



Control Number: 49842



Item Number: 1

Addendum StartPage: 0



Application to Obtain or Amend a Water or Sewer Certificate of Convenience and Necessity (CCN)

Pursuant to 16 Texas Administrative Code (TAC) Chapter 24, Substantive Rules Applicable to Water and Sewer
Service Providers, Subchapter G: Certificates of Convenience and Necessity

CCN Application Instructions

- I. **COMPLETE:** In order for the Commission to find the application sufficient for filing, you should be adhere to the following:
- Answer every question and submit all required attachments.
 - Use attachments or additional pages if needed to answer any question. If you use attachments or additional pages, reference their inclusion in the form.
 - Provide all mapping information as detailed in Part F: Mapping & Affidavits.
 - Provide any other necessary approvals from the Texas Commission on Environmental Quality (TCEQ), or evidence that a request for approval is being sought at the time of filing with the Commission.
- II. **FILE:** Seven (7) copies of the completed application with numbered attachments. One copy should be filed with no permanent binding, staples, tabs, or separators; and 7 copies of the portable electronic storage medium containing the digital mapping data.
- SEND TO:** Public Utility Commission of Texas, Attention: Filing Clerk, 1701 N. Congress Avenue, P.O. Box 13326, Austin, Texas 78711-3326 (NOTE: Electronic documents may be sent in advance of the paper copy; however, they will not be processed and added to the Commission's on-line Interchange until the paper copy is received and file-stamped in Central Records.)
- III. The application will be assigned a docket number, and an administrative law judge (ALJ) will issue an order requiring Commission Staff to file a recommendation on whether the application is sufficient. The ALJ will issue an order after Staff's recommendation has been filed:
- DEFICIENT (Administratively Incomplete):** Applicant will be ordered to provide information to cure the deficiencies by a certain date (usually 30 days from ALJ's order). **Application is not accepted for filing.**
 - SUFFICIENT (Administratively Complete):** Applicant will be ordered by the ALJ to give appropriate notice of the application using the notice prepared by Commission Staff. **Application is accepted for filing.**
- IV. Once the Applicant issues notice, a copy of the actual notice sent (including any map) and an affidavit attesting to notice should be filed in the docket assigned to the application. Recipients of notice may choose to take one of the following actions:
- HEARING ON THE MERITS:** an affected party may request a hearing on the application. The request must be made within 30 days of notice. If this occurs, the application may be referred to the State Office of Administrative Hearings (SOAH) to complete this request.
 - LANDOWNER OPT-OUT:** A landowner owning a qualifying tract of land (25+ acres) may request to have their land removed from the requested area. The Applicant will be requested to amend its application and file new mapping information to remove the landowner's tract of land, in conformity with this request.
- V. **PROCEDURAL SCHEDULE:** Following the issuance of notice and the filing of proof of notice in step 4, the application will be granted a procedural schedule for final processing. During this time the Applicant must respond to hearing requests, landowner opt-out requests, and requests for information (RFI). The Applicant will be requested to provide written consent to the proposed maps, certificates, and tariff (if applicable) once all other requests have been resolved.
- VI. **FINAL RECOMMENDATION:** After receiving all required documents from the Applicant, Staff will file a recommendation on the CCN request. The ALJ will issue a final order after Staff's recommendation is filed.

FAQ:

Who can use this form?

Any retail public utility that provides or intends to provide retail water or wastewater utility service in Texas.

Who is required to use this form?

A retail public utility that is an investor owned utility (IOU) or a water supply corporation (WSC) must use this form to obtain or amend a CCN prior to providing retail water or sewer utility service in the requested area.

What is the purpose of the application?

A CCN Applicant is required to demonstrate financial, managerial, and technical (FMT) capability to provide continuous and adequate service to any requested area. The questions in the application are structured to support an Applicant's FMT capabilities, consistent with the regulatory requirements.

Application Summary

Applicant: City of Schertz

CCN No. to be amended: 10645

or

☐

Obtain NEW CCN

☒

Water

☐

Sewer

County(ies) affected by this application: Guadalupe

Dual CCN requested with: N/A

CCN No.: N/A

(name of retail public utility)

☐

Portion or ☐ All of requested area

Decertification of CCN for: N/A

CCN No.: N/A

(name of retail public utility)

☐

Portion or ☐ All of requested area

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Please mark the items included in this filing

<input type="checkbox"/> Partnership Agreement	Part A: Question 4
<input type="checkbox"/> Articles of Incorporation and By-Laws (WSC)	Part A: Question 4
<input type="checkbox"/> Certificate of Account Status	Part A: Question 4
<input type="checkbox"/> Franchise, Permit, or Consent letter	Part B: Question 7
<input checked="" type="checkbox"/> Existing Infrastructure Map	Part B: Question 8
<input checked="" type="checkbox"/> Customer Requests For Service in requested area	Part B: Question 9
<input type="checkbox"/> Population Growth Report or Market Study	Part B: Question 10
<input type="checkbox"/> TCEQ Engineering Approvals	Part B: Question 11
<input type="checkbox"/> Requests & Responses For Service to ½ mile utility providers	Part B: Question 12.B
<input type="checkbox"/> Economic Feasibility (alternative provider) Statement	Part B: Question 12.C
<input type="checkbox"/> Alternative Provider Analysis	Part B: Question 12.D
<input type="checkbox"/> Enforcement Action Correspondence	Part C: Question 16
<input checked="" type="checkbox"/> TCEQ Compliance Correspondence	Part D: Question 20
<input checked="" type="checkbox"/> Purchased Water Supply or Treatment Agreement	Part D: Question 23
<input type="checkbox"/> Rate Study (new market entrant)	Part E: Question 28
<input checked="" type="checkbox"/> Tariff/Rate Schedule	Part E: Question 29
<input checked="" type="checkbox"/> Financial Audit	Part E: Question 30
<input type="checkbox"/> Application Attachment A & B	Part E: Question 30
<input checked="" type="checkbox"/> Capital Improvement Plan	Part E: Question 30
<input type="checkbox"/> Disclosure of Affiliated Interests	Part E: Question 31
<input checked="" type="checkbox"/> Detailed (large scale) Map	Part F: Question 32
<input checked="" type="checkbox"/> General Location (small scale) Map	Part F: Question 32
<input type="checkbox"/> Digital Mapping Data	Part F: Question 32
<input checked="" type="checkbox"/> Signed & Notarized Affidavit	Page 12

Part A: Applicant Information

1. A. Name: City of Schertz
(individual, corporation, or other legal entity)
☐ Individual ☐ Corporation ☐ WSC ☒ Other: Municipality
- B. Mailing Address: 10 Commercial Place Bldg #2
Schertz, Texas 78154
Phone No.: (210) 619-1800 Email: jhooks@schertz.com
- C. Contact Person. Please provide information about the person to be contacted regarding this application. Indicate if this person is the owner, operator, engineer, attorney, accountant, or other title.
Name: James A. Hooks Title: Water/Wastewater Manager
Mailing Address: 10 Commercial Place Bldg #2
Phone No.: (210) 619-1800 Email: jhooks@schertz.com
2. If the Applicant is someone other than a municipality, is the Applicant currently paid in full on the Regulatory Assessment Fees (RAF) remitted to the TCEQ?
☐ Yes ☐ No ☒ N/A
3. If the Applicant is an Investor Owned Utility (IOU), is the Applicant current on Annual Report filings with the Commission?
☐ Yes ☐ No If no, please state the last date an Annual Report was filed: _____
4. The legal status of the Applicant is:
☐ Individual or sole proprietorship
☐ Partnership or limited partnership (*attach* Partnership agreement)
☐ Corporation: Charter number (recorded with the Texas Secretary of State): _____
☐ Non-profit, member-owned, member controlled Cooperative Corporation [Article 1434(a) Water Supply or Sewer Service Corporation, incorporated under TWC Chapter 67]
Charter number (as recorded with the Texas Secretary of State): _____
☐ Articles of Incorporation and By-Laws established (*attach*)
☒ Municipally-owned utility
☐ District (MUD, SUD, WCID, FWSD, PUD, etc.)
☐ County
☐ Affected County (a county to which Subchapter B, Chapter 232, Local Government Code, applies)
☐ Other (please explain): _____
5. If the Applicant operates under an assumed name (i.e., any d/b/a), provide the name below:
Name: City of Schertz

Part B: Requested Area Information

6. Provide details on the existing or expected land use in the requested area, including details on requested actions such as dual certification or decertification of service area.

Tracts of land within the Schertz city limits in no ones CCN that needs to be served for a future development. The City of Schertz requests these tracts of land be added to CCN # 10645.

7. The requested area (check all applicable):

- ☐ Currently receives service from the Applicant ☒ Is being developed with no current customers
☐ Overlaps or is within municipal boundaries ☐ Overlaps or is within district boundaries

Municipality: City of Schertz District: _____

Provide a copy of any franchise, permit, or consent granted by the city or district. If not available please explain:

N/A

8. Describe the circumstances (economic, environmental, etc.) driving the need for service in the requested area:

Property is attempting to be developed and needs to be served with Water and Sewer as well as fire protection within the development.

9. Has the Applicant received any requests for service within the requested area?

☒ Yes* ☐ No *Attach copies of all applicable requests for service and show locations on a map

10. Is there existing or anticipated growth in the requested area? NO Studies

☒ Yes* ☐ No *Attach copies of any reports and market studies supporting growth

11. A. Will construction of any facilities be necessary to provide service to the requested area?

☐ Yes* ☒ No *Attach copies of TCEQ approval letters

B. Date Plans & Specifications or Discharge Permit App. submitted to TCEQ: N/A, No construction of facilities needed.

C. Summarize an estimated timeline for construction for any required facilities to serve the requested area:

Water and Sewer is available adjacent to the property. Service connections will be required to provide service. Once CCN is approved the City will install water and wastewater services to the tract upon building permit.

D. Describe the source and availability of funds for any required facilities to serve the requested area:

Funding for the service lines to the property will be funded by the property owner or developer.

Note: Failure to provide applicable TCEQ construction or permit approvals, or evidence showing that the construction or permit approval has been filed with the TCEQ may result in the delay or possible dismissal of the application.

12. A. If construction of a physically separate water or sewer system is necessary, provide a list of all retail public water and/or sewer utilities within one half mile from the outer boundary of the requested area below:

N/A, Water and Sewer mains are available adjacent to the tract, service lines will be required to connect.

B. Did the Applicant request service from each of the above water or sewer utilities?

☐ Yes* ☒ No

*Attach copies of written requests and copies of the written response

C. Attach a statement or provide documentation explaining why it is not economically feasible to obtain retail service from the water or sewer retail public utilities listed above.

D. If a neighboring retail public utility agreed to provide service to the requested area, attach documentation addressing the following information:

- (A) A description of the type of service that the neighboring retail public utility is willing to provide and comparison with service the applicant is proposing;
- (B) An analysis of all necessary costs for constructing, operating, and maintaining the new facilities for at least the first five years of operations, including such items as taxes and insurance; and
- (C) An analysis of all necessary costs for acquiring and continuing to receive service from the neighboring retail public utility for at least the first five years of operations.

13. Explain the effect of granting the CCN request on the Applicant, any retail public utility of the same kind serving in the proximate area, and any landowners in the requested area. The statement should address, but is not limited to, regionalization, compliance, and economic effects.

The City of Schertz request to include these tracts of land in the Cities CCN. These tracts lie within the City limits of Schertz and the City has the only utility lines adjacent to the properties. The City of Schertz provides potable water and wastewater collection in this area. Cibolo Creek Municipal Authority provides treatment of wastewater for the region.

Part C: CCN Obtain or Amend Criteria Considerations

14. Describe the anticipated impact and changes in the quality of retail utility service for the requested area:

There will be no impact or change of quality of retail utility service.

15. Describe the experience and qualifications of the Applicant in providing continuous and adequate retail service:

The City of Schertz operates a Superior Public Water system and has adequate pressure and capacity to serve these tracts of land. The City has adequate certified professionals certified by TCEQ to operate our Utility system.

16. Has the Applicant been under an enforcement action by the Commission, TCEQ, Texas Department of Health (TDH), the Office of the Attorney General (OAG), or the Environmental Protection Agency (EPA) in the past five (5) years for non-compliance with rules, orders, or state statutes?

☐ Yes* ☒ No

*Attach copies of any correspondence with the applicable regulatory agency concerning any enforcement actions, and attach a description of any actions or efforts the Applicant has taken to comply with these requirements.

17. Explain how the environmental integrity of the land will or will not be impacted or disrupted as a result of granting the CCN as requested:

The sites will be developed using best management practices to ensure the development will not impact the environment. Development standards will be followed in the development, to include detention ponds, BMP's, and other systems designed to protect the environment.

18. Has the Applicant made efforts to extend retail water or sewer utility service to any economically distressed area located within the requested area?

N/A

19. List all neighboring water or sewer retail public utilities, cities, districts (including ground water conservation districts), counties, or other political subdivisions (including river authorities) providing the same service located within two (2) miles from the outer boundary of the requested area:

City of Schertz #10645 (Water) City of Cibolo #11903 Green Valley SUD #10646
 City of Schertz #20271 (Sewer)
 City of Universal City #10674
 Cibolo Creek Municipal Authority (Sewer Treatment)

Part D: TCEQ Public Water System or Sewer (Wastewater) Information

20. A. Complete the following for all Public Water Systems (PWS) associated with the Applicant's CCN:

TCEQ PWS ID:	Name of PWS:	Date of TCEQ inspection*:	Subdivisions served:
0940003	City of Schertz	4/3/2019	All Subdivisions in City limits

*Attach evidence of compliance with TCEQ for each PWS

- B. Complete the following for all TCEQ Water Quality (WQ) discharge permits associated with the Applicant's CCN:

TCEQ Discharge Permit No:	Date Permit expires:	Date of TCEQ inspection*:	Subdivisions served:
WQ-			
WQ-			
WQ-			
WQ-			

*Attach evidence of compliance with TCEQ for each Discharge Permit

- C. The requested CCN service area will be served via: PWS ID: 0940003
WQ -

21. List the number of existing connections for the PWS & Discharge Permit indicated above (Question 20. C.):

Water				Sewer	
	Non-metered	85	2"	12,650	Residential
14,168	5/8" or 3/4"	18	3"	450	Commercial
249	1"	9	4"	0	Industrial
7	1 1/2"	212	Other	0	Other
Total Water Connections:		14,748		Total Sewer Connections: 13,100	

22. List the number of additional connections projected for the requested CCN area:

Water				Sewer	
	Non-metered		2"		Residential
	5/8" or 3/4"		3"		Commercial
	1"		4"		Industrial
	1 1/2"		Other		Other
Total Water Connections:		Unknown		Total Sewer Connections: Unknown	

23. A. Will the system serving the requested area purchase water or sewer treatment capacity from another source?

☒ Yes*

☐ No

*Attach a copy of purchase agreement or contract.

Capacity is purchased from:

Water: Schertz-Seguin Local Government Corporation

Sewer: Cibolo Creek Municipal Authority

B. Are any of the Applicants PWS's required to purchase water to meet the TCEQ's minimum capacity requirements or TCEQ's drinking water standards?

☐ Yes

☒ No

C. What is the amount of supply or treatment purchased, per the agreement or contract? What is the percent of overall demand supplied by purchased water or sewer treatment (if any)?

	Amount in Gallons	Percent of demand
Water:		100%
Sewer:		0%

24. Does the PWS or sewer treatment plant have adequate capacity to meet the current and projected demands in the requested area?

☒ Yes

☐ No

25. List the name, class, and TCEQ license number of the operators that will be responsible for the operations of the water or sewer utility service provided to the requested area:

Name (as it appears on license)	Class	License No.	Water/Sewer
See attached form			

26. A. Are any improvements required for the existing PWS or sewer treatment plant to meet TCEQ or Commission standards?

☐ Yes

☒ No

B. Provide details on each required major capital improvement necessary to correct deficiencies to meet the TCEQ or Commission standards (attach any engineering reports or TCEQ approval letters):

Description of the Capital Improvement:	Estimated Completion Date:	Estimated Cost:

27. Provide a map (or maps) showing all facilities for production, transmission, and distribution, and the location of existing or proposed customer connections, in the requested area. Facilities should be identified on subdivision plats, engineering planning maps, or other large scale maps. Color coding can be used, and is encouraged, to distinguish types of facilities.

Part E: Financial Information

28. If the Applicant seeking to obtain a CCN for the first time is an Investor Owned Utility (IOU) and under the original rate jurisdiction of the Commission, a proposed tariff must be attached to the application. The proposed rates must be supported by a rate study, which provides all calculations and assumptions made. Once a CCN is granted, the Applicant must submit a rate filing package with the Commission within 18 months from the date service begins. The purpose of this rate filing package is to revise a utility's tariff to adjust the rates to a historic test year and to true up the new tariff rates to the historic test year. It is the Applicant's responsibility in any future rate proceeding to provide written evidence and support for the original cost and installation date of all facilities used and useful for providing utility service. Any dollar amount collected under the rates charged during the test year in excess of the revenue requirement established by the Commission during the rate change proceeding shall be reflected as customer contributed capital going forward as an offset to rate base for ratemaking purposes.

29. If the Applicant is an existing IOU, please attach a copy of the current tariff and indicate:

A. Effective date for most recent rates: 10/1/2018

B. Was notice of this increase provided to the Commission or a predecessor regulatory authority?

☒ No ☐ Yes

Application or Docket Number: _____

C. If notice was not provided to the Commission, please explain why (ex: rates are under the jurisdiction of a municipality)

Rates are under the jurisdiction of the Municipality.

If the Applicant is a Water Supply or Sewer Service Corporation (WSC/SSC) and seeking to obtain a CCN, attach a copy of the current tariff.

30. **Financial Information**

Applicants must provide accounting information typically included within a balance sheet, income statement, and statement of cash flows. If the Applicant is an existing retail public utility, this must include historical financial information and projected financial information. However, projected financial information is only required if the Applicant proposes new service connections and new investment in plant, or if requested by Commission Staff. If the Applicant is a new market entrant and does not have its own historical balance sheet, income statement, and statement of cash flows information, then the Applicant should establish a five-year projection.

Historical Financial Information may be shown by providing any combination of the following that includes necessary information found in a balance sheet, income statement, and statement of cash flows:

1. Completed Appendix A;
2. Documentation that includes all of the information required in Appendix A in a concise format; or
3. Audited financial statements issued within 18 months of the application filing date. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

Projected Financial Information may be shown by providing any of the following:

1. Completed Appendix B;
2. Documentation that includes all of the information required in Appendix B in a concise format;
3. A detailed budget or capital improvement plan, which indicates sources and uses of funds required, including improvements to the system being transferred; or
4. A recent budget and capital improvements plan that includes information needed for analysis of the operations test for the system being transferred and any operations combined with the system. This may be provided electronically by providing a uniform resource locator (URL) or a link to a website portal.

31. Attach a disclosure of any affiliated interest or affiliate. Include a description of the business relationship between all affiliated interests and the Applicant.

DO NOT INCLUDE ATTACHMENTS A OR B IF LEFT BLANK

Part F: Mapping & Affidavits

32. Provide the following mapping information with each of the seven (7) copies of the application:
1. A general location (small scale) map identifying the requested area in reference to the nearest county boundary, city, or town. The Applicant should adhere to the following guidance:
 - i. If the application includes an amendment for both water and sewer certificated service areas, separate maps must be provided for each.
 - ii. A hand drawn map, graphic, or diagram of the requested area is not considered an acceptable mapping document.
 - iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
 2. A detailed (large scale) map identifying the requested area in reference to verifiable man-made or natural landmarks such as roads, rivers, and railroads. The Applicant should adhere to the following guidance:
 - i. The map should be clearly labeled and the outer boundary of the requested area should be marked in reference to the verifiable man-made or natural landmarks. These verifiable man-made and/or natural landmarks must be labeled and marked on the map as well.
 - ii. If the application includes an amendment for both water and sewer certificated service area, separate maps need to be provided for each.
 - iii. To maintain the integrity of the scale and quality of the map, copies must be exact duplicates of the original map. Therefore, copies of maps cannot be reduced or enlarged from the original map, or in black and white if the original map is in color.
 3. One of the following identifying the requested area:
 - i. A metes and bounds survey sealed or embossed by either a licensed state land surveyor or a registered professional land surveyor. Please refer to the mapping guidance in part 2 (above);

- ii. A recorded plat. If the plat does not provide sufficient detail, Staff may request additional mapping information. Please refer to the mapping guidance in part 2 (above); or
- iii. Digital mapping data in a shapefile (SHP) format georeferenced in either NAD 83 Texas State Plane Coordinate System (US Feet) or in NAD 83 Texas Statewide Mapping System (Meters). The digital mapping data shall include a single, continuous polygon record. The following guidance should be adhered to:
 - a. The digital mapping data must correspond to the same requested area as shown on the general location and detailed maps. The requested area must be clearly labeled as either the water or sewer requested area.
 - b. A shapefile should include six files (.dbf, .shp, .shx, .sbx, .sbn, and the projection (.prj) file).
 - c. The digital mapping data shall be filed on a data disk (CD or USB drives), clearly labeled, and filed with Central Records. Seven (7) copies of the digital mapping data is also required.

Part G: Notice Information

The following information will be used to generate the proposed notice for the application.
DO NOT provide notice until the application is deemed sufficient for filing and the Applicant is ordered to provide notice.

