

MINUTES OF A REGULAR MEETING
OF THE BOARD OF DIRECTORS
SAN JACINTO RIVER AUTHORITY

May 22, 2014

A regular meeting of the Board of Directors of the San Jacinto River Authority was held at 7:30 A.M., May 22, 2014, at the San Jacinto River Authority General and Administration Building, 1577 Dam Site Road, Conroe, Texas 77304. The roll was called of the duly constituted members of the Board as follows:

Lloyd B. Tisdale	President
R. Gary Montgomery	Vice President
Mary L. Rummell	Secretary
Joseph L. Stunja	Treasurer
Mike Bleier	Member
Fredrick Koetting	Member
John D. Eckstrum	Member

Present were Lloyd B. Tisdale, R. Gary Montgomery, Mary L. Rummell, Joseph L. Stunja, Fredrick Koetting, and John D. Eckstrum thus constituting a quorum. Also present were Jace Houston, General Manager; Ron Kelling, Deputy General Manager; Tom Michel, Director of Financial and Administrative Services; David Parkhill, Director of Raw Water Enterprise; Jodi Chaney, Administrative Services Manager; Ronda Trow, Public Relations Manager; SuEllen Staggs, Woodlands Division Manager; Phil Smith, Surface Water Plant Construction Manager; Doug Haude, Senior Project Manager/Construction Manager; Mitchell Page, Schwartz, Page &

Harding, LLP (SPH), General Counsel and Bond Counsel; Jan Bartholomew with RBC Capital Markets, LLC; and numerous other guests.

Mr. Tisdale called the meeting to order at 8:03 A.M. and announced that notice of the meeting had been posted as required by law, that advance notice of the time, place, and subject matter of the meeting had been sent to all Directors, and that a quorum was present.

Mr. Tisdale requested that Mr. Montgomery lead the Pledge of Allegiance to the United States flag and the Texas flag.

Mr. Tisdale continued the meeting by inviting comments from the public; Mr. Bill Mitchell, owner of Lake Conroe Fishermans Cove Resort, introduced himself to the Board. Mr. Mitchell provided a brief history of his property and stated that he currently leases a 0.48 acre tract of land from the Authority that was encroached upon during construction of the campsite resort. He explained that a routine inspection by the Authority revealed that the site's sewer system was not permitted properly, and was not constructed in compliance with applicable codes. Mr. Mitchell stated that he is working with Authority staff to bring the site's sewer system into compliance and asked that the Board consider his request to purchase the tract of land he currently leases.

Mr. Tisdale moved to the next item to receive updates from the Operational Divisions and General & Administration Division related to ongoing projects, staff reports, and items on the consent agenda. Mr. Houston began by announcing that the lake is full for the first time in four years and thanked Lake Conroe staff for their efforts in monitoring the lake level and controlling the release of water to accommodate construction activities on the Lake Conroe Dam gates. He continued by thanking the GRP and Technical Services staff for overseeing the

waterline construction efforts along Grogan's Mill Road and for ensuring the road is open to traffic on time, prior to the Iron Man event. Mr. Houston advised that the Authority lost a good friend earlier this month with the passing of former Director, Mr. Jim Edmunds. He stated that Mr. Edmunds was a tremendous asset to the Authority and welcomed comments from the Board. Mr. Montgomery and Mr. Tisdale expressed their appreciation for Mr. Edmunds many accomplishments and stated that he will be deeply missed.

Ms. Trow provided an update on ongoing Public Relations Department projects, including various outreach efforts related to construction of the GRP's waterlines and future updates to the Woodlands and Highlands division websites. She reported that the Authority hosted a field trip for Montgomery ISD students for the fourth year in a row and that the Highlands Division recently represented the Authority in a golf tournament. Ms. Trow announced the launch of the new Woodlands Division website and briefly discussed a new public relations campaign adopted by same.

Mr. Michel provided an update on the G & A Division. He provided an overview of the budget timeline and process and stated that the draft operating budgets would be presented to the Finance Committee for review during their June, 2014, meeting, and that the revised budgets would be presented to the Board for consideration at the August, 2014, Board meeting.

Mr. Parkhill provided an update on the Raw Water Enterprise Program and reported that the stakeholder group members continue to be engaged and are enthusiastic about seeing the Watershed Protection Plan move forward. He also explained that the Authority is working

with the Houston Galveston Area Council (HGAC) on a similar Watershed Protection Plan activity associated with bacterial impairments in the watersheds surrounding Lake Conroe.

Ms. Staggs provided an update on the Woodlands Division. She announced that the recent election resulted in several new Directors in The Woodlands Municipal Utility Districts (MUDs) and discussed the launch of a new campaign aimed at educating the public about the long-term effects of flushing personal wipes down the toilet. Ms. Staggs then asked the campaign's spokesperson, "Patty Potty" (aka: Public Relations Specialist Michelle Simpson), to present a brief overview of the new Flush Campaign.

Mr. Mark Smith provided an update on the GRP Division. He presented the Groundwater Reduction Plan Program's Monthly Progress Report and provided a brief overview of ongoing public relations activities related to the GRP's waterlines. He reported that all items on the agenda were presented and recommended by the GRP Review Committee for approval.

Mr. Phil Smith provided the Groundwater Reduction Plan Program's Monthly Construction Progress Report to the Board. He provided photographs of the work taking place on the Surface Water Facility Project and reported that the project is on schedule and still within budget. Mr. Kelling announced that the GRP Review Committee is scheduled to tour the plant facilities prior to their June 23, 2014, meeting, and invited the Board to attend.

Mr. Doug Haude provided an update on the Surface Water Transmission System Project. He presented photographs depicting all transmission line segments and provided updates and timelines for same.

Mr. Tisdale then continued on to the consent agenda. Motion was made by Ms. Rummell, seconded by Mr. Stunja and unanimously approved, to: (i) approve the minutes of

the April 24, 2014, Board of Directors meeting; (ii) approve the unaudited financial statements for the month of April, 2014; (iii) authorize the General Manager to execute Amendment No. 1 to Work Order No. 1 with Freese and Nichols, Inc., in an amount not to exceed \$20,029.00, for professional engineering and inspection services during construction of improvements to Siphon No. 6 in the Highlands; (iv) authorize the General Manager to execute Amendment No. 1 to Work Order No. 14 with Freese and Nichols, Inc., in the deductive amount of (\$20,029.00), for reduction of professional engineering and inspection services during construction of improvements to Siphon No. 20 in the Highlands; and to (v) authorize the General Manager to execute Amendment No. 1 to Work Order No. 1 with CDM Smith, Inc., for staff extension services for Human Machine Interface (HMI) development and implementation for the GRP Program.

Continuing to the regular agenda, Mr. Tisdale proceeded to the next item to consider authorizing expenditure for a Computerized Maintenance Management System (CMMS). Mr. Kelling provided a handout and discussed the item with the Board. Following a brief discussion, motion was made by Mr. Koetting, seconded by Ms. Rummell and unanimously approved, to authorize a software licensing and implementation agreement with Infor Public Sector, Inc., in the amount of \$804,136.60, and contract modifications up to \$45,000.00, for a Computerized Maintenance Management System (CMMS), to be used by the Highlands, Lake Conroe, Woodlands, and GRP Divisions to support the Authority's utilities and raw water enterprises, and asset management business processes.

Moving to the next item on the agenda, motion was made by Mr. Montgomery, seconded by Mr. Eckstrum and unanimously approved, to authorize the General Manager to

execute Amendment No. 1 to Work Order No. 20 with Freese and Nichols, Inc., in an amount not to exceed \$109,936.00, for coating observation and inspection, steel observation and testing, and cable inspection for gate rehabilitation at the Lake Conroe Dam.

Mr. Tisdale proceeded to the next item on the agenda. Mr. Houston stated that Item Nos. 8a through 8e are all related to the issuance of the Authority's Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2014, and the Authority's Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2014 (Revenue Refunding Bonds), and requested that they be considered together. Mr. Page and Ms. Bartholomew then addressed questions related to revenue refunding bonds and requests for proposals for underwriters related to same. Following a brief discussion, motion was made by Mr. Stunja, seconded by Mr. Eckstrum and unanimously approved, to: (i) designate First Southwest Company to act as lead underwriter and include Raymond James, Coastal Securities, and SAMCO Capital Markets as co-underwriters for the sale of the Waste Disposal System Bonds; select Raymond James to act as lead underwriter and include First Southwest Company, Coastal Securities, and SAMCO Capital Markets to act as co-underwriters for the sale of the Water Supply System Bonds; and approve the form of the Bond Purchase Agreement for execution by the General Manager, subject to comments from Bond Counsel; (ii) approve the Preliminary Official Statements in substantially the form presented and authorize distribution of same in connection with the issuance of the Bonds; (iii) adopt the *Order Authorizing the Refunding and Redemption Prior to Maturity of Certain Presently Outstanding Bonds; Approving and Authorizing Execution and Delivery of a Bond Purchase Agreement, a Pricing Certificate, an Escrow Agreement and a Paying Agent/Registrar*

Agreement; Authorizing the Subscription for and Authorizing the Issuance of Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2014, in an Aggregate Principal Amount Not to Exceed \$30,000,000; Prescribing the Terms and Provisions Thereof; Making Provision for the Payment of Interest Thereon and the Principal Thereof; and Containing Other Provisions Relating to the Subject; attached hereto as Exhibit "A", and adopt the Order Authorizing the Refunding and Redemption Prior to Maturity of Certain Presently Outstanding Bonds; Approving and Authorizing Execution and Delivery of a Bond Purchase Agreement, a Pricing Certificate, an Escrow Agreement and a Paying Agent/Registrar Agreement; Authorizing the Subscription for and Purchase of Securities in Connection Therewith; Authorizing the Issuance of Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2014, in an Aggregate Principal Amount Not to Exceed \$13,500,000; Prescribing the Terms and Provisions Thereof; Making Provision for the Payment of the Interest Thereon and the Principal Thereof; and Containing Other Provisions Relating to the Subject; attached hereto as Exhibit "B"; (iv) authorize the officers of the Board and/or the General Manager to: execute Pricing Certificates, Bond Purchase Agreements, and Paying Agent/Registrar Agreements relative to the Bonds; execute any other documentation to be included in the transcript of proceedings to be submitted to the Attorney General of the State of Texas; authorize execution of closing documentation relative to the Bonds; authorize disbursement of proceeds of the Bonds; and authorize execution and filing of Internal Revenue Service reporting forms relative to the Bonds; and (v) authorize the completion and distribution of the Final Official Statements in connection with the Bonds.

Mr. Tisdale announced that Item Nos. 9a through 9c on the agenda would be discussed and presented together. Mr. Mark Smith presented each item and addressed questions related to same. Motion was then made by Mr. Eckstrum, seconded by Ms. Rummell and unanimously approved, to authorize the General Manager to execute: (i) Work Order No. 9 with Freese and Nichols, Inc., in an amount not to exceed \$99,000.00, for population of CMMS and development of an electronic operations manual for the raw water intake and pump station at the GRP Surface Water Facilities; (ii) Work Order No. 18 with HDR Engineering, Inc., in an amount not to exceed \$599,788.00, for population of CMMS and development of an electronic operations manual for the water treatment plant at the GRP Surface Water Facilities; and (iii) Work Order No. 15 with AECOM Technical Services, Inc., in an amount not to exceed \$162,399.00, for population of CMMS and development of an electronic operations manual for the high service pump station and ground storage tanks at the GRP Surface Water Facilities.

Moving to the next item on the agenda, Mr. Mark Smith presented information and motion was made by Mr. Eckstrum, seconded by Mr. Montgomery and unanimously approved, to authorize the General Manager to execute a professional services agreement and Work Order No. 1 with ARCADIS U.S., Inc., in the amount of \$36,843.00, for design of instrumentation and controls for Surface Water Transmission Line, Segment W3C, Water Receiving Facility, for the GRP Program.

Mr. Tisdale continued to the next item on the agenda to authorize the General Manager, or his designee, to execute letter(s) of assurance to Lone Star Groundwater Conservation District (LSGCD), confirming that a GRP Participation contract will be execute for applicants that choose to join the Authority's GRP, and approve the GRP contract(s) as

presented and authorize the execution of same by the General Manager. The item was tabled as there were none to consider.

Mr. Tisdale announced that Item Nos. 9f and 9g on the agenda would be discussed and presented together. Mr. Mark Smith explained that the Authority contracted with HDR Engineering, Inc., in September 2013, to provide services related to the development of a Utility Financial Planning Report and Rate Model for the GRP Division for a ten-year period beginning September 1, 2014, through August 31, 2024. He stated that the study recommended rates for Fiscal Year 2015 to support the operations of the GRP Division, and that the recommended rates are consistent with previous projections to provide adequate revenue to support operations consistent with best practices for utility management. Mr. Smith explained that the rates charged by the GRP Division consist of a groundwater pumpage fee that is assessed on groundwater pumped by each participant, as well as a separate surface water rate that is charged for treated surface water delivered to a participant. He explained that for Fiscal Year 2015, the proposed rate order would increase the groundwater pumpage fee from \$1.75 per 1,000 gallons to \$2.25 per 1,000 gallons, and set the surface water rate at \$2.44 per 1,000 gallons of treated water. He continued by explaining that based on the Utility Financial Planning Report and Rate Model, staff recommended the establishment of reserve funds for the purpose of achieving a financially sound and sustainable business model and to place GRP Participants in a stronger position to manage risks, monitor performance, control costs, and anticipate future rates. Following a brief discussion, motion was made by Ms. Rummell, seconded by Mr. Stunja and unanimously approved, to: (i) adopt an amended *Rate Order (GRP Participants)*, attached hereto as Exhibit "C"; and (ii) adopt the *Resolution Confirming and*

Creating Funds for Groundwater Reduction Plan Division; Establishing Policies and Procedures Related to the Use of Such Funds; and Establishing Policy Related to the Sufficiency of Fees, Rates, and Charges, attached hereto as Exhibit "D".

Mr. Tisdale announced that the Board would defer Item No. 9h on the agenda until after Executive Session.

Mr. Tisdale then announced that the Board would recess into Executive Session. At 9:20 a.m. the Board recessed into Executive Session. With a quorum still present, the Board reconvened at 10:57 a.m.

Mr. Tisdale then referred back to Item No. 9h on the regular agenda for consideration. Motion was then made by Mr. Eckstrum, seconded by Ms. Rummell and unanimously approved, to authorize the General Manager to execute Change Order No. 3 to the standard construction agreement with S.J. Louis, Ltd., in the amount of \$475,000.00, for Surface Water Transmission Line, Segment T3, for the GRP Program.

Mr. Tisdale announced the next Board meeting date of June 26, 2014, at 7:30 a.m. There being no further business to come before the Board, the meeting was adjourned at 10:57 a.m.


Mary L. Rummell
Secretary
San Jacinto River Authority

Exhibit A

ORDER AUTHORIZING THE REFUNDING AND REDEMPTION PRIOR TO MATURITY OF CERTAIN PRESENTLY OUTSTANDING BONDS; APPROVING AND AUTHORIZING EXECUTION AND DELIVERY OF A BOND PURCHASE AGREEMENT, A PRICING CERTIFICATE, AN ESCROW AGREEMENT AND A PAYING AGENT/REGISTRAR AGREEMENT; AUTHORIZING THE SUBSCRIPTION FOR AND PURCHASE OF SECURITIES IN CONNECTION THEREWITH; AUTHORIZING THE ISSUANCE OF SPECIAL PROJECT REVENUE REFUNDING BONDS (THE WOODLANDS WATER SUPPLY SYSTEM PROJECT), SERIES 2014, IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$30,000,000; PRESCRIBING THE TERMS AND PROVISIONS THEREOF; MAKING PROVISION FOR THE PAYMENT OF THE INTEREST THEREON AND THE PRINCIPAL THEREOF; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY, THAT:

ARTICLE ONE

STATUTORY AUTHORITY, RECITALS AND FINDINGS

SECTION 1.01: THE AUTHORITY. The San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended (compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121), enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (such series of acts being hereinafter collectively referred to as the "Act").

SECTION 1.02: POWERS OF THE AUTHORITY. The Authority is authorized by the Act, the Interlocal Cooperation Act, Chapter 791, Texas Local Government Code, as amended, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a water supply system for serving its needs and/or the needs of its customers. To such ends, the Authority has entered into a series of Customer Contracts (hereinafter defined) for the financing, construction and operation of a Water Supply System (hereinafter defined) to serve the Customer Districts (hereinafter defined) of the Woodlands Division of the Authority, and the Authority and certain of such Customer Districts have heretofore concluded and entered into that certain Second Supplemental Financing Agreement, dated as of November 18, 1999, and that certain Third Supplemental Financing Agreement, dated as of November 15, 2007 (collectively, the "Agreements"), pursuant to which the parties made further and more detailed provision for the planning, design,

financing, construction, inspection, completion and commencement of operations of certain improvements to such Water Supply System (the "Projects").

SECTION 1.03: ISSUANCE OF BONDS. Pursuant to the authority of the Act, the Interlocal Cooperation Act, the Refunding Act (hereinafter defined), as applicable, the general laws of the State, the Customer Contracts and the Agreements, the Authority has previously adopted an order authorizing the issuance, sale and delivery of its \$18,970,000 Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2004 (the "Series 2004 Refunding Bonds"), and a resolution authorizing the issuance, sale and delivery of its \$14,435,000 Special Project Revenue Bonds (The Woodlands Water Supply System Project), Series 2007 (the "Series 2007 Bonds") for the purpose of financing, refinancing, constructing, acquiring and completing portions of the Projects. Pursuant to the authority of the Act, the Interlocal Cooperation Act, the Refunding Act, the general laws of the State, and other contracts (including certain of the Customer Contracts and that certain First Supplemental Financing Agreement dated October 10, 1995) by and among the Authority and certain customers of the Woodlands Division of the Authority (including certain of the Customer Districts) the Authority has also previously adopted an order authorizing the issuance, sale and delivery of its \$4,440,000 Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2010 (the "Series 2010 Refunding Bonds").

SECTION 1.04: AUTHORITY TO REFUND. Pursuant to the order and resolution, respectively, authorizing the issuance, sale and delivery of the Series 2004 Refunding Bonds and the Series 2007 Bonds (collectively, the "Outstanding Bond Orders"), the Authority has reserved the right to issue refunding bonds in any manner permitted by law to refund any or all of said bonds that remain outstanding at or prior to their respective dates of maturity or redemption. The Authority is further authorized by Chapter 1207, Texas Government Code, as amended (the "Refunding Act"), to issue bonds to refund or provide for advance payment of any outstanding bonds of the Authority.

