regional sewer treatment service in the Schertz Creek watershed,

Mr. David Klein
July 15, 2016
Page 3

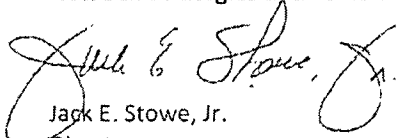
in the vicinity of the cities of Cibolo, Schertz, Universal City, Selma, Bracken, and Randolph Air Force Base under TAC 30 Part 1 Chapter 351 Subchapter F, Rule 351.62 (attachment A page 1). Further under Rule 351.65 of this statute any permits and/or amendments to existing permits pertaining to discharges of domestic wastewater effluent within the Cibolo Creek regional area shall be issued only to the Authority (Attachment A page 2). Therefore, even if GVSUD were able to survive the challenges to its pending permit application no costs of the to be built treatment plant should be allocable to the City of Schertz which is currently receiving wastewater treatment service from the CCMA.

- Given that there are no customers in the area in question or within the GVSUD CCN for that matter, GVSUD will not experience a loss in revenues associated with the loss of the area in question; and,
- I am not aware, at this time, of any legal or professional fees incurred by GVSUD associated with the decertification of the area in question. I would merely point out that Rule 24.120 (g) provides for the reimbursement of **reasonable legal and professional fees**.

Due to the fact that I have yet to receive and review GVSUD's responses to discovery requests in this proceeding, I wish to reserve the right to amend my opinion, if upon receipt of discovery responses, I obtain new information which would impact my opinion. After review of this Letter Report, if you have any questions or require additional information, please feel free to contact Mr. Jack Stowe at jstowe@newgenstrategies.net or call 512.479.7900.

Sincerely,

NewGen Strategies and Solutions, LLC


Jack E. Stowe, Jr.
Director

6/28/2015

Texas Administrative Code

Attachment'A

[<<Prev Rule](#)[Next Rule>>](#)

Texas Administrative Code

[TITLE 30](#)

ENVIRONMENTAL QUALITY

[PART 1](#)

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

[CHAPTER 351](#)

REGIONALIZATION

[SUBCHAPTER F](#)

CIBOLO CREEK

[RULE §351.62](#)

Designation of Regional Entity

The Cibolo Creek Municipal Authority is designated the governmental entity to develop a regional sewerage system in that area of Cibolo Creek Watershed, in the vicinity of the cities of Cibolo, Schertz, Universal City, Selma, Bracken, and Randolph Air Force Base.

Source Note: The provisions of this §351.62 adopted to be effective February 24, 1978, 3 TexReg 595.

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6/28/2016

Texas Administrative Code

Attachment A

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Texas Administrative Code

[TITLE 30](#)

ENVIRONMENTAL QUALITY

[PART 1](#)

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

[CHAPTER 351](#)

REGIONALIZATION

[SUBCHAPTER F](#)

CIBOLO CREEK

[RULE §351.65](#)

Issuance of Permits

All future permits and amendments to existing permits pertaining to discharges of domestic wastewater effluent within the Cibolo Creek regional area shall be issued only to the authority.

Source Note: The provisions of this §351.65 adopted to be effective February 24, 1978, 3 TexReg 595.

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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

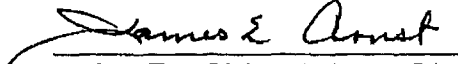
and all of said persons were present except Dietert, thus constituting a quorum. Whereupon among other business, the following was transacted at the meeting;

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

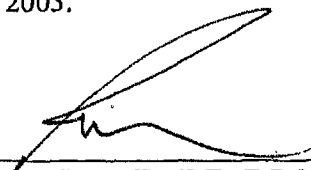
was introduced for the consideration of the Board. It was then duly moved and seconded that the ORDER be adopted; and, after due discussion, the motion, carrying with it the adoption of the ORDER, prevailed and carried unanimously.

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	REGISTER NO. _____
THE STATE OF TEXAS	X	

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.

Choose to begin paying in 2006
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.

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.

* * * * *



May 3, 2016

Mr. Geoffrey P. Kirshbaum
Terrill & Waldrop
810 West 10th Street
Austin, TX 78701

RE: PUC Docket No. 45702; Green Valley Special Utility District Water System Revenue Bonds, Series 2003

Dear Mr. Kirshbaum:

In response to your letter dated April 29, 2016 in regard to the outstanding debt obligation to the Agency, we note that Green Valley Special Utility District issued Bonds to the United States of America entitled "Green Valley Special Utility District Water System Revenue Bonds, Series 2003. These Bonds are payable solely from the revenues from the Issuer's Water System as described in the Bond Order, and no tax revenues shall ever be used to service the debt of the Bonds.

At present, the Agency has not taken any security against the SUD's sewer CCN No. 20973 service area.

If additional information is needed, please do not hesitate to contact this office at (830) 372-1043 extension 4.

Sincerely,

for:
JOE E. De OCHOA, III
Area Director

cc: Mr. Pat Allen, GM, GVSUD, Marion
Joe E. De Ochoa, III, Area Director, Uvalde
Community Programs Section, Temple

Rural Development

3251 N. Hwy 123 Bypass, Seguin Texas 78155
Voice (830) 372-1043 x 123 • Fax (844) 496-8091

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