33. Complete the following using verifiable man-made and/or natural landmarks such as roads, rivers, or railroads to describe the requested area (to be stated in the notice documents). Measurements should be approximated from the outermost boundary of the requested area:

The total acreage of the requested area is approximately: 118

Number of customer connections in the requested area: 0

The closest city or town: Inside the City of Schertz City limits

Approximate mileage to closest city or town center: 0

Direction to closest city or town: N/A

The requested area is generally bounded on the North by: Maske Road

on the East by: Oak Street

on the South by: Windy Meadows Drive

on the West by: Hwy FM 1518

34. A copy of the proposed map will be available at Schertz Public Works

Applicant's Oath

STATE OF Texas

COUNTY OF Guadalupe

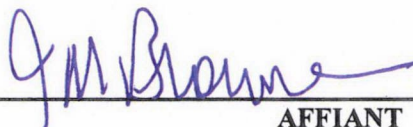
I, Mark Browne being duly sworn, file this application to
obtain or amend a water or sewer CCN, as City Manager

(owner, member of partnership, title as officer of corporation, or authorized representative)

I attest that, in such capacity, I am qualified and authorized to file and verify such application, am personally familiar with the documents filed with this application, and have complied with all the requirements contained in the application; and, that all such statements made and matters set forth therein with respect to Applicant are true and correct. Statements about other parties are made on information and belief. I further state that the application is made in good faith and that this application does not duplicate any filing presently before the Commission.

I further represent that the application form has not been changed, altered, or amended from its original form.

I further represent that the Applicant will provide continuous and adequate service to all customers and qualified applicants within its certificated service area should its request to obtain or amend its CCN be granted.



AFFIANT

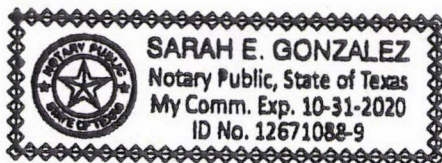
(Utility's Authorized Representative)

If the Affiant to this form is any person other than the sole owner, partner, officer of the Applicant, or its attorney, a properly verified Power of Attorney must be enclosed.

SUBSCRIBED AND SWORN BEFORE ME, a Notary Public in and for the State of Texas

this day the 30 of July, 20 19

SEAL



NOTARY PUBLIC IN AND FOR THE
STATE OF TEXAS

Sarah E. Gonzalez
PRINT OR TYPE NAME OF NOTARY

My commission expires:

10/31/2020

THE
FEDERAL
BUREAU OF
INVESTIGATION
OF THE
DEPARTMENT OF JUSTICE
WASHINGTON, D. C. 20535

Appendix A: Historical Financial Information (Balance Sheet and Income Schedule)

(Audited financial statements may be substituted for this schedule – see item 29 of the instructions)

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A – D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (E / G)						

DO NOT INCLUDE ATTACHMENTS A OR B IF LEFT BLANK

HISTORICAL NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc.)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

[illegible]

Appendix B: Projected Information

HISTORICAL BALANCE SHEETS (ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
CURRENT ASSETS						
Cash						
Accounts Receivable						
Inventories						
Income Tax Receivable						
Other						
A. Total Current Assets						
FIXED ASSETS						
Land						
Collection/Distribution System						
Buildings						
Equipment						
Other						
Less: Accum. Depreciation or Reserves						
B. Total Fixed Assets						
C. TOTAL Assets (A + B)						
CURRENT LIABILITIES						
Accounts Payable						
Notes Payable, Current						
Accrued Expenses						
Other						
D. Total Current Liabilities						
LONG TERM LIABILITIES						
Notes Payable, Long-term						
Other						
E. Total Long Term Liabilities						
F. TOTAL LIABILITIES (D + E)						
OWNER'S EQUITY						
Paid in Capital						
Retained Equity						
Other						
Current Period Profit or Loss						
G. TOTAL OWNER'S EQUITY						
TOTAL LIABILITIES+EQUITY (F + G) = C						
WORKING CAPITAL (A - D)						
CURRENT RATIO (A / D)						
DEBT TO EQUITY RATIO (F / G)						

PROJECTED NET INCOME INFORMATION

(ENTER DATE OF YEAR END)	CURRENT(A) (- -)	A-1 YEAR (- -)	A-2 YEAR (- -)	A-3 YEAR (- -)	A-4 YEAR (- -)	A-5 YEAR (- -)
METER NUMBER						
Existing Number of Taps						
New Taps Per Year						
Total Meters at Year End						
METER REVENUE						
Revenue per Meter (use for projections)						
Expense per Meter (use for projections)						
Operating Revenue Per Meter						
GROSS WATER REVENUE						
Revenues- Base Rate & Gallonage Fees						
Other (Tap, reconnect, transfer fees, etc.)						
Gross Income						
EXPENSES						
General & Administrative (see schedule)						
Operating (see schedule)						
Interest						
Other (list)						
NET INCOME						

PROJECTED EXPENSE DETAIL	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
GENERAL/ADMINISTRATIVE EXPENSES						
Salaries						
Office						
Computer						
Auto						
Insurance						
Telephone						
Utilities						
Depreciation						
Property Taxes						
Professional Fees						
Other						
Total						
% Increase Per projected Year	0%	0%	0%	0%	0%	0%
OPERATIONAL EXPENSES						
Salaries						
Auto						
Utilities						
Depreciation						
Repair & Maintenance						
Supplies						
Other						
Total						

PROJECTED SOURCES AND USES OF CASH STATEMENTS	YEAR 1	YEAR 2	YEAR 3	YEAR 4	YEAR 5	TOTALS
SOURCES OF CASH						
Net Income						
Depreciation (If funded by revenues of system)						
Loan Proceeds						
Other						
Total Sources						
USES OF CASH						
Net Loss						
Principle Portion of Pmts.						
Fixed Asset Purchase						
Reserve						
Other						
Total Uses						
NET CASH FLOW						
DEBT SERVICE COVERAGE						
Cash Available for Debt (CADS)						
A: Net Income (Loss)						
B: Depreciation, or Reserve Interest						
C: Total CADS (A + B = C)						
D: DEBT SERVICE						
Annual Principle Plus Interest						
E: DEBT SERVICE COVERAGE RATIO						
CADS Divided by DS (E = C / D)						

Attachment # 1

Question # 9

Request for Service Letter



CIVIL TECH, PLLC.
ENGINEERS CONSULTANTS LAND PLANNERS

Request for Service

I Bill La Mont, owner of the nine(9) acre tract of land plus or minus, hereby request water and wastewater service to my property located off of Maske Road within the city limits of the City of Schertz. See attached location map below:



Sincerely,

Bill La Mont

Attachment # 2

Question # 20 B

The City of Schertz has no discharge permit for waste water contracts with Cibolo Creek Municipal Authority for Treatment.

Attachment # 3

Question # 23 A

Capacity Purchase Agreements with Schertz Seguin Local Government
Corporation and Cibolo Creek Municipal Authority

FINAL

THIS REGIONAL WATER SUPPLY CONTRACT (the "Contract") is dated and entered into as of the 15th day of November, 1999, by and among the Schertz/Seguin Local Government Corporation (the "Corporation"), a non-profit corporation of the State of Texas (the "State"), created and existing under the laws of the State, including the Texas Transportation Corporation Act, as amended, Texas Transportation Code Section 431.001 et. seq. and the City of Schertz, Texas and the City of Seguin, Texas, home-rule municipalities and political subdivisions of the State (collectively, the "Cities").

RECITALS

WHEREAS, Subchapter D of Chapter 431 (Sections 431.101-431.109) of the Texas Transportation Code, as amended (the "Act") authorizes local governments to create local government corporations to aid, assist, and act on behalf of local governments; and

WHEREAS, the City Councils (the "Governing Bodies") of the City of Seguin, Texas and the City of Schertz, Texas have collectively determined to authorize and approve the creation of the Corporation as their constituted authority and instrumentality to accomplish the specific public purpose of acquiring, constructing, improving, enlarging, extending, repairing, maintaining, and operating a water utility system, pursuant to the provisions of Chapter 402 of the Texas Local Government Code, as amended, and other applicable law; and

WHEREAS, the Cities, pursuant to the Act and other applicable law, have authorized the creation of the Corporation for the purposes set forth in the Corporation's Articles of Incorporation, including the issuance of bonds to finance the costs of the water utility system; and

WHEREAS, the Corporation intends to design, construct, maintain, and operate the water utility system in a manner that will allow the Corporation to deliver its water to the Cities and other potential purchasers on a regional basis; and

WHEREAS, the Cities and the Corporation, exercising their mutual authority and furthering their mutual and urgent interests, wish to enter into this Contract in order to most efficiently and quickly obtain the capability to deliver the water to the Cities; and

WHEREAS, in order to deliver the water to which the Cities are entitled under this Contract, it is necessary that facilities, lines, booster pumps, treatment facilities, and other appurtenances sufficient to deliver the water to which the Cities are entitled under this Contract and additional water which the Cities may acquire (the "Facilities") be constructed and that the easements, rights-of-way, and other interests in land necessary for the production of groundwater and the acquisition, construction, maintenance, and operation of the Facilities (collectively, the "Land Interests") be purchased (the "Land Interests" and the "Facilities", together the "Project"); and

WHEREAS, it is expected by the Corporation and the Cities that as soon as practicable after the execution of this Contract the Corporation will issue its Bonds (as hereinafter defined), payable from and secured solely by payments to be made by the Cities under this Contract for the acquisition and construction of the Project; and

WHEREAS, the Corporation, to the best of its ability, shall in general do or cause to be done all such things as may be required for the proper acquisition, construction and operation of the Project; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained, the sufficiency of which are hereby acknowledged, and upon and subject to the terms and conditions hereinafter set forth, the Cities and the Corporation mutually undertake, promise, and agree as follows:

ARTICLE I

DEFINITIONS AND INTERPRETATIONS

Section 1.01. Definitions. In addition to the terms defined above, the following terms shall have the meanings assigned to them below wherever they are used in this Contract, unless the context clearly requires otherwise:

“Accountant” means a nationally recognized independent certified public accountant, or an independent firm of certified public accountants, selected by the Corporation.

“Annual Payments” means the amount of money, constituting the Bond Payment, Operation and Maintenance Expenses, and Overhead Expenses, to be paid to the Corporation by each City, on a several and not a joint basis as described in Section 3.01, Section 3.05, and Section 5.02 hereof from the revenues of the Cities' System as an operating and maintenance expense of the Cities' System (or any other lawfully available revenues of the Cities), at the times and in the amounts required by Sections 3.05 and 5.02 of this Contract.

“Approval Certificate” means the certificate or certificates, if any, of the President, Board of Directors or Authorized Representative of the Corporation approving certain terms of a series of Bonds.

“Authorized Representative” means any person at the time delegated authority to act on behalf of the Cities or the Corporation, as the case may be, and designated as such in a written certificate, containing a specimen signature of such person, which, for the Cities shall be the City Manager of each of the Cities or such other officers or employees of the Cities authorized to act on behalf of the Cities during the respective City Manager's absence or incapacity, and for the Corporation shall be the President, Board of Directors of the Corporation or such other officer or

employee of the Corporation authorized to act on behalf of the Corporation during the President's, Board of Directors absence or incapacity, unless a party notifies the other party in writing of a change in its Authorized Representative.

"Bond Payment" means the amount of money to be paid to the Corporation by the Cities, on a several basis, from the revenues of the Cities' System as an operating and maintenance expense of the Cities' System at the times and in the amounts required by Sections 3.05 and 5.02 of this Contract.

"Bond Resolution" means any resolution and/or trust indenture of the Corporation, authorizing the issuance of and securing the Bonds and all amendments and supplements thereto and including the Approval Certificate, if any, authorized by such resolution to establish certain of the terms of the Bonds authorized by such resolution.

"Bonds" means all bonds, notes, or other obligations hereafter issued by the Corporation, whether in one or more series or issues, to pay the cost of the Project (including any bonds or notes issued to complete the Project) or to refund any Bonds or to refund any such refunding Bonds.

"Cities" means collectively the City of Schertz, Texas and City of Seguin, Texas.

"Cities' System" means and includes each of the City's existing combined waterworks and wastewater disposal system and any electric power and/or natural gas system, together with all future extensions, improvements, enlargements, and additions thereto, including, to the extent permitted by law, storm sewer and drainage and/or reclaimed water systems within the waterworks or wastewater disposal system, and all replacements thereof, provided that, notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term Cities' System shall not include any waterworks, wastewater, electric power, or natural gas facilities which are declared by the Cities not to be a part of the Cities' System and which are hereafter acquired or constructed by the Cities with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being special revenue obligations of the Cities which are not secured by or payable from the net revenues of the Cities' System, but which are secured by and are payable solely from special contract revenues, or payments received from the Cities or any other legal entity, or any combination thereof, in connection with such facilities; and such revenues or payments shall not be considered as or constitute gross revenues of the Cities' System, unless and to the extent otherwise provided in the ordinance or ordinances authorizing the issuance of such "Special Facilities Bonds".

"Cities Utility Bonds" means the appropriate City's bonds and notes outstanding from time to time secured by a lien on and pledge of the net revenues of the Cities' System or any part thereof, regardless of lien priority.

"City Engineer of Record" means the City Engineer of Record so designated by the City Council of each City with notice to the Corporation.

"Claim", as used in Section 8.13 of this Contract, means claims, demands, and expenses, including reasonable attorney's fees.

"Code" means the Internal Revenue Code of 1986, and any amendments thereto, as in force and effect on the date of delivery of any series of Bonds.

"Completion Date" means such term as it is defined in Section 2.09 of this Contract.

"Corporation" means the Schertz/Seguin Local Government Corporation and its lawful successors and assigns.

"Credit Agreement" means any bond insurance policy or other credit agreement, as defined in and authorized by the provisions of Chapter 1371, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 717q, as amended), which the Corporation enters into relating to its obligations with respect to the Bonds.

"Delivery Point" means the place, whether one or more, to which the Corporation will deliver water to each City pursuant to this Contract.

"Engineering Report" means the "Preliminary Engineering Report for Water Supply System to Serve the Cities of Schertz and Seguin, prepared by Clay Roming, P.E., dated September 10, 1999, as such report may be amended, modified and changed and superseded with the approval of the Corporation and Cities, at any time prior to the execution of construction contracts for the Project or as modified and changed by change orders issued after the execution of such construction contracts; provided, however, no such change orders shall adversely affect either of the Cities without the consent of the Cities.

"Fiscal Year" means the Cities' fiscal years, which currently begins on October 1 of each year, as it may be changed from time to time with notice to the Corporation.

"Force Majeure" means such term as it is defined in Section 8.03 of this Contract.

"Facilities" means the facilities, lines, booster pumps, and other appurtenances sufficient to deliver the water to which the Cities are entitled under this Contract and any improvements, additions, or extensions to such Facilities hereafter acquired or constructed to deliver water between such places.

"Land Interests" means the easements, right-of-way, and other interests in real property necessary for the acquisition, construction, and operation of the Facilities and the Water Rights for the Project.

"MSRB" means the Municipal Securities Rulemaking Board and any successor to its duties.

"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.

"Operation and Maintenance Expenses" means all direct costs and expenses incurred by the Corporation for its operation and maintenance, including but not limited to, the operation and maintenance of the Project, including (for greater certainty but without limiting the generality of the foregoing) amounts payable under any contract with any person, including, but not limited to any federal, state, or local agency for the right to produce and use groundwater or other source of water, any contribution or payment in lieu of taxes or any fee or charge by any government authority relating to the Corporation's production of groundwater or sale of treated water hereunder, the costs of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, supplies, services, and administration of the Project, Overhead Expenses, and costs of operating, repairing, maintaining, and replacing equipment for proper operation and maintenance of the Project. The term "Operation and Maintenance Expenses" does not include depreciation charges or such portion of the above-described costs to the extent such costs are paid pursuant to an agreement other than this Contract.

"Overhead Expenses" means the Corporation's reasonable and necessary costs and expenses incurred at any time directly related to the issuance and servicing of the Bonds, the acquisition of Land Interests required for the Project, the design, permitting, financing, acquisition, construction, and ownership of the Project and any other activities required of or involving the Corporation in connection with or attributable to the Project or the Bonds, including, but not limited to:

- (a) per diem and reimbursable expenses incurred by the Directors of the Corporation for special meetings of the Corporation's Board of Directors related to the Project;
- (b) services of the professional, technical skilled and unskilled persons and firms engaged by or associated with the Corporation, other than Corporation staff personnel, together with their reimbursable expenses paid or required to be paid by the Corporation;
- (c) salaries of the Corporation's staff attributable to the Project or the Bonds based on time expended, as documented or reasonably estimated by the President, Board of Directors of the Corporation;
- (d) the costs of preparing applications for and obtaining all approvals and authorizations required for the Project or the Bonds from the regulatory authorities having jurisdiction;
- (e) the cost of property casualty and public liability insurance incurred prior to the Completion Date; including any insurance deductible charged to or required to be paid by the Corporation; provided that if the Corporation is unable to obtain such insurance on an occurrence

basis, then any expense incurred by the Corporation from and after the Completion Date for casualty and public liability insurance, including any insurance deductible, shall be paid by the Cities;

(f) all costs incurred in litigation involving or relating to the Project; and

(g) any and all other costs and expenses, including out-of-pocket expenses, incurred by the Corporation attributable to the Project or the Bonds, whether enumerated above or not, and whether or not included in the definition or as a part of Project Costs.

"Permitted Liens" means:

(a) Minor irregularities, charges, liens, encumbrances, defects, easements, licenses, rights-of-way, servitudes, restrictions, mineral rights, and clouds on title which, in the opinion of counsel to the Corporation, a copy of which shall be forwarded to each of the Cities, do not materially impair the use of the Project for the purposes for which it is designed.

(b) Easements for roads (as used in this Contract, the term "roads" shall include, without limitation, streets, curbs, gutters, drains, ditches, sewers, conduits, canals, mains, aqueducts, aerators, connections, ramps, docks, viaducts, alleys, driveways, parking areas, walkways, and trackage), utilities (which for purposes of this Contract shall include, without limitation, water, sewer, electricity, gas, telephone, pipeline, railroad, and other collection, transportation, light, heat, power, and communication systems) and similar easements and other easements, rights-of-way, rights of flowage, flooding, diversion or outfall, licenses, restrictions, and obligations relating to the operation of the Project which, in the opinion of counsel to the Corporation, a copy of which shall be forwarded to each of the Cities, do not materially impair the use of the Project for the purposes for which it is designed.

(c) Rights of the United States or any state or political subdivision thereof, or other public or governmental authority or agency or any other entity vested with the power of eminent domain to take or control property or to terminate any right, power, franchise, grant, license, or permit previously in force.

"Plans and Specifications" means the plans and specifications prepared for the Project by the Project Engineer, as the same may be revised from time to time in accordance with this Contract.

"Project" means, collectively, the Land Interests and the Facilities as described in the recitals to this Contract and in the Engineering Report.

"Project Costs" means and includes, without limitation, the following costs incurred for the Project by or on behalf of the Corporation or the Cities:

- (a) the cost of acquisition of the Land Interests, including appraisals, closing costs and title insurance policies;
- (b) the cost of acquisition, construction, repair, replacement, or improvement of the Facilities, and any structure, item of equipment, or other item, used for, or in connection with, the Project;
- (c) the cost of site preparation of the Land Interests, including demolition or removal of structures and improvements as necessary or incident to accomplishing the Project;
- (d) the cost of engineering, legal, architectural or other related services;
- (e) the preparation cost of plans, specifications, studies, surveys, cost estimates, and other expenses necessary or incident to planning, providing, or financing the Project;
- (f) the cost of machinery, equipment, furnishings, and facilities necessary or incident to placing the Project in operation;
- (g) finance charges and interest before, during, and after construction as permitted by the laws of the State;
- (h) costs incurred in connection with financing the project, including, without limitation:
 - (1) financing, legal, accounting, financial advisory, rating agency, and auditing fees, expenses and disbursements;
 - (2) the cost of printing, engraving, and reproduction services; and
 - (3) the cost of a trustee's or paying agent's initial or acceptance fee and subsequent fees.
- (i) all costs, fees and expenses of litigation of all kinds;
- (j) the cost of property casualty and public liability insurance;
- (k) the fees and costs of the underwriters as the anticipated purchasers of the Bonds;
- (l) reimbursement of the costs previously incurred by the Cities with respect to the Project; and
- (m) other costs generally recognized as a part of Project construction costs.

"Project Engineer" means such engineering firm or firms as may be selected by the Corporation.

"Prudent Utility Practice" means any of the practices, methods, and acts, in the exercise of reasonable judgment, in the light of the facts, including but not limited to the practices, methods, and acts engaged in or approved by a significant portion of the public utility industry prior thereto, known at the time the decision was made, that would have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. It is recognized that Prudent Utility Practice is not intended to be limited to the optimum practice, method, or act at the exclusion of all others, but rather is a spectrum of possible practices, methods, or acts which could have been expected to accomplish the desired result at the lowest reasonable cost consistent with reliability, safety, and expedition. In the case of any facility included in the Cities' System which is owned in common with one or more other entities, the term "Prudent Utility Practice", as applied to such facility, shall have the meaning set forth in the agreement governing the operation of such facility.

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

"Sale and Offering Documents" means any official notice of sale, official bid form, preliminary official statement, official statement, or other offering document for the Bonds.

"Schertz" means the City of Schertz, Texas, a Texas home rule municipality acting through its City Council or City Manager.

"SEC" means the United States Securities and Exchange Commission and any successor to its duties.

"Seguin" means the City of Seguin, Texas, a Texas home rule municipality acting through its City Council or City Manager.

"SID" means any entity designated by the State 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.

"State" means the State of Texas.

"TNRCC" means the Texas Natural Resource Conservation Commission or its successors or assigns.

"Trustee" means any trustee named under a trust indenture or the paying agent/registrar named in a paying agent/registrar agreement entered into by the Corporation securing the payment of the Bonds and authorized by a Bond Resolution.

"TWDB" means the Texas Water Development Board or any successor entity thereto.

"TWDB Program" means TWDB's State Participation Account as authorized pursuant to Article III, Sections 49-d, 49-d-2, and 49-d-8 of the Texas Constitution and Chapter 16, Subchapters E and F, as amended, Texas Water Code.

"Water Rights" means the right to drill and operate wells, produce groundwater, and transport the groundwater from the county where the groundwater is produced into Guadalupe County and the surrounding counties.

Section 1.02. Interpretation. The table of contents and caption headings of this Contract are for reference purposes only and shall not affect its interpretation in any respect. Unless the context otherwise requires, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa. This Contract and all the terms and provisions shall be liberally construed to effectuate the purpose set forth herein and to sustain the validity of this Contract.