SECTION 1.05: FINDINGS. It is hereby found, determined and declared that:

- (a) the matters and facts set out in this Article One are true and correct;
- (b) as of the date hereof, there remain outstanding and unpaid \$16,640,000 in aggregate principal amount of the Series 2004 Refunding Bonds, \$12,520,000 in aggregate principal amount of the Series 2007 Bonds (collectively, the "Outstanding Bonds"), as well as \$3,275,000 in aggregate principal amount of the Series 2010 Refunding Bonds;
- (c) the Authority desires to refund a portion of the Outstanding Bonds, in advance of their scheduled maturities, in order to effect a cost savings to the Authority in amounts to be certified in the Pricing Certificate (hereinafter defined) and, in particular, the Authority desires to make firm banking arrangements for the discharge and final payment of any or all of the currently outstanding Series 2004

Refunding Bonds and/or Series 2007 Bonds (the "Refunded Bond Candidates") as shall be identified and designated as Refunded Bonds in the Pricing Certificate;

- (d) the Authority is authorized by the Act and the Refunding Act to issue its refunding bonds for the foregoing purposes and to accomplish such refunding by depositing with any paying agent for the Refunded Bonds the proceeds of such refunding bonds, together with other available funds, as and if reflected in the Pricing Certificate, which may be invested or reinvested only in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and which obligations shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Refunded Bonds, and pursuant to the Refunding Act, such deposit constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds;
- (e) the Authority hereby determines, finds, recites and declares that the refunding bonds of the Authority in an aggregate principal amount not to exceed \$30,000,000 should be issued, and moneys presently on hand and allocable to the Refunded Bonds, as and if reflected in the Pricing Certificate, should be appropriated and applied to refund, defease and discharge the Refunded Bonds, and to pay all costs and expenses in connection with the issuance of such refunding bonds;
- (f) the Authority desires to enter into an escrow agreement with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the paying agent and/or successor to the paying agent of the Refunded Bonds and as authorized by the Refunding Act, pursuant to which proceeds of the refunding bonds herein authorized, and other available funds if and as required in the Pricing Certificate, will be deposited, invested and applied in such a manner as will be sufficient, in the opinion of an independent firm of certified public accountants, to provide for the full and timely payment of all interest on and principal of the Refunded Bonds when and as the same become due or upon their earlier redemption;
- (g) the Authority further desires to authorize the purchase of certain direct obligations of the United States of America for deposit under and pursuant to such escrow agreement;
- (h) it is the intent and purpose hereby, upon the issuance of the refunding bonds herein authorized and the creation of the escrow referred to above, that the Refunded Bonds shall no longer be regarded as being outstanding, except for the purpose of being paid pursuant to such escrow agreement, and the pledges, liens, trusts and all other covenants, provisions, terms and conditions of the Outstanding Bond Orders shall be, insofar as same relate to the Refunded Bonds, discharged, terminated and defeased;

- (i) in consideration of the net present value debt service savings to be realized by the Authority, in an amount to be certified in the Pricing Certificate, the \$30,000,000 refunding bonds authorized by this Order should be issued for such purposes;
- (j) each of the Customer Districts obligated under the Agreements to pay capacity charges in respect of the Refunded Bond Candidates has duly and properly adopted a written resolution (collectively, the "Customer Resolutions") consenting to and approving of the issuance by the Authority of such refunding bonds to be payable from the same sources as the Refunded Bonds;
- (k) the Authority is authorized by the Customer Contracts, the Agreements, the Customer Resolutions and the Refunding Act to make to and collect from the Customer Districts capacity charges in payment of such refunding bonds, and such capacity charges to be made and collected, together with certain funds presently on hand, will be sufficient to pay the principal of the refunding bonds herein authorized as it matures and the interest thereon as it accrues and becomes payable.

(End of Article One)

ARTICLE TWO

DEFINITIONS AND INTERPRETATIONS

SECTION 2.01: DEFINITIONS. The following definitions, together with any supplemental definitions contained herein or in any exhibit hereto, shall apply with equal force herein and in any amendment or supplement hereto, and the scope and meaning of terms used in Exhibit "A" hereto, whether or not defined therein, shall be determined by reference to this Article.

Act.

The term "Act" is defined in the Article One hereof.

Additional Bonds.

The term "Additional Bonds" shall mean and refer to such additional bonds, other than refunding bonds, as may hereafter be authorized and issued by the Authority and secured and made payable, in whole or in part, out of the Pledged Revenues.

Agreements.

The term "Agreements" is defined in Article One hereof and, specifically, refers to that certain Second Supplemental Financing Agreement, dated as of November 18, 1999, and that certain Third Supplemental Financing Agreement, dated as of November 15, 2007, by and among the Authority and the Customer Districts, which term shall mean and include all amendments, modifications and supplements to the Agreements permitted by the terms hereof.

Authority.

The term "Authority" is defined in Article One hereof and shall mean and include any other municipal corporation, public body or other public agency at any time succeeding to the property and principal rights, powers and obligations of the Authority hereunder and, where appropriate, means the Board of Directors or governing body of the Authority, or any successor municipal corporation, public body or public agency.

Authorized Investments.

The term "Authorized Investments" shall mean all investments which are authorized under the laws of the State of Texas for the investment of funds of the Authority.

Board of Directors.

The term "Board of Directors" shall mean the governing body of the Authority, as now or hereafter constituted.

Bond Counsel.

The term "Bond Counsel" shall mean the law firm of Schwartz, Page & Harding, L.L.P., Houston, Texas.

Bond Purchase Agreement.

The term "Bond Purchase Agreement" shall mean that certain Bond Purchase Agreement, dated as of the date of the Pricing Certificate, by and between the Authority and the Underwriter, together with all attachments, exhibits, amendments and additions thereto.

Bonds.

The term "Bond" or "Bonds" shall mean any Bond or Bonds, as the case may be, of the issue of Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2014, initially dated as of the Initial Date specified in the Pricing Certificate, and authorized, issued and delivered pursuant to this Order and which may include Serial Bonds and Term Bonds, as and if so designated in the Pricing Certificate.

Business Day.

The term "Business Day" shall mean a calendar day which falls on Monday through Friday, but shall not include any such day which is designated as an official state or national holiday or a day on which financial institutions where the Paying Agent is located are allowed or required by state or national law or by executive order to close.

Capacity charges.

The term "capacity charges" shall mean and refer to the particular rates and charges which the Authority is authorized to make to and collect from the Customer Districts of the Water Supply System in payment of costs of the Projects, including the principal of, interest on and payment charges related to the Refunded Bonds, any Remaining Outstanding Bonds, and the Bonds, all as provided in the Agreements.

Customer Contracts.

The term "Customer Contracts" shall mean and include the Customer Contracts, as defined and identified in the Agreements.

Customer Districts.

The term "Customer Districts" shall have the meaning prescribed in the Agreements.

Customer Resolutions.

The term "Customer Resolutions" is defined in Article One hereof.

Debt Service Fund.

The term "Debt Service Fund" shall mean the fund described and referred to in Section 7.01 of this Order.

DTC.

The term "DTC" means the Depository Trust Company of New York, New York, or any successor securities depository.

DTC Participant.

The term "DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC holds securities to facilitate the clearance and settlement of securities transactions among such DTC Participants.

Escrow Agent.

The term "Escrow Agent" shall mean The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, or any successor, assign or substitute escrow agent selected, qualified and acting pursuant to the Escrow Agreement.

Escrow Agreement.

The term "Escrow Agreement" shall mean that certain Escrow Agreement, of even date herewith, by and between the Authority and the Escrow Agent, together with all attachments, exhibits, amendments and additions thereto.

Escrow Fund.

The term "Escrow Fund" shall mean that certain Escrow Fund to be created and established with the Escrow Agent pursuant to the Escrow Agreement and into which the cash deposits, if any, and the Escrowed Securities are to be deposited, as provided in Section 8.04 hereof.

Escrowed Securities.

The term "Escrowed Securities" shall have the same meaning as defined and described in the Escrow Agreement.

Fiscal Year.

The term "Fiscal Year" shall mean the annual fiscal period for the Authority's Woodlands Division from September 1 through August 31, or such other annual fiscal period as may hereafter be established by resolution of the Board of Directors of the Authority.

Holder.

The term "Holder" or "Holders" shall mean, when used with respect to any Bond or Bonds, the Person or Persons in whose name such Bond or Bonds are registered on the Register.

Initial Bonds.

The term "Initial Bond" or "Initial Bonds" shall mean any one or more of the Bonds authorized, issued and initially delivered hereunder, upon or attached to which the manually executed certificate of registration of the Comptroller of Public Accounts of the State of Texas, or his duly authorized deputy, substantially in the form prescribed in Section 5.03 hereof, has been placed.

Initial Date.

The term "Initial Date" shall mean the initial date of the Bonds as specified in the Pricing Certificate.

Interest Payment Date.

The term "Interest Payment Date" shall mean any date on which interest on any then outstanding Bond becomes due and payable, as provided in Section 3.04 hereof.

Interlocal Cooperation Act.

The term "Interlocal Cooperation Act" is defined in Article One hereof.

Letter of Representation.

The term "Letter of Representation" shall mean the current Blanket Issuer Letter of Representations between the Authority and DTC, as same may be amended or supplemented from time to time.

Maturity Date.

The term "Maturity Date" shall mean any date on which the principal of any then outstanding Bond becomes due and payable, as provided in Section 3.03 hereof and in the Pricing Certificate.

Order.

The term "Order" shall mean this Order and all permitted amendments hereof and supplements hereto.

Outstanding Bond Orders.

The term "Outstanding Bond Orders" is defined in Article One hereof and means and includes all amendments and supplements to the order(s) and/or resolution(s) authorizing the issuance, sale and delivery of the Outstanding Bonds.

Outstanding Bonds.

The term "Outstanding Bonds" is defined in Article One hereof.

Paying Agent.

The term "Paying Agent" shall mean the agency or agencies selected and maintained from time to time by the Authority for the purpose of making payment on behalf of the Authority of the principal of and the interest on the Bonds, as provided in Section 12.06 of this Order.

Person.

The term "Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government, or any agency or political subdivision thereof.

Pledged Revenues.

The term "Pledged Revenues" means and includes all capacity charges from time to time received by the Authority pursuant to the Agreements, all amounts from time to time on deposit to the credit of the Debt Service Fund, and investments, interest and investment earnings on or belonging or attributable thereto, and any insurance and/or condemnation proceeds received by the Authority in respect of the Projects, as provided in Section 6.04 of this Order.

Predecessor Bonds.

The term "Predecessor Bonds" shall mean, with respect to any particular Bond, every previous Bond evidencing all or a portion of the same obligation as that evidenced by such

particular Bond, and, for the purposes hereof, any Bond registered and delivered pursuant to Section 3.10 hereof shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Bond in lieu of which such Bond was delivered.

Projects.

The term "Projects" is defined in Article One hereof.

Record Date.

The term "Record Date" shall mean, with respect to an Interest Payment Date of October 1, the preceding September 15, and with respect to an Interest Payment Date of April 1, the preceding March 15, whether or not such dates are Business Days.

Redemption Date.

The term "Redemption Date" shall mean, when used with respect to any Bond or any Refunded Bond to be redeemed prior to its Maturity Date, the date fixed for such redemption pursuant to the terms of this Order or the Refunded Bond Orders.

Refunded Bond Candidates.

The term "Refunded Bond Candidates" is defined in Article One hereof, which bonds are authorized to be designated as Refunded Bonds in the Pricing Certificate.

Refunded Bond Orders.

The term "Refunded Bond Orders" shall mean the order and/or the resolution of the Board of Directors of the Authority authorizing the issuance, sale and delivery of the Refunded Bonds, and all amendments and supplements thereto.

Refunded Bonds.

The term "Refunded Bonds" means those Refunded Bond Candidates identified and designated to be refunded in the Pricing Certificate.

Refunding Act.

The term "Refunding Act" is defined in Article One hereof.

Register.

The term "Register" shall mean the registry books maintained on behalf of the Authority by a Registrar designated by the Authority for such purpose in which are maintained the names

and addresses of Holders and the principal amounts of the Bonds registered in the name of each Holder.

Registrar.

The term "Registrar" shall mean the banking corporation(s) or association(s) designated and acting in such capacity from time to time, as provided in Section 12.05 of this Order.

Remaining Outstanding Bonds.

The term "Remaining Outstanding Bonds" shall mean, from and after the date of delivery of the Initial Bonds to the Underwriters and the deposit of cash, if any, and Escrowed Securities with the Escrow Agent, as required pursuant to the provisions of the Escrow Agreement and Section 8.04 hereof, the Outstanding Bonds, exclusive of the Refunded Bonds.

Report.

The term "Report" shall have the same meaning as defined and described in the Escrow Agreement.

Serial Bonds.

The term "Serial Bond" or "Serial Bonds" shall mean any one or more as the case may be of the Bonds issued as serial bonds, as and if designated in the Pricing Certificate, and which are not subject to mandatory redemption.

Series 2004 Refunding Bonds.

The term "Series 2004 Refunding Bonds" is defined in Article One hereof.

Series 2007 Bonds.

The term "Series 2007 Bonds" is defined in Article One hereof.

Special Tax Counsel.

The term "Special Tax Counsel" shall mean the law firm of Bracewell & Giuliani, LLP, Houston, Texas.

Term Bonds.

The term "Term Bond" or "Term Bonds" shall mean one or more, as the case may be, if any, of the Bonds issued as term bonds as and if designated in the Pricing Certificate.

Underwriter.

The term "Underwriter" shall mean the Person or Persons to whom the Bonds are to be sold and delivered, as provided in the Bond Purchase Agreement and in Section 13.01 hereof.

Water Supply System.

The term "Water Supply System" shall have the meaning assigned to such term in the Refunded Bond Orders.

Woodlands Division.

The term "Woodlands Division" has the meaning assigned to such term in the Refunded Bond Orders.

Woodlands Division Water Supply System 2014 Refunding Bond Account.

The term "Woodlands Division Water Supply System 2014 Refunding Bond Account" shall mean the special account created and established pursuant to Section 7.04 hereof.

SECTION 2.02: INTERPRETATIONS. The titles and headings of the Articles and Sections of this Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the pledge of and lien on the Pledged Revenues to secure payment thereof. Unless a time period specified for performance of any action under this Order is specified to be a Business Day or Business Days, such performance time period shall mean the number of calendar days for such performance to be accomplished.

(End of Article Two)

ARTICLE THREE

AUTHORIZATION, DESCRIPTION AND EXECUTION OF BONDS

SECTION 3.01: AMOUNT, NAME, PURPOSE AND AUTHORIZATION. The Bonds of the Authority, to be known and designated as "San Jacinto River Authority Special Project Revenue Refunding Bonds (The Woodlands Water Supply System Project), Series 2014", shall be issued in an aggregate principal amount set forth in the Pricing Certificate for the purpose or purposes of refunding the Refunded Bonds and paying the costs of issuance, sale and delivery thereof, all under and in strict conformity with the Constitution and laws of the State of Texas, including, particularly, Section 59 of Article XVI of the Constitution of Texas, the Act and the Refunding Act.

SECTION 3.02: FORM, INITIAL DATE, NUMBERS AND DENOMINATIONS.

(a) The Initial Bonds shall be issued and delivered in fully registered form, without interest coupons, and shall be initially dated as of the Initial Date. Each Initial Bond submitted for approval, registration and delivery in accordance with Section 3.07 hereof shall be numbered "IR ", followed by the last two digits of the year of the Maturity Date of such Initial Bond. In the event that more than one Initial Bond of the same Maturity Date shall be submitted for approval, registration and delivery in accordance with Section 3.07 hereof, such Initial Bonds of the same Maturity Date shall be numbered "IR ", followed by the last two digits of the year of the Maturity Date of such Initial Bond, followed by an alphabetical designation, beginning with the letter "A" being designated to the Initial Bond of the greatest principal amount, the letter "B" being designated to the Initial Bond of the next greatest principal amount, and so continuing, consecutively and in succession, until all such Initial Bonds have been so designated; provided, further, that in the event that two or more of such Initial Bonds shall be of the same principal amount, the Initial Bond with the lowest interest rate shall be designated with the letter "A", followed by the Initial Bond with the next lowest interest rate, and continuing in such order until all such Initial Bonds of equal principal amount shall have so designated.

(b) Each Bond registered and delivered by the Registrar upon transfer or in replacement of, or in exchange for, any one or more Initial Bonds shall be numbered consecutively, in succession, beginning with the numeral "1", which shall be preceded by the prefix "R-", and shall be in denominations of \$5,000, or any integral multiple thereof. Each such Bond shall be dated as of the Initial Date, but shall include in the certificate of registration the date of its authentication by the Registrar.

SECTION 3.03: INTEREST RATES AND MATURITY DATES. The Bonds shall be issued as Serial Bonds, Serial Bonds and Term Bonds, or Term Bonds, as so designated in the Pricing Certificate, shall bear interest from the later of the Initial Date or the most recent Interest Payment Date to which interest has been paid or duly provided for, at the per annum rates set forth in the Pricing Certificate, and shall mature and become payable, subject to prior redemption in accordance with the provisions of Article Four hereof, on October 1 in each of the

years and in the principal amounts set forth in the Pricing Certificate. The Bonds shall mature and become payable not later than October 1, 2033.

SECTION 3.04: DATES AND MANNER OF PAYMENT OF INTEREST. Interest on the Bonds shall be payable semi-annually on April 1 and October 1 of each year until the earlier of the Maturity Date or the Redemption Date, with the first interest payment to be made on the date specified in the Pricing Certificate. The amount of interest on the Bonds payable on each Interest Payment Date, Maturity Date or Redemption Date shall be computed on the basis of a 360-day year of twelve 30-day months. Not later than ten (10) days before each Interest Payment Date, Maturity Date or Redemption Date, the Paying Agent shall compute the amount of interest to be due and payable on such date and shall send to the Authority notice of the amount of interest so computed to be due and payable on such date.

Interest on the Bonds shall be payable, at the option of the Authority, by check or draft mailed by the Paying Agent to the Holder, at the address shown on the Register, or by wire transfer to such Holder, or by such other customary banking arrangements as may be acceptable to the Paying Agent and the Holder, at the risk and expense of such Holder. The interest so payable on any Interest Payment Date will be paid to the person in whose name each Bond (or one or more Predecessor Bonds evidencing the same obligation) is registered at the close of business on the Record Date for such Interest Payment Date. Each Bond delivered pursuant to the terms of this Order upon transfer or in exchange for or in lieu of any Predecessor Bond shall carry all the rights to interest, both accrued and unpaid, and to accrue, which were carried by such Predecessor Bond, and each such Bond shall bear or accrue interest as specified herein so that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

SECTION 3.05: MEDIUM AND PLACE OF PAYMENT. The interest on and principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the respective Interest Payment Dates, Maturity Dates or Redemption Dates is legal tender for the payment of debts due the United States of America. The principal of the Bonds, together with accrued interest since the preceding Interest Payment Date, shall be payable only upon their presentation and surrender, as they become due on their respective Maturity Dates or Redemption Dates, at the principal corporate trust office of the Paying Agent.

SECTION 3.06: EXECUTION. The Bonds shall be signed on behalf of the Authority by the President and Secretary of the Board of Directors of the Authority, and the Authority's seal shall be placed or impressed thereon. Such signatures may be manually executed or placed in facsimile on the Bonds, and the Authority's seal may be manually impressed or printed or otherwise mechanically reproduced in facsimile on the Bonds. In case any official of the Authority who shall have signed any of the Bonds, either manually or by facsimile signature, shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Registrar, or disposed of by the Authority, such Bonds, nevertheless, may be authenticated and delivered or disposed of as though the Person who signed such Bonds had not ceased to be such officer of the Authority, and any Bond may be signed on behalf of the Authority by such Person as, at the actual time of execution of such Bond, shall be a proper

officer of the Authority, although at the date of such Bond or of the adoption of this Order, such Person was not such officer. Minor typographical and other minor errors in the text of any Bond or minor defects in the seal or facsimile signature on any Bond shall not affect the validity or enforceability of such Bond, if same has been duly authenticated by the Registrar.

SECTION 3.07: APPROVAL, REGISTRATION AND DELIVERY. The Initial Bonds shall consist of one Bond for each Maturity Date specified in the Pricing Certificate, representing the entire principal amount of the Bonds scheduled to mature on each of such Maturity Dates, and shall be made payable to Cede & Co., as nominee for DTC, the designee of the Underwriter. The President and Secretary of the Board of Directors of the Authority and representatives of the Authority's Bond Counsel are each hereby authorized and directed to submit the Initial Bonds and a transcript of the proceedings relating to the issuance of the Bonds to the Attorney General of Texas for approval and, following said approval, to submit the Initial Bonds to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Initial Bonds, the Comptroller of Public Accounts (or a deputy designated in writing to act for the Comptroller) shall manually sign the Comptroller's registration certificate prescribed herein to be printed and endorsed on each Initial Bond. After the Initial Bonds have been registered and signed by the Comptroller, they shall be registered on the Register in the name of Cede & Co., as nominee of DTC, and shall be delivered to the Underwriter or its designee, in accordance with the terms of the Bond Purchase Agreement.

At any time after delivery of the Initial Bonds, any Holder may, subject to the requirements of and in accordance with the procedures prescribed in Section 3.09 hereof, surrender any Bonds to the Registrar for transfer or exchange, accompanied by instructions specifying the name(s) and address(es) of the Person(s) to whom such Bonds are to be transferred and the principal amount(s) of the Bonds to be authenticated and delivered in exchange therefor, and the Registrar shall thereupon, within not more than three (3) Business Days, register and deliver Bonds conforming to such instructions and the provisions of this Order.

No Initial Bond shall be entitled to any right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Initial Bond a certificate of registration substantially in the form provided in Section 5.03 hereof, executed by the Comptroller of Public Accounts of the State of Texas, or his duly authorized deputy, by manual signature; nor shall any Bond authenticated and delivered subsequent to the Initial Bonds be so entitled or be valid or obligatory unless there appears on such Bond a Certificate of Registrar substantially in the form provided in Section 5.02 hereof duly executed by an authorized officer or employee of the Registrar by manual signature. Such Certificate of Registrar upon any Bond authenticated and delivered subsequent to the Initial Bonds shall be conclusive evidence that such Bond has been duly authenticated, registered and delivered.

SECTION 3.08: OWNERSHIP OF BONDS. The Authority, the Paying Agent, the Registrar and any other Person may treat the Person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and interest thereon and for all other purposes, whether or not such Bond is overdue, and

neither the Authority, the Paying Agent, nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the Person deemed to be the owner of any Bond in accordance with this Section 3.08 shall be valid and effective for all purposes and shall discharge the liability of the Authority, the Paying Agent and the Registrar to the extent of the sums paid.

SECTION 3.09: REGISTRATION, TRANSFER AND EXCHANGE. So long as any Bonds remain outstanding, the Registrar shall keep and maintain at its designated corporate trust office a Register in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration, transfer and exchange of Bonds in accordance with the terms of this Order.

Each Bond shall be transferable only upon the presentation and surrender thereof at the office designated by the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative. Within three (3) Business Days following due presentation for registration of the transfer of any Bond, the Authority shall cause to be executed and the Registrar shall authenticate in the name of the transferee or transferees one or more exchange Bonds in a like aggregate principal amount and shall deliver or mail same to the transferee or transferees by United States mail, first class, postage prepaid.

All Serial Bonds shall be exchangeable upon the presentation and surrender thereof at the corporate trust office of the Registrar for a Serial Bond or Serial Bonds having the same Maturity Date and interest rate, in any authorized denomination which is an integral multiple of \$5,000, and being in an aggregate principal amount equal to the unpaid principal amount of the Serial Bond or Serial Bonds presented for exchange. Within three (3) Business Days following due presentation for exchange of any Serial Bond, the Authority shall cause to be executed and the Registrar shall authenticate, register and deliver or send to the Holder, by United States mail, first class, postage prepaid, exchange Serial Bonds in accordance with the provisions of this Section 3.09. Except as provided in Section 3.12 hereof, a Term Bond, if any Bonds are so designated in the Pricing Certificate, is not exchangeable so long as it is registered in the name of Cede & Co., as nominee of DTC.

Each exchange Bond duly authenticated and delivered in accordance with this Section 3.09 shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

No service charge shall be made for any transfer or exchange referred to above, but the Authority or the Registrar may require the Holder of any Bond to pay a sum sufficient to pay any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond.

The Registrar shall not be required to transfer or exchange any Bond on any date subsequent to a Record Date and prior to the next succeeding Interest Payment Date, or during

any period beginning fifteen (15) days prior to, and ending on the day of the mailing of, notice of redemption of Bonds prior to maturity, nor shall the Registrar be required to transfer or exchange any Bond selected for redemption in whole or in part when such Redemption Date is scheduled to occur within thirty (30) days.

SECTION 3.10: REPLACEMENT BONDS. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Authority shall cause to be executed, and the Registrar shall authenticate, register and deliver in exchange therefor, a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding. In the event that any Bond is lost, apparently destroyed or wrongfully taken, the Authority, pursuant to the applicable laws of the State of Texas, and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall cause to be executed and the Registrar shall authenticate, register and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Holder thereof shall have:

- (a) furnished to the Registrar satisfactory evidence of the ownership and the circumstances of the loss, destruction or theft of such Bond;
- (b) furnished such security or indemnity as may be required by the Registrar and the Paying Agent to save and hold harmless the Authority, the Registrar and the Paying Agent;
- (c) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees and expenses of the Registrar and Paying Agent and any tax or other governmental charge that may be imposed; and
- (d) met any other reasonable requirements of the Authority, the Registrar and the Paying Agent.

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

In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Paying Agent, with the concurrence of the Registrar, in their discretion, may pay such Bond, in lieu of issuance of a replacement Bond.

Each replacement Bond delivered in accordance with this Section 3.10 shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

SECTION 3.11: BOOK-ENTRY ONLY SYSTEM. Notwithstanding the foregoing, the Initial Bonds and all subsequent Bonds shall be registered in the name of Cede & Co., as nominee of DTC, except as provided in Section 3.12 hereof.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority, the Paying Agent and the Registrar shall have no responsibility or obligation to any DTC Participant or to any Person on behalf of whom such a DTC Participant holds an interest in the Bonds. In particular, and not by way of limiting the foregoing, the Authority, the Paying Agent and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other Person, other than a Holder, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other Person, other than a Holder, as shown in the Register, any amount with respect to the principal of or the premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Order to the contrary, the Authority, the Paying Agent and the Registrar shall be entitled to treat and consider the Person in whose name each Bond is registered on the Register as the absolute owner of such Bond for the purpose of payment of the principal of and the premium, if any, and interest on such Bond; for the purpose of giving notices of redemption and other matters with respect to such Bond; for the purpose of registering transfers with respect to such Bond; and for all other purposes whatsoever. The Paying Agent shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Holders, as shown on the Register and as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the payment of the principal of and the premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. Except as provided in Section 3.12 hereof, no Person, other than a Holder, as shown on the Register, shall be issued an exchange Bond pursuant to this Order. Upon delivery by DTC to the Paying Agent and the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions of this Order with respect to interest payments to the Holders as of the close of business on a Record Date, the word "Cede & Co." in this Order shall refer to such new nominee of DTC.

Notwithstanding any other provision of this Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and the premium, if any, and interest on such Bond, and all notices with respect to such Bond, shall be made and given, respectively, in the manner provided in the Letter of Representation. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds, or portions thereof, to be redeemed in whole or in part from within each such maturity shall be selected by DTC from the Bonds, or portions thereof, which have not previously been called for redemption in accordance with the procedures of DTC notwithstanding any other provision of this Order to the contrary.

SECTION 3.12: SUCCESSOR SECURITIES DEPOSITORY; TRANSFER OUTSIDE BOOK-ENTRY ONLY SYSTEM. In the event that the Authority, in its sole discretion,

determines that the beneficial owners of the Bonds should be able to obtain exchange Bonds, the Authority shall notify DTC and the DTC Participants, as identified by DTC, of the availability through the Registrar of exchange Bonds and cause the registration and transfer of one or more exchange Bonds to the DTC Participants having Bonds credited to their DTC accounts, as identified by DTC, but only upon presentation and surrender of the Bonds to be exchanged, upon receipt of proper proof of the beneficial ownerships of the DTC Participants, and in integral multiples of \$5,000 in principal amount; provided, however, that in such event, each Term Bond, if any Bonds are so designated in the Pricing Certificate, shall be exchangeable only for one or more Serial Bonds bearing the same rate of interest and corresponding in aggregate principal amounts and Maturity Dates to the unpaid mandatory redemption amounts and Redemption Dates applicable to such Term Bond pursuant to Section 4.01 hereof, with the particular Maturity Date applicable to any such exchange Serial Bond to be determined by the Registrar by lot or other customary method. In the event DTC discontinues the services described herein, the Authority shall appoint a successor securities depository qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended; notify DTC and the DTC Participants, as identified by DTC, of the appointment of such successor securities depository; and cause the registration and transfer of one or more exchange Bonds to such successor securities depository. In either such event, the Bonds shall no longer be restricted to being registered on the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Holders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Order.

SECTION 3.13: CANCELLATION. All Bonds paid or redeemed in accordance with this Order, and all Bonds in lieu of which exchange Bonds or replacement Bonds are executed, authenticated and delivered in accordance with Section 3.09 or Section 3.10 of this Order, shall be cancelled upon the making of proper records regarding such payment, redemption, exchange or replacement and shall be treated in accordance with the document retention policies of the Paying Agent and the records retention schedules of the District. The Paying Agent and Registrar shall periodically furnish the Authority with certificates of cancellation of such Bonds, upon written request therefor.

(End of Article Three)

ARTICLE FOUR

REDEMPTION OF BONDS BEFORE MATURITY

SECTION 4.01: REDEMPTION OF BONDS. The Authority reserves the right, at its option, to redeem certain Bonds identified by Maturity Date in the Pricing Certificate on such dates as are designated in the Pricing Certificate at a price equal to the principal amount thereof to be redeemed plus accrued interest on said principal amount thereof called for redemption to the Redemption Date. The Authority shall, at least forty-five (45) days prior to the Redemption Date (unless a shorter notice shall be satisfactory to the Registrar and Paying Agent), notify the Registrar and Paying Agent of such Redemption Date and of the principal amount of the Bonds of each maturity to be redeemed. If less than all of the Serial Bonds of the same maturity are to be redeemed, the particular Serial Bonds to be redeemed in whole or in part from within each such maturity shall be selected by the Registrar or DTC, as applicable, from the Serial Bonds which have not previously been called for redemption, by lot or other customary method; provided, however, that in the event that a Serial Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Serial Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof. The Registrar shall promptly notify the Authority and the Paying Agent, if different than the Registrar, in writing, of the Serial Bonds selected for redemption and, in the case of any Serial Bond selected for partial redemption, of the principal amount thereof to be redeemed. If less than all of the outstanding principal amount of a Term Bond, if any are so designated in the Pricing Certificate, is to be redeemed, the Authority may determine and notify the Paying Agent of the reduction in the remaining mandatory redemption amount(s) of such Term Bond as result from such optional redemption.

Bonds designated as "Term Bonds" in the Pricing Certificate, if any, are subject to scheduled mandatory sinking fund redemption and will be redeemed by the Authority in part at a price equal to the principal amount thereof plus accrued interest to the Redemption Date on the dates and in the respective principal amounts as set forth in the Pricing Certificate (less the principal amount of such Term Bonds as may have been previously redeemed through the exercise of the Authority's reserved right of optional redemption, as provided above), with the particular Term Bonds to be redeemed to be selected by the Registrar from the Term Bonds which have not previously been redeemed by the Authority, by lot or other customary method.

Notwithstanding the foregoing, to the extent that Term Bonds of a particular maturity have been previously redeemed in part through the exercise of the Authority's reserved right of optional redemption, as provided above, each of the aforesaid scheduled mandatory redemption payments for the Term Bonds of such maturity shall be reduced in each such instance of prior redemption, as specified in the Authority's notice to the Paying Agent as provided below.

For purposes of this Order, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal amount of such Bond which has been or is to be redeemed. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with

Section 3.09 of this Order, shall authenticate and deliver an exchange Bond or Bonds in aggregate principal amount equal to the unredeemed portion of the Bond so surrendered; provided, however, that the foregoing shall not apply to Bonds registered as set forth in Section 3.11 of this Order.

SECTION 4.02: NOTICE OF REDEMPTION. Notice of the selection of any Bonds for redemption pursuant to Section 4.01 above is hereby directed to be given by the Registrar, without any further instruction or notice from the Authority, at least thirty (30) days prior to the Redemption Date. Notice shall be given by first class United States mail, postage prepaid, to the Holder of each Bond to be redeemed in whole or in part at the address shown on the Register on the date which is forty-five (45) days prior to the Redemption Date. Such notice shall state the Redemption Date, the redemption price, the principal amounts of the Bonds to be redeemed and, if less than all of the then outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemptions within a maturity, the respective principal amounts) of the Bonds to be redeemed, the amount of accrued interest payable on the Redemption Date and the place at which the Bonds are to be surrendered for payment. Any notice mailed as provided in this Section 4.02 shall be conclusively presumed to have been duly given, whether or not the Holder actually receives such notice. Except as otherwise provided in Section 11.03 of this Order, no other notice of the reserved right of redemption shall be given unless otherwise required by law.

By the Redemption Date, due provision shall be made with the Paying Agent for the payment of the principal of the Bonds to be redeemed, plus accrued interest thereon to the Redemption Date. When Bonds have been called for redemption, in whole or in part, as provided above, and due provision has been made to redeem same, such Bonds or portions thereof, shall no longer be regarded as outstanding, except for the purpose of receiving payment from the funds provided for redemption, and the right of the Holders to collect interest which would otherwise accrue after the Redemption Date upon the principal of such Bonds or the portions thereof so called for redemption shall be terminated.

(End of Article Four)

ARTICLE FIVE

FORM OF BONDS AND INSURANCE

SECTION 5.01: FORM OF BONDS. The Bonds authorized by this Order, including the registration certificate of the Comptroller of Public Accounts of the State of Texas or Registrar, as applicable, and form of assignment shall be in substantially the forms specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate.

SECTION 5.02: CERTIFICATE OF REGISTRAR. The form of Certificate of Registrar specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate shall be printed on or attached to each of the Bonds authenticated and delivered subsequent to the Initial Bonds.

SECTION 5.03: REGISTRATION OF BONDS BY STATE COMPTROLLER AND CERTIFICATE. The Initial Bonds shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. In lieu of the Certificate of Registrar specified in Section 5.02 hereof, the registration certificate of the Comptroller of Public Accounts of the State of Texas shall be printed or typed on or attached to each of the Initial Bonds and shall be in substantially the form specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate.

SECTION 5.04: FORM OF ASSIGNMENT. The form of Assignment specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate shall be printed at the back of or attached to each of the Bonds.

SECTION 5.05: CUSIP REGISTRATION. The Underwriter or the officers and representatives of the Authority may secure the printing of identification numbers on the Bonds through the CUSIP Service Bureau of Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., New York, New York.

SECTION 5.06: LEGAL OPINION. The opinions of the District's Bond Counsel and Special Tax Counsel may be, but are not required to be, printed on or attached to the Bonds and certified by the Secretary of the Board of Directors, which certification may be executed in facsimile or, with respect to Bonds registered in the name of Cede & Co., as nominee of DTC, in accordance with Section 3.11 of this Order, an original of said opinion may be delivered to the Underwriter.

SECTION 5.07: BOOK-ENTRY ONLY BONDS. Notwithstanding anything in this Article Five to the contrary, exchange Bonds in the form specified in Exhibit "B" attached to the Pricing Certificate shall not be issued except as set forth in Section 3.12 of this Order.

SECTION 5.08: BOND INSURANCE PROCEEDINGS. The officers and representatives of the Authority are hereby authorized (i) to make application for and to execute, attest and deliver any and all certificates, agreements or other instruments necessary to secure a commitment for municipal bond insurance policy with respect to the Bonds from one or more

insurers having on the date of sale of the Bonds a rating on its outstanding insured indebtedness of at least "Aa" from Moody's Investor Service, Inc., or at least "AA" or higher from Standard & Poor's Rating Services, and (ii) to provide for the printing of a statement or legend relating to such insurance on the Bonds, all as may be deemed necessary by said officers and representatives. If a municipal bond insurance policy on the Bonds is secured, the General Manager is hereby authorized and directed to approve and set forth any terms and conditions related to such insurance in an exhibit to the Pricing Certificate, which terms and conditions shall be deemed to amend and supplement this Order in all respects and shall control over any conflicting provision set forth herein.

(End of Article Five)

ARTICLE SIX

SECURITY FOR THE BONDS

SECTION 6.01: SECURITY FOR THE BONDS. The Pledged Revenues are hereby pledged to the payment of the principal of and the interest on the Bonds, and to pay any bank charges, paying agent fees and related costs and expenses of payment of the Bonds. The Pledged Revenues shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding against all parties having a claim of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. The lien and pledge hereby created shall remain in full force and effect until the Bonds, the Remaining Outstanding Bonds and any Additional Bonds have been paid in full, as to both principal and interest, at their scheduled maturities or upon their earlier redemption or by reason of their defeasance and discharge.

SECTION 6.02: ASSESSMENT OF CAPACITY CHARGES. The Authority will at all times maintain and use due diligence to collect sufficient capacity charges to produce revenues sufficient to pay or provide for payment of the Bonds and to comply with its covenants and obligations herein. In particular, the Authority covenants and agrees that, from time to time, there shall be fixed, assessed, levied, charged and billed capacity charges allocable to and among the Customer Districts, as provided in the Agreements, in such amounts as will be sufficient to (i) pay or provide for payment of all principal of and interest on and all bank charges, paying agent fees and costs and expenses of payment of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds issued in conformity with the Outstanding Bond Orders and this Order, when and as the same shall become due and payable, and all payments to any reserve or sinking funds created in respect of the Bonds, the Remaining Outstanding Bonds or any Additional Bonds, when and as the same shall become due and payable, and (ii) fulfill the terms, agreements and covenants made with the Holders of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds and/or with any other Persons in their behalf.

Such capacity charges shall be timely assessed, levied, charged and billed to the Customer Districts and shall become payable at such times and in such monthly amounts as required to pay promptly or provide for the prompt payment of all of the foregoing items, without regard to whether the Authority has initiated, completed or commenced operations of the Projects. Such capacity charges shall be fair, reasonable, just and nondiscriminatory and shall be equitably established by the Authority in conformity with the Agreements. Such capacity charges shall be adjusted from time to time so as to produce the lowest charges consistent with good business management on the part of the Authority and the foregoing covenants, duties and responsibilities of the Authority. To the extent that any such capacity charges shall ever be in excess of the needs of the Authority to meet such requirements such charges will be promptly adjusted by the Authority, and no proceeds of such capacity charges, or any investment profits or earnings thereon, shall ever be used by the Authority for any corporate purpose of the Authority, other than as set forth in this Order.

SECTION 6.03: COLLECTION OF CAPACITY CHARGES. So long as any of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds shall remain outstanding, the Authority covenants and agrees that it will use reasonable diligence and will take all actions and measures as may be deemed appropriate under the circumstances to timely and fully enforce and collect such capacity charges, to make all payments therefrom into the Debt Service Fund required hereunder and to preserve and protect the existence and priority of the pledge and lien of the Pledged Revenues including, but not limited to, where deemed appropriate, the institution of arbitration proceedings and/or suits for collection of delinquent capacity charges; provided, however, that so long as the Authority shall have made all payments and deposits required hereunder, the failure or inability of the Authority to receive and collect all or any portion of such capacity charges, as assessed, levied, billed and charged to the Customer Districts, shall not, under any circumstances, be deemed to be a default in payment or performance of the Authority hereunder.

SECTION 6.04: INSURANCE AND CONDEMNATION. So long as any of the Bonds, the Remaining Outstanding Bonds or any Additional Bonds shall remain outstanding, the Authority covenants and agrees that it will at all times keep insured such portions of the Water Supply System as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under similar circumstances with a responsible insurance company or companies against risks, accidents or casualties against and to the extent to which insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work relating to the Projects or any portion(s) thereof, shall be fully responsible therefor, the Authority shall not be required to secure and maintain such insurance. All such policies of insurance shall be open to inspection by the Holders or their representatives at all reasonable times.

In the event of any loss or damage to the Projects, the Authority covenants that it will apply any proceeds of such insurance policies covering such loss or damage to the reconstruction or repair of the Project, and any excess insurance proceeds remaining after the completion of the Project shall promptly be deposited into the Debt Service Fund.

To the extent that the Projects or any portion(s) thereof shall be taken by condemnation or eminent domain proceedings, any awards or compensation received representing damages for the portion(s) of the Projects so taken shall, upon receipt by the Authority, be promptly deposited to the credit of the Debt Service Fund.

SECTION 6.05: LIMITED OBLIGATIONS. The Bonds are limited obligations of the Authority and are payable solely out of and are secured solely by a lien on and pledge of the Pledged Revenues if, as, when and to the extent actually received by the Authority pursuant to the Agreements. Neither the State of Texas nor any other political subdivision or agency thereof shall be obligated to pay the principal of or interest on the Bonds, and neither the faith and credit nor the taxing power of the State of Texas, the Authority or any other political subdivision or agency thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds

shall never be paid in whole or in part out of any funds raised or to be raised by taxation or out of any other funds, resources, assets or revenues of the Authority, except the Pledged Revenues.

(End of Article Six)

ARTICLE SEVEN

REVENUES AND APPLICATION THEREOF

SECTION 7.01: CONFIRMATION OF DEBT SERVICE FUND. Notwithstanding any part or provision hereof to the contrary, or the subsequent defeasance and discharge of the Refunded Bonds and/or the Refunded Bond Orders hereby, and except as otherwise provided in Section 12.02 hereof, the creation, establishment and use of The Woodlands Division Water Supply System Debt Service Fund pursuant to the Outstanding Bond Orders is hereby adopted and confirmed as a part hereof, as if set forth in full herein, and same shall continue in force and effect so long as this Order remains in effect. The Debt Service Fund shall be kept separate and apart from all other funds of the Authority. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the Holders of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds and shall be used solely as provided in the Outstanding Bond Orders and this Order until all of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds have been retired, both as to principal and interest. The Authority reserves the right to create, establish and maintain, by separate resolution, order or agreement, one or more additional funds or accounts to facilitate delivery of the Bonds and to provide for the receipt, investment, reinvestment, transfer, withdrawal, expenditure and/or other disposition of the proceeds received from time to time from sale and delivery of the Bonds; provided, however, that such funds or accounts are used solely for the purposes herein described and are secured and invested in a manner consistent herewith.