ARTICLE II

ACQUISITION AND CONSTRUCTION OF THE PROJECT

Section 2.01. General. Subject to the remaining terms and provisions of this Contract, the Corporation agrees to issue the Bonds and to acquire and construct the Project as generally described in the Engineering Report. It is estimated that the Project will be placed in operation on or before June 1, 2002, or as soon thereafter as practicable. The Authorized Representative of the Corporation hereby represents that he is not aware of any reason that the Project, as contemplated, cannot be completed on or before June 1, 2002. It is expressly understood and agreed that any obligations on the part of the Corporation to finance, acquire, construct, and complete the Project and to provide the water to the Cities shall be (i) conditioned upon the Corporation's ability to obtain all necessary permits, Land Interests, material, labor, and equipment, and upon the ability of the Corporation to finance the cost of the Project through the actual sale of the Bonds, including any Bonds needed to complete the Project, and (ii) subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State, and any regulatory body having jurisdiction. The Project shall be acquired and constructed by the Corporation with all reasonable dispatch, and the Corporation will diligently pursue such acquisition and construction in order that it may be completed as soon as practicable, delays incident to events of Force Majeure only excepted; but if for any reason there should be delays in or the entire failure of such acquisition, construction, and improvement, there shall be no diminution in or postponement of the Annual Payments to be made by the Cities hereunder and no resulting liability on the part of the Corporation; provided, however, that the Cities retain the right to pursue any legal remedy to the extent that delays in the Project are the result of negligence or inaction on the part of the Corporation.

Section 2.02. Location of Project; Acquisition of Land Interests. The Facilities will be constructed and located on the Land Interests. The Corporation (or the Cities acting on behalf of the Corporation) shall, as soon as possible after the delivery of this Contract, and subject to the receipt of the Bond proceeds or funds from the Cities, undertake the acquisition of the Land Interests. The Corporation shall be responsible for ensuring that proper filings of each such portion of the Land Interests are made in the deed records of the appropriate counties to ensure that all interested parties have proper notice of the Corporation's interests in the Land Interests. As each deed, easement, or other evidence of an interest in real property comprising a portion of the Land Interests is acquired by the Corporation, a copy of such instrument, together with evidence of its filing in the deed records of the counties in which such portion lies, shall, upon the written request of the Cities, be given to the Cities.

The Corporation shall acquire a title insurance policy or a title opinion showing good and indefeasible title with respect to each Land Interest acquired. A copy of each such title insurance policy or title opinion shall be retained in the Corporation's official records.

Section 2.03. Construction. The Corporation shall, as soon as possible, undertake to make, execute, deliver, and prosecute all contracts, orders, receipts, writings, and instructions with or to other persons, and in general do or cause to be done all such other things, as may be required for the proper acquisition and construction of the Facilities.

Section 2.04. Selection of Project Engineer; Plans and Specifications. The Corporation shall cause the Project Engineer to complete the Plans and Specifications and the other materials to be used in obtaining bids for construction of the Facilities and to perform such other engineering tasks as shall be necessary for construction of the Facilities. The bid documents shall include appropriate alternatives to assure the most advantageous price consistent with expeditious completion. The specifications for the Project may include as an owner cost any or all insurance coverages either required by law or deemed necessary or advisable by the Corporation.

Section 2.05. Award of Construction Contracts. Upon obtaining the approval of the Board of Directors of the Corporation of the Plans and Specifications and bid documents, the Corporation, through its Project Engineer, will promptly advertise for sealed bids for the Project to the extent and as required by law. The Corporation may break the sealed bids into several contracts or phases as it determines is best for the timely acquisition and construction of the Facilities. After the receipt of bids, the Corporation shall identify the lowest responsible bidder(s) and award the contract(s). If all bids are rejected, bids will again be solicited, following the procedure outlined above in this Section, until such time as bids satisfactory to the Corporation have been received. The Corporation shall not be obligated to award a construction contract unless the proceeds from the Bonds are available to pay the contract(s).

Section 2.06. Liens. Neither the Cities nor the Corporation will create or permit or suffer to exist any lien, encumbrance, or charge upon the Project or any interest therein at any time, except Permitted Liens.

Section 2.07. Revisions of Plans. The Plans and Specifications may be revised prior to the Completion Date.

Section 2.08. Approvals. Unless otherwise required by law, each consent, approval, or other official action required of the Cities or the Corporation by any provision of this Contract shall be deemed in compliance with this Contract when written evidence of such action, signed by the respective Authorized Representative, is delivered to the party who is to receive evidence of such action. All contracts to be entered into shall be authorized by the Corporation's Board of Directors. The Cities will cooperate with the Corporation in the design, financing, acquisition, and construction of the Project and, following the adoption of the Bond Resolution by the Corporation's Board of Directors, will not take any action or fail to take any action (including, without limitation, any exercise or denial of its consent or approval of any action proposed to be taken by the Corporation or any of its agents hereunder), if taking or failing to take such action, respectively, would unreasonably delay or obstruct the completion of the Project by the Corporation.

Section 2.09. Completion. (a) Except as otherwise provided in subsection (b) of this Section, when the Facilities have been completed, the Corporation shall deliver to the Cities a certificate of the Corporation and the Project Engineer stating that, as of a specified date, the Project has been substantially completed and are ready to be placed in service (the date specified in such certificate being herein called the "Completion Date").

(b) The Cities and the Corporation acknowledge that the proceeds of the initial series of Bonds will be insufficient to complete the acquisition and construction of the Project, and accordingly agree to use their best efforts to issue Additional Bonds, or to secure financing pursuant to the TWDB Program, in an amount sufficient to complete the Project.

Section 2.10. Title to Water. Title to the water shall be in the Corporation until it passes through the meter or meters installed pursuant to this Contract at or near the Delivery Point, following which it shall be in the respective Cities. Each of the parties hereto hereby agrees to save and hold each other party hereto harmless from all claims, demands and causes of action which may be asserted by anyone on account of the transportation and delivery of said water while title remains in such party.

Section 2.11. Access to Cities. Should any facilities, pipelines, or appurtenances owned by the Corporation be installed in any street, alley, or public way within the boundaries of the Cities, as same are now constituted or as may hereafter be extended, the Cities hereby grant, upon complying with each of the Cities' franchise ordinances or other provisions, to the Corporation the

right, privilege and franchise of using such streets, alleys and public ways for the purposes of maintaining, operating, laying, repairing, or removing such facilities, pipelines, and appurtenances.

Section 2.12. Easements. The Cities hereby agree to grant to the Corporation such easements as may be reasonably necessary for the purposes of placing, constructing, operating, repairing, maintaining, rebuilding, replacing, relocated, and removing water facilities upon, over, across and through the Cities' property and giving to the Corporation, and its successors and assigns, all of the rights and benefits necessary or appropriate for the full enjoyment and use of the easement, including but without limiting the same to, the free right of ingress and egress to and from the Cities' property.

Section 2.13. Cross-Utilization of Lines.

A. Each City acknowledges that it may be necessary for certain of its transmission lines to be utilized in order for the Corporation to transmit treated water to another City or other entity and such City hereby agrees to permit the Corporation to so utilize its transmission lines in accordance with Section 2.11 and Section 2.12. In such case, the City involved agree to inform the Corporation of any special requirements with respect to pressure or other matters relating to the transmitting City's lines.

B. The Corporation will furnish, install, operate, and maintain meters at the point of exit from the City's lines to maintain accurate measurements of the quantity of water being delivered by the Corporation to a City or other entity through the lines of the other City or other entity. Such meters shall be subject to inspection and examination by both the City and the Corporation in accordance with the provisions of Section 4.02.

C. In the event that repairs are required to be made to any lines of a City which are utilized for the transmission of treated water to another City or other entity, the receiving City shall participate in the cost of such repairs as may be agreed from time to time.

Section 2.14. Points of Delivery. The Project will include the Facilities and Land Interests required to deliver water to the Point of Delivery for each City at the location depicted in the Engineering Report. After completion of the Project, each City shall have the sole responsibility, at its own cost and expense, for providing additional pipelines and other facilities required for transporting its share of the water from the Project to new or additional Points of Delivery, but additional or alternative points of delivery will be allowed only with the consent of the Cities.

Section 2.15. Quantity. The Cities' proportionate share of the treated groundwater produced by the Project is as follows:

Schertz	50%
Seguin	50%

Section 2.16. Other Contracts. The Corporation shall not enter into contracts with other persons for the supply of water without the prior consent of Cities and either City may withhold its consent. The Cities may not resell water to third party wholesalers (except to such customers that exist on November 1, 1999 and not for resale by these customers) that they purchase from the Corporation without obtaining the written consent of the Corporation and the other City.

Section 2.17. Quality. The water to be delivered by the Corporation and received by the Cities shall be groundwater produced from wells constructed as part of the Project and treated using the Facilities and equipment described in the Engineering Report. Each of the Cities has satisfied itself that such water is suitable for its needs. The Corporation and each of the Cities shall cooperate, each within its legal powers, in preventing possible pollution and contamination of the formation from which the water is obtained.

Section 2.18. Operation. The Corporation covenants to operate the Project in accordance with Prudent Utility Practices and in accordance with applicable regulatory requirements.

ARTICLE III

FINANCING OF THE PROJECT

Section 3.01. Issuance of Bonds. (a) The Corporation's acquisition and construction of the Project and improvements to the Project will be financed by the Corporation through the issuance of one or more series or issues of its Bonds payable from and secured, in part, by an assignment of the Annual Payments made under this Contract. In consideration of the covenants and agreements set forth in this Contract, and to enable the Corporation to issue the Bonds to carry out the intents and purposes hereof, this Contract is executed to assure the issuance of the Bonds and to provide for and guarantee the due and punctual payment by the Cities to the Corporation, or to the Trustee under the trust indenture (or paying agent/registrar agreement) securing the Bonds, of amounts not less than the Annual Payments. Each of the Cities hereby agrees to make, or cause to be made, its proportionate share of each Annual Payment, as and when due, for the benefit of the owners of the Bonds, as provided in the Bonds and the Bond Resolution. The proportionate share of each Annual Payment shall be determined on a several and not a joint basis, as follows:

Schertz	50% and
Seguin	50%

(b) The proceeds from the sale of the Bonds will be used for the payment of the Project Costs. The Bonds will be issued by the Corporation in the amount anticipated to be required to acquire and construct the Project, including payment of all Project Costs advanced by the Cities and incurred by the Corporation prior to the date of issuance of the Bonds, and to fund, to the extent deemed advisable by the Corporation, a debt service reserve fund and interest on the Bonds during construction and for up to one year after the Completion Date.

- (c) (1) Each Bond Resolution of the Corporation shall specify the maximum principal amount of the Bonds to be issued thereunder. The Bonds shall mature not more than forty (40) years from the date of such Bonds and shall bear interest at not to exceed the maximum legal rate then permitted by law, and the Bond Resolution may create and provide for the maintenance of a revenue fund, an interest and sinking fund, a debt service reserve fund, and any other funds deemed prudent by the Corporation, all in the manner and amounts as provided in such Bond Resolution.
- (2) Prior to the final adoption of a Bond Resolution or any amendment of a Bond Resolution by the Corporation's Board of Directors or the execution of an Approval Certificate by the Corporation, a substantially final copy of the proposed Bond Resolution, the Approval Certificate, if any, and the Sale and Offering Documents shall be presented to the Cities for review and approval.
- (3) Upon approval by each of the Cities of (i) each Bond Resolution hereafter adopted by the Corporation, (ii) any amendments to any Bond Resolution, (iii) an Approval Certificate authorized by a Bond Resolution, and (iv) the Sale and Offering Documents and the delivery to the Corporation of a certification signed by the Authorized Representative of each of the Cities to the effect that the Bond Resolution, including any Approval Certificate, and the Sale and Offering Documents comply with this Contract, then upon the adoption and approval of the Bond Resolution and the Approval Certificate, if any, in such final form by the Corporation's Board of Directors or Authorized Representative, as the case may be, and the issuance and delivery of the Bonds to the purchaser thereof, the Bond Resolution shall for all purposes be considered approved by the Cities and deemed to be in compliance with this Contract in all respects, and the Bonds issued thereunder will constitute Bonds as defined in this Contract for all purposes. Any owner of Bonds is entitled to rely fully and unconditionally on any such approval.
- (4) All covenants and provisions in the Bond Resolution affecting, or purporting to bind, the Cities, shall, upon the delivery of the Bonds, become absolute, unconditional, valid, and binding covenants and obligations of the Cities so long as the Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in this Contract and the Bond Resolution. Particularly, the obligation of each of the Cities to make, promptly when due, all Annual Payments specified in this Contract shall be absolute and unconditional, and said obligation may be enforced as provided in this Contract. In addition, subject to the approval of the Cities, the Corporation may enter into Credit Agreements for the purpose of achieving the lowest financing costs for the Project.

Section 3.02. Proceeds of Bonds. Subject to the terms and provisions of this Contract, the proceeds of the Bonds shall be used by the Corporation for the purpose of financing and funding the

Corporation's acquisition and construction of the Project as provided in Section 3.01 and improvements to the Project. The Corporation shall use its best efforts to issue its Bonds, in one or more series, in amounts which will be sufficient to accomplish such purpose. The proceeds of the Bonds shall be deposited in a construction fund established pursuant to the terms of the Bond Resolution. A trust indenture may be entered into between the Corporation and a corporate trustee for the purpose of securing the payment of the Bonds. The trust indenture or the Bond Resolution, as appropriate, will establish procedures for the payment of Project Costs out of the construction fund. It is anticipated that the Bonds will be issued pursuant to the Bond Resolution and that a paying agent/registrars agreement will be executed between the Corporation and the Trustee concerning the payment procedures with respect to the Bonds.

Section 3.03. Refunding of Bonds. The Corporation reserves the right to issue refunding bonds in accordance with the laws of the State.

Section 3.04. Redemption of Bonds. The Corporation, in its sole discretion or upon the written request of the Cities (and provided that the affected Bonds are subject to redemption or prepayment prior to maturity at the option of the Corporation, and provided that such request is received in sufficient time prior to the date upon which such redemption or prepayment is proposed), forthwith shall take or cause to be taken all action that may be necessary under the applicable redemption provisions of the Bonds to redeem the Bonds or any part thereof, to the full extent of funds that are either made available for such purpose by the Cities or already on deposit under the Bond Resolution and available for such purpose. The redemption of any outstanding Bonds prior to maturity at any time shall not relieve the Cities of their absolute and unconditional obligation to pay each remaining Annual Payment with respect to any outstanding Bonds, as specified in the Bond Resolution.

Section 3.05. Debt Service on Bonds and Other Bond Funding Requirements. It is acknowledged and agreed that payments to be made under this Contract will be the primary source available to the Corporation to provide the money necessary for the Corporation to meet its obligations with respect to the Bonds and any Credit Agreements. Each City therefore agrees to pay its proportionate share of all Bond Payment, as outlined in subsections (a) through (c) below, in full when due as provided in this Contract. Bond Payment shall be due by the close of business on the business day prior to each date on which any of the following payments or deposits shall be due and shall be in an amount equal to all such payments and deposits due on such date:

(a) debt service on the Bonds and related payments and deposits, as follows:

(1) principal of, redemption premium, if any, and interest on, the Bonds, less interest to be paid out of Bond proceeds or from other sources if permitted by any Bond Resolution, and the redemption price of any Bonds to be redeemed prior to maturity when and as provided in any Bond Resolution plus the fees, expenses, and, to the extent permitted by law, indemnities of the Trustee, if any, for the Bonds, and those

of the paying agent/registrant for paying the principal of and interest on the Bonds and for authenticating, registering, and transferring Bonds on the registration books; and

(2) deposits required to be made to any special, contingency, or reserve fund by the provisions of any Bond Resolution; and

(3) any deposit in addition thereto required to restore any deficiency in any of such funds by the provisions of any Bond Resolution,

(b) amounts payable by the Corporation under a Credit Agreement; and

(c) the fees, expenses, and indemnities (to the extent permitted by law) of the remarketing agent, rate setting agent, authentication agent, arbitrage rebate compliance firm, and tender agent, if any, for the Bonds.

Section 3.06. Billing. The Corporation will render bills to the Cities not more than once each month, commencing April 5, 2000, for the current payments required by this Contract. The Corporation shall, until further notice, render such bills on or before the 5th day of each month and such bills shall be due and payable on the 15th day of each month or ten (10) days after such bill is deposited into the United States mail, properly stamped and addressed to the Cities whichever is later and thereafter, to the extent permitted by law, interest shall accrue thereon at the rate of ten per cent (10%) per annum until paid in full. The Corporation may, however, from time to time by sixty (60) days' written notice change the date by which it shall render bills, and all bills shall thereafter be due and payable ten (10) days after such dates as herein provided. The Cities shall make all payments in such coin or currency of the United States of America as at the time of payment shall be legal tender for the payment of public and private debts and shall make payment to the Corporation as its office in Guadalupe County, Texas or at such other place as the Corporation may from time to time designate by sixty (60) days' written notice.

Section 3.07. Delinquency in Payment. If either of the Cities fails to pay any bills when due and payable, the Corporation may give written notice of such delinquency to the City and if all bills due and unpaid, including interest thereon, are not paid within forty-five (45) days after delivery of such notice, then the City agrees that the Corporation shall be authorized, as its option, to institute suit for collection thereof and to collect any amounts due and unpaid, together with interest thereon and reasonable attorneys' fees, and the City further agrees that the Corporation may, as its option discontinue providing water to the City until all amounts due and unpaid are paid in full with interest as herein specified. Any such discontinuation of service shall not, however, relieve the City of its unconditional obligations to make the payments required by this Contract. It is also hereby expressly recognized that the nondefaulting City shall have no obligation to make any payments for the benefit of the defaulting City.

Section 3.08. Corporation's Rights Assigned to Trustee. The Cities are advised and recognize that as security for the payment of the Bonds, the Corporation may assign to the Trustee, pursuant to one or more trust indentures (or paying agent/registrars agreements) to be authorized by the Bond Resolution, the Corporation's rights under this Contract, including the right to receive the Annual Payments hereunder (but not the right to receive payments, if any, under Section 8.13 hereof). The Cities herewith assent to such assignment and will make the Annual Payments directly to the Trustee without defense or set-off by reason of any dispute between one or both of the Cities and the Corporation or the Trustee. All rights against the Cities arising under this Contract or the Bond Resolution and assigned to the Trustee may be enforced by the Trustee, or the owners of the Bonds, to the extent provided in the Bond Resolution, and the Trustee, or the owners of the Bonds, shall be entitled to bring any suit, action, or proceeding against the Cities, to the extent provided in the Bond Resolution, for the enforcement of this Contract, and it shall not be necessary in any such suit, action, or proceeding to make the Corporation a party thereto.

Section 3.09. Tax-Exempt Bonds. The parties hereto understand and agree that the Corporation will use its best efforts to provide for, but will not be liable for a failure to produce, the lowest overall debt service cost for the Bonds to be issued for the Project. In connection therewith, the parties intend that the Corporation will issue Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. The parties hereto acknowledge their understanding that the federal income tax laws impose certain restrictions on the use and investment of proceeds of such tax-exempt bonds and on the use of the property financed therewith and the output produced therefrom. Accordingly, the parties agree and covenant that if the Bonds are offered to investors with the understanding that the interest will be exempt from federal income taxation, then the parties, their assigns and agents, will take such action to assure, and refrain from such action which will adversely affect the treatment of such Bonds as obligations described in section 103 of the Code. Should any party fail to comply with such covenant, the effect of which being that the Bonds no longer qualify as obligations described in the Code, such defaulting party shall be liable for all costs resulting from the loss of the tax-exempt status of the Bonds. The parties hereby agree and covenant to comply with all of the representations and covenants relating to such exemption which are set out in any Bond Resolution. The parties further agree and covenant that in the event the Bonds issued are to be tax-exempt, they will modify such agreements, make such filings, restrict the yield on investments, and take such other action necessary to fulfill the applicable provisions of the Code. For these purposes, the parties may rely on the respective opinion of any firm of nationally-recognized bond attorneys selected by them. In the event that a conflict arises in the opinions of the respective firms of each of the parties, the parties will identify a different firm, that is mutually acceptable to all parties, in order to resolve the conflict of opinion.

Section 3.10. Payment to Rebate Fund. In the event that tax-exempt Bonds are issued as provided in Section 3.09, the Corporation hereby covenants and agrees to make the determinations and to pay any deficiency into a rebate fund, at the times and as described in the Bond Resolution to comply with the provisions of section 148(f)(2) of the Code. In any event, if the amount of cash held in the rebate fund shall be insufficient to permit the Trustee to make payment to the United

States of America of any amount due on any date under section 148(f)(2) of the Code, each of the Cities forthwith shall pay the amount of such insufficiency on such date to the Trustee in immediately available funds for such purpose. The obligations of the Cities under this Section 3.10 are direct obligations of each City, acting under the authorization of, and on behalf of, the Corporation and the Corporation shall have no further obligation or duty with respect to the rebate fund.

Section 3.11. Cities' Obligations. In the event the Project is not completed for any of the reasons contemplated herein or otherwise, or any proceeds from issuance of the Bonds are not used for completion of the Project for any reason, any Bond proceeds and earnings thereon not used for completion of the Project shall be utilized to satisfy amounts due and owing on the Bonds as described in the Bond Resolution, and herein, so as to reduce the Annual Payments which would otherwise be due hereunder, or be applied for the benefit of the Cities as provided in the Bond Resolution. The Cities have covenanted absolutely and unconditionally, in accordance with all other terms of this Contract, to make the Annual Payments, as provided herein, in consideration for such application of the money as well as the other covenants and obligations of the Corporation and others set forth or contemplated herein.

Section 3.12. Interest on Money. All legally available money respecting the Bonds shall be invested in the manner set forth in the Bond Resolution. Any interest earnings on the Bond proceeds may be used to pay principal of and interest on the Bonds or for the payment of any Project Costs or other costs related to the Project approved by the Cities, subject to Section 3.09.