SECTION 7.02: SECURITY OF FUNDS. Any cash balance in any fund of the Authority, to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, managed by the Federal Deposit Insurance Corporation, or a successor insurance fund, shall be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of counties having an aggregate market value, exclusive of accrued interest, at all times equal to the uninsured cash balance in such funds.

SECTION 7.03: DEBT SERVICE FUND. During each Fiscal Year while any portion of the Bonds remain outstanding, the Authority shall deposit or cause to be deposited into the Debt Service Fund, monthly as collected, capacity charges assessed, levied and made to and collected from the Customer Districts pursuant to the Agreements in an amount, after allowances for funds already on hand in the Debt Service Fund, not less than one-twelfth (1/12) of the scheduled amount of principal and interest to come due on the Bonds, any Remaining Outstanding Bonds and any Additional Bonds in such Fiscal Year.

SECTION 7.04: WOODLANDS DIVISION WATER SUPPLY SYSTEM 2014 REFUNDING BOND ACCOUNT. There is hereby created and established on the books and records of the Authority a special account, to be known and designated as the Woodlands Division Water Supply System 2014 Refunding Bond Account, into which a portion of the proceeds of the Bonds are to be deposited and used, as provided in Section 8.03 hereof.

SECTION 7.05: ESCROW FUND. The Escrow Fund shall be established, maintained and administered as provided in the Escrow Agreement.

SECTION 7.06: INVESTMENTS; EARNINGS. Moneys deposited into the Debt Service Fund or any other fund or funds which the Authority may lawfully create may be invested or reinvested from time to time, but only in Authorized Investments. Except to the extent otherwise required to maintain compliance with the covenants set forth in Section 8.09 hereof, all investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investment were taken; provided, however, that in the discretion of the Board of Directors, the profits realized and interest accruing or investments made from any fund may be transferred to the Debt Service Fund. If any moneys are so invested, the Authority shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested moneys on hand to meet the obligations payable out of such fund. After such sale, the moneys resulting therefrom shall belong to the fund from which such investments were initially taken. The Authority shall not be responsible to the Holders for any loss arising out of the sale of any investments.

(End of Article Seven)

ARTICLE EIGHT

APPLICATION OF BOND PROCEEDS

SECTION 8.01: BOND PROCEEDS. Proceeds from the sale of the Bonds will be disbursed in accordance with this Article Eight and the Pricing Certificate.

SECTION 8.02: ACCRUED INTEREST. Moneys received from the Underwriter representing accrued interest on the Bonds from their Initial Date to the date of their delivery to the Underwriter shall be deposited into the Debt Service Fund.

SECTION 8.03: TRANSFERS, DEPOSITS AND ISSUANCE EXPENSES. A portion of the proceeds received from the sale of the Bonds, as set forth in the Pricing Certificate, shall be appropriated and applied to pay the insurance premium on and the costs of issuance, sale and delivery of the Bonds, which amount shall be disbursed to pay such costs and expenses and/or deposited into the Woodlands Division Water Supply System 2014 Refunding Bond Account immediately after the Initial Bonds are delivered to the Underwriter, and any additional sum representing a rounding amount, as and if so identified in the Pricing Certificate, which shall also be deposited into the Woodlands Division Water Supply System 2014 Refunding Bond Account and disbursed, if needed, for issuance costs and contingencies. Any amounts remaining on deposit in the Woodlands Division Water Supply System 2014 Refunding Bond Account, after making all such disbursements and payments, shall be deposited into the Debt Service Fund. There is hereby further appropriated from other funds currently on hand and available in the Debt Service Fund and attributable to the Refunded Bonds a sum not to exceed \$50,000.00, as and if so identified in the Pricing Certificate, which, together with the balance of the proceeds from sale of the Bonds, shall be applied as set forth in the Pricing Certificate to establish an initial cash balance in the Escrow Fund as provided in the Report and to purchase the Escrowed Securities, as hereinafter provided.

SECTION 8.04: ESCROW FUND DEPOSITS AND ADDITIONAL EXPENSES. After making the deposits hereinbefore provided, the balance of the proceeds from sale of the Bonds, together with any sum appropriated from the Debt Service Fund, shall be applied as set forth in the Pricing Certificate to establish an initial cash balance in the Escrow Fund as provided in the Report, and to purchase the Escrowed Securities for deposit in the Escrow Fund, so as to effect the refunding of the Refunded Bonds, as more fully provided below.

SECTION 8.05: REDEMPTION OF REFUNDED BONDS. The Authority hereby authorizes and calls for the redemption of and the payment of the applicable redemption prices for all of the Refunded Bonds, prior to their scheduled Maturity Dates, on the date or dates set forth in the Pricing Certificate. Notice of such redemption is hereby authorized and directed to be given in the manner required by the Refunded Bond Orders.

Section 8.06: ESCROW AGREEMENT. The discharge and defeasance of the Refunded Bonds shall be effected pursuant to the terms and provisions of the Escrow Agreement. The form, terms and provisions of the Escrow Agreement are hereby in all things approved, subject

to such insertions, additions and modifications as shall be necessary, in the judgment of the officials of the Authority executing same, to:

- (a) carry out the refunding of the Refunded Bonds in substantial conformity with the program designed for the Authority by the Underwriter for such purposes, which shall be confirmed as to mathematical accuracy by Grant Thornton LLP, Certified Public Accountants, whose Report shall be and is hereby incorporated by reference in the Escrow Agreement;
- (b) maximize the Authority's present value savings and/or minimize the Authority's costs of refunding;
- (c) comply with this Order, the Refunding Act, the Customer Contracts, the Agreements, the Customer Resolutions, the Outstanding Bond Orders and all applicable laws and regulations relating to the refunding of the Refunded Bonds;
- (d) carry out the intents and purposes of this Order; and
- (e) comply with the terms set forth in the Pricing Certificate;

and the President of the Board of Directors or the General Manager of the Authority is hereby authorized to execute and deliver such Escrow Agreement on behalf of the Authority in multiple original counterparts.

SECTION 8.07: PURCHASE OF ESCROWED SECURITIES. In order to assure the purchase of the Escrowed Securities referred to in the Escrow Agreement, the President, the Authority's General Manager, the Escrow Agent or the Underwriter, acting at the direction and on behalf of the Authority, are hereby authorized to agree to purchase and to purchase such Escrowed Securities, in such amounts and maturities and bearing interest at such rates as may be provided for in the Report, and to execute any purchase agreements, commitments, letters of authorization and other documents necessary to effectuate the foregoing, and any actions heretofore taken for such purposes are hereby ratified, confirmed, approved and adopted.

SECTION 8.08: RELATED MATTERS. In order that the Authority shall satisfy in a timely manner all of its obligations under this Order and the Escrow Agreement, the appropriate officers and agents of the Authority are hereby authorized and directed to take any and all other actions that are reasonably necessary to provide for the refunding and redemption of the Refunded Bonds, including without limitation, executing and delivering on behalf of the Authority all notices, certificates, directives, orders, instructions, consents, receipts, waivers, requests and other documents as may be reasonably necessary to redeem the Refunded Bonds, to satisfy the Authority's obligations under this Order, the Bond Purchase Agreement and the Escrow Agreement and to direct the deposits and applications of funds of the Authority consistent with the provisions of same.

SECTION 8.09. FEDERAL INCOME TAX EXCLUSION.

(a) General. The Authority intends that the interest on the Bonds be excludable from gross income for federal income tax purposes pursuant to sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable Treasury Regulations (the "Regulations"). The Authority covenants and agrees not to take any action, or knowingly omit to take any action within its control that, if taken or omitted, respectively, would (i) cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes or (ii) result in the violation of or failure to satisfy any provision of Section 103 and 141 through 150 of the Code and the applicable Regulations that is applicable to the Bonds. In particular, the Authority covenants and agrees to comply with each requirement of this Section 8.09; provided, however, that the Authority will not be required to comply with any particular requirement of this Section 8.09 if the Authority has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that (i) such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or (ii) compliance with some other requirement set forth in this Section 8.09 will satisfy the applicable requirements of the Code and the Regulations, in which case compliance with such other requirement specified in such Counsel's Opinion will constitute compliance with the corresponding requirement specified in this Section 8.09.

(b) No Private Use or Payment and No Private Loan Financing. The Authority will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, that the proceeds of the Refunded Bonds have not been used, and that proceeds of the Refunded Bonds and the Bonds will not be used, in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the Authority covenants and agrees that it will make such use of the proceeds of the Refunded Bonds and the Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

(c) No Federal Guarantee. The Authority covenants and agrees that it has not and will not to take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

(d) No Hedge Bonds. The Authority covenants and agrees that it will not to take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the applicable Regulations thereunder. Moreover, the Authority will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are

delivered, that the proceeds of the Refunded Bonds have not been used in a manner that would cause the Refunded Bonds or the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the Regulations promulgated thereunder.

(e) No Arbitrage. The Authority will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the Authority covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

(f) Arbitrage Rebate. If the Authority does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, the Authority will take all necessary steps to comply with the requirement that certain amounts earned by the Authority on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the Authority will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the Authority allocable to other bond issues of the Authority or moneys that do not represent gross proceeds of any bonds of the Authority, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds or on such other dates as may be permitted under applicable Regulations, all amounts required to be rebated to the federal government. Further, the Authority will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any Person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(g) Information Reporting. The Authority covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the fifteenth (15th) day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Regulations promulgated thereunder.

(h) Record Retention. The Authority will retain all pertinent and material records relating to the use and expenditure of the proceeds of Refunded Bonds and the Bonds until three

years after the last Bond is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the Authority to retrieve and reproduce such books and records in the event of an examination of the Bonds by the Internal Revenue Service.

(i) Registration. The Bonds will be issued in registered form.

(j) Deliberate Actions. The Authority will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Bonds to fail to meet any requirement of section 141 of the Code after the issue date of the Bonds unless an appropriate remedial action is permitted by section 1.141-12 of the Regulations and an opinion of Bond Counsel is obtained that such remedial action cures any failure to meet the requirements of section 141 of the Code.

(k) Continuing Obligation. Notwithstanding any other provision of this Order, the Authority's obligations under the covenants and provisions of this Section 8.09 will survive the defeasance and discharge of the Bonds for so long as such matters are relevant to the exclusion from gross income of interest on the Bonds for federal income tax purposes.

SECTION 8.10: BONDS NOT QUALIFIED TAX-EXEMPT OBLIGATIONS. The Authority has not designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code due to the fact that the reasonably anticipated amount of tax-exempt obligations which will be issued by the Authority during the calendar year 2014, including the Bonds, will exceed \$10,000,000.

SECTION 8.11: DISPOSITION OF FACILITIES. The Authority covenants that the property constituting the Projects constructed and/or purchased with the proceeds of the Refunded Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Authority of cash or other compensation unless the Authority obtains an opinion of nationally recognized bond counsel or tax counsel to the effect that the proposed actions of the Authority will not adversely affect the excludability for federal income tax purposes from gross income of the interest on the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course will not be treated as a transaction resulting in the receipt of cash or other compensation.

(End of Article Eight)

ARTICLE NINE

AMENDMENTS, ADDITIONAL BONDS AND REFUNDING BONDS

SECTION 9.01: AMENDMENTS AND SUPPLEMENTS. The Authority or the Authority and the Customer Districts may, without the consent of, or notice to, any of the Holders of the Bonds, enter into amendments or supplements to the Outstanding Bond Orders, this Order, the Agreements or the Customer Contracts:

- (i) to provide for the issuance, sale and delivery of Additional Bonds in conformity with the requirements of Section 9.02 of this Order and, in such connection, to provide for the deposit and the disbursement of the proceeds of sale of such Additional Bonds and the construction or installation of facilities and improvements to be financed from the proceeds of such Additional Bonds,
- (ii) to cure any ambiguity, inconsistency or formal defect or omission in the Outstanding Bond Orders, this Order, the Agreements and/or the Customer Contracts,
- (iii) to modify the Outstanding Bond Orders, this Order, the Agreements and/or the Customer Contracts or to add any provisions or changes thereto that do not materially adversely affect the interest of the Holders of the Bonds, or
- (iv) to evidence the transfer and assignment of capacity rights in and to the Water Supply System and any corresponding adjustment or reallocation of capacity charges to the Customer Districts for the purposes, in the manner and subject to the terms and conditions set forth in the Agreements.

Otherwise, no such change, amendment, modification, supplement or alteration of the terms or provisions of the Outstanding Bond Orders, this Order, the Agreements or the Customer Contracts shall be made, entered into or effective without the prior written consent of the Holders of all remaining outstanding portions of the Bonds.

SECTION 9.02: ADDITIONAL BONDS. The Authority expressly reserves the right to issue Additional Bonds, in one or more installments, upon such other terms and conditions as the Authority deems advisable, upon satisfaction of the following conditions:

- (a) The capacity charges received by the Authority in respect of the Bonds, and the Remaining Outstanding Bonds and any Additional Bonds then outstanding for the most recently completed Fiscal Year or during any period of twelve (12) consecutive calendar months ending no more than ninety (90) days preceding the adoption of the resolution or order authorizing the issuance of such Additional Bonds are not less than 1.25 times the annual average of the principal and interest payments scheduled to become due on the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding and estimated to become due on such proposed Additional Bonds; or

(b) The Authority has revised its capacity charges to the Customer Districts in respect of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding, effective at least sixty (60) days prior to the close of its most recent Fiscal Year or any other period of twelve (12) consecutive calendar months ending no more than ninety (90) days prior to the proposed date of issuance of such Additional Bonds, and the Authority has received a certificate executed by a certified public accountant or firm of certified public accounts to the effect that such capacity charges received by the Authority during such Fiscal Year or twelve-month period, if recalculated on the assumption that such revised capacity charges had been in effect for the entirety of such Fiscal Year or twelve-month period, would have been no less than 1.25 times the annual average of the principal and interest payments scheduled to become due on the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding and estimated to become due on such proposed Additional Bonds; or

(c) The Authority has received the written consent and approval to the issuance of such Additional Bonds from the Holders of not less than two-thirds (2/3) in aggregate principal amount of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding; or

(d) The proposed Additional Bonds receive a rating of at least "Aa" from Moody's Investors Service, Inc. or at least "AA" from Standard & Poor's Rating Services, or their successors, or a comparable rating from any other nationally recognized municipal bond rating service, which rating may be obtained through the use of credit enhancements.

SECTION 9.03: SUBORDINATE LIEN BONDS. The Authority further reserves the right to issue subordinate lien bonds in one or more installments and upon such terms and conditions as the Authority deems advisable.

SECTION 9.04: REFUNDING BONDS. Without the necessity for compliance with Section 9.02 hereof, the Authority further reserves the right to issue refunding bonds in any manner permitted by law to refund or defease the Bonds, at or prior to their respective dates of maturity or redemption.

SECTION 9.05: SPECIAL PROJECT BONDS. The Authority further reserves the right to issue special project bonds, for any lawful purpose, which are payable from and secured by any resources, assets, income or revenues of the Authority, other than the Pledged Revenues.

(End of Article Nine)

ARTICLE TEN

BONDHOLDER PROVISIONS

SECTION 10.01: REMEDIES IN EVENT OF DEFAULT. In addition to any other rights and remedies provided by the laws of the State of Texas, the Authority covenants and agrees that in the event of default in the payment of the principal of or interest on any of the Bonds when due, or, in the event the Authority fails to make the payments required to be made into the Debt Service Fund, or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Order, the Holders shall be entitled to seek a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Authority and the officials thereof to observe and perform the covenants, obligations or conditions prescribed in this Order; provided, however, that nothing herein shall be deemed or construed to require payment by the Authority of amounts due in respect of the Bonds from any source or sources of revenue or income, other than the Pledged Revenues, and the Authority's responsibilities hereunder and under the Bonds shall be limited to the exercise of reasonable diligence to assess, levy, charge, bill and collect capacity charges, and to the due, proper and timely application of the Pledged Revenues to the intended purposes, and to the performance of its covenants, obligations and duties hereunder and under the Bonds.

Any delay or omission in the exercise of any right or power accruing upon any default shall not impair any such right or power or be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

SECTION 10.02: ORDER AS CONTRACT. In consideration of the purchase and acceptance of the Bonds by the Holders, the provisions of this Order shall be deemed to be and shall constitute a contract between the Authority and the Holders of the Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal benefit, protection and security of each of same. Each of the Bonds, regardless of the time or times of their issue, authentication, delivery or maturity, shall be of equal rank, without preference, priority or distinction of any Bond over any other, except as expressly provided herein.

(End of Article Ten)

ARTICLE ELEVEN

CONTINUING DISCLOSURE

SECTION 11.01: DEFINITIONS. As used in this Article, the following terms have the meanings ascribed to them below:

The term "MSRB" means the Municipal Securities Rulemaking Board.

The term "obligated person" has the meaning assigned to such term in the Rule.

The term "Offering" has the meaning assigned to such term in the Rule.

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

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

SECTION 11.02: ANNUAL REPORTS. The Authority shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, within six (6) months after the end of each Fiscal Year ending in or after 2014, financial information and operating data with respect to the Authority and the Customer Districts of the general type described in Exhibit "A" attached hereto and made a part hereof for all purposes. Any financial statements to be so provided shall be (i) prepared in accordance with the accounting principles described in Exhibit "A" hereto, or such other accounting principles as the Authority and/or the Customer Districts may be required to employ from time to time pursuant to State law or regulations, and (ii) audited, if the Authority and/or the Customer Districts commission an audit of such statements and such audit is completed within the period during which they must be provided hereunder. If any such audit is not completed within such period, then the Authority shall provide such audited financial statements for the applicable Fiscal Year to the MSRB when and if such audit report becomes available.

If the Authority changes its Fiscal Year, the Authority will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Authority otherwise would be required to provide financial information and operating data pursuant to this Section 11.02. The financial information and operating data to be provided pursuant to this Section 11.02 may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet website or filed with the SEC. The Authority shall notify the MSRB, in a timely manner, of any failure of the Authority to provide financial information or operating data in accordance with this Section 11.02 by the time required herein. All documents provided to the MSRB pursuant to this Section 11.02 shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 11.03: MATERIAL EVENT NOTICES. The Authority shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of

ten (10) Business Days after the occurrence of the event, of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if such event is material within the meaning of the applicable provisions of the federal securities laws;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (g) Modifications to the rights of the Holders of the Bonds, if material within the meaning of the federal securities laws;
- (h) Calls for redemption of the Bonds, if material within the meaning of the federal securities laws, and tender offers;
- (i) Defeasances of the Bonds;
- (j) Release, substitution or sale of property securing repayment of the Bonds, if material within the meaning of the federal securities laws;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the Authority;
- (m) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material within the meaning of the federal securities laws; and
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material within the meaning of the federal securities laws.

SECTION 11.04: LIMITATIONS, DISCLAIMERS AND AMENDMENTS.

(a) The Authority shall be obligated to observe and perform the covenants specified in this Article 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 call for redemption of the Bonds or defeasance of the Bonds, in whole or in substantial part, made in accordance with this Order or applicable law that causes such Bonds to no longer be outstanding.

(b) The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing herein, expressed or implied, shall be deemed to confer any benefit or any legal or equitable right, remedy or claim hereunder upon 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 Article 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, conditions or prospects of the Authority, nor does the Authority undertake to update any information provided in accordance with this Article 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 to sell Bonds at any future date.

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

(d) No default by the Authority in observing or performing its obligations under this Article shall constitute a breach of or default under this Order for purposes of any other provision of this Order.

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

(f) Should the Rule be amended to obligate the Authority to make filings with or provide notices to entities other than the MSRB, the Authority hereby agrees to undertake such obligations with respect to the Bonds in accordance with the Rule as amended.

(g) Except as provided hereinafter, the provisions of this Article may be amended by the Authority from time to time, in its discretion, to adapt to changed circumstances that arise from a change in law, the identity, nature, status or type of operations of the Authority, or other circumstances, but only if (i) the provisions of this Article, as so amended, would have permitted

an underwriter to purchase or sell the Bonds in a primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment, or (B) a Person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. If this Article is so amended, the Authority shall include with any amended financial information or operating data next provided in accordance with this Article an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. Notwithstanding the foregoing, the Authority may also repeal or amend the provisions of this Article if the SEC amends or repeals the applicable provisions of the Rule or if any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but, in either case, only if and to the extent that any such amendment or repeal by the Authority would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

(End of Article Eleven)

ARTICLE TWELVE

MISCELLANEOUS PROVISIONS

SECTION 12.01: PAYMENT OF BONDS AND PERFORMANCE OF OBLIGATIONS. The Authority covenants to fully and timely pay, but only out of Pledged Revenues, the principal of and the interest on the Bonds as the same become due and payable, in accordance with the terms of the Bonds and this Order, and to keep and perform faithfully all of its covenants, undertakings and agreements contained in this Order, or in any Bond issued, executed and delivered hereunder.

SECTION 12.02: ISSUANCE OF BONDS UNDER CERTAIN TERMS AND CONDITIONS. The Bonds shall be issued upon and subject to the further terms and conditions contained in the Outstanding Bond Orders, which shall apply with equal force to the Bonds as if set forth fully herein; provided, however, that where the provisions of the Outstanding Bond Orders are inconsistent or in conflict with the terms and provisions of this Order, the terms and provisions of this Order shall govern.

SECTION 12.03: LIMITED RECOURSE. No recourse shall be had for the payment of the principal of or the interest on the Bonds, or for any claim based thereon or on this Order, against any officer, director, agent, representative or employee of the Authority, or any Person executing the Bonds, or against any funds, revenues, resources or assets of the Authority of any type or character, or from any source derived, other than the Pledged Revenues.

SECTION 12.04: PAYING AGENT MAY OWN BONDS. The Paying Agent, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not Paying Agent.

SECTION 12.05: REGISTRAR. The initial Registrar in respect of the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The Authority will maintain at least one (1) Registrar in the State of Texas, where Bonds may be surrendered for registration of transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Register on behalf of the Authority; provided, however, that except during any period when the State Treasurer shall be duly designated to act as Registrar hereunder, the Registrar shall at all times be a duly qualified and competent banking corporation or association organized and doing business under the laws of the United States of America, or of any State thereof, with a combined capital and surplus of at least \$25,000,000, and which is subject to supervision or examination by federal or state banking authorities. To the extent now or hereafter permitted by law, the Authority, by order, resolution or other appropriate action, reserves to the right and authority to change any Registrar or to appoint additional Registrars, and upon any such change or appointment, the Authority covenants and agrees to promptly cause written notice thereof, specifying the name and address of such changed or additional Registrar, to be sent to each Holder of the Bonds by United States mail, first class, postage prepaid. The Authority's General Manager is hereby authorized and directed to approve, execute and deliver on behalf of the Authority an agreement for Registrar services with The Bank of New York

Mellon Trust Company, N.A., Dallas, Texas, in such form and upon such terms and conditions as he may deem necessary and appropriate.

SECTION 12.06: PAYING AGENT. The initial Paying Agent in respect of the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The Authority will maintain at least one (1) Paying Agent, who may be the State Treasurer or one (1) or more duly qualified and competent banking corporations or associations organized and doing business under the laws of the United States of America, or of any State thereof, each of which with a combined capital and surplus of at least \$25,000,000, and which is subject to supervision or examination by federal or state banking authorities, where the Bonds may be presented or surrendered for payment and where interest payable on the Bonds may be paid. To the extent now or hereafter permitted by law, the Authority, by order, resolution or other appropriate action, reserves the right and authority to change any Paying Agent or to appoint additional Paying Agents, and upon any such change or appointment, the Authority covenants and agrees to promptly cause written notice thereof, specifying the name and address of such changed or additional Paying Agent, to be sent to each Holder of the Bonds by United States mail, first class, postage prepaid. The Authority's General Manager is hereby authorized and directed to approve, execute and deliver on behalf of the Authority an agreement for Paying Agent services with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, in such form and upon such terms and conditions as he may deem necessary and appropriate.

SECTION 12.07: LEGAL HOLIDAYS. In any case when any Interest Payment Date, Maturity Date or Redemption Date for any Bond shall be a legal holiday or a day on which the Paying Agent is authorized by law or executive order to close, then payment of such principal or interest need not be made on such date, but may be made on the next succeeding Business Day, with the same force and effect as if made on the scheduled Interest Payment Date, Maturity Date or Redemption Date, and no further interest shall accrue beyond such scheduled date.

SECTION 12.08: ESCHEAT LAWS. Notwithstanding any part or provision of the Bonds or this Order to the contrary, the powers, rights, duties, functions and responsibilities of the Authority, the Paying Agent, the Registrar and the Holders hereunder or under the Bonds shall at all times conform and be subject to the requirements, limitations, procedures and provisions of Title 6, Texas Property Code, as now or hereafter amended, and in case of any conflict or inconsistency therewith now existing or hereafter created, the provisions of such laws shall prevail and control, and the provisions of this Order and the Bonds shall be deemed to be supplemented or amended to conform thereto.

SECTION 12.09: BENEFITS OF ORDER. Nothing in this Order or in the Bonds, expressed or implied, shall give or be construed to give any Person, other than the Authority, the Customer Districts, the Paying Agent, the Registrar, the Escrow Agent, the Underwriter, the municipal bond insurance company (if applicable), and the Holders any legal or equitable right or claim under or in respect of this Order, or under any covenant, condition or provision herein contained, and all the covenants, conditions and provisions contained in this Order or in the Bonds shall be for the sole benefit of the Authority, the Customer Districts, the Paying Agent,

the Registrar, the Escrow Agent, the Underwriter, the municipal bond insurance company (if applicable), and the Holders.

SECTION 12.10: SEVERABILITY CLAUSE. If any word, phrase, clause, sentence, paragraph, section or other part of this Order, or the application thereof to any Person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Order and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Order to any other Persons or circumstances shall not be affected thereby.

SECTION 12.11: ACCOUNTING. The Authority will keep proper records and accounts regarding the Projects and the Bonds and, in particular, the establishment, levy, collection, investment and utilization of the proceeds from sale of the Bonds and the Pledged Revenues, which records and accounts will be made available for inspection to any Holder on reasonable request. Each year while any of the Bonds are outstanding, the Authority shall have an audit conducted of its books and accounts by a certified public accountant or firm of certified public accountants, based on its Fiscal Year, and copies of such audits will be made available to any Holder upon request and payment by such Holder of the reasonable costs to the Authority of providing same.

SECTION 12.12: NOTICE. Any notice, authorization, request or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when deposited in the United States mail, first class or registered or certified, with postage prepaid, and addressed to the Person to be notified at the latest address shown on the Register. A United States Postal Service registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery of such notice.

SECTION 12.13: FURTHER PROCEEDINGS. The President and Secretary of the Board of Directors, the Authority's General Manager, the Authority's Bond Counsel and all other appropriate officials of the Authority are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Order. Without limiting the generality of the foregoing, the Authority's General Manager, as joint custodian of the minutes and records of the Authority, shall be authorized to make, execute, furnish and deliver such certificates of authenticity, showings, projections, estimates and related materials as may be necessary or convenient in connection herewith.

(End of Article Twelve)

ARTICLE THIRTEEN

SALE AND DELIVERY OF BONDS

SECTION 13.01: SALE OF BONDS. (a) The Bonds shall be sold at private sale to the Underwriter in accordance with the terms of this Order. As authorized by the Refunding Act, the General Manager of the Authority, upon determining that the conditions set forth below can be satisfied, is authorized to act on behalf of the Authority in effecting the sale and delivery of the Bonds and carrying out the other procedures specified in this Order, including determining the price at which each of the Bonds will be sold, the number and designation of series of Bonds to be issued, the form in which the Bonds shall be issued, the years in which the Bonds will mature, the principal amount to mature in each of such years, the aggregate principal amount and maturities (or portions of maturities) of the Refunded Bonds to be selected from the Refunded Bond Candidates, and the aggregate principal amount of the Bonds, the rate of interest to be borne by each such maturity, the Initial Date, the initial interest payment date, the dates, prices and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the Authority, and all other matters relating to the issuance, sale and delivery of the Bonds, including the refunding of the Refunded Bonds, all of which shall be specified in the Pricing Certificate; provided that the following conditions can be satisfied:

- (i) the Bonds shall not bear interest at a rate greater than the maximum rate allowed by Chapter 1204, Texas Government Code, as amended;
- (ii) the aggregate principal amount of the Bonds (or, if applicable, the combination of principal amount and net premium received by the Authority with respect to the Bonds) shall not exceed \$30,000,000; and
- (iii) the purchase price, interest rates and terms of the sale of the Bonds shall, after giving effect to any contribution by the Authority from other funds currently on hand and available in the Debt Service Fund and attributable to the Refunded Bonds, result in a net present value debt service savings to the Authority (i) of at least four percent (4.0%) if only outstanding Series 2004 Refunding Bonds are included among the Refunded Bonds, and (ii) of at least six percent (6.0%) if any of the outstanding Series 2007 Bonds are included among the Refunded Bonds.

Satisfaction of the above conditions shall be determined by the General Manager of the Authority on the basis of prevailing bond market conditions and interest rates and prices offered for the Bonds on the date of the sale of the Bonds, all as set forth in the Pricing Certificate and the Bond Purchase Agreement. The Refunded Bonds shall be identified in the Pricing Certificate in accordance with the preceding, except that if less than an entire maturity is to be refunded, the Refunded Bonds to be refunded within a maturity shall be selected as provided in the Refunded Bond Orders.

To the extent, if any, that the Authority receives a commitment for issuance of a municipal bond insurance policy from one or more insurers meeting the eligibility requirements of Section 5.08 hereof, the General Manager is hereby further authorized: (i) to determine whether, based upon prevailing market conditions and the costs of such policy, the issuance of such a municipal bond insurance policy is in the best interest of the Authority, (ii) to select the insurer and policy most beneficial to the Authority, and (iii) in the event that all or portions of the terms and conditions of the commitment or policy of the selected insurer so require, to set forth as an attachment to the Pricing Certificate such required terms and conditions, which shall be deemed to constitute a supplement to this Order with the effect therein stated.

The General Manager of the Authority is hereby authorized to complete, execute and deliver the Pricing Certificate, upon satisfaction of the terms and conditions set forth above. Upon completion of the terms of the Bond Purchase Agreement in accordance with the terms of the Pricing Certificate and the provisions of this Order, the General Manager of the Authority is hereby authorized to execute and deliver, on behalf of the Authority, the Bond Purchase Agreement containing such terms and conditions as he may deem satisfactory; and the General Manager of the Authority, the President and Vice President of the Board of Directors and all other officers, agents and representatives of the Authority are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Bonds.

(b) The authority granted to the General Manager of the Authority under this Section 13.01 shall expire on August 31, 2014, unless otherwise extended by the Board of Directors by separate action.

(c) The General Manager of the Authority, the President and Vice President of the Board of Directors and all other officers of the Authority are authorized to take such actions, to obtain such consents or approvals and to execute such documents, certificates and receipts as they may deem necessary and appropriate in order to consummate the delivery of the Bonds, to pay the costs of issuance of the Bonds, and to effectuate the terms and provisions of this Order.

SECTION 13.02: APPROVAL, REGISTRATION AND DELIVERY. The President and Secretary of the Board of Directors of the Authority, the Authority's General Manager and Bond Counsel for the Authority are hereby authorized and directed to submit the Initial Bonds, and a transcript of the proceedings relating to the issuance of the Bonds, to the Attorney General of Texas for approval and, following said approval, to submit the Initial Bonds to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Initial Bonds, the Comptroller of Public Accounts (or a deputy designated in writing to act for the Comptroller) shall manually sign the Comptroller's registration certificate prescribed herein to be endorsed on each Initial Bond. After the Initial Bonds have been registered and signed by the Comptroller, they shall be delivered to the Underwriter, but only upon receipt of the full purchase price therefor.

(End of Article Thirteen)

ARTICLE FOURTEEN

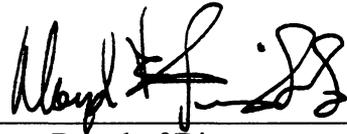
OPEN MEETING AND EFFECTIVE DATE

SECTION 14.01: OPEN MEETING. The Board of Directors officially finds, determines and declares that this Order was reviewed, considered and adopted at a regular meeting of the Board of Directors beginning at 7:30 a.m., on May 22, 2014, and that a sufficient written notice of the date, hour, place and subject of this meeting was duly and timely posted and/or furnished for posting to the County Clerk of Montgomery County, Texas, and to the Secretary of State of Texas for the time prescribed by law preceding this meeting, as required by the Open Meetings Law, Chapter 551, Government Code, as amended, and that this meeting has been open to the public, as required by law, at all times during which this Order and the subject matter hereof has been discussed, considered and acted upon. The Board of Directors further ratifies, approves and confirms such written notice and the contents and posting thereof.

SECTION 14.02: EFFECTIVE DATE OF ORDER. This Order shall take effect and be in full force and effect upon and after its passage.

(End of Article Fourteen)

PASSED AND ADOPTED this 22nd day of May, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors



339430.1

Exhibit "A"

The information to be updated with respect to the Authority and the Customer Districts includes all quantitative financial information and operating data of the general type included in the Authority's final Official Statement prepared and distributed in connection with the Bonds under the headings therein entitled "SELECTED FINANCIAL INFORMATION," "APPENDIX A - ANNUAL FINANCIAL REPORT OF THE AUTHORITY FOR THE FISCAL YEAR ENDED AUGUST 31, 2013," and "APPENDIX B - SUMMARY OF GENERAL OPERATING FUNDS FOR THE WATER SYSTEMS OF THE PARTICIPANT DISTRICTS." The accounting principles in any financial statements to be updated shall be as described in APPENDIX "A," or such other or modified accounting principles as may be required of the Authority or the Customer Districts by applicable laws, rules or regulatory requirements.

Exhibit B

ORDER AUTHORIZING THE REFUNDING AND REDEMPTION PRIOR TO MATURITY OF CERTAIN PRESENTLY OUTSTANDING BONDS; APPROVING AND AUTHORIZING EXECUTION AND DELIVERY OF A BOND PURCHASE AGREEMENT, A PRICING CERTIFICATE, AN ESCROW AGREEMENT AND A PAYING AGENT/REGISTRAR AGREEMENT; AUTHORIZING THE SUBSCRIPTION FOR AND PURCHASE OF SECURITIES IN CONNECTION THEREWITH; AUTHORIZING THE ISSUANCE OF SPECIAL PROJECT REVENUE REFUNDING BONDS (THE WOODLANDS WASTE DISPOSAL SYSTEM PROJECT), SERIES 2014, IN AN AGGREGATE PRINCIPAL AMOUNT NOT TO EXCEED \$13,500,000; PRESCRIBING THE TERMS AND PROVISIONS THEREOF; MAKING PROVISION FOR THE PAYMENT OF THE INTEREST THEREON AND THE PRINCIPAL THEREOF; AND CONTAINING OTHER PROVISIONS RELATING TO THE SUBJECT

BE IT ORDERED BY THE BOARD OF DIRECTORS OF THE SAN JACINTO RIVER AUTHORITY, THAT:

ARTICLE ONE

STATUTORY AUTHORITY, RECITALS AND FINDINGS

SECTION 1.01: THE AUTHORITY. The San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended (compiled as Vernon's Annotated Texas Civil Statutes, Article 8280-121), enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (such series of acts being hereinafter collectively referred to as the "Act").

SECTION 1.02: POWERS OF THE AUTHORITY. The Authority is authorized by the Act, the Interlocal Cooperation Act, Chapter 791, Texas Local Government Code, as amended, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a waste disposal system for serving its needs and/or the needs of its customers. To such ends, the Authority has entered into a series of Customer Contracts (hereinafter defined) for the financing, construction and operation of a Waste Disposal System (hereinafter defined) to serve the Customer Districts (hereinafter defined) of the Woodlands Division of the Authority, and the Authority and such Customer Districts, together with The Woodlands Land Development Company, L.P., as successor to The Woodlands Corporation, have heretofore concluded and entered into that certain First Supplemental Financing Agreement, dated as of October 25, 1989, that certain Second Supplemental Financing Agreement, dated as of June 26, 1991, that certain Third Supplemental Financing Agreement, dated as of August 23, 1995, and that certain Fourth Supplemental

Financing Agreement, dated as of November 18, 1999 (collectively, the "Agreements"), pursuant to which the parties made further and more detailed provision for the planning, design, financing, construction, inspection, completion and commencement of operations of certain improvements to such Waste Disposal System (the "Projects").

SECTION 1.03: ISSUANCE OF BONDS. Pursuant to the authority of the Act, the Interlocal Cooperation Act, the Refunding Act (hereinafter defined), as applicable, the general laws of the State, the Customer Contracts and the Agreements, the Authority has previously adopted an order authorizing the issuance, sale and delivery of its \$21,300,000 Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2004 (the "Series 2004 Refunding Bonds"), and an order authorizing the issuance, sale and delivery of its \$2,365,000 Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2010 (the "Series 2010 Refunding Bonds"), for the purpose of financing, refinancing, constructing, acquiring and completing portions of the Projects.

SECTION 1.04: AUTHORITY TO REFUND. Pursuant to the respective orders (collectively, the "Outstanding Bond Orders") authorizing the issuance, sale and delivery of the Series 2004 Refunding Bonds and the Series 2010 Refunding Bonds, the Authority has reserved the right to issue refunding bonds in any manner permitted by law to refund any or all of said bonds that remain outstanding at or prior to their respective dates of maturity or redemption. The Authority is further authorized by Chapter 1207, Texas Government Code, as amended (the "Refunding Act"), to issue bonds to refund or provide for advance payment of any outstanding bonds of the Authority.

SECTION 1.05: FINDINGS. It is hereby found, determined and declared that:

- (a) the matters and facts set out in this Article One are true and correct;
- (b) as of the date hereof, there remain outstanding and unpaid \$13,090,000 in aggregate principal amount of the Series 2004 Refunding Bonds, and \$1,245,000 in aggregate principal amount of the Series 2010 Refunding Bonds (collectively, the "Outstanding Bonds");
- (c) the Authority desires to refund a portion of the Outstanding Bonds, in advance of their scheduled maturities, in order to effect a cost savings to the Authority in amounts to be certified in the Pricing Certificate (hereinafter defined) and, in particular, the Authority desires to make firm banking arrangements for the discharge and final payment of any or all of the currently outstanding Series 2004 Refunding Bonds (the "Refunded Bond Candidates") as shall be identified and designated as Refunded Bonds in the Pricing Certificate;
- (d) the Authority is authorized by the Act and the Refunding Act to issue its refunding bonds for the foregoing purposes and to accomplish such refunding by depositing with any paying agent for the Refunded Bonds the proceeds of such refunding bonds, together with other available funds, as and if reflected in the

Pricing Certificate, which may be invested or reinvested only in direct obligations of, or obligations the principal of and interest on which are unconditionally guaranteed by, the United States of America, and which obligations shall mature and/or bear interest payable at such times and in such amounts as will be sufficient to provide for the scheduled payment and/or redemption of the Refunded Bonds, and pursuant to the Refunding Act, such deposit constitutes the making of firm banking and financial arrangements for the discharge and final payment of the Refunded Bonds;

- (e) the Authority hereby determines, finds, recites and declares that the refunding bonds of the Authority in an aggregate principal amount not to exceed \$13,500,000 should be issued, and moneys presently on hand and allocable to the Refunded Bonds, as and if reflected in the Pricing Certificate, should be appropriated and applied to refund, defease and discharge the Refunded Bonds, and to pay all costs and expenses in connection with the issuance of such refunding bonds;
- (f) the Authority desires to enter into an escrow agreement with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, as the paying agent and/or successor to the paying agent of the Refunded Bonds and as authorized by the Refunding Act, pursuant to which proceeds of the refunding bonds herein authorized, and other available funds if and as required in the Pricing Certificate, will be deposited, invested and applied in such a manner as will be sufficient, in the opinion of an independent firm of certified public accountants, to provide for the full and timely payment of all interest on and principal of the Refunded Bonds when and as the same become due or upon their earlier redemption;
- (g) the Authority further desires to authorize the purchase of certain direct obligations of the United States of America for deposit under and pursuant to such escrow agreement;
- (h) it is the intent and purpose hereby, upon the issuance of the refunding bonds herein authorized and the creation of the escrow referred to above, that the Refunded Bonds shall no longer be regarded as being outstanding, except for the purpose of being paid pursuant to such escrow agreement, and the pledges, liens, trusts and all other covenants, provisions, terms and conditions of the Outstanding Bond Orders shall be, insofar as same relate to the Refunded Bonds, discharged, terminated and defeased;
- (i) in consideration of the net present value debt service savings to be realized by the Authority, in an amount to be certified in the Pricing Certificate, the \$13,500,000 refunding bonds authorized by this Order should be issued for such purposes;
- (j) each of the Customer obligated under the Agreements to pay capacity charges in respect of the Refunded Bond Candidates has duly and properly adopted a written resolution (collectively, the "Customer Resolutions") consenting to and approving

of the issuance by the Authority of such refunding bonds to be payable from the same sources as the Refunded Bonds;

- (k) the Authority is authorized by the Customer Contracts, the Agreements, the Customer Resolutions and the Refunding Act to make to and collect from the Customer Districts capacity charges in payment of such refunding bonds, and such capacity charges to be made and collected, together with certain funds presently on hand, will be sufficient to pay the principal of the refunding bonds herein authorized as it matures and the interest thereon as it accrues and becomes payable.