Section 3.13. Sale and Offering Documents. At the request of the Corporation, each of the Cities shall provide to the Corporation current and historical information concerning the Cities' System, the financial conditions results, and prospects of the City, and such other information concerning the City as the Corporation shall deem advisable for inclusion in the Sale and Offering Documents for the Bonds of each series and shall certify to the Corporation and the underwriters of any offering of Bonds to be made by means of such Sale and Offering Documents when and if the City deems such Sale and Offering Documents to be complete and final for purposes of the Rule. Each of the Cities represents and warrants that all statements concerning it (including, without limitation, its financial condition, results, and prospects, its portion of the Cities' System, and any demographic and economic information concerning the area served by its portion of the Cities' System) that are contained in any Sale and Offering Document approved by the Cities pursuant to Section 3.01 hereof shall be true in all material respects and shall not omit to state any material fact necessary to make the statements made in such Sale and Offering Document, in the light of the circumstances in which they are made, not misleading.

Section 3.14. Right of Cities to Prepay. The Cities shall have the right at any time to prepay all or any portion of the Annual Payments. Subject to the provisions of Section 3.09, such prepaid Annual Payments shall be used and invested by the Corporation as directed by the City which paid (i) as a credit against future Annual Payment obligations of such City, (ii) to redeem Bonds pursuant

to the provisions of Section 3.04, or (iii) to provide for the defeasance of the Bonds pursuant to the provisions of the Bond Resolution. Any such prepayment will not cause a termination of this Contract until all other amounts owed or to be incurred by the Corporation or any other person under the provisions of the Bond Resolution (including the charge for water pursuant to Section 8.05 hereof) have been paid in full or waived by such person.

ARTICLE IV

METERING AND MEASUREMENT

Section 4.01. Unit of Measurement. The unit of measurement for water delivered hereunder shall be 1,000 gallons of water, U. S. Standard Liquid Measure.

Section 4.02. Measuring Equipment. The Corporation shall furnish, install, operate and maintain at its own expense for each Delivery Point the necessary electronic or other equipment and devices of standard type for measuring properly the quantity of water delivered under this Contract. Such meter or meters and other equipment so installed shall remain the property of the Corporation. The Cities shall have access to such metering equipment at all reasonable times, but the reading, calibration, and adjustment thereof shall be done only by the employees or agents of the Corporation. For the purpose of this Contract the original record or reading of the meter or meters shall be the journal or other record book of Corporation in its office in which the records of the employees or agents of the Corporation who take readings are or may be transcribed. Upon written request of Cities, the Corporation will give the Cities a copy of such journal or record book, or permit the Cities to have access to the same in the office of the Corporation during reasonable business hours.

The Corporation shall calibrate its meters periodically, but at least every three (3) years, if requested in writing by Cities to do so, in the presence of a representative of the Cities, and the parties shall jointly observe any adjustments which are made to the meters in case any adjustments shall be necessary, and if the check meters hereinafter provided for have been installed, the same shall also be calibrated by the Cities in the presence of a representative of Corporation and the parties shall jointly observe any adjustment in case any adjustment is necessary. If the Cities shall in writing request Corporation to calibrate its meters and Corporation shall give the Cities notice of the time when any such calibration is to be made and a representative of the Cities is not present at the time set, the Corporation may proceed with calibration and adjustment in the absence of any representative of the Cities.

If either party at any time observes a variation between the delivery meter or meters and the check meter or meters, if any such check meter or meters shall be installed, such party will promptly notify the other party, and the parties hereto shall then cooperate to procure an immediate calibration test and joint observation of any adjustment and the said meter or meters shall then be adjusted to accuracy. Each party shall give the other parties forty-eight (48) hours' notice of the time of all tests of meters so that the other parties may conveniently have a representative present.

If upon any test, the percentage of inaccuracy of any metering equipment is found to be in excess of two percent (2%), registration thereof shall be corrected for a period extending back to the time when such inaccuracy began, if such time is ascertainable, and if such time is not ascertainable, then for a period extending back one-half (½) of the time elapsed since the last date of calibration, but in no event further back than a period of six (6) months. If for any reason any meters are out of service or out of repair so that the amount of water delivered cannot be ascertained or computed from the reading thereof, the water delivered during the period such meters are out of service or out of repair shall be estimated and agreed upon by the parties hereto upon the basis of the best data available. For such purpose, the best data available shall be deemed to be the registration of any check meter or meters if the same have been installed and are accurately registering. Otherwise the amount of water delivered during such period may be estimated (i) by correcting the error if the percentage of the error is ascertainable by calibration tests or mathematical calculation, or (ii) by estimating the quantity of delivery by deliveries during the preceding periods under similar conditions when the meter or meters were registering accurately.

The Cities may, at their option and their own expense, install and operate a check meter to check each meter installed by Corporation, but the measurement of water for the purpose of this Contract shall be solely by the Corporation's meters, except in the cases hereinabove specifically provided to the contrary. All such check meters shall be of standard make and shall be subject at all reasonable times to inspection and examination by any employee or agent of the Corporation, but the reading, calibration and adjustment thereof shall be made only by the Cities, except during any period when a check meter may be used under the provisions hereof for measuring the amount of water delivered, in which case the reading, calibration and adjustment thereof shall be made by Corporation with like effect as if such check meter or meters had been furnished or installed by Corporation.

ARTICLE V

ANNUAL PAYMENTS, CITY COVENANTS

Section 5.01. Annual Estimate of Annual Payments. Not less than ninety (90) days prior to each Fiscal Year, the Corporation shall furnish to the Cities an estimate and schedule of the Annual Payments required to be paid by the Cities in such Fiscal Year.

Section 5.02. Annual Payments by the Cities. (a) Each of the Cities hereby agrees that it will make payments of its proportionate share of the Annual Payments to the Corporation, or to the Trustee on behalf of the Corporation, as provided in the Bond Resolution in accordance with the procedures established in Section 3.06 hereof. If a City at any time disputes the amount to be paid by it to the Corporation, such City shall nevertheless promptly make such payment or payments, but if it is subsequently determined by agreement or court decision that such disputed payments made by the such City should have been less, or more, the Corporation shall promptly revise the charges for such City in such manner that a City will recover its overpayment or the Corporation will recover

the amount due it. The Corporation shall pursue all legal remedies against the Cities to enforce and protect the rights of the Corporation and the owners of the Bonds, and the Cities shall not be relieved of the liability to the Corporation for the payment of all amounts which are due by them hereunder.

(b) Except to the extent otherwise provided by the Bond Resolution, all amounts due under this Contract shall be paid and are due in Guadalupe County, Texas, which is the County in which the principal administrative offices of the Corporation are located.

(c) The Corporation shall redetermine the estimate and schedule of Annual Payments due in any Fiscal Year at any time during such Fiscal Year, as and to the extent deemed necessary or advisable by the Corporation to accurately forecast the amount and date of Annual Payments to be made by the Cities, if (i) the Corporation issues Bonds to complete the Project or to refund any Bonds or enters into, amends, or terminates a Credit Agreement, (ii) actual interest rates on any variable interest rate Bonds differ from those projected by the Corporation, or (iii) any other event occurs which results in an increase or decrease in the Annual Payments required to be made by the Cities in such Fiscal Year.

(d) If, during any Fiscal Year, the Annual Payment is redetermined in any manner as provided or required in this Section, the Corporation will promptly furnish the Cities with an updated schedule of payments reflecting such redetermination.

(e) Notwithstanding anything herein to the contrary, no failure of the Corporation to estimate, and no mistake by the Corporation in any estimate of, the amount of or schedule for Annual Payments due from the Cities in any Fiscal Year shall relieve the Cities from (or defer) their absolute and unconditional obligation to make all Annual Payments in full when due.

Section 5.03. Source of Payment. (a) Each of the Cities represents and covenants that all payments to be made by them under this Contract shall constitute reasonable and necessary "operating expenses", as defined in Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 1113, as amended) of the Cities' System, but only to the extent of the Annual Payment, and the Cities shall not be obligated to make the payments under this Contract from any source other than the gross revenues of the Cities' System. Each of the Cities further represents that the Governing Bodies of the Cities have determined that the services to be provided by the Project are absolutely necessary and essential to provide the water to the Cities.

(b) Each of the Cities agrees throughout the term of this Contract to fix and collect such rates and charges for services to be supplied by the Cities' System as will produce gross revenues at all times during the term of this Contract in an amount at least equal to (i) all of the expenses of operation and maintenance of the Cities' System, including specifically its payments under this Contract and (ii) all other amounts as required by law and the provisions of the ordinances or resolutions authorizing the Cities Utility Bonds or other obligations now or hereafter outstanding

payable, in whole or in part, from the net revenues of the Cities' System, including the amounts required to pay all principal of and interest on such Cities Utility Bonds and other obligations.

(c) No ad valorem tax revenues of either of the Cities shall be pledged to the payment of any amounts to be paid by the Cities to the Corporation under this Contract, nor shall the Corporation have the right to demand payment of any amounts to be paid by the Cities under this Contract be paid from funds raised or to be raised from ad valorem taxation from the Cities and the obligations under this Contract shall never be construed to be a debt or pecuniary obligation of the Cities of such kind as to require the Cities to levy and collect an ad valorem tax to discharge their obligations.

Section 5.04. Corporation's Operation and Maintenance Expenses and Overhead Expenses.

To the extent not paid out of the proceeds of the Bonds, or otherwise, the Cities shall pay and reimburse the Corporation for all of its proportionate share of Operation and Maintenance Expenses and Overhead Expenses incurred by it throughout the term of this Contract within thirty (30) days of receipt of documentation therefor from the Corporation. The Cities also agree, with the consent of the Corporation, to enter into an interlocal agreement to provide for, among other matters, an annual adjustment of the Operation and Maintenance Expenses and Overhead Expenses paid by each City based upon certain formulas and taking into account the quantity of water actually utilized by each City.

Section 5.05. Annual Budgeting by the Cities. The Cities shall make provision in each of their annual budgets and shall appropriate an amount sufficient, at a minimum, for the payment of all amounts required to be paid by the Cities under this Contract.

Section 5.06. Revenue Sources Pledged. Each of the Cities hereby pledges the gross revenues of the Cities' System to the payment of their obligations under this Contract and recognize that the Corporation will, and authorize the Corporation to, pledge the Annual Payments owing to it by the Cities under this Contract to the payment of the Bonds and Credit Agreements. The Corporation agrees to make the payments for the Bonds and Credit Agreements when and as required by the Bond Resolution, the Credit Agreements, and this Contract, from and to the extent of proceeds of the Bonds not expended for the Project and Annual Payments made by the Cities.

Section 5.07. General Covenants. Each City further each represents, covenants and agrees that in accordance with and to the extent permitted by law:

(a) Performance. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in each ordinance or resolution authorizing the issuance of its Cities Utility Bonds; and it will, at the time and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the fund and accounts created by said ordinances, but only from and to the extent of the sources of funds and after satisfaction of all prior obligations described therein.

(b) Cities' Legal Corporation. It is a duly created and existing home rule city of the State and is duly authorized under the laws of the State to enter into this Contract that all action on its part for the execution and delivery of this Contract has been duly and effectively taken; and that this Contract is a valid and enforceable special obligation of the Cities in accordance with its terms.

(c) Acquisition and Construction; Operation and Maintenance. (1) It shall use its best efforts in accordance with Prudent Utility Practice to acquire and construct, or cause to be acquired and constructed, any capital improvements to the Cities' System, which shall mean and include any capital extensions, improvements, and betterments, in accordance with the plans and specifications therefor, as modified from time to time with due diligence and in a sound and economical manner; and (2) it shall at all times use its best efforts to operate or cause to be operated the Cities' System properly and in an efficient manner, consistent with Prudent Utility Practice, and shall use its best efforts to maintain, preserve, reconstruct and keep the same or cause the same to be so maintained, preserved, reconstructed and kept, with the appurtenances and every part and parcel thereof, in good repair, working order and condition, and shall from time to time make, or use its best efforts to cause to be made, all necessary and proper repairs, replacement, and renewals so that at all times the operation of the Cities' System may be properly and advantageously conducted.

(d) Title. It has or will obtain lawful title, whether such title is in fee or lesser interest, to the lands, buildings, structures, and facilities constituting its portion of the Cities' System; it will defend the title to all the aforesaid lands, buildings, structures, and facilities, and every part thereof, for the benefit of the Corporation and the owners of the Bonds, against the claims and demands of all persons whomsoever; and it is lawfully qualified to pledge the gross revenues of its portion of the Cities' System to the payment of the payments required by this Contract in the manner prescribed herein, and has lawfully exercised such rights.

(e) Liens. It will from time to time and before the same become delinquent pay and discharge all taxes, assessments, and governmental charges, if any, which shall be lawfully imposed upon its portion of the Cities' System; it will pay all lawful claims for rents, royalties, labor, materials, and supplies which if unpaid might by law become a lien or charge thereon, the lien of which would be prior to or interfere with the liens hereof, so that the priority of the lien granted hereunder shall be fully preserved in the manner provided herein; and it will not create or suffer to be created any mechanic's, laborer's, materialman's, or other lien or charge which might or could be prior to the liens hereof, or do or suffer any matter or thing whereby the lien hereof might or could be impaired; provided however, that no such tax, assessment, or charge, and that no such claims which might be used as the basis of a mechanic's, laborer's, materialman's, or other lien or charge, shall be required to be paid so long as the validity of the same shall be contested in good faith by the Cities.

(f) Books, Records, and Accounts. It shall keep proper books, records, and accounts separate and apart from all other records and accounts, in which complete and correct entries shall be made of all transactions relating to its portion of the Cities' System, the Bonds, and the Cities, and

shall cause said books and accounts to be audited annually as of the close of each Fiscal Year by the Accountant. At the request of the Corporation, the Cities shall allow the Corporation to audit such books, records, and accounts at any reasonable time and from time to time.

(g) Insurance. (1) Except as otherwise permitted in clause (2) below, it shall cause to be insured such parts of its portion of the Cities' System as would usually be insured by corporations operating like properties, with a responsible insurance company or companies, against risks, accidents, or casualties against which and to the extent insurance is usually carried by corporations operating like properties, including, to the extent reasonably obtainable, fire and extended coverage insurance, insurance against damage by floods, and use and occupancy insurance. Public liability and property damage insurance shall also be carried unless the City Attorney gives a written opinion to the effect that the City is not liable for claims which would be protected by such insurance. At any time while any contractor engaged in construction work shall be fully responsible therefor, the Cities shall not be required to carry insurance on the work being constructed if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the Corporation at all reasonable times.

(2) In lieu of obtaining policies for insurance as provided above, the Cities may self-insure against risks, accidents, claims, or casualties described in clause (1) above.

(3) The annual audit hereinafter required shall contain a section commenting on whether or not the City has complied with the requirements of this Section with respect to the maintenance of insurance, and listing the areas of insurance for which the City is self-insuring, all policies carried, and whether or not all insurance premiums upon the insurance policies to which reference is hereinbefore made have been paid.

(h) Audits. After the close of each Fiscal Year while this Contract is in effect, an audit will be made by each City of the books and accounts relating to its portion of the Cities' System and its portion of the revenues of the Cities' System by the Accountant. As soon as practicable after the close of each such Fiscal Year, and when said audit has been completed and made available to the Cities, a copy of such audit for the preceding Fiscal Year shall be mailed to the Corporation. Such annual audit reports shall be open to the inspection of the Corporation, its agents and representatives, the Trustee, and the owners of the Bonds at all reasonable times at the Corporation's office.

(i) Governmental Agencies. It will comply with all of the terms and conditions of any and all franchises, permits, and authorizations applicable to or necessary with respect to the Cities' System, and which have been obtained from any governmental agency; and the Cities have or will obtain and keep in full force and effect all franchises, permits, authorizations, and other requirements applicable to or necessary with respect to the acquisition, construction, equipment, operation, and maintenance of the Cities' System.

(j) No Competition. To the extent it legally may, it will not grant any franchise or permit for the acquisition, construction, or operation of any competing facilities which might be used as a substitute for the Cities' System's facilities, and, to the extent that it legally may, each City will prohibit any such competing facilities.

(k) Rights of Inspection. The Corporation, the Trustee, and the owners of 10% or more in principal amount of the Bonds of any series shall have the right at all reasonable times to inspect the Cities' System and all records, accounts, and data of the Cities relating thereto, and upon request the Cities shall furnish to the Corporation, the Trustee, and such owners of Bonds such financial statements, reports, and other information relating to the Cities and the Cities' System as any such person may from time to time reasonably request.

(l) Salc, Lease, or Disposal of Property by the Cities. No part of the Cities' System shall be sold, leased, mortgaged, demolished, removed, or otherwise disposed of, except as follows:

(1) To the extent permitted by law, a City may sell or exchange at any time and from time to time any property or facilities constituting its part of the Cities' System only if (i) it shall determine such property or facilities are not useful in the operation of the Cities' System, or (ii) the proceeds of such sale are \$250,000 or less, or it shall have received a certificate executed by the City Engineer of Record and the City Manager stating, in their opinion, that the fair market value of the property or facilities exchanged is \$250,000 or less, or (iii) if such proceeds or fair market value exceeds \$250,000 it shall have received a certificate executed by the City Engineer of Record and the City Manager stating (A) that system within the Cities' System of which the property or facilities comprises a part thereof and (B) in their opinion, that the sale or exchange of such property or facilities will not impair the ability of the Cities to comply during the current or any future year with the provisions of Section 5.03(b) of this Contract. The proceeds of any such sale or exchange not used to acquire other property necessary or desirable for the safe or efficient operation of the Cities' System shall forthwith, at the option of the Cities be used as provided in the ordinances of the Cities authorizing its Cities Utility Bonds.

(2) To the extent permitted by law, a City may lease or make contracts or grant licenses for the operation of, or make arrangements for the use of, or grant easements or other rights with respect to, any part of its portion of the Cities' System, provided that any such lease, contract, license, arrangement, easement or right (i) does not impede the operation by the Cities of the Cities' System and (ii) does not in any manner impair or adversely affect the rights or security of the Corporation under this Contract; and provided, further, that if the depreciated cost of the property to be covered by any such lease, contract, license, arrangement, easement, or other right is in excess of \$500,000, the Cities shall have received a certificate executed by the City Engineer of Record and the City Manager that the action of the Cities with respect thereto does not result in a breach of the conditions under this subsection (2). Any payments received by the Cities under or in connection with any such lease, contract, license, arrangement, easement or right in respect of the Cities' System or any part thereof shall constitute gross revenues of the Cities' System.

ARTICLE VI

CONTINUING DISCLOSURE

Section 6.01. Annual Reports. Following the issuance of Bonds of any series, the offer or sale of which is not exempt from the Rule and, until the Cities are no longer obligated, contingently or otherwise, to make Annual Payments in respect of the Bonds of such series, the Cities undertake to and shall provide annually to each NRMSIR and any SID, within six months after the end of each Fiscal Year, (1) financial information and operating data of the general type included in the Sale and Offering Documents for the Bonds of such series, as specified in the Cities' approval of such Sale and Offering Documents pursuant to Section 3.01 hereof and (2) audited general purpose financial statements of the Cities, if then available. Any financial statements so to be provided shall be (1) prepared in accordance with generally accepted accounting principles for governmental agencies or such other accounting principles as the Cities may be required to employ from time to time pursuant to state law or regulation, and (2) audited, if the Cities commission an audit of such statements and the audit is completed within the period during which it must be provided. If the audit of such financial statements is not complete within such period, then the Cities shall provide unaudited financial statements within the required period, and shall provide audited financial statements for the applicable Fiscal Year to each NRMSIR and any SID, when and if the audit report on such statements become available.

If the Cities change their Fiscal Year, they will notify the Trustee, each NRMSIR, and any SID in writing of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Cities 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 incorporated by specific reference to any document or specific part thereby (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. Copies of such information and operating data shall be furnished to the Corporation at the same time the information and data are furnished to any NRMSIR or SID.

Section 6.02. Material Event Notices. (a) The following are the events with respect to the Bonds which the Corporation must agree to disclose in a timely manner pursuant to the Rule, if "material" under applicable federal securities laws and regulations promulgated thereunder.

- (1) Principal and interest payment delinquencies;
- (2) Non-payment related defaults;
- (3) Unscheduled draws on debt service reserves reflecting financial difficulties;

- (4) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (5) Substitution of credit or liquidity providers, or their failure to perform;;
- (6) Adverse tax opinions or events affecting the tax-exempt status of the Bonds;
- (7) Modifications to rights of holders of the Bonds;
- (8) Bond calls,;
- (9) Defeasances;
- (10) Release, substitution, or sale of property securing repayment of the Bonds; and
- (11) Rating changes.

(b) The Cities shall, promptly after obtaining actual knowledge of the occurrence of any of the events enumerated in (a) above, notify the Corporation of such event and provide all information in the format required to satisfy the requirements of the Rule. Further, the Cities shall provide, in a timely manner, notice of any failure by the Cities to provide audited financial statements, financial information, and operating data in accordance with Section 6.01 hereof to each NRMSIR and each SID.

Section 6.03. Limitations, Disclaimers, and Amendments. The Cities shall be obligated to observe and perform the covenants specified in this Article in respect of the Bonds of any series for so long as, but only for so long as, the Cities remains an "obligated person" with respect to the Bonds of such series within the meaning of the Rule, except that the Cities in any event will give notice of any deposit made in accordance with the Bond Resolution that causes Bonds of such series no longer to be outstanding.

The provisions of this Article are for the sole benefit of (and may be enforced by) the owners 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 Cities undertake to provide only the financial information, operating data, financial statements, and notices which they have expressly agreed to provide pursuant to this Article and do not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Cities' 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 Cities makes no 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 CITIES BE LIABLE TO THE OWNER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE CITIES 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 Cities in observing or performing its obligations under this Article shall comprise a breach of or default under this Contract for purposes of any other provision of this Contract.

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

The provisions of this Article may be amended by the Corporation and the Cities 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 Corporation or the Cities, but only if (1) the provisions of this Article, as so amended, would have permitted an underwriter to purchase or sell Bonds of the applicable series in the primary offering of the Bonds of such series in compliance with the Rule, taking into account any amendments or interpretations of the Rule since such offering as well as such changed circumstances, and (2) either (a) the owners of a majority in aggregate principal amount (or any greater amount required by any other provision of this Contract that authorizes such an amendment) of the outstanding Bonds of each such series affected consent to such amendment or (b) an entity that is unaffiliated with the Corporation or the Cities (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interest of the owners and beneficial owners of the Bonds of such series and is permitted by the terms of the Article. If the Corporation and the Cities so amend the provisions of this Article in connection with the financial or operating data which the Cities are required to disclose under Section 6.01 hereof, the Cities shall provide a notice of such amendment to be filed in accordance with Section 6.02(b) hereof, together with an explanation, in narrative form, of the reason for the amendment and the impact of any change in the type of financial information or operating data to be so provided. The Corporation and the Cities may also amend or repeal the provisions of this Article if the SEC amends or repeals the applicable provision of the Rule or a court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but only if and to the extent that the provisions of this sentence would not prevent an underwriter from lawfully purchasing or selling Bonds in the primary offering of the Bonds.

ARTICLE VII

COMPLIANCE WITH FEDERAL, STATE AND LOCAL LAWS

Section 7.01. Compliance with Federal, State and Local Laws. In addition to the provisions of Section 8.08 hereof, this Contract is subject to all applicable federal and State laws and any applicable permits, ordinances, rules, orders and regulations of any local, state or federal government authority having or asserting jurisdiction. The Contract is specifically subject to the rules of the TNRCC and the Corporation shall have the right to terminate this Contract upon the Cities' non-compliance with the rules promulgated by the TNRCC. Pursuant to those rules the parties will comply with the following requirements:

Section 7.02. Recordkeeping and Reporting. The Cities and the Corporation shall maintain records on site for a period of five (5) years.

1. Records to be maintained by the Corporation include:

- A. copies of notifications made to the TNRCC concerning water projects;
- B. as applicable, copies of contracts made with each water user.
- C. records of volume of water delivered to each water user per delivery.
- D. water quality analyses.

2. The Corporation shall report to the TNRCC on a monthly basis the following information on forms furnished by the Executive Director of the TNRCC.

- A. volume of water delivered to the Cities.
- B. quality of water delivered to the Cities reported as a monthly average for each quality criteria except those listed as "not to exceed" which shall be reported as individual analyses.

Such reports are due to the TNRCC by the 20th day of the month following the reporting period.

The foregoing requirements of this Article VII shall be amended as necessary to comply with the rules of the TNRCC.

All costs of compliance with the rules of the TNRCC shall be paid by the Corporation, but such costs shall be considered an Operation and Maintenance Expense.

ARTICLE VIII

GENERAL PROVISIONS

Section 8.01. Participation by the Parties. The Corporation and each of the Cities each represents to the others that it is empowered by law to participate in the acquisition, construction, and financing of the Project, and to execute this Contract and other agreements and documents as are or may hereafter be required to accomplish the same; and that its participation in the Project and execution of this Contract have been duly authorized by action of its governing body at a meeting conducted in accordance with the Texas Open Meetings Act, as amended, Chapter 551, Texas Government Code. The Corporation and each of the Cities agree to furnish to the other such documentation or evidence of its authority to so participate and execute the contracts and other agreements as the other party may reasonably request, and to take and perform such other and further actions and execute such other agreements and documents as may be reasonably required to carry out the provisions of this Contract.

Section 8.02. Insurance. (a) The Corporation agrees to carry public liability insurance on the Project for purposes and in amounts which ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that the Corporation shall not be required to carry liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of the Corporation's legal counsel, be potentially liable considering relevant governmental immunities of the Cities and the Corporation. The Corporation shall also carry property casualty insurance in the amount of the replacement value of all improvements and personal property connected with the Project (less a deductible comparable to the deductible on the Cities' property insurance for Cities property generally).

All premiums for such insurance shall constitute an expense of the Project but may be paid out of the proceeds of the Bonds to the extent that such proceeds are available. In the event the Corporation is required to pay a deductible with respect to a claim under any such policy, the amount of such deductible shall constitute an expense and shall be paid by the Cities.

(b) The Corporation shall require the contractor or contractors employed for construction of the Project to carry insurance coverages throughout the construction period in at least the following amounts: (1) workers' compensation: State law limits; (2) general liability (including contractual liability) and automobile liability: one hundred thousand dollars (\$100,000) per person and per occurrence for bodily injury and one hundred thousand dollars (\$100,000) for property damage; (3) builder's risk: full replacement value of improvements; (4) performance and payment bond: full value of contract; (5) cost overrun insurance; and (6) timely completion insurance. The Cities shall be furnished with a certified copy of such effective policy of insurance prior to commencement of construction. Such insurance policies shall name the Corporation and the Cities as additional insureds, and the Corporation shall be provided with a certificate of insurance showing

the required coverages and providing that the policies may not be canceled, changed, or not renewed until the Corporation has been given thirty (30) days prior written notice of such event.

(c) The insurance required by this section may be modified by written agreement of the Cities and the Corporation, in accordance with good business practice. Any questions about the scope of coverage required hereunder shall be resolved by written agreement between the Cities and the Corporation. The parties can agree to substitute an owner controlled insurance program for any of the above specified insurance requirements.

Section 8.03. Force Majeure. If by reason of Force Majeure any party hereto shall be rendered unable wholly or in part to carry out its obligations under this Contract, other than the obligation of the Cities to make the payments required under Sections 3.05, and 5.02 of this Contract, then if such party shall give notice and full particulars of such Force Majeure in writing to the other party within a reasonable time after the occurrence of the event or cause relied on, the obligation of the party giving such notice, so far as it is affected by such Force Majeure, shall be suspended during the continuance of the inability then claimed, but for no longer period, and any such party shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "Force Majeure" as employed herein shall mean acts of God, strikes, lockouts or other industrial disturbances, acts of public enemy, orders of any kind of the Government of the United States or the State of Texas, or any civil or military authority, insurrection, riots, epidemics, landslides, lightning, earthquake, fires, hurricanes, blue northers, storms, floods, washouts, droughts, arrests, restraint of government and people, civil disturbances, explosions, breakage or accidents to machinery, pipelines or canals, partial or entire failure of water supply, inability on the part of the Corporation to deliver water for any reason, or on account of any other causes not reasonably within the control of the party claiming such inability.

Section 8.04. Unconditional Obligation to Make Payment. Recognizing the fact that the Cities urgently require the facilities and services of the Project, and that such facilities and services are essential and necessary for actual use and for standby purposes, and recognizing the fact that the Annual Payments to be received from each of the Cities will be the primary source of funds available to the Corporation and the Trustee to pay the Bonds, and recognizing the fact that purchasers of Bonds will rely on the obligation of the Cities to make Annual Payments in accordance with the provisions of this Contract, each of the Cities hereby waives all rights of set-off, recoupment, counterclaim, suspension, deferment, reduction, and amendment, with respect to making the Annual Payments against the Corporation, the Trustee, and any other direct or indirect recipients of Annual Payments, and the Cities agree that, if the Bonds are issued, they shall be unconditionally obligated to pay the Annual Payments as provided and determined by this Contract, regardless of whether or not the Corporation actually acquires, constructs, or completes the Project or breaches any obligation on its part hereunder, and whether or not the Cities actually uses the Project, whether due to Force Majeure or any other reason whatsoever, regardless of any other provisions of this Contract, any other contract or agreement between any of the parties hereto. This

covenant by each of the Cities shall be for the benefit of and enforceable by the owners of the Bonds and/or by the Corporation.

By entering into this Contract and performing its obligations under any Section of this Contract, the Cities do not release any persons from or waive any claims against such persons that the Cities may have resulting from actions by such persons contrary to that person's legal obligations.

Section 8.05. Term of Contract. This Contract shall be effective from and after its date, and this Contract shall continue in force and effect until the principal of and interest on all Bonds shall have been paid or provision for the payment of all of the Bonds has been made in accordance with the terms of the Bond Resolution and thereafter continue in force and effect during the entire useful life of the Project. When the principal of and interest on all Bonds shall have been paid or provision for the payment of all of the Bonds has been made in accordance with the terms of the Bond Resolution and all amounts owed to the Corporation, the Trustee, or any other person hereunder have been paid, all money held by the Trustee or the Corporation pursuant to the terms of the Bond Resolution shall be paid to the Corporation. Upon the termination of this Contract, the Corporation will charge each of the Cities a per gallonage charge (or other published rate) for water delivered to the Cities in accordance with the Corporation's then existing rate schedule.

Section 8.06. Modification. No change, amendment, or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all money required to be paid by the Cities under the terms of this Contract and no such change, amendment, or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

Section 8.07. Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made, or accepted by any party to the other parties must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties shall, until changed as hereinafter provided, be as follows:

If to the Corporation:

President, Board of Directors
Schertz/Seguin Local Government Corporation
c/o City Manager
City of Schertz, Texas
1400 Schertz Parkway
Schertz, Texas 78154

If to the Cities:

City Manager
City of Schertz, Texas
1400 Schertz Parkway
Schertz, Texas 78154

City Manager
City of Seguin, Texas
210 East Gonzales
Seguin, Texas 78155

The Corporation and the Cities hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days' written notice to the other parties.

Section 8.08. State or Federal Laws, Rules, Orders, or Regulations. This Contract is subject to all applicable federal and State laws and any applicable permits, ordinances, rules, orders, and regulations of any local, state, or federal governmental authority having or asserting jurisdiction but nothing contained herein shall be construed as a waiver of any right to question or contest any such law, ordinance, order, rule, or regulation in any forum having jurisdiction and the Cities and the Corporation represent that, to the best of their knowledge, no provisions of any applicable federal or State law, including the City Charters of the Cities, nor any permit, ordinance, rule, order, or regulation of either party will limit or restrict the ability of either party to carry out their respective obligations under or contemplated by this Contract.

Section 8.09. Severability. The parties hereto specifically agree that in case any one or more of the sections, subsections, provisions, clauses, or words of this Contract or the application of such sections, subsections, provisions, clauses, or words to any situation or circumstance should be, or should be held to be, for any reason, invalid or unconstitutional, under the laws or constitutions of the State or the United States of America, or in contravention of any such laws or constitutions, such invalidity, unconstitutionality, or contravention shall not affect any other sections, subsections, provisions, clauses, or words of this Contract or the application of such actions, subsections,

provisions, clauses, or words to any other situation or circumstance, and it is intended that this Contract shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, subsection, provision, clause, or word had not been included herein, and the rights and obligations of the parties hereto shall be construed and remain in force accordingly.

Section 8.10. Remedies Upon Default. It is not intended hereby to specify (and this Contract shall not be considered as specifying) an exclusive remedy for any default, but all such other remedies (other than termination) existing at law or in equity may be availed of by either party hereto and shall be cumulative. Recognizing that failure in the performance of the Cities' obligations hereunder could not be adequately compensated in money damages alone, each of the Cities agrees in the event of any default on its part that the Corporation and the owners of the Bonds as third-party beneficiaries shall have available to them the remedies of mandamus and specific performance in addition to any other legal or equitable remedies (other than termination) which may also be available to them. Notwithstanding anything to the contrary contained in this Contract, any right or remedy or any default hereunder, except the right of the Corporation to receive the Annual Payments and the provision of Section 3.09 hereof, which shall never be determined to be waived, shall be deemed to be conclusively waived unless asserted by a proper proceeding at law or in equity within two (2) years plus one (1) day after the occurrence of such default. No waiver or waivers of any breach or default (or any breaches or defaults) by any party hereto or of the performance by any other party of any duty or obligation hereunder shall be deemed a waiver thereof in the future, nor shall any such waiver or waivers be deemed or construed to be a waiver of subsequent breaches or defaults of any kind, character or description, under any circumstances.

Section 8.11 Venue. All amounts due under this Contract, including, but not limited to, payments due under this Contract or damages for the breach of this Contract, shall be paid and be due in Guadalupe County, Texas, which is the County in which the principal administrative offices of the Corporation are located. It is specifically agreed among the parties to this Contract that Guadalupe County, Texas, is the place of performance of this Contract; and in the event that any legal proceeding is brought to enforce this Contract or any provision hereof, the same shall be brought in Guadalupe County, Texas.

Section 8.12. Statutory Authority. In entering into this Contract and performing all duties and obligations hereunder, the Cities and the Corporation exercise their authority under and in accordance with the State Constitution and laws including, but not limited to, the Act, Chapter 402, as amended, Texas Local Government Code; Chapter 1502, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Articles 1111 through 1118), the Cities' Home Rule Charter; Chapter 1371, as amended, Texas Government Code (formerly Texas Revised Civil Statutes Annotated Article 717q,) and all other laws which may authorize this Contract, all of which provisions and laws, cited or not cited herein, shall cumulatively provide the authority for this Contract.

Section 8.13. Indemnification. FOR SO LONG AS THE BONDS ARE OUTSTANDING AND UNPAID, AND ALSO WITH RESPECT TO ANY CLAIM THAT MAY ARISE OUT OF THE OFFER AND SALE OF THE BONDS OF ANY SERIES OR THE ALLEGED MISSTATEMENT OR OMISSION OF A MATERIAL FACT IN OR FROM ANY SALE AND OFFERING DOCUMENT RELATING TO EITHER OF THE CITIES USED IN CONNECTION THEREWITH, TO THE EXTENT PERMITTED BY LAW, EACH OF THE CITIES AGREES TO INDEMNIFY AND SAVE AND HOLD HARMLESS THE CORPORATION, AND THE OTHER CITY, ITS OFFICERS, DIRECTORS, AGENTS, FINANCIAL ADVISORS, ATTORNEYS, AND EMPLOYEES, AND THE UNDERWRITERS OF ANY SUCH OFFERING AND THEIR DIRECTORS, OFFICERS, EMPLOYEES, AND AGENTS, AND ALL PERSONS WHO CONTROL THE SAME WITHIN THE MEANING OF THE FEDERAL SECURITIES LAWS, FROM AND AGAINST ALL CLAIMS THAT MAY ARISE AS A RESULT OF ANY UNDERTAKING, ACT, OR OMISSION, WHETHER NEGLIGENT OR NOT, WHICH IS DONE OR OMITTED TO BE DONE BY THE CITIES OR ANY OF THEIR OFFICERS, COUNCILMEN, AGENTS, ATTORNEYS, AND EMPLOYEES, RELATING TO THE PROJECT OR PROVIDING INFORMATION FOR INCLUSION IN THE SALE AND OFFERING DOCUMENTS. IF ANY SUCH CLAIM IS BROUGHT AGAINST ANY SUCH INDEMNIFIED PERSON, THE CITIES SHALL PAY ALL COSTS INCURRED BY SUCH PERSON IN DEFENDING AND (SUBJECT TO APPLICABLE RULES OF ATTORNEY CONDUCT) MAY CONTROL THE DEFENSE OF SUCH CLAIM.

Section 8.14. Contract not for Benefit of Third Parties. This Contract is made for the exclusive benefit of the Cities, the Corporation, the Trustee, the owners of the Bonds, the parties to any Credit Agreements, the underwriters of any offering of and remarketing agent and tender agent, if any, for any Bonds, and their respective successors and assigns herein permitted, and not for any third party or parties other than the Corporation (including its officers, directors, employees, agents, and attorneys), the Trustee, the owners of the Bonds, the Cities, and the parties to any Credit Agreements, the underwriters of any offering of and remarketing agent and tender agent, if any, for any Bonds, the other persons indemnified by Section 8.13 hereof, and their respective successors and assigns herein permitted, any rights or remedies under or by reason of this Contract.

Section 8.15. Succession and Assignment. This Contract is binding on and inures to the benefit of the parties hereto and their respective successors, representatives, and assigns. This Contract may not be assigned by either party hereto without (i) complying with any provisions relating to the right of the parties to assign this Contract contained in the Bond Resolution and (ii) prior written notice to and approval by the other party, which consent may be withheld without cause. The provisions of this Section do not affect the assignment of the Corporation's rights under this Contract to the Trustee pursuant to Section 3.08.

Section 8.16. Incorporation of Preamble Recitals. The recitals contained in the preamble hereof are hereby found to be true, and such recitals are hereby made a part of this Contract for all purposes and are adopted as a part of the judgment and findings of the Corporation and the Cities.

Section 8.17. Independent Contractor. As among the parties, the Corporation shall be solely responsible for the operation of the Project to produce and treat groundwater and to transport water to the Cities pursuant to this Contract (except to the extent the Corporation and the Cities enter into agreements for the Cities to operate parts of the Project); and the Corporation shall be an independent contractor in the operation of the Project.

Section 8.18. Financing Statement. Each of the Cities agrees at the request of the Corporation they shall execute a financing statement in a form satisfactory to the Corporation and meeting the requirements of the Texas Uniform Commercial Code to perfect any security interest created hereby. The Cities further agree to execute such continuation statements or other documents as may be necessary to maintain any such security interest.

Section 8.19. Entire Agreement.

This Contract constitutes the entire agreement among the parties with respect to the matters described herein.

Section 8.20. Applicable Law.

This Contract shall be governed by and construed in accordance with the laws of the State, and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable federal laws, rules, and regulations.

Section 8.21. Counterparts.

This Contract may be executed in counterparts, each of which shall be an original and all of which together shall constitute but one and the same instrument.

Section 8.22. Reservation of Rights to Utilize the Texas Water Development Board's State Participation Account Program. The Cities and the Corporation hereby agree that the Corporation may file an application with the Texas Water Development Board (the "TWDB") to seek financial assistance pursuant to the TWDB's State Participation Account (the "TWDB Program") as authorized pursuant to Article III, Sections 49-d, 49-d-2, and 49-d-8 of the Texas Constitution and Chapter 16, Subchapters E and F, as amended, Texas Water Code. To the extent the Corporation utilizes the TWDB Program to access funds to complete the Project, the TWDB Program's rules and regulations require that the TWDB take an undivided ownership interest in up to 50% of the infrastructure improvements comprising the Project. This undivided ownership interest is

represented by a master agreement and other documents to be executed between the Corporation and the TWDB to effectuate the Corporation's financial participation in the TWDB Program. Under the TWDB Program, the Corporation will be obligated (and the Cities will be obligated to make Annual Payments to reflect this financial obligation) to make lease or other rental payments to the TWDB to repay its financial assistance which enabled the Corporation to construct the Project in a manner in which excess capacity in the Project was implemented on a regional basis.

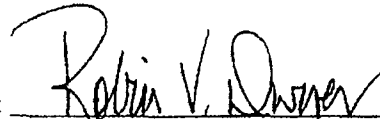
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IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed as of the day and year first above written.

SCHERTZ/SEGUN LOCAL GOVERNMENT
CORPORATION

Attest.

By:



President, Board of Directors



Secretary, Board of Directors

CITY OF SCHERTZ, TEXAS

By:

Mayor

Attest:

City Secretary

CITY OF SEGUIN, TEXAS

By:

Mayor

Attest:

City Secretary

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed as of the day and year first above written.

SCHERTZ/SEGUIN LOCAL GOVERNMENT
CORPORATION

Attest:

By: _____
President, Board of Directors

Secretary, Board of Directors

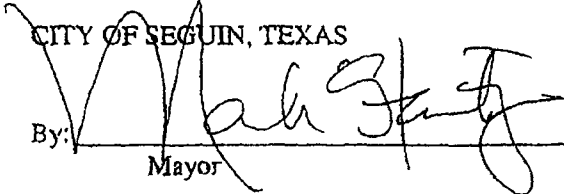
CITY OF SCHERTZ, TEXAS

By: _____
Mayor

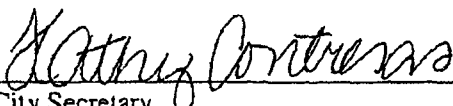
Attest:

City Secretary

CITY OF SEGUIN, TEXAS

By:  _____
Mayor

Attest:

 _____
City Secretary

IN WITNESS WHEREOF, the parties hereto acting under authority of their respective governing bodies have caused this Contract to be duly executed as of the day and year first above written.

SCHERTZ/SEGUIN LOCAL GOVERNMENT
CORPORATION

Attest:

By: _____
President, Board of Directors

Secretary, Board of Directors

CITY OF SCHERTZ, TEXAS

By: *Hal Baldwin*
Mayor

Attest:

Dorma Althouse
City Secretary

CITY OF SEGUIN, TEXAS

By: _____
Mayor

Attest:

City Secretary

Table 2-8
SSLGC
Existing Contract Commitments
(From Gonzales Well Field)

Schertz	8,351	5,801
Seguin	8,351	5,801
Springs Hill	560	521
Converse	500	500
Universal City	800	1,000
Selma	800	1,000
SAWS ¹	-	9,500
TOTAL	19,362	24,123

1. SAWS provides water from its Buckhorn Well Field and is therefore not included in the SSLGC quantity.

**AGREEMENT FOR MANAGEMENT SERVICES
BETWEEN THE CITY OF SCHERTZ AND
THE SCHERTZ/SEGUIN LOCAL GOVERNMENT CORPORATION**

THE STATE OF TEXAS

KNOWN ALL MEN BY THESE PRESENTS:

COUNTY OF GUADALUPE

THIS AGREEMENT, executed the 16th day of JULY, 2015, by and between the City of Schertz, a municipal corporation, acting by and through its City Manager, situated in Guadalupe County, Texas (hereinafter referred to as "Schertz"), and the Schertz/Seguin Local Government Corporation (hereinafter referred to as "SSLGC") acting by and through its General Manager is as follows:

WITNESSETH:

I.