(End of Article One)

ARTICLE TWO

DEFINITIONS AND INTERPRETATIONS

SECTION 2.01: DEFINITIONS. The following definitions, together with any supplemental definitions contained herein or in any exhibit hereto, shall apply with equal force herein and in any amendment or supplement hereto, and the scope and meaning of terms used in Exhibit "A" hereto, whether or not defined therein, shall be determined by reference to this Article.

Act.

The term "Act" is defined in the Article One hereof.

Additional Bonds.

The term "Additional Bonds" shall mean and refer to such additional bonds, other than refunding bonds, as may hereafter be authorized and issued by the Authority and secured and made payable, in whole or in part, out of the Pledged Revenues.

Agreements.

The term "Agreements" is defined in Article One hereof and shall mean and include all amendments, modifications and supplements to the Agreements permitted by the terms hereof.

Authority.

The term "Authority" is defined in Article One hereof and shall mean and include any other municipal corporation, public body or other public agency at any time succeeding to the property and principal rights, powers and obligations of the Authority hereunder and, where appropriate, means the Board of Directors or governing body of the Authority, or any successor municipal corporation, public body or public agency.

Authorized Investments.

The term "Authorized Investments" shall mean all investments which are authorized under the laws of the State of Texas for the investment of funds of the Authority.

Board of Directors.

The term "Board of Directors" shall mean the governing body of the Authority, as now or hereafter constituted.

Bond Counsel.

The term "Bond Counsel" shall mean the law firm of Schwartz, Page & Harding, L.L.P., Houston, Texas.

Bond Purchase Agreement.

The term "Bond Purchase Agreement" shall mean that certain Bond Purchase Agreement, dated as of the date of the Pricing Certificate, by and between the Authority and the Underwriter, together with all attachments, exhibits, amendments and additions thereto.

Bonds.

The term "Bond" or "Bonds" shall mean any Bond or Bonds, as the case may be, of the issue of Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2014, initially dated as of the Initial Date specified in the Pricing Certificate, and authorized, issued and delivered pursuant to this Order and which may include Serial Bonds and Term Bonds, as and if so designated in the Pricing Certificate.

Business Day.

The term "Business Day" shall mean a calendar day which falls on Monday through Friday, but shall not include any such day which is designated as an official state or national holiday or a day on which financial institutions where the Paying Agent is located are allowed or required by state or national law or by executive order to close.

Capacity charges.

The term "capacity charges" shall mean and refer to the particular rates and charges which the Authority is authorized to make to and collect from the Customers of the Waste Disposal System in payment of costs of the Projects, including the principal of, interest on and payment charges related to the Refunded Bonds, any Remaining Outstanding Bonds, and the Bonds, all as provided in the Agreements.

Customer Contracts.

The term "Customer Contracts" shall mean and include the Customer Contracts, as defined and identified in the Agreements.

Customer Districts.

The term "Customer Districts" shall have the meaning prescribed in the Agreements.

Customer Resolutions.

The term "Customer Resolutions" is defined in Article One hereof.

Customers.

The term "Customers" shall have the meaning prescribed in the Agreements.

Debt Service Fund.

The term "Debt Service Fund" shall mean the fund described and referred to in Section 7.01 of this Order.

DTC.

The term "DTC" means the Depository Trust Company of New York, New York, or any successor securities depository.

DTC Participant.

The term "DTC Participant" means brokers and dealers, banks, trust companies, clearing corporations and certain other organizations on whose behalf DTC holds securities to facilitate the clearance and settlement of securities transactions among such DTC Participants.

Escrow Agent.

The term "Escrow Agent" shall mean The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, or any successor, assign or substitute escrow agent selected, qualified and acting pursuant to the Escrow Agreement.

Escrow Agreement.

The term "Escrow Agreement" shall mean that certain Escrow Agreement, of even date herewith, by and between the Authority and the Escrow Agent, together with all attachments, exhibits, amendments and additions thereto.

Escrow Fund.

The term "Escrow Fund" shall mean that certain Escrow Fund to be created and established with the Escrow Agent pursuant to the Escrow Agreement and into which the cash deposits, if any, and the Escrowed Securities are to be deposited, as provided in Section 8.04 hereof.

Escrowed Securities.

The term "Escrowed Securities" shall have the same meaning as defined and described in the Escrow Agreement.

Fiscal Year.

The term "Fiscal Year" shall mean the annual fiscal period for the Authority's Woodlands Division from September 1 through August 31, or such other annual fiscal period as may hereafter be established by resolution of the Board of Directors of the Authority.

Holder.

The term "Holder" or "Holders" shall mean, when used with respect to any Bond or Bonds, the Person or Persons in whose name such Bond or Bonds are registered on the Register.

Initial Bonds.

The term "Initial Bond" or "Initial Bonds" shall mean any one or more of the Bonds authorized, issued and initially delivered hereunder, upon or attached to which the manually executed certificate of registration of the Comptroller of Public Accounts of the State of Texas, or his duly authorized deputy, substantially in the form prescribed in Section 5.03 hereof, has been placed.

Initial Date.

The term "Initial Date" shall mean the initial date of the Bonds as specified in the Pricing Certificate.

Interest Payment Date.

The term "Interest Payment Date" shall mean any date on which interest on any then outstanding Bond becomes due and payable, as provided in Section 3.04 hereof.

Interlocal Cooperation Act.

The term "Interlocal Cooperation Act" is defined in Article One hereof.

Letter of Representation.

The term "Letter of Representation" shall mean the current Blanket Issuer Letter of Representations between the Authority and DTC, as same may be amended or supplemented from time to time.

Maturity Date.

The term "Maturity Date" shall mean any date on which the principal of any then outstanding Bond becomes due and payable, as provided in Section 3.03 hereof and in the Pricing Certificate.

Order.

The term "Order" shall mean this Order and all permitted amendments hereof and supplements hereto.

Outstanding Bond Orders.

The term "Outstanding Bond Orders" is defined in Article One hereof and means and includes all amendments or supplements to the orders authorizing the issuance, sale and delivery of the Outstanding Bonds.

Outstanding Bonds.

The term "Outstanding Bonds" is defined in Article One hereof.

Paying Agent.

The term "Paying Agent" shall mean the agency or agencies selected and maintained from time to time by the Authority for the purpose of making payment on behalf of the Authority of the principal of and the interest on the Bonds, as provided in Section 12.06 of this Order.

Person.

The term "Person" shall mean any individual, corporation, partnership, joint venture, association, joint stock company, trust, unincorporated organization or government, or any agency or political subdivision thereof.

Pledged Revenues.

The term "Pledged Revenues" means and includes all capacity charges from time to time received by the Authority pursuant to the Agreements, all amounts from time to time on deposit to the credit of the Debt Service Fund, and investments, interest and investment earnings on or belonging or attributable thereto, and any insurance and/or condemnation proceeds received by the Authority in respect of the Projects, as provided in Section 6.04 of this Order.

Predecessor Bonds.

The term "Predecessor Bonds" shall mean, with respect to any particular Bond, every previous Bond evidencing all or a portion of the same obligation as that evidenced by such particular Bond, and, for the purposes hereof, any Bond registered and delivered pursuant to Section 3.10 hereof shall be deemed to evidence the same debt as the mutilated, lost, destroyed or stolen Bond in lieu of which such Bond was delivered.

Projects.

The term "Projects" is defined in Article One hereof.

Record Date.

The term "Record Date" shall mean, with respect to an Interest Payment Date of October 1, the preceding September 15, and with respect to an Interest Payment Date of April 1, the preceding March 15, whether or not such dates are Business Days.

Redemption Date.

The term "Redemption Date" shall mean, when used with respect to any Bond or any Refunded Bond to be redeemed prior to its Maturity Date, the date fixed for such redemption pursuant to the terms of this Order or the Refunded Bond Order.

Refunded Bond Candidates.

The term "Refunded Bond Candidates" is defined in Article One hereof, which bonds are authorized to be designated as Refunded Bonds in the Pricing Certificate.

Refunded Bond Order.

The term "Refunded Bond Order" shall mean the order of the Board of Directors of the Authority authorizing the issuance, sale and delivery of the Refunded Bonds, and all amendments and supplements thereto.

Refunded Bonds.

The term "Refunded Bonds" means those Refunded Bond Candidates identified and designated to be refunded in the Pricing Certificate.

Refunding Act.

The term "Refunding Act" is defined in Article One hereof.

Register.

The term "Register" shall mean the registry books maintained on behalf of the Authority by a Registrar designated by the Authority for such purpose in which are maintained the names and addresses of Holders and the principal amounts of the Bonds registered in the name of each Holder.

Registrar.

The term "Registrar" shall mean the banking corporation(s) or association(s) designated and acting in such capacity from time to time, as provided in Section 12.05 of this Order.

Remaining Outstanding Bonds.

The term "Remaining Outstanding Bonds" shall mean, from and after the date of delivery of the Initial Bonds to the Underwriters and the deposit of cash, if any, and Escrowed Securities with the Escrow Agent, as required pursuant to the provisions of the Escrow Agreement and Section 8.04 hereof, the Outstanding Bonds, exclusive of the Refunded Bonds.

Report.

The term "Report" shall have the same meaning as defined and described in the Escrow Agreement.

Serial Bonds.

The term "Serial Bond" or "Serial Bonds" shall mean any one or more as the case may be of the Bonds issued as serial bonds, as and if designated in the Pricing Certificate, and which are not subject to mandatory redemption.

Series 2004 Refunding Bonds.

The term "Series 2004 Refunding Bonds" is defined in Article One hereof.

Special Tax Counsel.

The term "Special Tax Counsel" shall mean the law firm of Bracewell & Giuliani, LLP, Houston, Texas.

Term Bonds.

The term "Term Bond" or "Term Bonds" shall mean one or more, as the case may be, if any, of the Bonds issued as term bonds as and if designated in the Pricing Certificate.

Underwriter.

The term "Underwriter" shall mean the Person or Persons to whom the Bonds are to be sold and delivered, as provided in the Bond Purchase Agreement and in Section 13.01 hereof.

Waste Disposal System.

The term "Waste Disposal System" shall have the meaning assigned to such term in the Refunded Bond Order.

Woodlands Division.

The term "Woodlands Division" has the meaning assigned to such term in the Refunded Bond Order.

Woodlands Division Waste Disposal System 2014 Refunding Bond Account.

The term "Woodlands Division Waste Disposal System 2014 Refunding Bond Account" shall mean the special account created and established pursuant to Section 7.04 hereof.

SECTION 2.02: INTERPRETATIONS. The titles and headings of the Articles and Sections of this Order have been inserted for convenience of reference only and are not to be considered a part hereof and shall not in any way modify or restrict any of the terms or provisions hereof. This Order and all the terms and provisions hereof shall be liberally construed to effectuate the purposes set forth herein and to sustain the validity of the Bonds and the pledge of and lien on the Pledged Revenues to secure payment thereof. Unless a time period specified for performance of any action under this Order is specified to be a Business Day or Business Days, such performance time period shall mean the number of calendar days for such performance to be accomplished.

(End of Article Two)

ARTICLE THREE

AUTHORIZATION, DESCRIPTION AND EXECUTION OF BONDS

SECTION 3.01: AMOUNT, NAME, PURPOSE AND AUTHORIZATION. The Bonds of the Authority, to be known and designated as "San Jacinto River Authority Special Project Revenue Refunding Bonds (The Woodlands Waste Disposal System Project), Series 2014", shall be issued in an aggregate principal amount set forth in the Pricing Certificate for the purpose or purposes of refunding the Refunded Bonds and paying the costs of issuance, sale and delivery thereof, all under and in strict conformity with the Constitution and laws of the State of Texas, including, particularly, Section 59 of Article XVI of the Constitution of Texas, the Act and the Refunding Act.

SECTION 3.02: FORM, INITIAL DATE, NUMBERS AND DENOMINATIONS.

(a) The Initial Bonds shall be issued and delivered in fully registered form, without interest coupons, and shall be initially dated as of the Initial Date. Each Initial Bond submitted for approval, registration and delivery in accordance with Section 3.07 hereof shall be numbered "IR ", followed by the last two digits of the year of the Maturity Date of such Initial Bond. In the event that more than one Initial Bond of the same Maturity Date shall be submitted for approval, registration and delivery in accordance with Section 3.07 hereof, such Initial Bonds of the same Maturity Date shall be numbered "IR ", followed by the last two digits of the year of the Maturity Date of such Initial Bond, followed by an alphabetical designation, beginning with the letter "A" being designated to the Initial Bond of the greatest principal amount, the letter "B" being designated to the Initial Bond of the next greatest principal amount, and so continuing, consecutively and in succession, until all such Initial Bonds have been so designated; provided, further, that in the event that two or more of such Initial Bonds shall be of the same principal amount, the Initial Bond with the lowest interest rate shall be designated with the letter "A", followed by the Initial Bond with the next lowest interest rate, and continuing in such order until all such Initial Bonds of equal principal amount shall have so designated.

(b) Each Bond registered and delivered by the Registrar upon transfer or in replacement of, or in exchange for, any one or more Initial Bonds shall be numbered consecutively, in succession, beginning with the numeral "1", which shall be preceded by the prefix "R-", and shall be in denominations of \$5,000, or any integral multiple thereof. Each such Bond shall be dated as of the Initial Date, but shall include in the certificate of registration the date of its authentication by the Registrar.

SECTION 3.03: INTEREST RATES AND MATURITY DATES. The Bonds shall be issued as Serial Bonds, Serial Bonds and Term Bonds, or Term Bonds, as so designated in the Pricing Certificate, shall bear interest from the later of the Initial Date or the most recent Interest Payment Date to which interest has been paid or duly provided for, at the per annum rates set forth in the Pricing Certificate, and shall mature and become payable, subject to prior redemption in accordance with the provisions of Article Four hereof, on October 1 in each of the

years and in the principal amounts set forth in the Pricing Certificate. The Bonds shall mature and become payable not later than October 1, 2030.

SECTION 3.04: DATES AND MANNER OF PAYMENT OF INTEREST. Interest on the Bonds shall be payable semi-annually on April 1 and October 1 of each year until the earlier of the Maturity Date or the Redemption Date, with the first interest payment to be made on the date specified in the Pricing Certificate. The amount of interest on the Bonds payable on each Interest Payment Date, Maturity Date or Redemption Date shall be computed on the basis of a 360-day year of twelve 30-day months. Not later than ten (10) days before each Interest Payment Date, Maturity Date or Redemption Date, the Paying Agent shall compute the amount of interest to be due and payable on such date and shall send to the Authority notice of the amount of interest so computed to be due and payable on such date.

Interest on the Bonds shall be payable, at the option of the Authority, by check or draft mailed by the Paying Agent to the Holder, at the address shown on the Register, or by wire transfer to such Holder, or by such other customary banking arrangements as may be acceptable to the Paying Agent and the Holder, at the risk and expense of such Holder. The interest so payable on any Interest Payment Date will be paid to the person in whose name each Bond (or one or more Predecessor Bonds evidencing the same obligation) is registered at the close of business on the Record Date for such Interest Payment Date. Each Bond delivered pursuant to the terms of this Order upon transfer or in exchange for or in lieu of any Predecessor Bond shall carry all the rights to interest, both accrued and unpaid, and to accrue, which were carried by such Predecessor Bond, and each such Bond shall bear or accrue interest as specified herein so that neither gain nor loss in interest shall result from such transfer, exchange or substitution.

SECTION 3.05: MEDIUM AND PLACE OF PAYMENT. The interest on and principal of the Bonds shall be payable, without exchange or collection charges, in any coin or currency of the United States of America which, on the respective Interest Payment Dates, Maturity Dates or Redemption Dates is legal tender for the payment of debts due the United States of America. The principal of the Bonds, together with accrued interest since the preceding Interest Payment Date, shall be payable only upon their presentation and surrender, as they become due on their respective Maturity Dates or Redemption Dates, at the principal corporate trust office of the Paying Agent.

SECTION 3.06: EXECUTION. The Bonds shall be signed on behalf of the Authority by the President and Secretary of the Board of Directors of the Authority, and the Authority's seal shall be placed or impressed thereon. Such signatures may be manually executed or placed in facsimile on the Bonds, and the Authority's seal may be manually impressed or printed or otherwise mechanically reproduced in facsimile on the Bonds. In case any official of the Authority who shall have signed any of the Bonds, either manually or by facsimile signature, shall cease to be such officer before the Bonds so signed shall have been authenticated and delivered by the Registrar, or disposed of by the Authority, such Bonds, nevertheless, may be authenticated and delivered or disposed of as though the Person who signed such Bonds had not ceased to be such officer of the Authority, and any Bond may be signed on behalf of the Authority by such Person as, at the actual time of execution of such Bond, shall be a proper

officer of the Authority, although at the date of such Bond or of the adoption of this Order, such Person was not such officer. Minor typographical and other minor errors in the text of any Bond or minor defects in the seal or facsimile signature on any Bond shall not affect the validity or enforceability of such Bond, if same has been duly authenticated by the Registrar.

SECTION 3.07: APPROVAL, REGISTRATION AND DELIVERY. The Initial Bonds shall consist of one Bond for each Maturity Date specified in the Pricing Certificate, representing the entire principal amount of the Bonds scheduled to mature on each of such Maturity Dates, and shall be made payable to Cede & Co., as nominee for DTC, the designee of the Underwriter. The President and Secretary of the Board of Directors of the Authority and representatives of the Authority's Bond Counsel are each hereby authorized and directed to submit the Initial Bonds and a transcript of the proceedings relating to the issuance of the Bonds to the Attorney General of Texas for approval and, following said approval, to submit the Initial Bonds to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Initial Bonds, the Comptroller of Public Accounts (or a deputy designated in writing to act for the Comptroller) shall manually sign the Comptroller's registration certificate prescribed herein to be printed and endorsed on each Initial Bond. After the Initial Bonds have been registered and signed by the Comptroller, they shall be registered on the Register in the name of Cede & Co., as nominee of DTC, and shall be delivered to the Underwriter or its designee, in accordance with the terms of the Bond Purchase Agreement.

At any time after delivery of the Initial Bonds, any Holder may, subject to the requirements of and in accordance with the procedures prescribed in Section 3.09 hereof, surrender any Bonds to the Registrar for transfer or exchange, accompanied by instructions specifying the name(s) and address(es) of the Person(s) to whom such Bonds are to be transferred and the principal amount(s) of the Bonds to be authenticated and delivered in exchange therefor, and the Registrar shall thereupon, within not more than three (3) Business Days, register and deliver Bonds conforming to such instructions and the provisions of this Order.

No Initial Bond shall be entitled to any right or benefit under this Order, or be valid or obligatory for any purpose, unless there appears on such Initial Bond a certificate of registration substantially in the form provided in Section 5.03 hereof, executed by the Comptroller of Public Accounts of the State of Texas, or his duly authorized deputy, by manual signature; nor shall any Bond authenticated and delivered subsequent to the Initial Bonds be so entitled or be valid or obligatory unless there appears on such Bond a Certificate of Registrar substantially in the form provided in Section 5.02 hereof duly executed by an authorized officer or employee of the Registrar by manual signature. Such Certificate of Registrar upon any Bond authenticated and delivered subsequent to the Initial Bonds shall be conclusive evidence that such Bond has been duly authenticated, registered and delivered.