Schertz agrees to provide certain management, administrative, operational, customer relations, and financial services to SSLGC according to the terms of this Agreement. The General Manager of SSLGC shall be an employee of Schertz but shall be assigned to SSLGC and shall be charged with the responsibility of carrying out SSLGC's operations and programs as adopted by the SSLGC Board. SSLGC agrees that the General Manager may be terminated as an employee only by Schertz, but as long as this Agreement remains in effect, Schertz shall consult with SSLGC prior to terminating the General Manager. Direct services Schertz shall perform for SSLGC pursuant to this Agreement shall include, but not limited to the following:

1. Preparing all reports and keeping records required by the SSLGC Board;
2. Administering and monitoring all contracts authorized by the SSLGC Board;
3. Preparing the budget for the upcoming year for review and approval by the SSLGC Board and City Councils of Schertz and the City of Seguin;
4. Monitoring the progress of and report to the SSLGC Board and SSLGC General Manager concerning operations of SSLGC water systems;
5. Preparing all reports, records, etc. required by TCEQ, EPA and other applicable agencies; and
6. (Subject to Article IX of this Agreement) providing risk management service in accordance with the requirement of the SSLGC's bond resolutions, the water supply agreement with Schertz and the City of Seguin, the terms of this Agreement, and directives of the SSLGC Board.

Schertz's services under this agreement are subject to oversight and direction by the SSLGC Board and the SSLGC General Manager. Schertz will procure SSLGC Board approval for all contracts and management decisions affecting SSLGC and governed by the terms of this Agreement. In performing

The SSLGC Administrative Building at 108 W. Mountain Street, Seguin, Texas 78155, will be known as the location of the SSLGC Administrative Office and SSLGC Meeting site.

VI.

Subject to early termination as provided in Article VII below, this Agreement shall be in effect for a period of one year commencing **OCTOBER 1, 2015** and ending **SEPTEMBER 30, 2016**, unless otherwise renewed or extended at the discretion of both parties.

VII.

TERMINATION:

1. This Agreement may be terminated by Schertz or SSLGC, in whole, or from time to time in part, upon ninety (90) day written notice from the terminating party to the other party. The effective date of termination shall be ninety (90) days after delivery of Notice of Termination specifying to what extent performance or work under the Agreement shall be terminated ninety (90) days after receipt by the notified party.
2. After receipt of a Notice of Termination Schertz shall:
 - a. Stop work on the date as specified in the Notice of Termination to extent possible.
 - b. Place no further orders or subcontracts except as may be necessary for completion of the work not terminated.
 - c. Terminate all order and subcontracts to the extent that they relate to the performance of work terminated by the Notice of Termination in so far as possible.
 - d. SSLGC shall pay expenses incurred through the date of termination.

VIII.

It is expressly understood that Schertz and SSLGC each retain the right to pursue other avenues for development and operation of public water systems, when it is determined to be in the best interest of Schertz or SSLGC to do so, and this Agreement shall not limit either Schertz's right or SSLGC's right to pursue such interests.

IX.

It is the intent of the parties for SSLGC to acquire, after consultation with Schertz, insurance and other risk management programs to protect SSLGC, its property, and its participants.

To the extent permitted by law and to the extent SSLGC is protected by insurance or other risk management program, SSLGC shall defend, indemnify and hold harmless Schertz from and against claims, demands, actions, judgments, and liabilities asserted by any person other than SSLGC arising out of the performance by Schertz of its services on behalf of, and as agent of, SSLGC under

THE STATE OF TEXAS X

COUNTIES OF BEXAR, X

CONTRACT FOR SEWERAGE SERVICE

COMAL, AND GUADALUPE X

THIS CONTRACT is made and entered into as of the 15th day of January, 1985, by and between the Cibolo Creek Municipal Authority, (hereinafter called "Authority") and the City of Schertz, Texas, (hereinafter called "City"). This Contract supersedes and replaces the contract of March 21, 1973 between the Authority and the City.

W I T N E S S E T H :

WHEREAS, the Authority was created and established as a governmental agency, body politic and corporate, and a conservation and reclamation district under Article XVI, Section 59 of the Constitution of the State of Texas, by Chapter 347, Acts of the 62nd Legislature, Regular Session, 1971, and amended in 1977 by Senate Bill 137; and,

WHEREAS, the Texas Water Quality Board has designated the Authority as the governmental entity to develop a regional sewerage system in that area of the Cibolo Creek watershed heretofore designated (by Board Order No. 70-0327-2) as a regional area; and has charged the Authority with the responsibility of the design, construction, and operation of such regional sewerage system; and

WHEREAS, such regional sewerage system of the Authority is to consist of sewage treatment plants and outfall and interceptor lines; and the Authority shall be, and is, responsible for the design, construction, and maintenance of all portions of the sewer system within the aforesaid area that are eligible for grants under Public Law 95-217, while other portions of the system (collectors) are to be maintained and constructed by various political subdivisions within such area, and others; and,

WHEREAS, the said sewage collection system of the City, when constructed, is to be incorporated as an integral part of the regional sewerage system and the execution hereof by the parties is considered proper and expedient in order to provide the regional or area-wide waste collection, treatment and disposal system which is necessary to prevent pollution and maintain and enhance the quality of water in the area; and

WHEREAS, the parties hereto, by their respective governing bodies DO HEREBY FIND and DETERMINE:

- (1) That a regional or area-wide system is necessary and desirable to prevent pollution and maintain and enhance the quality of water in the area;
- (2) That the regional system of the Authority is capable of servicing the wastewater collection, treatment, and disposal needs of all of said area;
- (3) That the Authority as owner or operator of said system is agreeable to providing such services in full conformity with the aforesaid order or the Texas Water Quality Board; and
- (4) That the operation of the sewage treatment system by the Authority will be more economical (by reason of scale) than the operation of the sewage treatment system by the City; and

- (5) That it is the desire of the parties signatory that costs for performing sewage transportation and treatment should be distributed to the users to assure:

- (a) Uniform charges;
- (b) economic efficiency and administrative simplicity; and
- (c) revenue adequacy;

so that the region as a whole will benefit from the improved quality of the treatment of sewage and the consequent improvement of the quality of water and the environment of the region; and

WHEREAS, this contract is intended to assist in implementing State and Federal policy to establish and control the quality of water in the State, and control, prevent, and abate the pollution thereof, and encourage and promote the development and use of regional and area-wide waste collection, treatment, and disposal systems to serve the waste disposal needs of the citizens of the State; NOW, THEREFORE, the parties hereto, in consideration of the mutual agreements and undertakings hereinafter set forth, hereby contract and agree as follows:

ARTICLE I

Definitions:

SECTION 1.01: Unless the context shall indicate a contrary meaning or intent, the terms below defined, for all purposes of this contract amendatory or supplemental hereto, shall be construed or used, and are intended to have meanings, as follows:

- (a) "additional contracting party or parties" means any city or other person, as defined in Chapter 25 of the Texas Water Code, other than the parties hereto, who shall enter or have entered into a contract with the Authority under which the Authority is to furnish service to such city or other person through the system.
- (b) "debt of the system" means:
 - (i) the amount required by the proceedings authorizing the issuance of bonds of the Authority to be set aside and provided for the payment and security of each series of bonds delivered by the Authority to provide for the construction of all or part of the system or for the improvement, repair or extension thereof; and
 - (ii) the cost of the treatment plant of any additional contracting party which (a) is located in whole or in part in the service area of the Authority and (b) which party (as the owner thereof) executes a contract with the Authority whereby the Authority operates the same. Costs of any such treatment plant shall be determined as provided in Section 4.11.
- (c) "engineer" means an independent consulting engineer of national reputation as may be selected by the Authority for services in connection with the system.

- (d) "fiscal year" means the twelve-month period beginning October 1 of each year.
- (e) "industrial waste order" means any order, resolution, or ordinance adopted by the parties or additional contracting parties to control or regulate the discharge into the system of:
 - (i) liquid and water-carried wastes from industrial processes, as distinguished from sanitary sewage, or
 - (ii) garbage (solid wastes from the preparation, cooking, and dispensing of food and from handling, storage, and sale of produce) or
 - (iii) grease (fats, waxes, oils and other similar materials in waste water, as determined by procedures specified in the then latest edition of "Standard Method for Examination of Water and Waste Water" published by the American Public Health Association, Inc.)
- (f) "local sewerage facilities" shall mean all facilities owned or operated by the City or one or more of the additional contracting parties for the local collection of sewage to be delivered to the system.
- (g) "maintenance and operation expense" means all costs of repairs and replacements of the system, all costs of maintenance and operation of the system, including (for greater certainty but without limiting the generality of the foregoing) supervision, general administration, engineering, accounting, auditing, annual reports, payments made by the Authority in satisfaction of judgments resulting from claims not covered by the system's insurance, any costs arising in connection with the operation of the system, legal expense, and any other supplies, insurance, services and equipment necessary for proper operation and maintenance of the system. Such term shall not include depreciation.
- (h) "meter" means any device used to measure sewage flow (or, where applicable, the flow of potable water).
- (i) "metered discharge" means the volume of sewage flow, expressed in millions or thousands of gallons, introduced into the system.
- (j) "point of entry" is a designated location in the system at which a particular contracting party may discharge sewage into the system.
- (k) "sanitary sewage" means liquid and water-carried waste discharged from the sanitary conveniences of dwellings and other buildings.
- (l) "system" means
 - (i) the sewage treatment plant or plants owned or operated by the Authority together with all future extensions, betterments, replacements, or additions thereto constructed or otherwise acquired with the proceeds of financing accomplished by the Authority; and

- (ii) the other facilities (including interceptors) to provide for the receiving, transporting, treating, and disposing of sewage which the Authority is obligated to receive under the terms of this or a similar contract; said term shall include only those facilities which are constructed or acquired, or the use of which is arranged for, by the Authority to afford service in the Service Area of the Authority which can economically and efficiently be served by the system, irrespective of whether the facilities of said system are physically interconnected. Specifically, the term includes any facilities leased by the Authority or operated for or on behalf of the City or an additional contracting party.

ARTICLE II

Representations and Agreements:

SECTION 2.01: The City's Representations and Agreements -
In connection with its undertakings hereunder, the City represents as follows:

- (a) In its capacity as a duly incorporated city of Texas, it is empowered under applicable laws of Texas, particularly under the Interlocal Cooperation Act and the Texas Water Code, to enter into the engagements prescribed for it under this agreement and to perform all obligations which may result therefrom, and its governing body has duly authorized execution of this agreement.
- (b) It will exclusively use the waste collection, treatment, and disposal system or systems to be provided under the terms of this agreement and in accordance with the terms and conditions herein set forth.
- (c) It will timely pay to the Authority the full amount it is required to pay under the provisions of this contract for the services supplied by the system.
- (d) During the time this contract is in force and effect, it will not expend any funds for the construction of its own local wastewater treatment capacity
- (e) That it will (i) plan, construct, maintain, and finance local sewage facilities, (ii) set retail rates to individual customers for utility service adequate to meet its obligations including those hereunder, (iii) bill and collect for local sewer services, (iv) set and enforce construction standards (plumbing codes and building ordinances) for local lines based on regional standards, and (v) issue tap permits on local lines forming a part of the system.
- (f) That it will cooperate with the Authority in the performance of the duties and responsibilities assigned to the Authority by this contract.
- (g) Any sewer lateral, main, or sub-main serving two or more residential or commercial units of the City which is connected in the future directly

or indirectly to the system shall be designed by, and the construction shall be supervised by, competent engineers. Such engineers shall, in the preparation of plans and specifications for such construction, incorporate therein requirements and methods of construction approved by the City and the Authority.

SECTION 2.02: Representations and Agreements by the Authority - The Authority represents to the City and agrees with such party as follows:

- (a) That it will use its best efforts to obtain maximum State and Federal grant assistance in expanding the Authority's system, when such expansion becomes necessary, to the end that capital costs shall be kept at a minimum.
- (b) That the Authority will:
 - (i) prepare comprehensive regional plans for water quality management, pollution control, and abatement in its service area which
 - (1) are consistent with any applicable water quality standards established pursuant to current law;
 - (2) endeavor to maintain disposal systems as will provide the most effective and economical means of collection, storage, treatment, and purification of waste, and recommend means to encourage rural, municipal, and industrial use of such works and systems; and
 - (3) recommend maintenance and improvement of water quality standards within said area and recommend methods of adequately financing those facilities as may be necessary to implement the plan.
 - (ii) join in the performance of planning functions with any public agency and enter into planning agreements for such term and upon such conditions as may be deemed desirable so as to provide coordinated planning on an area-wide scale;
 - (iii) evaluate the planning as facilities are completed; and
 - (iv) encourage the development and enforcement of wastewater standards within its service area.

The planning by the Authority shall be comprehensive in nature, shall consider the sources of water, recycling, pollution sources, pollution abatement techniques, and devices as well as the use of water within the region. Local influence and input shall be obtained for the planning of interceptors.

ARTICLE III

Procedures to Insure Quality:

SECTION 3.01: Points of Entry - The system shall accept sewage only from the City and additional contracting parties.

Sewage will be accepted into the system at those points where the City's collection system joins the Authority's interceptor lines. All such points will be considered points of entry.

SECTION 3.02: Quality - The City agrees to limit its discharge into the system to those that are defined as admissible discharges in the industrial waste order and curtail the discharge of any wastes that have the characteristics of prohibitive discharges, and revisions to the industrial waste orders of the parties hereto will periodically become necessary so as to comply with these latest standards. It is the intention of this contract that the respective industrial waste orders be reviewed periodically by the parties; and each hereby covenants to revise its order in accordance with the latest standards of any Federal or State agency having regulatory powers within ninety (90) days of receipt of notice from one party to the other of such change.

SECTION 3.03: Testing Quality - At regular intervals to be determined by the Authority, the Authority will collect twenty-four hour composite samples of all sewage at each point of entry and cause same to be analyzed by American Public Health Association standard methods.

Should the analysis disclose concentrations higher than those permitted by the industrial waste order, the Authority will at once inform the City of such disqualification. It shall be the obligation of the City to require the offending originator of said highly concentrated materials to undertake remedial pre-treatment before discharge into the City's local sewage facilities. The engineers will cooperate with City engineers in reaching a satisfactory solution, but will not undertake to specify the pre-treatment process to be employed. In some borderline cases of excessive strength of industrial waste, the originating industry and the City may be desirous of, and the Authority may be agreeable to, negotiating terms under which the Authority will accept and treat the over-strength waste, but the Authority makes no commitment to perform such service.

SECTION 3.04: Responsibility for Wastes - The City (i) shall have full responsibility in connection with all wastes handled by its local sewage facilities and (ii) agrees to save and hold the Authority harmless from all claims, demands, and causes of action, attributable solely to factors under the City's control, which may be asserted by anyone on account of the transportation, delivery, and disposal of said wastes while they are in the process of being handled by such local sewage facilities.

SECTION 3.05: Unit of Measurement - The unit of measurement for sewage hereunder shall be gallons, U. S. Standard Liquid Measure.

ARTICLE IV

Fiscal Matters:

SECTION 4.01: Types of Payments for Service - For and in consideration of the undertakings of the Authority hereunder, the City agrees that it will tender to the Authority a single monthly payment based upon the following charges:

- (a) Base monthly charge - a pro rata cost of maintenance and operation expense of the system (including power, chemicals, and supplies required in the treatment of sewage).
- (b) Sewer Charge - an amount adequate to disclose its pro rata part of the amount required for the amortization of the debt of the system. Such payment shall, with respect to the debt of the system, be not less than one-twelfth (1/12) of the requirements to become due within the fiscal year to which the budget relates; provided the Authority may adjust such payments as required to provide for the accumulation of the full amount of the sewer payments on the first day of the

month preceding the time debt service requirements become due. In making a determination of the amount of the sewer payments, consideration shall be given to the amount on hand, investment income, provisions for interest during construction from bond proceeds, or other sources.

- (c) Additional monthly charge - any amount established as the charge to the City for the treatment of each 1,000 gallons of sewage delivered into the system which does not meet the requirements for admissible discharge.
- (d) Nothing in this Section 4.01 or in this Article IV shall be construed so as to prevent the Authority from exercising its right to make such lawful charges and assessments, including user charges, connection fees, or any other means of obtaining revenues from the disposal system of the Authority that it might otherwise be authorized to make by virtue of being a conservation and reclamation district and a designated regional and area-wide waste treatment and disposal authority. In fixing and establishing such charges and assessments, however, the Authority shall take into account:
 - (1) the volume, type, character, and quality of the waste of each user or class of users;
 - (2) the techniques of the treatment required;
 - (3) any capital costs and debt retirement expenses of the disposal system required to be paid for from the charges and assessments;
 - (4) the costs of operating and maintaining the system to comply with Chapter 21 of the Texas Water Code and the permits, rules, and orders of the Texas Department of Water Resources;
 - (5) any other costs directly attributable to providing the waste disposal service under standard, accepted cost-accounting practices.

SECTION 4.02: Proration of Base Monthly Charge and Sewer Charge - The pro rata portion of expense the City is to bear under the provisions of subparagraphs (a) and (b) of Section 4.01 shall be the proportion of such expense for the treatment of admissible discharge which the amount of admissible discharge delivered through its local sewage facilities to the system bears to the total amount of such admissible discharge so delivered through all local sewage facilities. The pro rata portion of the expenses that the City and other contracting parties are to bear are determined on a gallonage system or any other user charge system that results in each contracting party paying its pro rata portion of the base monthly charge and the sewer charge.

SECTION 4.03: Time of Making Payments - On or before the 20th business day of each month, the City shall pay in a single payment the charges incurred in the previous month, as listed in Section 4.01 (a), (b), and (c) above. The charges to the City in Section 4.01 (a) and (b) will be determined by application of the rate established by the Board of Directors of the Authority for each 1,000 gallons of sewage delivered by it to the Authority at a point of entry. During such period (so long as the debt of the system is not increased) such payment shall constitute the full amount required to meet the base monthly charge and the sewer charge for which provision is made in paragraphs (a) and (b) of Section 4.01. The amount due as an additional monthly charge in Section 4.01 (c) for sewage which is not an admissible discharge, shall not be reduced or affected by the payments hereunder.

The amount set forth in the preceding paragraph shall be subject to adjustment as provided in Section 4.07 (b) and 4.07 (c).

SECTION 4.04: Covenant of Timely Payment - The City covenants that it will timely pay (i) the sewer charges in accordance with the provisions hereof, irrespective of whether service of the system is available to it, or used if so available to it, or service has been discontinued; (ii) the base monthly charges; and (iii) the additional monthly charges, if any as the same shall become due and payable.

SECTION 4.05: Late Payment Penalty - Should the City fail to make any payment at the times herein specified, interest on such amounts shall accrue at the rate of one and one-half per cent (1-1/2%) per month from the date such payment becomes due until paid in full, with interest as herein specified. In the event such payment is not made within sixty (60) days from the date such payment becomes due, the Authority may institute a proceeding for mandatory injunction requiring payment of the amount due and interest thereon, such action to be instituted in a court of competent jurisdiction. In such event, the City agrees to pay reasonable attorneys fees incurred by the Authority.

SECTION 4.06: Priority of Charges; City to Fix Adequate Rates -

- (a) The City represents and covenants that all payments to be made by it hereunder shall constitute "operating expenses" of its sanitary sewer system with the effect that the obligation to make such payments from its utility system revenues under this contract shall be an operating expense as defined by Article 1113, Revised Civil Statutes of Texas, 1925, as amended.
- (b) The City further agrees to fix and collect such rates and charges for utility services to its customers as will, in combination with any other funds legally available and reasonably assured for the purpose, make possible the prompt payment of all expenses of operating and maintaining its utility system and all payments contracted hereunder.

SECTION 4.07: The Budget - All parties executing this instrument recognize that a portion of the cost to be paid for service supplied by the system will be calculated on the basis of estimated quantities of sewage treated and estimated expenses; that the Authority will be required to accumulate funds with which to pay its debt service requirements; and that the maintenance and the following procedures will be employed:

- (a) On or before the 15th day of July prior to the close of the fiscal year of the Authority, the Authority shall estimate the amount of charges payable to the Authority by each user for the ensuing year.
- (b) When the debt of the system is increased, the Authority shall forthwith, within thirty (30) days of the delivery of its obligations, compute the additional amount required, if any, as a sewer charge to become due prior to the time such debt will be included in the regular budget process; and shall notify the City and additional contracting parties of the additional amount to be paid monthly in order to fully provide for such additional debt.
- (c) By the 15th day of August each year, the governing officials of the Authority shall transmit a copy of the annual budget for the fiscal year commencing the following October 1, to the City and to each additional contracting party. By the following September 15

the City and each additional contracting party may indicate any exceptions or suggestions and transmit the same to the Authority. Due consideration shall be given by the Authority to any exceptions or suggestions by any such contracting party and the same shall be incorporated insofar as consistent with the Authority's rights and obligations.

SECTION 4.08: Records of Authority - The authority shall keep detailed records and accounts of the expenses mentioned so the same may be divided or prorated as hereinabove provided. In no event shall any of the expense charged to the City include depreciation or nonallocable expenses.

The Authority covenants that the expenses it is to assume and pay by reason of the provisions of this contract will be paid out of funds available to it.

SECTION 4.09: Adjustment to Charges - It is agreed the following adjustment shall be made:

Sale or Reuse of Wastewater - Any income derived by the Authority from the sale or reuse of effluent shall be credited to the City and additional contracting parties in the same proportion contributed by the City and the additional contracting party to the system. The adjustment shall be made annually immediately after the close of each fiscal year and shall be a credit on maintenance and operating expenses owed by the particular user.

SECTION 4.10: Nature of Obligation of City - The payments required to be made by the City under the terms of this contract shall be due and payable as herein specified in any and all events, regardless of whether the system shall have been wholly or partially destroyed or damaged. The agreements of the City and each additional contracting party to make the payments required shall be and are separate and independent covenants and no City shall have a right of setoff, recoupment, or counterclaim. As to the base monthly charges and additional base monthly charges, however, the City may discontinue payment of same during any period in which such City shall not be tendered any service by the system by wrongful affirmative act of the Authority. The Authority shall never have the right to demand payment of any obligation assumed by the City out of funds raised, or to be raised, by taxation. Any obligations assumed or imposed on a party hereto shall never be construed as a debt of such party of such kind as to require it under the Constitution and laws of this State to levy and collect taxes to discharge such obligation, it being expressly understood by the parties hereto that the funds required for all payments due by the City are to be derived from revenue for sewer service from the City's sewage collection facilities. The City agrees to operate and maintain its local sewage facilities in such manner and to make such charges for the services supplied thereby to all customers so that the revenues derived therefrom will always be adequate to enable such City to promptly make all payments due Authority under the provisions of this agreement, and all payments so made shall be deemed expenses of maintaining and operating the local sewage facilities of such City.