SECTION 3.08: OWNERSHIP OF BONDS. The Authority, the Paying Agent, the Registrar and any other Person may treat the Person in whose name any Bond is registered as the absolute owner of such Bond for the purpose of making and receiving payment of the principal thereof and interest thereon and for all other purposes, whether or not such Bond is overdue, and

neither the Authority, the Paying Agent, nor the Registrar shall be bound by any notice or knowledge to the contrary. All payments made to the Person deemed to be the owner of any Bond in accordance with this Section 3.08 shall be valid and effective for all purposes and shall discharge the liability of the Authority, the Paying Agent and the Registrar to the extent of the sums paid.

SECTION 3.09: REGISTRATION, TRANSFER AND EXCHANGE. So long as any Bonds remain outstanding, the Registrar shall keep and maintain at its designated corporate trust office a Register in which, subject to such reasonable regulations as it may prescribe, the Registrar shall provide for the registration, transfer and exchange of Bonds in accordance with the terms of this Order.

Each Bond shall be transferable only upon the presentation and surrender thereof at the office designated by the Registrar, duly endorsed for transfer or accompanied by an assignment duly executed by the registered owner or his authorized representative. Within three (3) Business Days following due presentation for registration of the transfer of any Bond, the Authority shall cause to be executed and the Registrar shall authenticate in the name of the transferee or transferees one or more exchange Bonds in a like aggregate principal amount and shall deliver or mail same to the transferee or transferees by United States mail, first class, postage prepaid.

All Serial Bonds shall be exchangeable upon the presentation and surrender thereof at the corporate trust office of the Registrar for a Serial Bond or Serial Bonds having the same Maturity Date and interest rate, in any authorized denomination which is an integral multiple of \$5,000, and being in an aggregate principal amount equal to the unpaid principal amount of the Serial Bond or Serial Bonds presented for exchange. Within three (3) Business Days following due presentation for exchange of any Serial Bond, the Authority shall cause to be executed and the Registrar shall authenticate, register and deliver or send to the Holder, by United States mail, first class, postage prepaid, exchange Serial Bonds in accordance with the provisions of this Section 3.09. Except as provided in Section 3.12 hereof, a Term Bond, if any Bonds are so designated in the Pricing Certificate, is not exchangeable so long as it is registered in the name of Cede & Co., as nominee of DTC.

Each exchange Bond duly authenticated and delivered in accordance with this Section 3.09 shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such exchange Bond is delivered.

No service charge shall be made for any transfer or exchange referred to above, but the Authority or the Registrar may require the Holder of any Bond to pay a sum sufficient to pay any tax or other governmental charge that may be imposed in connection with the transfer or exchange of such Bond.

The Registrar shall not be required to transfer or exchange any Bond on any date subsequent to a Record Date and prior to the next succeeding Interest Payment Date, or during

any period beginning fifteen (15) days prior to, and ending on the day of the mailing of, notice of redemption of Bonds prior to maturity, nor shall the Registrar be required to transfer or exchange any Bond selected for redemption in whole or in part when such Redemption Date is scheduled to occur within thirty (30) days.

SECTION 3.10: REPLACEMENT BONDS. Upon the presentation and surrender to the Registrar of a mutilated Bond, the Authority shall cause to be executed, and the Registrar shall authenticate, register and deliver in exchange therefor, a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding. In the event that any Bond is lost, apparently destroyed or wrongfully taken, the Authority, pursuant to the applicable laws of the State of Texas, and in the absence of notice or knowledge that such Bond has been acquired by a bona fide purchaser, shall cause to be executed and the Registrar shall authenticate, register and deliver a replacement Bond of like tenor and principal amount, bearing a number not contemporaneously outstanding, provided that the Holder thereof shall have:

- (a) furnished to the Registrar satisfactory evidence of the ownership and the circumstances of the loss, destruction or theft of such Bond;
- (b) furnished such security or indemnity as may be required by the Registrar and the Paying Agent to save and hold harmless the Authority, the Registrar and the Paying Agent;
- (c) paid all expenses and charges in connection therewith, including, but not limited to, printing costs, legal fees, fees and expenses of the Registrar and Paying Agent and any tax or other governmental charge that may be imposed; and
- (d) met any other reasonable requirements of the Authority, the Registrar and the Paying Agent.

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

In the event that any such mutilated, lost, apparently destroyed or wrongfully taken Bond has become or is about to become due and payable, the Paying Agent, with the concurrence of the Registrar, in their discretion, may pay such Bond, in lieu of issuance of a replacement Bond.

Each replacement Bond delivered in accordance with this Section 3.10 shall be entitled to the benefits and security of this Order to the same extent as the Bond or Bonds in lieu of which such replacement Bond is delivered.

SECTION 3.11: BOOK-ENTRY ONLY SYSTEM. Notwithstanding the foregoing, the Initial Bonds and all subsequent Bonds shall be registered in the name of Cede & Co., as nominee of DTC, except as provided in Section 3.12 hereof.

With respect to Bonds registered in the name of Cede & Co., as nominee of DTC, the Authority, the Paying Agent and the Registrar shall have no responsibility or obligation to any DTC Participant or to any Person on behalf of whom such a DTC Participant holds an interest in the Bonds. In particular, and not by way of limiting the foregoing, the Authority, the Paying Agent and the Registrar shall have no responsibility or obligation with respect to (i) the accuracy of the records of DTC, Cede & Co., or any DTC Participant with respect to any ownership interest in the Bonds, (ii) the delivery to any DTC Participant or any other Person, other than a Holder, as shown on the Register, of any notice with respect to the Bonds, including any notice of redemption, or (iii) the payment to any DTC Participant or any other Person, other than a Holder, as shown in the Register, any amount with respect to the principal of or the premium, if any, or interest on the Bonds. Notwithstanding any other provision of this Order to the contrary, the Authority, the Paying Agent and the Registrar shall be entitled to treat and consider the Person in whose name each Bond is registered on the Register as the absolute owner of such Bond for the purpose of payment of the principal of and the premium, if any, and interest on such Bond; for the purpose of giving notices of redemption and other matters with respect to such Bond; for the purpose of registering transfers with respect to such Bond; and for all other purposes whatsoever. The Paying Agent shall pay all principal of and premium, if any, and interest on the Bonds only to or upon the order of the Holders, as shown on the Register and as provided in this Order, or their respective attorneys duly authorized in writing, and all such payments shall be valid and effective to fully satisfy and discharge the Authority's obligations with respect to the payment of the principal of and the premium, if any, and interest on the Bonds to the extent of the sum or sums so paid. Except as provided in Section 3.12 hereof, no Person, other than a Holder, as shown on the Register, shall be issued an exchange Bond pursuant to this Order. Upon delivery by DTC to the Paying Agent and the Registrar of written notice to the effect that DTC has determined to substitute a new nominee in place of Cede & Co., and subject to the provisions of this Order with respect to interest payments to the Holders as of the close of business on a Record Date, the word "Cede & Co." in this Order shall refer to such new nominee of DTC.

Notwithstanding any other provision of this Order to the contrary, so long as any Bond is registered in the name of Cede & Co., as nominee of DTC, all payments with respect to principal of and the premium, if any, and interest on such Bond, and all notices with respect to such Bond, shall be made and given, respectively, in the manner provided in the Letter of Representation. If fewer than all of the Bonds of the same maturity are to be redeemed, the particular Bonds, or portions thereof, to be redeemed in whole or in part from within each such maturity shall be selected by DTC from the Bonds, or portions thereof, which have not previously been called for redemption in accordance with the procedures of DTC notwithstanding any other provision of this Order to the contrary.

SECTION 3.12: SUCCESSOR SECURITIES DEPOSITORY; TRANSFER OUTSIDE BOOK-ENTRY ONLY SYSTEM. In the event that the Authority, in its sole discretion, determines that the beneficial owners of the Bonds should be able to obtain exchange Bonds, the

Authority shall notify DTC and the DTC Participants, as identified by DTC, of the availability through the Registrar of exchange Bonds and cause the registration and transfer of one or more exchange Bonds to the DTC Participants having Bonds credited to their DTC accounts, as identified by DTC, but only upon presentation and surrender of the Bonds to be exchanged, upon receipt of proper proof of the beneficial ownerships of the DTC Participants, and in integral multiples of \$5,000 in principal amount; provided, however, that in such event, each Term Bond, if any Bonds are so designated in the Pricing Certificate, shall be exchangeable only for one or more Serial Bonds bearing the same rate of interest and corresponding in aggregate principal amounts and Maturity Dates to the unpaid mandatory redemption amounts and Redemption Dates applicable to such Term Bond pursuant to Section 4.01 hereof, with the particular Maturity Date applicable to any such exchange Serial Bond to be determined by the Registrar by lot or other customary method. In the event DTC discontinues the services described herein, the Authority shall appoint a successor securities depository qualified to act as such under Section 17(a) of the Securities and Exchange Act of 1934, as amended; notify DTC and the DTC Participants, as identified by DTC, of the appointment of such successor securities depository; and cause the registration and transfer of one or more exchange Bonds to such successor securities depository. In either such event, the Bonds shall no longer be restricted to being registered on the Register in the name of Cede & Co., as nominee of DTC, but may be registered in the name of the successor securities depository, or its nominee, or in whatever name or names Holders transferring or exchanging Bonds shall designate, in accordance with the provisions of this Order.

SECTION 3.13: CANCELLATION. All Bonds paid or redeemed in accordance with this Order, and all Bonds in lieu of which exchange Bonds or replacement Bonds are executed, authenticated and delivered in accordance with Section 3.09 or Section 3.10 of this Order, shall be cancelled upon the making of proper records regarding such payment, redemption, exchange or replacement and shall be treated in accordance with the document retention policies of the Paying Agent and the records retention schedules of the District. The Paying Agent and Registrar shall periodically furnish the Authority with certificates of cancellation of such Bonds, upon written request therefor.

(End of Article Three)

ARTICLE FOUR

REDEMPTION OF BONDS BEFORE MATURITY

SECTION 4.01: REDEMPTION OF BONDS. The Authority reserves the right, at its option, to redeem certain Bonds identified by Maturity Date in the Pricing Certificate on such dates as are designated in the Pricing Certificate at a price equal to the principal amount thereof to be redeemed plus accrued interest on said principal amount thereof called for redemption to the Redemption Date. The Authority shall, at least forty-five (45) days prior to the Redemption Date (unless a shorter notice shall be satisfactory to the Registrar and Paying Agent), notify the Registrar and Paying Agent of such Redemption Date and of the principal amount of the Bonds of each maturity to be redeemed. If less than all of the Serial Bonds of the same maturity are to be redeemed, the particular Serial Bonds to be redeemed in whole or in part from within each such maturity shall be selected by the Registrar or DTC, as applicable, from the Serial Bonds which have not previously been called for redemption, by lot or other customary method; provided, however, that in the event that a Serial Bond subject to redemption is in a denomination larger than \$5,000, a portion of such Serial Bond may be redeemed, but only in a principal amount equal to \$5,000, or an integral multiple thereof. The Registrar shall promptly notify the Authority and the Paying Agent, if different than the Registrar, in writing, of the Serial Bonds selected for redemption and, in the case of any Serial Bond selected for partial redemption, of the principal amount thereof to be redeemed. If less than all of the outstanding principal amount of a Term Bond, if any are so designated in the Pricing Certificate, is to be redeemed, the Authority may determine and notify the Paying Agent of the reduction in the remaining mandatory redemption amount(s) of such Term Bond as result from such optional redemption.

Bonds designated as "Term Bonds" in the Pricing Certificate, if any, are subject to scheduled mandatory sinking fund redemption and will be redeemed by the Authority in part at a price equal to the principal amount thereof plus accrued interest to the Redemption Date on the dates and in the respective principal amounts as set forth in the Pricing Certificate (less the principal amount of such Term Bonds as may have been previously redeemed through the exercise of the Authority's reserved right of optional redemption, as provided above), with the particular Term Bonds to be redeemed to be selected by the Registrar from the Term Bonds which have not previously been redeemed by the Authority, by lot or other customary method.

Notwithstanding the foregoing, to the extent that Term Bonds of a particular maturity have been previously redeemed in part through the exercise of the Authority's reserved right of optional redemption, as provided above, each of the aforesaid scheduled mandatory redemption payments for the Term Bonds of such maturity shall be reduced in each such instance of prior redemption, as specified in the Authority's notice to the Paying Agent as provided below.

For purposes of this Order, unless the context otherwise requires, all provisions relating to the redemption of Bonds shall relate, in the case of any Bond redeemed or to be redeemed only in part, to the portion of the principal amount of such Bond which has been or is to be redeemed. Upon surrender of any Bond for redemption in part, the Registrar, in accordance with

Section 3.09 of this Order, shall authenticate and deliver an exchange Bond or Bonds in aggregate principal amount equal to the unredeemed portion of the Bond so surrendered; provided, however, that the foregoing shall not apply to Bonds registered as set forth in Section 3.11 of this Order.

SECTION 4.02: NOTICE OF REDEMPTION. Notice of the selection of any Bonds for redemption pursuant to Section 4.01 above is hereby directed to be given by the Registrar, without any further instruction or notice from the Authority, at least thirty (30) days prior to the Redemption Date. Notice shall be given by first class United States mail, postage prepaid, to the Holder of each Bond to be redeemed in whole or in part at the address shown on the Register on the date which is forty-five (45) days prior to the Redemption Date. Such notice shall state the Redemption Date, the redemption price, the principal amounts of the Bonds to be redeemed and, if less than all of the then outstanding Bonds are to be redeemed, the identification (and, in the case of partial redemptions within a maturity, the respective principal amounts) of the Bonds to be redeemed, the amount of accrued interest payable on the Redemption Date and the place at which the Bonds are to be surrendered for payment. Any notice mailed as provided in this Section 4.02 shall be conclusively presumed to have been duly given, whether or not the Holder actually receives such notice. Except as otherwise provided in Section 11.03 of this Order, no other notice of the reserved right of redemption shall be given unless otherwise required by law.

By the Redemption Date, due provision shall be made with the Paying Agent for the payment of the principal of the Bonds to be redeemed, plus accrued interest thereon to the Redemption Date. When Bonds have been called for redemption, in whole or in part, as provided above, and due provision has been made to redeem same, such Bonds or portions thereof, shall no longer be regarded as outstanding, except for the purpose of receiving payment from the funds provided for redemption, and the right of the Holders to collect interest which would otherwise accrue after the Redemption Date upon the principal of such Bonds or the portions thereof so called for redemption shall be terminated.

(End of Article Four)

ARTICLE FIVE

FORM OF BONDS AND INSURANCE

SECTION 5.01: FORM OF BONDS. The Bonds authorized by this Order, including the registration certificate of the Comptroller of Public Accounts of the State of Texas or Registrar, as applicable, and form of assignment shall be in substantially the forms specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate.

SECTION 5.02: CERTIFICATE OF REGISTRAR. The form of Certificate of Registrar specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate shall be printed on or attached to each of the Bonds authenticated and delivered subsequent to the Initial Bonds.

SECTION 5.03: REGISTRATION OF BONDS BY STATE COMPTROLLER AND CERTIFICATE. The Initial Bonds shall be registered by the Comptroller of Public Accounts of the State of Texas, as provided by law. In lieu of the Certificate of Registrar specified in Section 5.02 hereof, the registration certificate of the Comptroller of Public Accounts of the State of Texas shall be printed or typed on or attached to each of the Initial Bonds and shall be in substantially the form specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate.

SECTION 5.04: FORM OF ASSIGNMENT. The form of Assignment specified in Exhibit "A" and Exhibit "B" attached to the Pricing Certificate shall be printed at the back of or attached to each of the Bonds.

SECTION 5.05: CUSIP REGISTRATION. The Underwriter or the officers and representatives of the Authority may secure the printing of identification numbers on the Bonds through the CUSIP Service Bureau of Standard & Poor's Rating Services, a division of The McGraw-Hill Companies, Inc., New York, New York.

SECTION 5.06: LEGAL OPINION. The opinions of the District's Bond Counsel and Special Tax Counsel may be, but are not required to be, printed on or attached to the Bonds and certified by the Secretary of the Board of Directors, which certification may be executed in facsimile or, with respect to Bonds registered in the name of Cede & Co., as nominee of DTC, in accordance with Section 3.11 of this Order, an original of said opinion may be delivered to the Underwriter.

SECTION 5.07: BOOK-ENTRY ONLY BONDS. Notwithstanding anything in this Article Five to the contrary, exchange Bonds in the form specified in Exhibit "B" attached to the Pricing Certificate shall not be issued except as set forth in Section 3.12 of this Order.

SECTION 5.08: BOND INSURANCE PROCEEDINGS. The officers and representatives of the Authority are hereby authorized (i) to make application for and to execute, attest and deliver any and all certificates, agreements or other instruments necessary to secure a commitment for municipal bond insurance policy with respect to the Bonds from one or more

insurers having on the date of sale of the Bonds a rating on its outstanding insured indebtedness of at least "Aa" from Moody's Investor Service, Inc., or at least "AA" or higher from Standard & Poor's Rating Services, and (ii) to provide for the printing of a statement or legend relating to such insurance on the Bonds, all as may be deemed necessary by said officers and representatives. If a municipal bond insurance policy on the Bonds is secured, the General Manager is hereby authorized and directed to approve and set forth any terms and conditions related to such insurance in an exhibit to the Pricing Certificate, which terms and conditions shall be deemed to amend and supplement this Order in all respects and shall control over any conflicting provision set forth herein.

(End of Article Five)

ARTICLE SIX

SECURITY FOR THE BONDS

SECTION 6.01: SECURITY FOR THE BONDS. The Pledged Revenues are hereby pledged to the payment of the principal of and the interest on the Bonds, and to pay any bank charges, paying agent fees and related costs and expenses of payment of the Bonds. The Pledged Revenues shall immediately be subject to the lien of such pledge without any physical delivery thereof or further act, and the lien of such pledge shall be valid and binding against all parties having a claim of any kind in tort, contract or otherwise against the Authority, irrespective of whether such parties have notice thereof. The lien and pledge hereby created shall remain in full force and effect until the Bonds, the Remaining Outstanding Bonds and any Additional Bonds have been paid in full, as to both principal and interest, at their scheduled maturities or upon their earlier redemption or by reason of their defeasance and discharge.

SECTION 6.02: ASSESSMENT OF CAPACITY CHARGES. The Authority will at all times maintain and use due diligence to collect sufficient capacity charges to produce revenues sufficient to pay or provide for payment of the Bonds and to comply with its covenants and obligations herein. In particular, the Authority covenants and agrees that, from time to time, there shall be fixed, assessed, levied, charged and billed capacity charges allocable to and among the Customers, as provided in the Agreements, in such amounts as will be sufficient to (i) pay or provide for payment of all principal of and interest on and all bank charges, paying agent fees and costs and expenses of payment of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds issued in conformity with the Outstanding Bond Orders and this Order, when and as the same shall become due and payable, and all payments to any reserve or sinking funds created in respect of the Bonds, the Remaining Outstanding Bonds or any Additional Bonds, when and as the same shall become due and payable, and (ii) fulfill the terms, agreements and covenants made with the Holders of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds and/or with any other Persons in their behalf.

Such capacity charges shall be timely assessed, levied, charged and billed to the Customers and shall become payable at such times and in such monthly amounts as required to pay promptly or provide for the prompt payment of all of the foregoing items, without regard to whether the Authority has initiated, completed or commenced operations of the Projects. Such capacity charges shall be fair, reasonable, just and nondiscriminatory and shall be equitably established by the Authority in conformity with the Agreements. Such capacity charges shall be adjusted from time to time so as to produce the lowest charges consistent with good business management on the part of the Authority and the foregoing covenants, duties and responsibilities of the Authority. To the extent that any such capacity charges shall ever be in excess of the needs of the Authority to meet such requirements such charges will be promptly adjusted by the Authority, and no proceeds of such capacity charges, or any investment profits or earnings thereon, shall ever be used by the Authority for any corporate purpose of the Authority, other than as set forth in this Order.