SECTION 4.11: Cost of the City's Treatment Facility - The Authority shall make payments to the City to compensate the City for its continuing debt service payment requirements on sewage treatment facilities that were deeded to the Authority for its use (as described in Exhibit A) after the City's original contract with the Authority was executed on March 21, 1973. Such payments will be made monthly by the Authority to the City as set forth in Exhibit B.

ARTICLE V

Miscellaneous Provisions:

SECTION 5.01: Contract Term and City's Rights and End of Term - The obligation of the City to promptly make all prescribed monthly payments shall commence upon the execution of this agreement, and continue for a term (i) of fifty (50) years or (ii) until all debt of the system has been retired, whichever shall last occur. At the end of such term, the Authority agrees all contracting parties, including the City, shall have the right to an extension of the term of this contract beyond such initial period for an additional term of sixty (60) years under identical terms and conditions provided the City and all additional contracting parties are agreeable.

SECTION 5.02: Modification of Provisions - This contract may be changed and modified only with the consent of the governing bodies of all parties signatory. Such modification may be requested by either party, in which event a joint meeting of the governing bodies or of their duly authorized and appointed representatives shall be held not less than thirty (30) days after the giving of such notice. At such joint meeting, the suggested changes or modifications shall be considered, discussed, and settled. No such change or modification may be made which will affect adversely the payment when due of all monies required to be paid by the City under the terms of this contract and no such change will be effective which affects adversely or causes a violation of any covenants contained in the resolution or order authorizing the issuance of the Authority's bonds.

If for any reason the City may desire the construction of any additional facilities over and above those now contemplated, and provided same are within the legal and economic capabilities of the Authority, provision therefor shall be made by means of such City and the Authority. Should the Authority desire to construct any such additional facilities for the purpose of meeting the Authority shall not proceed with any work on such facilities other than preliminary planning without following the procedures described in this Section. Nothing herein contained shall restrict the power of the Authority to enter into additional contracts with additional contracting parties provided the revenues of this contract are not pledged or hypothecated in any manner thereunder.

SECTION 5.03: Regulatory Provisions - This contract shall be subject to all valid rules, regulations, and laws applicable thereto, as promulgated by the United States of America, the State of Texas, or any other governmental body or agency having lawful jurisdiction or any authorized representative or agency of any of them.

SECTION 5.04: Taxes -

- (a) **Sales or Use Taxes -** In the event any sales or use taxes, or taxes of any nature, are hereafter imposed upon the sale or use of sewage water received by the system under this contract or against the Authority or the system, the amount of such taxes shall be treated as operating expenses of the system.
- (b) **Ad Valorem Taxes -** In the event that the Authority initiates an ad valorem tax within its boundaries as a means of generating revenues for operation and/or debt retirement of its system, the City agrees to do the following:

For those areas within the corporate limits of the City of Schertz, but not within the boundaries of the Authority, which receive wastewater treatment service from the Authority, either directly or indirectly, the City will collect a fee in lieu of taxes

from each user. Such fees will be at least sufficient so that the amount forwarded to the Authority by the City will be equal to the taxes paid to the Authority for properties of equal value inside the Authority's boundaries, as determined by Guadalupe County Central Appraisal District valuations. Such fees will be forwarded to the Authority by the City on an annual basis in conformance with the tax payment schedule for properties taxed within the Authority's boundaries. Such fees may be required by the Authority as either whole or partial compensation for wastewater service rendered to the City of Schertz.

SECTION 5.05: Title to Water and Sewage - Title to all water and sewage put into the system under this agreement shall pass to the Authority at the point of entry.

SECTION 5.06: Easements - The City agrees that the Authority may have such easements over any easements, rights-of-way, or property held by such City so that the facilities and required equipment may be appropriately provided.

SECTION 5.07: Force Majeure -

- (a) If for any reason of "force majeure" any of the parties hereto shall be rendered unable wholly or in part to carry out its obligations under this agreement, other than the obligation of the City to make the payments required under the terms of Article IV hereof, then if such party shall give notice and full particulars of such reasons in writing to the other party within a reasonable time after the occurrence of the event, or cause relied on, the obligation of the party giving such notice, so far as it is affected by such "force majeure", shall be suspended during the continuance of the inability then claimed, but for no longer period; and any such parties shall endeavor to remove or overcome such inability with all reasonable dispatch. The term "force majeure" as employed herein shall mean acts of God, strikes, lock-outs or other industrial disturbances, acts of public enemy, orders or actions of any kind of the Government of the United States or of the State of Texas or any civil or military authority, insurrections, riots, epidemics, landslides, lightning, earthquakes, fires, hurricanes, storms, floods, washouts, droughts, arrests, restraints of government and people, civil disturbances, explosions, breakage or accident to dams, machinery, pipelines, or canals or other structures, on account of any other cause not reasonably within the control of the party claiming such inability. It is understood and agreed that the settlement of strikes and lock-outs shall be entirely within the discretion of the party having the difficulty, and that the above requirement that any "force majeure" shall be remedied with all reasonable dispatch shall not require the settlement of strikes and lock-outs by acceding to the demands of the opposing parties when such settlement is unfavorable to it in the judgment of the party having the difficulty. No failure of the Authority to meet any obligation by reason of "force majeure" shall relieve the City from its obligations to make the payments required under the terms of Article IV hereof.
- (b) No damages shall be recoverable for the Authority by reason of the causes above mentioned.
- (c) It is expressly recognized by the City that the Authority may be compelled to make necessary alternations, repairs,

or extensions of new or additional facilities from time to time during the life of this contract and any suspension of service to the City due to such operation shall not be cause for claim of damage on part of the Authority, provided all reasonable effort is used by the Authority to provide the City with service in accordance with this contract. In such case, the Authority shall give the City as much advance notice as may be practicable of the suspension or curtailment of service and of the estimated duration thereof.

SECTION 5.08: Notices - Any notice, request, demand, statement, or bill provided for in this agreement shall be in writing and shall be considered to have been duly delivered when sent by registered mail, addressed as follows:

CITY OF SCHERTZ
DRAWER 1
SCHERTZ, TEXAS 78154

CIBOLO CREEK MUNICIPAL AUTHORITY
P. O. BOX 930
SCHERTZ, TEXAS 78154

as the case may be, except that routine communications may be sent by ordinary mail, and except that either party, by the filing of an appropriate written notice to the others, may specify some other individual to whom communications thereafter are to be addressed.

SECTION 5.09: Covenant to Enforce Contractual Obligations - The Authority covenants that it will enforce the obligation of the City hereunder (as well as any obligations contained in similar contracts with additional contracting parties) as may be required to accomplish the purpose of this contract. Either party may enforce any obligations hereunder owed to it by the other party.

SECTION 5.10: Right to Provide Service to Others - The parties hereto recognize that the system is to serve the entire region; that the Authority is obligated to cause the facilities to be designed accordingly, and as additional treatment facilities may be required to so provide them; that the Authority shall have the right to enter into such contracts as may be in the best interest of the Authority and additional contracting parties and all cities hereunder, but in no event shall any such contract be on terms more favorable to any additional contracting party than is available to the City hereunder unless the governing body of the City shall also approve such other contract.

SECTION 5.11: Consequences of City Default - The Authority and City agree that in the event of default or threatened default in the payment of principal of or interest on the debt of the system, any court of competent jurisdiction, upon petition of the holders of twenty-five per cent (25%) of the principal amount of the then outstanding bonds of the Authority, shall appoint a receiver with authority to collect and receive resources pledged to the debt of the system, enforce all rights arising from default, if any, by any City, or additional contracting party, in making payment under the agreement, employ and discharge agents and employees of the Authority, take charge of the pledged funds on hand and manage the proprietary affairs of the Authority without consent or hindrance by the Authority. The court may further vest the receiver with such powers and duties as the court may find necessary for the protection of the holders of the bonds.

SECTION 5.12: Severability - The parties hereto agree that if any of the provisions of this contract contravene, or are held invalid under, the laws of this State, same shall not invalidate the whole agreement, but it shall be construed as though not containing that particular provision and the rights and obligations of the parties shall be construed and in force accordingly.

IN WITNESS WHEREOF, the parties hereto, acting under authority of their respective governing bodies, have caused this contract to be duly executed in several counterparts, each of which shall constitute an original, all as of the day and year first above written.

CITY OF SCHERTZ, TEXAS

By Jimmy S. Gilmore
City Manager

ATTEST:

By James G. Krause
City Secretary

CIBOLO CREEK MUNICIPAL AUTHORITY

By Rufus E. Barnes, Jr.
President, Board of Directors

ATTEST:

By Russell E. Shawer
Secretary, Board of Directors

(CITY SEAL)

(AUTHORITY SEAL)

The State of Texas }
County of Bexar }

Before me, the undersigned authority, in and for Bexar County, Texas, on this day personally appeared Rufus E. Barnes, Jr., President of the Board of Directors of the CIBOLO CREEK MUNICIPAL AUTHORITY, known to me to be the person whose name is subscribed to the foregoing instrument and known to me to be the President of the Board of Directors of CIBOLO CREEK MUNICIPAL AUTHORITY, and acknowledged to me that he executed the same for the purposes and consideration therein expressed and in the capacity therein stated as the act and deed of said CIBOLO CREEK MUNICIPAL AUTHORITY.

GIVEN UNDER MY HAND AND SEAL OF OFFICE this the 15
day of February, 1985.

(Notary Seal)

D. Sharon R. Abacha
Notary Public, Bexar County, Texas
My Commission Expires 3 February 1986

EXHIBIT A

Description of land upon which the City of Schertz sewage treatment plant (now deactivated) is located.

Being 3.369 acres of land lying adjacent the Cibolo Creek in Guadalupe County, Texas and is more particularly described by metes and bounds as follows:

Beginning at an iron pin which is the boundary line between the Helma Dietz property and the Otto Dietz property and which lies south $30^{\circ} 0'$ each a distance of 2,540.5 feet from an iron pin in the south right-of-way line of FM Highway 78;

Thence, south $30^{\circ} 00'$ east along a fence line for the eastern boundary of this tract a distance of 665.0 feet to an iron pin set for the southeast corner of this tract;

Thence, $62^{\circ} 53'$ west along a fence a distance of 296.0 feet to an iron pin set for the most southern corner of this tract;

Thence, north $30^{\circ} 00'$ west a distance of 245.0 feet to a corner;

Thence, north $00^{\circ} 02' 41''$ east a distance of 461.17 feet to a point in a fence line;

Thence, north $54^{\circ} 47'$ east along a fence line a distance of 65.0 feet to the place of beginning containing 3.369 acres of land.

Contained upon the said 3.369 acres of land are the complete sewage treatment works of the City of Schertz, Texas (now deactivated), consisting of the following:

Headworks, Imhoff tank, single stage trickling filter, final clarifier, chlorinator and chlorination chamber, pump house, sludge drying beds, piping and valves, and final effluent discharge pipe.

EXHIBIT B

Credit to be allowed the City of Schertz under the provisions of Section 4.11:

<u>Date of Issue</u>	<u>Original Amount</u>	<u>Applicable %</u>	<u>Sewer Treatment Cost</u>
6-1-62	\$301,000	42.21	\$127,050

outstanding debt as of 1-1-73:

<u>Date of Issue</u>	<u>Principal</u>	<u>Interest to Maturity</u>
6-1-62	\$260,000	\$157,408

42.21% of issue equals \$176,188

For the fiscal year (budget year) shown below, 1/12 of the total annual credit shall be given monthly:

<u>Year Ending 9-30</u>	<u>(42.21%) Annual Requirement for Sewer Purposes</u>
1973	\$6,049.96
1974	6,388.06
1975	6,296.47
1976	6,204.45
1977	6,112.43
1978	6,020.83
1979	6,343.74
1980	6,236.53
1981	6,129.31
1982	6,022.10
1983	6,329.39
1984	6,206.98
1985	6,084.57
1986	5,962.16
1987	6,254.26
1988	6,116.65
1989	5,979.05
1990	6,255.94
1991	6,102.72
1992	5,949.50
1993	6,211.20
1994	6,042.78
1995	6,288.87
1996	6,105.35
1997	5,921.64
1998	6,152.53
1999	5,953.72
2000	6,169.41
2001	4,297.40
	<u>\$176,188.00</u>

REGIONAL WASTEWATER TREATMENT CONTRACT

August, 2014

between

CIBOLO CREEK MUNICIPAL AUTHORITY

and

CITY OF SCHERTZ, TEXAS

SOUTHERN WASTEWATER TREATMENT PLANT PROJECT

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WHEREAS, the Authority agrees that the Participating Members shall continue to own their respective Certificates of Convenience and Necessity issued by the Commission, shall continue to own and operate their respective utility systems, and any respective wastewater treatment facilities currently owned by each of the Participating Members; and

WHEREAS, each of the Participating Members under this Contract proposes to pay its share of costs of the Project and the Bonds based upon a rate methodology to be developed by the Authority or in proportion to the respective amounts of wastewater each has agreed to deliver under this Contract; and

NOW, THEREFORE, in consideration of the mutual covenants and agreements herein contained and subject to the terms and conditions hereinafter set forth, the Authority and each of the Participating Members agree and contract as follows:

ARTICLE I Definitions

Section 1.01 Definitions.

The following terms and expressions as used in this Contract, unless the context clearly shows otherwise, shall have the following meanings:

- (1) "Act" means Chapter 8166, Texas Special District Laws and Codes, as amended.
- (2) "Additional Participating Member(s)" means any entity or entities hereafter agreeing pursuant to Section 6.01 of this Contract to be bound by the terms of this Contract, as it may be amended from time to time.
- (3) "Adjusted Annual Payment" means the Annual Payment as adjusted by the Board during or after an Annual Payment Period, as provided by this Contract.
- (4) "Annual Payment" means the amount of money to be paid to the Authority by each Participating Member during each Annual Payment Period as its share of the Annual Requirement.
- (5) "Annual Payment Period" means the Authority's Fiscal Year, which currently begins on October 1 of each calendar year and ends on September 30 of the next following calendar year, but which may be any twelve consecutive month period fixed by the Authority.
- (6) "Annual Requirement" means, during an Annual Payment Period, the total amount required to pay all Operation and Maintenance Expenses of the Authority and the Project and all costs and payments due and payable for the amortization of the Bonds.
- (7) "Authority" means the Cibolo Creek Municipal Authority, a regional conservation and reclamation district created under and essential to accomplish the purposes of Article XVI, Section 59 of the Constitution of the State of Texas and created in accordance with the Act. Except as otherwise noted herein, actions required or permitted to be taken by the Authority under this Contract may be taken by the General Manager on behalf of the Authority.
- (8) "Board" or "Board of Directors" means the governing body of the Authority.

or payment in lieu of taxes or any fee or charge by any government authority relating to the Authority's treatment of wastewater hereunder, the costs of utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, supplies, services, and administration of the Project, Overhead Expenses, and costs of operating, repairing, maintaining, and replacing equipment for proper operation and maintenance of the Project. The term "Operation and Maintenance Expenses" does not include depreciation charges or such portion of the above-described costs to the extent such costs are paid pursuant to an agreement other than this Contract.

(23) "Original Participating Members" means the City of Schertz, Texas.

(24) "Overhead Expenses" means the Authority's reasonable and necessary costs and expenses incurred and directly related to the issuance and servicing of the Bonds, the acquisition of Land Interests required for the Project, if any, the design, permitting, financing, acquisition, construction, and ownership of the Project and any other activities required of or involving the Authority in connection with or attributable to the Project or the Bonds, including, but not limited to:

(a) per diem and reimbursable expenses incurred by the Board for special meetings of the Board related to the Project,

(b) services of the professional, technical skilled and unskilled persons and firms engaged by or associated with the Authority, other than Authority staff personnel, together with their reimbursable expenses paid or required to be paid by the Authority;

(c) salaries of the Authority's staff attributable to the Project or the Bonds based on time expended, as documented or reasonably estimated by the General Manager of the Authority, times an overhead factor of two (2), which factor shall be subject to adjustment by the Authority from time to time in response to actual or reasonably projected overhead expenses of the Authority;

(d) the costs of preparing applications for and obtaining all approvals and authorizations required for the Project or the Bonds from the regulatory authorities having jurisdiction;

(e) the cost of property casualty and public liability insurance; including any insurance deductible charged to or required to be paid by the Authority;

(f) all costs incurred in litigation involving or relating to the Project; and

(g) any and all other costs and expenses, including out-of-pocket expenses, incurred by the Authority attributable to the Project or the Bonds, whether enumerated above or not and whether or not included in the definition or as a part of Project Costs.

(25) "Participating Member(s)" means certain of the Original Participating Members and all Additional Participating Members from time to time subject to this Contract.

(26) "Permitted Liens" means:

(a) Minor irregularities, charges, liens, encumbrances, defects, easements, licenses, rights-of-way, servitudes, restrictions, mineral rights, and clouds on title which, in the opinion of counsel to the Authority, do not materially impair the use of the Project for the purposes for which it is designed.

d. the cost of a trustee's or paying agent's initial or acceptance fee and subsequent fees.

(i) all costs, fees and expenses of litigation of all kinds;

(j) the cost of property casualty and public liability insurance;

(k) the Authority's Overhead Expenses; and

(l) other costs generally recognized as a part of project construction costs.

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

(31) "SEC" means the United States Securities and Exchange Commission and any successor to its duties.

(32) "Sale and Offering Documents" means any official notice of sale, official bid form, preliminary official statement, official statement, application to the Texas Water Development Board, or other offering document for the Bonds.

(33) "State" means the State of Texas.

(34) "System" means all properties, facilities and plants (including the Project) currently owned, operated, and maintained by the Authority for the treatment of wastewater, together with all future extensions, improvements, replacements and additions thereto, whether situated within or without the limits of the Authority; provided, however, that notwithstanding the foregoing, and to the extent now or hereafter authorized or permitted by law, the term System shall not mean to include facilities of any kind which are declared not to be a part of the System and which are acquired or constructed by or on behalf of the Authority with the proceeds from the issuance of Special Facilities Bonds, which are hereby defined as being special revenue obligations of the Authority which are not payable from revenues of the System but which are payable from and equally and ratably secured by other liens on and pledges of any revenues, sources or payments, not pledged to the payment of the Bonds including, but not limited to, special contract revenues or payments received from any other legal entity in connection with such facilities. [Do we have to limit to just Southern Wastewater Treatment Plant Project as a separate enterprise fund?]

Section 1.02 Construction. Unless the context requires otherwise, words of the masculine gender shall be construed to include correlative words of the feminine and neuter genders and vice versa, and words of the singular number shall be construed to include correlative words of the plural number and vice versa. This Contract and all the terms and provisions hereof shall be constructed to effectuate the purposes set forth herein and to sustain the validity of this Contract.

ARTICLE II Representations and Warranties

Section 2.01 Representations and Warranties of Authority. The Authority hereby represents and warrants that it has full power and authority to treat wastewater delivered by the Participating Members in accordance with the terms of this Contract and the execution and delivery of this Contract by the Authority and the performance by the Authority of the provisions hereof do not and will not conflict with or constitute on the part of the Authority a breach or a default of any provision of any other contract or agreement of the Authority.

E. All covenants and provisions in the Bond Resolution affecting, or purporting to bind, the Participating Member, shall, upon the delivery of the Bonds, become absolute, unconditional, valid, and binding covenants and obligations of the Participating Member so long as said Bonds and interest thereon are outstanding and unpaid, and may be enforced as provided in this Contract and the Bond Resolution. Particularly, the obligation of the Participating Member to make, promptly when due, all Annual Payments specified in this Contract and all payments described in Section 5.03 hereof shall be absolute and unconditional, and said obligation may be enforced as provided in this Contract. In addition, subject to the approval of the Participating Member, the Authority may enter into Credit Agreements, to the extent permitted by law, for the purpose of achieving the lowest financing costs for the Project.

Section 3.03 Liens. Neither the Participating Members nor the Authority will create or permit or suffer to exist any lien, encumbrance, or charge upon the Project or any interest therein at any time, except Permitted Liens.

Section 3.04 Tax-Exempt Bonds. The parties hereto understand and agree that the Authority will use its best efforts to provide for, but will not be liable for a failure to produce, the lowest overall debt service cost for the Bonds to be issued for the Project. In connection therewith, the parties intend that the Authority will issue Bonds the interest on which is excludable from the gross income of the owners thereof for federal income tax purposes. The parties hereto acknowledge their understanding that the federal income tax laws impose certain restrictions on the use and investment of proceeds of such tax-exempt bonds and on the use of the property financed therewith and the output produced therefrom. Accordingly, the parties agree and covenant that if the Bonds are offered to investors with the understanding that the interest will be exempt from federal income taxation, then the parties, their assigns and agents, will take such action to assure, and refrain from such action which will adversely affect the treatment of such Bonds as obligations described in section 103 of the Code. Should either party fail to comply with such covenant, the effect of which being that the Bonds no longer qualify as obligations described in the Code, such defaulting party shall be liable for all costs resulting from the loss of the tax-exempt status of the Bonds. The parties hereby agree and covenant to comply with all of the representations and covenants relating to such exemption which are set out in any Bond Resolution. The parties further agree and covenant that in the event the Bonds issued are to be tax-exempt, they will modify such agreements, make such filings, restrict the yield on investments, and take such other action necessary to fulfill the applicable provisions of the Code. For these purposes, the parties may rely on the respective opinion of any firm of nationally-recognized bond attorneys selected by them. In the event that a conflict arises in the opinions of the respective firms of each of the parties, the parties will identify a different firm, that is mutually acceptable to both parties, in order to resolve the conflict of opinion.

Section 3.05 Payment to Rebate Fund. In the event that tax-exempt Bonds are issued as provided in Section 3.04, the Authority hereby covenants and agrees to make the determinations and to pay any deficiency into a rebate fund, at the times and as described in the Bond Resolution to comply with the provisions of section 148(f)(2) of the Code. In any event, if the amount of cash held in the rebate fund shall be insufficient to permit the trustee or paying agent to make payment to the United States of America of any amount due on any date under section 148(f)(2) of the Code, the Authority forthwith shall pay the amount of such insufficiency on such date to the trustee or paying agent in immediately available funds for such purpose.

Section 3.06 Sale and Offering Documents. At the request of the Authority, the Participating Members shall provide to the Authority current and historical information concerning their respective utility systems, general fund information, the financial conditions results, and prospects of the

witness such reading, calibration, and adjustment of meters. Any measuring device which fails to function or which functions incorrectly shall promptly be adjusted, repaired or replaced by a like device having the required accuracy. A meter registering not more than five percent (5%) above or below the test results shall be deemed to be accurate. The previous readings of any meter disclosed by tests to be inaccurate shall be corrected for one-half (1/2) the period elapsed since the next preceding meter test but in no event to exceed six (6) months in accordance with the percentage of inaccuracy found by such tests. If any meter fails to register for any period, the amount of wastewater furnished during such period shall be deemed to be the amount of wastewater delivered in the corresponding period immediately prior to the failure, unless the Authority and the Participating Member shall agree upon a different amount. All readings of meters will be entered upon proper books of record maintained by the Authority. Any Participating Member may have access to said record books during normal business hours.

ARTICLE V Fiscal Provisions

Section 5.01 Annual Requirement. Subject to the terms and provisions of this Contract, the Authority will provide and pay for the cost of the Project through the issuance of the Bonds. It is acknowledged and agreed that payments by the Participating Members to the Authority under this Contract will be the sole or primary source of funds available to the Authority to provide the Annual Requirement. Each Participating Member shall be obligated to pay the full amount of its Annual Requirement notwithstanding that it may elect not to deliver wastewater under this Contract. In compliance with the Authority's duty to fix and from time to time to revise the rates and charges for services rendered under this Contract, the Annual Requirement may change from time to time. Each such Annual Requirement shall be allocated among the Participating Members and the Authority based upon a rate methodology to be developed by the Authority or according to their respective amount of wastewater delivered pursuant to the terms of this Contract, and the Annual Requirement for each Annual Payment Period shall be identified in each annual budget and shall at all times be not less than an amount sufficient to pay or provide for the payment of the following:

- A. all Operation and Maintenance Expenses; and
- B. an amount to fund a special reserve for the Operation and Maintenance Expenses or for additional capital improvements to the Project; the total amount to be accumulated for such operating and additional capital improvements reserve shall not exceed 25% of the annual Operation and Maintenance Expenses (estimated to be approximately three (3) months' expenses); and
- C. when the Authority and the Participating Members agree to issue Bonds to finance the costs of the Project, a capital component, including principal, interest, premium, reserve funds, and other funds established or required by any Bond Resolution and to pay the principal of and interest on the Bonds.

Section 5.02 Annual Budget. Each annual budget for the acquisition and/or operation and maintenance of the Project shall always provide for amounts sufficient to pay the Annual Requirement. Each Participating Member will be furnished a copy of such annual budget, and each Participating Member hereby acknowledges its ability to pay its share of the Annual Requirement from available funds budgeted therefor. On or before July 15 of each year thereafter commencing July 15, 2015, the Authority shall furnish to each Participating Member a preliminary estimate of the Annual Payment required from each Participating Member for the next following Annual Payment Period.

E. Notwithstanding the foregoing, the Annual Requirement, and each Participating Member's share thereof, shall be redetermined, after consultation with each of the Participating Members, at any time during any Annual Payment Period, to the extent deemed necessary or advisable by the Authority, if:

- (1) unusual, extraordinary, or unexpected Operation and Maintenance Expenses are required which are not provided for in the Authority's annual budget or reserves for the Project;
- (2) Operation and Maintenance Expenses of the Project are substantially less than estimated;
- (3) a Participating Member's interest under this Contract is terminated as provided herein or Additional Participating Members become subject to this Contract;
- (4) the Authority issues Bonds for the Project; or
- (5) the Authority receives either significantly more or significantly less revenues or other amounts than those anticipated.

F. Each Participating Member hereby agrees that it will make payments to the Authority required by this Contract at the Authority's offices within 15 days of the date a bill for service is deposited in the United States mail. If any Participating Member at any time disputes the amount to be paid by it to the Authority, such complaining party shall nevertheless promptly make such payment or payments; but if it is subsequently determined by agreement or by appropriate administrative, board, agency, or court decision that such disputed payments should have been less, or more, the Authority shall promptly revise and reallocate the charges in such manner that the Participating Member will recover its overpayment or the Authority will recover the amount due it. All amounts due and owing to the Authority by each Participating Member or due and owing to any Participating Member by the Authority shall, if not paid when due, bear interest at the maximum lawful nonusurious rate of interest per annum from the date when due until paid.

G. The Authority shall, to the extent permitted by law, suspend the delivery of services or the acceptance of wastewater to the Project by any Participating Member which remains delinquent in any payments due under the preceding paragraph for a period of thirty (30) days, and shall not resume delivery of services or the acceptance of wastewater to the Project while such Participating Member is so delinquent. The Authority also retains the right to charge a reconnection fee or other appropriate charges prior to commencing utility service to the delinquent Participating Member. The Authority shall pursue all legal remedies against any such delinquent Participating Member to enforce and protect the rights of the Authority, the other Participating Members, and the holders of the Bonds, if Bonds have been issued or incurred. The delinquent Participating Member shall not be relieved of the liability to the Authority for the payment of all amounts which would have been due hereunder had no default occurred or the percentage had not been redetermined as provided in this Section. It is understood that the foregoing provisions are for the benefit of the Authority and holders of the Authority's Bonds, if Bonds have been issued or incurred, so as to insure that all of the Annual Requirement will be paid by the non-delinquent Participating Members and the Authority during each Annual Payment Period regardless of the delinquency of a particular Participating Member. If any amount due and owing the Authority by any Participating Member is placed with an attorney for collection, such Participating Member shall pay to the Authority all attorneys' fees, in addition to all other payments provided for herein, including interest.

ARTICLE VI
Additional Participating Members

Section 6.01 Additional Participating Members. If capacity at the Plant is available, the Authority and the Original Participating Members agree that additional entities may become subject to the provisions of this Contract as Additional Participating Members by providing the following to the Authority and the then Participating Members:

- A. an executed signature page to this Contract in form satisfactory to the Authority;
- B. to the extent any representation contained in this Contract relating to Participating Members does not correctly describe such entity, a revision of such representations satisfactory in form and content to the Authority in the Authority's sole discretion to be included on Exhibit C to this Contract;
- C. a revised Exhibit A to this Contract satisfactory to the Authority and all then Participating Members;
- D. a revised Exhibit B to this Contract setting forth the Point(s) of Delivery for such entity which shall be satisfactory to the Authority;
- E. a completed Exhibit C to this Contract to the extent applicable to such entity and in form satisfactory to the Authority; and
- F. such other certifications and information as may be reasonably requested by the Authority and the then Participating Members.

ARTICLE VII
Special Conditions

Section 7.01 Operation and Maintenance of the Project. The Authority will continuously operate and maintain the Project in an efficient manner and in accordance with good business and engineering practices, and at reasonable cost and expense. The Authority recognizes its right and duty to operate the Project in the most prudent and economical manner for the benefit of all Participating Members.

Section 7.02 Project Schedule. It is the intent of the parties that the Project be placed in operation as soon as practicable, and the Authority agrees to proceed diligently with the evaluation of feasibility, the securing of regulatory permits, and the design and construction of the Project to meet such schedule, subject to the other terms and conditions in this Contract.

Section 7.03 Permits, Financing, and Applicable Laws. Any obligations on the part of the Authority to acquire, construct, and complete the Project and related facilities and to treat wastewater at the Project from the Participating Members shall be (i) conditioned upon the Authority's ability to obtain all necessary permits, material, labor, and equipment; (ii) subject to the Authority's final determination of feasibility of transportation of the wastewater to the Project; (iii) conditioned upon the ability of the Authority to finance the cost of the Project through the sale of the Bonds; and (iv) subject to all present and future valid laws, orders, rules, and regulations of the United States of America, the State of Texas, the Commission, and any regulatory body having jurisdiction.

Section 7.09 Rights-of-Way.

A. Each Participating Member hereby grants to the Authority without additional cost to the Authority, the use of the streets, easements, rights-of-way, and pipelines under its control for the construction, emergency repairs, operation, and maintenance of the Project and the provision and transmission of wastewater hereunder; provided, however, such grant of the use of streets, easements, rights-of-way, and pipelines to the Authority is subject to and conditioned on the Authority (i) complying with all applicable policies, practices, and regulations of the Participating Members governing and regulating such use of the streets, easements, rights-of-way, and pipelines and (ii) paying all costs, if any, of restoring such streets, easements, rights-of-way, and pipelines to substantially the same state of condition that existed prior to the Authority's use.

B. To the extent they have such ownership authority, each Participating Member agrees that, with prior written approval, the Authority may use streets, alleys, and public rights-of-way within the Participating Member's boundaries for pipeline purposes.

Section 7.10 Insurance. The Authority agrees to carry and arrange for fire, casualty, public liability, and/or other insurance, including self-insurance, on the Project for purposes and in amounts which, as determined by the Authority, ordinarily would be carried by a privately owned utility company owning and operating such facilities, except that the Authority shall not be required to provide liability insurance except to insure itself against risk of loss due to claims for which it can, in the opinion of the Authority's legal counsel, be liable under the Texas Tort Claims Act or any similar law or judicial decision. Such insurance will provide, to the extent feasible and practicable, for the restoration of damaged or destroyed properties and equipment, to minimize the interruption of the services of such facilities. Premiums for such insurance that relate directly to the Project or, under generally accepted cost accounting practices, is allocable to the Project, shall constitute an Operation and Maintenance Expense.

Section 7.11 Additional Special Provisions. The parties hereto acknowledge and agree to the Special Provisions, if any, which are set forth in Exhibit C hereto. The Special Provisions for this Contract reflect circumstances or issues for specific Participating Members which may be different from those of other Participating Members and therefore constitute a modification of or requirement in addition to the standard provisions otherwise contained in this Contract. To the extent of any conflict between any Special Provision and any other provision of this Contract, the Special Provision shall control.

ARTICLE VIII
Continuing Disclosure

Section 8.01 Annual Reports. The Authority (and each Participating Member if required by the Rule in its Approval Certificate for any series of Bonds) shall file annually with the MSRB, (1) within six months after the end of each Fiscal Year of the Authority ending in or after 2014, financial information and operating data with respect to the Authority of the general type included in the Sale and Offering Documents authorized by Section ___ of the Bond Resolution, being the information described in Exhibit D to the Bond Resolution, and (2) if not provided as part of such financial information and operating data, audited financial statements of the Authority, when and if available. Any financial statements so to be provided shall be (i) prepared in accordance with the accounting principles described in Exhibit D to the Bond Resolution, or such other accounting principles as the Authority may be required to employ from time to time pursuant to state law or regulation, and (ii) audited, if the Authority commissions an audit of such financial statements and the audit is completed within the

termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

- (14) Appointment of a successor or additional paying agent/registrar or the change of name of a paying agent/registrar, if material.

For these purposes, any event described in the immediately preceding paragraph (12) is considered to occur when any of the following occur: the appointment of a receiver, fiscal agent, or similar officer for the Authority in a proceeding under the United States Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of the Authority, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement, or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of the Authority.

The Authority shall file notice with the MSRB, in a timely manner, of any failure by the Authority to provide financial information or operating data in accordance with this Section by the time required by this Section.

Section 8.03 Limitations, Disclaimers, and Amendments. The Authority shall be obligated to observe and perform the covenants specified in this Section for so long as, but only for so long as, the Authority remains an "obligated person" with respect to the Bonds within the meaning of the Rule, except that the Authority in any event will give notice of any deposit that causes the Bonds to be no longer Outstanding.

The provisions of this Section are for the sole benefit of the holders and beneficial owners of the Bonds, and nothing in this Section, express or implied, shall give any benefit or any legal or equitable right, remedy, or claim hereunder to any other person. The Authority undertakes to provide only the financial information, operating data, financial statements, and notices which it has expressly agreed to provide pursuant to this Section and does not hereby undertake to provide any other information that may be relevant or material to a complete presentation of the Authority's financial results, condition, or prospects or hereby undertake to update any information provided in accordance with this Section or otherwise, except as expressly provided herein. The Authority 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 AUTHORITY BE LIABLE TO THE HOLDER OR BENEFICIAL OWNER OF ANY BOND OR ANY OTHER PERSON, IN CONTRACT OR TORT, FOR DAMAGES RESULTING IN WHOLE OR IN PART FROM ANY BREACH BY THE AUTHORITY, WHETHER NEGLIGENT OR WITH OR WITHOUT FAULT ON ITS PART, OF ANY COVENANT SPECIFIED IN THIS SECTION, 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 Authority in observing or performing its obligations under this Section shall constitute a breach of or default under this Contract for purposes of any other provision of this Contract.

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

written resolution duly certified by the appropriate party, the Authority or the Participating Member can conclusively act on the matter requiring such approval.

Section 8.07 Modification and Amendment.

A. No change, amendment, or modification of this Contract shall be made or be effective which will affect adversely the prompt payment when due of all money required to be paid by any Participating Member under this Contract or any similar contract, and no such change, amendment, or modification shall be made or be effective which would cause a violation of any provisions of any Bond Resolution.

B. This Contract may be amended upon the written consent of the Authority and all then Participating Members; provided, however, no amendment to this Contract shall impair the rights of any holder of any of the Authority's Bonds.

Section 8.08 Addresses and Notice. Unless otherwise provided herein, any notice, communication, request, reply, or advice (herein severally and collectively, for convenience, called "Notice") herein provided or permitted to be given, made or accepted by any party to any other party must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the party to be notified, with return receipt requested, or by delivering the same to an officer of such party, or by prepaid telegram when appropriate, addressed to the party to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective, unless otherwise stated herein, from and after the expiration of three days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the party to be notified. For the purposes of notice, the addresses of the parties hereto shall, until changed as hereinafter provided, be as follows:

A. If to the Authority, to:

Cibolo Creek Municipal Authority
100 Dietz Road
Schertz, Texas 78154

B. If to the City of Schertz, Texas to:

City of Schertz, Texas
1400 Schertz Parkway
Schertz, Texas 78154

The parties hereto shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days' written notice to the other parties hereto.

provided, however, the foregoing restriction shall not prevent the Authority from taking any action in connection with the issuance of the Bonds to secure the payment of the Bonds with amounts to be received by the Authority under this Contract.

Section 8.14 Entire Agreement. This Contract constitutes the entire agreement among the parties with respect to the delivery of wastewater to the Plant for treatment by the Authority for the benefit of the Participating Members.

Section 8.15 Applicable Law. This Contract shall be governed by and construed in accordance with the laws of the State, and the obligations, rights, and remedies of the parties hereunder shall be determined in accordance with such laws without reference to the laws of any other state or jurisdiction, except for applicable federal laws, rules, and regulations.

Section 8.16 No Sale, Lease, or Other Transfer of Participating Members' Utility System. Pursuant to the terms of this Contract, a Participating Member, to the extent permitted by law, shall not sale, lease, or otherwise transfer any substantial interest in such Participating Member's utility system without the written consent of the Authority.

Section 8.17 Counterparts. This Contract may be executed in several counterparts, each of which shall be an original and all of which shall constitute but one and the same instrument.

Section 8.18 Goods and Services; Waiver of Sovereign Immunity; Limitation on Damages. The Participating Members under the Contract agree that the mutual commitment stated in the Contract to provide wastewater treatment services and funding for utility system improvements constitute an agreement by each party for providing goods and services to the other parties, and that the Contract, as amended, is subject to Chapter 271, Subchapter I, of the Texas Local Government Code.

[The remainder of this page intentionally left blank.]

CITY OF SCHERTZ, TEXAS

By: 
Mayor

ATTEST:


City Secretary

(CITY SEAL)

Exhibit B

Points of Delivery

CERTIFICATE OF CITY SECRETARY

THE STATE OF TEXAS

COUNTIES OF BEXAR, COMAL AND
GUADALUPE

CITY OF SCHERTZ

§
§
§
§
§

THE UNDERSIGNED HEREBY CERTIFIES that:

1. On the 26th day of August, 2014, the City Council (the *Council*) of the City of Schertz, Texas (the *City*) convened in regular session at its regular meeting place in the City Hall (the *Meeting*), the duly constituted members of the Council being as follows:

Michael Carpenter	Mayor
Daryl John	Mayor Pro Tem
Matthew Duke	Councilmember
Cedric Edwards, Sr.	Councilmember
Jim Fowler	Councilmember
David Scagliola	Councilmember

and all of such persons were present at the Meeting, except the following: _____
thus constituting a quorum. Among other business considered at the Meeting, the attached resolution (the *Resolution*) entitled:

A RESOLUTION APPROVING A BOND RESOLUTION TO BE ADOPTED BY THE BOARD OF DIRECTORS OF THE CIBOLO CREEK MUNICIPAL AUTHORITY AUTHORIZING THE ISSUANCE OF OBLIGATIONS DESIGNATED AS "CIBOLO CREEK MUNICIPAL AUTHORITY CONTRACT REVENUE BONDS, SERIES 2014 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)"; ACKNOWLEDGING THAT THESE OBLIGATIONS WILL BE SOLD TO RAYMOND JAMES & ASSOCIATES, INC., DALLAS, TEXAS, AS THE AUTHORIZED REPRESENTATIVE OF A GROUP OF UNDERWRITERS PURSUANT TO THE PROVISIONS OF A PURCHASE CONTRACT; APPROVING, RATIFYING, CONFIRMING, AND ADOPTING THE PROVISIONS OF A REGIONAL WASTEWATER TREATMENT CONTRACT; AUTHORIZING THE MAYOR, MAYOR PRO TEM, CITY MANAGER, AND CITY SECRETARY OF THE CITY OF SCHERTZ, TEXAS TO EXECUTE ON BEHALF OF THE CITY OF SCHERTZ, TEXAS ALL DOCUMENTS IN CONNECTION WITH THIS TRANSACTION; AND OTHER MATTERS IN CONNECTION THEREWITH

was introduced and submitted to the Council for passage and adoption. After presentation and discussion of the Resolution, a motion was made by Councilmember Edwards that the Resolution be finally passed and adopted in accordance with the City's Home Rule

FINAL

RESOLUTION NO. 14-R-70

APPROVING A BOND RESOLUTION TO BE ADOPTED BY THE BOARD OF DIRECTORS OF THE CIBOLO CREEK MUNICIPAL AUTHORITY AUTHORIZING THE ISSUANCE OF OBLIGATIONS DESIGNATED AS "CIBOLO CREEK MUNICIPAL AUTHORITY CONTRACT REVENUE BONDS, SERIES 2014 (SOUTHERN WASTEWATER TREATMENT PLANT PROJECT)"; ACKNOWLEDGING THAT THESE OBLIGATIONS WILL BE SOLD TO RAYMOND JAMES & ASSOCIATES, INC., DALLAS, TEXAS, AS THE AUTHORIZED REPRESENTATIVE OF A GROUP OF UNDERWRITERS PURSUANT TO THE PROVISIONS OF A PURCHASE CONTRACT; APPROVING, RATIFYING, CONFIRMING, AND ADOPTING THE PROVISIONS OF A REGIONAL WASTEWATER TREATMENT CONTRACT; AUTHORIZING THE MAYOR, MAYOR PRO TEM, CITY MANAGER, AND CITY SECRETARY OF THE CITY OF SCHERTZ, TEXAS TO EXECUTE ON BEHALF OF THE CITY OF SCHERTZ, TEXAS ALL DOCUMENTS IN CONNECTION WITH THIS TRANSACTION; AND OTHER MATTERS IN CONNECTION THEREWITH

NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF THE CITY OF SCHERTZ, TEXAS THAT:

Section 1. The City Council (the "City Council") of the City of Schertz, Texas (the "City") has reviewed and hereby approves (i) the Bond Resolution as to form and content, including the factual findings contained therein and all documents referenced therein, to be adopted by the Board of Directors of the Cibolo Creek Municipal Authority (the "Authority") on September 11, 2014 relating to the issuance of obligations designated as "Cibolo Creek Municipal Authority Contract Revenue Bonds, Series 2014 (Southern Wastewater Treatment Plant Project)" (the "Bonds"), (ii) the Bonds to be sold to Raymond James & Associates, Inc., Dallas, Texas, as the authorized representative of a group of underwriters (the "Underwriters"), (iii) the Regional Wastewater Treatment Contract, including the factual findings contained therein, to be executed between the City and the Authority (the "Contract") which provides certain security for the payment of the Bonds, (iv) the bond purchase contract (the "Purchase Contract") authorizing the sale of the Bonds to the Underwriters, (v) the Sale and Offering Documents (as defined in the Contract), including, but not limited to, the City's annual continuing disclosure requirements in accordance with the Rule (as defined in the Contract), and (vi) the City's obligations under the Contract and acknowledges that the payment of principal of and interest on such Bonds is payable solely from the Annual Payment (as defined in the Contract) to be made by the City to the Authority under and pursuant to the Contract. The Mayor, Mayor Pro Tem, City Manager, and City Secretary (the "Authorized Officials") of the City are hereby authorized to execute on behalf of the City, the Purchase Contract and any and all documents in connection with this transaction. This resolution may be relied upon by the appropriate representatives of the parties to this transaction and the Texas Attorney General in his review and approval of this transaction.