SECTION 6.03: COLLECTION OF CAPACITY CHARGES. So long as any of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds shall remain outstanding, the Authority covenants and agrees that it will use reasonable diligence and will take all actions and measures as may be deemed appropriate under the circumstances to timely and fully enforce and collect such capacity charges, to make all payments therefrom into the Debt Service Fund required hereunder and to preserve and protect the existence and priority of the pledge and lien of the Pledged Revenues including, but not limited to, where deemed appropriate, the institution of arbitration proceedings and/or suits for collection of delinquent capacity charges; provided, however, that so long as the Authority shall have made all payments and deposits required hereunder, the failure or inability of the Authority to receive and collect all or any portion of such capacity charges, as assessed, levied, billed and charged to the Customers, shall not, under any circumstances, be deemed to be a default in payment or performance of the Authority hereunder.

SECTION 6.04: INSURANCE AND CONDEMNATION. So long as any of the Bonds, the Remaining Outstanding Bonds or any Additional Bonds shall remain outstanding, the Authority covenants and agrees that it will at all times keep insured such portions of the Waste Disposal System as are customarily insured by municipal corporations and political subdivisions in Texas operating like properties in similar locations under similar circumstances with a responsible insurance company or companies against risks, accidents or casualties against and to the extent to which insurance is customarily carried by such municipal corporations and political subdivisions; provided, however, that at any time while any contractor engaged in construction work relating to the Projects or any portion(s) thereof, shall be fully responsible therefor, the Authority shall not be required to secure and maintain such insurance. All such policies of insurance shall be open to inspection by the Holders or their representatives at all reasonable times.

In the event of any loss or damage to the Projects, the Authority covenants that it will apply any proceeds of such insurance policies covering such loss or damage to the reconstruction or repair of the Project, and any excess insurance proceeds remaining after the completion of the Project shall promptly be deposited into the Debt Service Fund.

To the extent that the Projects or any portion(s) thereof shall be taken by condemnation or eminent domain proceedings, any awards or compensation received representing damages for the portion(s) of the Projects so taken shall, upon receipt by the Authority, be promptly deposited to the credit of the Debt Service Fund.

SECTION 6.05: LIMITED OBLIGATIONS. The Bonds are limited obligations of the Authority and are payable solely out of and are secured solely by a lien on and pledge of the Pledged Revenues if, as, when and to the extent actually received by the Authority pursuant to the Agreements. Neither the State of Texas nor any other political subdivision or agency thereof shall be obligated to pay the principal of or interest on the Bonds, and neither the faith and credit nor the taxing power of the State of Texas, the Authority or any other political subdivision or agency thereof is pledged to the payment of the principal of or interest on the Bonds. The Bonds

shall never be paid in whole or in part out of any funds raised or to be raised by taxation or out of any other funds, resources, assets or revenues of the Authority, except the Pledged Revenues.

(End of Article Six)

ARTICLE SEVEN

REVENUES AND APPLICATION THEREOF

SECTION 7.01: CONFIRMATION OF DEBT SERVICE FUND. Notwithstanding any part or provision hereof to the contrary, or the subsequent defeasance and discharge of the Refunded Bonds and/or the Refunded Bond Order hereby, and except as otherwise provided in Section 12.02 hereof, the creation, establishment and use of The Woodlands Division Waste Disposal System Debt Service Fund pursuant to the Outstanding Bond Orders is hereby adopted and confirmed as a part hereof, as if set forth in full herein, and same shall continue in force and effect so long as this Order remains in effect. The Debt Service Fund shall be kept separate and apart from all other funds of the Authority. The Debt Service Fund shall constitute a trust fund which shall be held in trust for the benefit of the Holders of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds and shall be used solely as provided in the Outstanding Bond Orders and this Order until all of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds have been retired, both as to principal and interest. The Authority reserves the right to create, establish and maintain, by separate resolution, order or agreement, one or more additional funds or accounts to facilitate delivery of the Bonds and to provide for the receipt, investment, reinvestment, transfer, withdrawal, expenditure and/or other disposition of the proceeds received from time to time from sale and delivery of the Bonds; provided, however, that such funds or accounts are used solely for the purposes herein described and are secured and invested in a manner consistent herewith.

SECTION 7.02: SECURITY OF FUNDS. Any cash balance in any fund of the Authority, to the extent not insured by the Bank Insurance Fund or the Savings Association Insurance Fund, managed by the Federal Deposit Insurance Corporation, or a successor insurance fund, shall be continuously secured by a valid pledge to the Authority of securities eligible under the laws of Texas to secure the funds of counties having an aggregate market value, exclusive of accrued interest, at all times equal to the uninsured cash balance in such funds.

SECTION 7.03: DEBT SERVICE FUND. During each Fiscal Year while any portion of the Bonds remain outstanding, the Authority shall deposit or cause to be deposited into the Debt Service Fund, monthly as collected, capacity charges assessed, levied and made to and collected from the Customers pursuant to the Agreements in an amount, after allowances for funds already on hand in the Debt Service Fund, not less than one-twelfth (1/12) of the scheduled amount of principal and interest to come due on the Bonds, any Remaining Outstanding Bonds and any Additional Bonds in such Fiscal Year.

SECTION 7.04: WOODLANDS DIVISION WASTE DISPOSAL SYSTEM 2014 REFUNDING BOND ACCOUNT. There is hereby created and established on the books and records of the Authority a special account, to be known and designated as the Woodlands Division Waste Disposal System 2014 Refunding Bond Account, into which a portion of the proceeds of the Bonds are to be deposited and used, as provided in Section 8.03 hereof.

SECTION 7.05: ESCROW FUND. The Escrow Fund shall be established, maintained and administered as provided in the Escrow Agreement.

SECTION 7.06: INVESTMENTS; EARNINGS. Moneys deposited into the Debt Service Fund or any other fund or funds which the Authority may lawfully create may be invested or reinvested from time to time, but only in Authorized Investments. Except to the extent otherwise required to maintain compliance with the covenants set forth in Section 8.09 hereof, all investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investment were taken; provided, however, that in the discretion of the Board of Directors, the profits realized and interest accruing or investments made from any fund may be transferred to the Debt Service Fund. If any moneys are so invested, the Authority shall have the right to have sold in the open market a sufficient amount of such investments to meet its obligations in the event any fund does not have sufficient uninvested moneys on hand to meet the obligations payable out of such fund. After such sale, the moneys resulting therefrom shall belong to the fund from which such investments were initially taken. The Authority shall not be responsible to the Holders for any loss arising out of the sale of any investments.

(End of Article Seven)

ARTICLE EIGHT

APPLICATION OF BOND PROCEEDS

SECTION 8.01: BOND PROCEEDS. Proceeds from the sale of the Bonds will be disbursed in accordance with this Article Eight and the Pricing Certificate.

SECTION 8.02: ACCRUED INTEREST. Moneys received from the Underwriter representing accrued interest on the Bonds from their Initial Date to the date of their delivery to the Underwriter shall be deposited into the Debt Service Fund.

SECTION 8.03: TRANSFERS, DEPOSITS AND ISSUANCE EXPENSES. A portion of the proceeds received from the sale of the Bonds, as set forth in the Pricing Certificate, shall be appropriated and applied to pay the insurance premium on and the costs of issuance, sale and delivery of the Bonds, which amount shall be disbursed to pay such costs and expenses and/or deposited into the Woodlands Division Waste Disposal System 2014 Refunding Bond Account immediately after the Initial Bonds are delivered to the Underwriter, and any additional sum representing a rounding amount, as and if so identified in the Pricing Certificate, which shall also be deposited into the Woodlands Division Waste Disposal System 2014 Refunding Bond Account and disbursed, if needed, for issuance costs and contingencies. Any amounts remaining on deposit in the Woodlands Division Waste Disposal System 2014 Refunding Bond Account, after making all such disbursements and payments, shall be deposited into the Debt Service Fund. There is hereby further appropriated from other funds currently on hand and available in the Debt Service Fund and attributable to the Refunded Bonds a sum not to exceed \$50,000.00, as and if so identified in the Pricing Certificate, which, together with the balance of the proceeds from sale of the Bonds, shall be applied as set forth in the Pricing Certificate to establish an initial cash balance in the Escrow Fund as provided in the Report and to purchase the Escrowed Securities, as hereinafter provided.

SECTION 8.04: ESCROW FUND DEPOSITS AND ADDITIONAL EXPENSES. After making the deposits hereinbefore provided, the balance of the proceeds from sale of the Bonds, together with any sum appropriated from the Debt Service Fund, shall be applied as set forth in the Pricing Certificate to establish an initial cash balance in the Escrow Fund as provided in the Report, and to purchase the Escrowed Securities for deposit in the Escrow Fund, so as to effect the refunding of the Refunded Bonds, as more fully provided below.

SECTION 8.05: REDEMPTION OF REFUNDED BONDS. The Authority hereby authorizes and calls for the redemption of and the payment of the applicable redemption prices for all of the Refunded Bonds, prior to their scheduled Maturity Dates, on the date or dates set forth in the Pricing Certificate. Notice of such redemption is hereby authorized and directed to be given in the manner required by the Refunded Bond Order.

Section 8.06: ESCROW AGREEMENT. The discharge and defeasance of the Refunded Bonds shall be effected pursuant to the terms and provisions of the Escrow Agreement. The form, terms and provisions of the Escrow Agreement are hereby in all things approved, subject

to such insertions, additions and modifications as shall be necessary, in the judgment of the officials of the Authority executing same, to:

- (a) carry out the refunding of the Refunded Bonds in substantial conformity with the program designed for the Authority by the Underwriter for such purposes, which shall be confirmed as to mathematical accuracy by Grant Thornton LLP, Certified Public Accountants, whose Report shall be and is hereby incorporated by reference in the Escrow Agreement;
- (b) maximize the Authority's present value savings and/or minimize the Authority's costs of refunding;
- (c) comply with this Order, the Refunding Act, the Customer Contracts, the Agreements, the Customer Resolutions, the Outstanding Bond Orders and all applicable laws and regulations relating to the refunding of the Refunded Bonds;
- (d) carry out the intents and purposes of this Order; and
- (e) comply with the terms set forth in the Pricing Certificate;

and the President of the Board of Directors or the General Manager of the Authority is hereby authorized to execute and deliver such Escrow Agreement on behalf of the Authority in multiple original counterparts.

SECTION 8.07: PURCHASE OF ESCROWED SECURITIES. In order to assure the purchase of the Escrowed Securities referred to in the Escrow Agreement, the President, the Authority's General Manager, the Escrow Agent or the Underwriter, acting at the direction and on behalf of the Authority, are hereby authorized to agree to purchase and to purchase such Escrowed Securities, in such amounts and maturities and bearing interest at such rates as may be provided for in the Report, and to execute any purchase agreements, commitments, letters of authorization and other documents necessary to effectuate the foregoing, and any actions heretofore taken for such purposes are hereby ratified, confirmed, approved and adopted.

SECTION 8.08: RELATED MATTERS. In order that the Authority shall satisfy in a timely manner all of its obligations under this Order and the Escrow Agreement, the appropriate officers and agents of the Authority are hereby authorized and directed to take any and all other actions that are reasonably necessary to provide for the refunding and redemption of the Refunded Bonds, including without limitation, executing and delivering on behalf of the Authority all notices, certificates, directives, orders, instructions, consents, receipts, waivers, requests and other documents as may be reasonably necessary to redeem the Refunded Bonds, to satisfy the Authority's obligations under this Order, the Bond Purchase Agreement and the Escrow Agreement and to direct the deposits and applications of funds of the Authority consistent with the provisions of same.

SECTION 8.09. FEDERAL INCOME TAX EXCLUSION.

(a) General. The Authority intends that the interest on the Bonds be excludable from gross income for federal income tax purposes pursuant to sections 103 and 141 through 150 of the Internal Revenue Code of 1986, as amended (the "Code"), and the applicable Treasury Regulations (the "Regulations"). The Authority covenants and agrees not to take any action, or knowingly omit to take any action within its control that, if taken or omitted, respectively, would (i) cause the interest on the Bonds to be includable in gross income, as defined in section 61 of the Code, for federal income tax purposes or (ii) result in the violation of or failure to satisfy any provision of Section 103 and 141 through 150 of the Code and the applicable Regulations that is applicable to the Bonds. In particular, the Authority covenants and agrees to comply with each requirement of this Section 8.09; provided, however, that the Authority will not be required to comply with any particular requirement of this Section 8.09 if the Authority has received an opinion of nationally recognized bond counsel ("Counsel's Opinion") that (i) such noncompliance will not adversely affect the exclusion from gross income for federal income tax purposes of interest on the Bonds or (ii) compliance with some other requirement set forth in this Section 8.09 will satisfy the applicable requirements of the Code and the Regulations, in which case compliance with such other requirement specified in such Counsel's Opinion will constitute compliance with the corresponding requirement specified in this Section 8.09.

(b) No Private Use or Payment and No Private Loan Financing. The Authority will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, that the proceeds of the Refunded Bonds have not been used, and that proceeds of the Refunded Bonds and the Bonds will not be used, in a manner that would cause the Bonds to be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder. Moreover, the Authority covenants and agrees that it will make such use of the proceeds of the Refunded Bonds and the Bonds including interest or other investment income derived from Bond proceeds, regulate the use of property financed, directly or indirectly, with such proceeds, and take such other and further action as may be required so that the Bonds will not be "private activity bonds" within the meaning of section 141 of the Code and the Regulations promulgated thereunder.

(c) No Federal Guarantee. The Authority covenants and agrees that it has not and will not to take any action, and has not knowingly omitted and will not knowingly omit to take any action within its control, that, if taken or omitted, respectively, would cause the Bonds to be "federally guaranteed" within the meaning of section 149(b) of the Code and the applicable Regulations thereunder, except as permitted by section 149(b)(3) of the Code and such Regulations.

(d) No Hedge Bonds. The Authority covenants and agrees that it will not to take any action, and has not knowingly omitted and will not knowingly omit to take any action, within its control, that, if taken or omitted, respectively, would cause the Bonds to be "hedge bonds" within the meaning of section 149(g) of the Code and the applicable Regulations thereunder. Moreover, the Authority will certify, through an authorized officer, employee or agent, based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are

delivered, that the proceeds of the Refunded Bonds have not been used in a manner that would cause the Refunded Bonds or the Bonds to be “hedge bonds” within the meaning of section 149(g) of the Code and the Regulations promulgated thereunder.

(e) No Arbitrage. The Authority will certify, through an authorized officer, employee or agent that based upon all facts and estimates known or reasonably expected to be in existence on the date the Bonds are delivered, the proceeds of the Bonds will not be used in a manner that would cause the Bonds to be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder. Moreover, the Authority covenants and agrees that it will make such use of the proceeds of the Bonds including interest or other investment income derived from Bond proceeds, regulate investments of proceeds of the Bonds, and take such other and further action as may be required so that the Bonds will not be "arbitrage bonds" within the meaning of section 148(a) of the Code and the applicable Regulations promulgated thereunder.

(f) Arbitrage Rebate. If the Authority does not qualify for an exception to the requirements of Section 148(f) of the Code relating to the required rebate to the United States, the Authority will take all necessary steps to comply with the requirement that certain amounts earned by the Authority on the investment of the "gross proceeds" of the Bonds (within the meaning of section 148(f)(6)(B) of the Code), be rebated to the federal government. Specifically, the Authority will (i) maintain records regarding the investment of the gross proceeds of the Bonds as may be required to calculate the amount earned on the investment of the gross proceeds of the Bonds separately from records of amounts on deposit in the funds and accounts of the Authority allocable to other bond issues of the Authority or moneys that do not represent gross proceeds of any bonds of the Authority, (ii) calculate at such times as are required by applicable Regulations, the amount earned from the investment of the gross proceeds of the Bonds that is required to be rebated to the federal government, and (iii) pay, not less often than every fifth anniversary date of the delivery of the Bonds or on such other dates as may be permitted under applicable Regulations, all amounts required to be rebated to the federal government. Further, the Authority will not indirectly pay any amount otherwise payable to the federal government pursuant to the foregoing requirements to any Person other than the federal government by entering into any investment arrangement with respect to the gross proceeds of the Bonds that might result in a reduction in the amount required to be paid to the federal government because such arrangement results in a smaller profit or a larger loss than would have resulted if the arrangement had been at arm's length and had the yield on the issue not been relevant to either party.

(g) Information Reporting. The Authority covenants and agrees to file or cause to be filed with the Secretary of the Treasury, not later than the fifteenth (15th) day of the second calendar month after the close of the calendar quarter in which the Bonds are issued, an information statement concerning the Bonds, all under and in accordance with section 149(e) of the Code and the applicable Regulations promulgated thereunder.

(h) Record Retention. The Authority will retain all pertinent and material records relating to the use and expenditure of the proceeds of Refunded Bonds and the Bonds until three

years after the last Bond is redeemed, or such shorter period as authorized by subsequent guidance issued by the Department of Treasury, if applicable. All records will be kept in a manner that ensures their complete access throughout the retention period. For this purpose, it is acceptable that such records are kept either as hardcopy books and records or in an electronic storage and retrieval system, provided that such electronic system includes reasonable controls and quality assurance programs that assure the ability of the Authority to retrieve and reproduce such books and records in the event of an examination of the Bonds by the Internal Revenue Service.

(i) Registration. The Bonds will be issued in registered form.

(j) Deliberate Actions. The Authority will not take a deliberate action (as defined in section 1.141-2(d)(3) of the Regulations) that causes the Bonds to fail to meet any requirement of section 141 of the Code after the issue date of the Bonds unless an appropriate remedial action is permitted by section 1.141-12 of the Regulations and an opinion of Bond Counsel is obtained that such remedial action cures any failure to meet the requirements of section 141 of the Code.

(k) Continuing Obligation. Notwithstanding any other provision of this Order, the Authority's obligations under the covenants and provisions of this Section 8.09 will survive the defeasance and discharge of the Bonds for so long as such matters are relevant to the exclusion from gross income of interest on the Bonds for federal income tax purposes.

SECTION 8.10: BONDS NOT QUALIFIED TAX-EXEMPT OBLIGATIONS. The Authority has not designated the Bonds as "qualified tax-exempt obligations" for purposes of Section 265(b) of the Code due to the fact that the reasonably anticipated amount of tax-exempt obligations which will be issued by the Authority during the calendar year 2014, including the Bonds, will exceed \$10,000,000.

SECTION 8.11: DISPOSITION OF FACILITIES. The Authority covenants that the property constituting the Projects constructed and/or purchased with the proceeds of the Refunded Bonds will not be sold or otherwise disposed in a transaction resulting in the receipt by the Authority of cash or other compensation unless the Authority obtains an opinion of nationally recognized bond counsel or tax counsel to the effect that the proposed actions of the Authority will not adversely affect the excludability for federal income tax purposes from gross income of the interest on the Bonds. For purposes of the foregoing, the portion of the property comprising personal property and disposed in the ordinary course will not be treated as a transaction resulting in the receipt of cash or other compensation.

(End of Article Eight)

ARTICLE NINE

AMENDMENTS, ADDITIONAL BONDS AND REFUNDING BONDS

SECTION 9.01: AMENDMENTS AND SUPPLEMENTS. The Authority or the Authority and the Customers may, without the consent of, or notice to, any of the Holders of the Bonds, enter into amendments or supplements to the Outstanding Bond Orders, this Order, the Agreements or the Customer Contracts:

- (i) to provide for the issuance, sale and delivery of Additional Bonds in conformity with the requirements of Section 9.02 of this Order and, in such connection, to provide for the deposit and the disbursement of the proceeds of sale of such Additional Bonds and the construction or installation of facilities and improvements to be financed from the proceeds of such Additional Bonds,
- (ii) to cure any ambiguity, inconsistency or formal defect or omission in the Outstanding Bond Orders, this Order, the Agreements and/or the Customer Contracts,
- (iii) to modify the Outstanding Bond Orders, this Order, the Agreements and/or the Customer Contracts or to add any provisions or changes thereto that do not materially adversely affect the interest of the Holders of the Bonds, or
- (iv) to evidence the transfer and assignment of capacity rights in and to the Waste Disposal System and any corresponding adjustment or reallocation of capacity charges to the Customers for the purposes, in the manner and subject to the terms and conditions set forth in the Agreements.

Otherwise, no such change, amendment, modification, supplement or alteration of the terms or provisions of the Outstanding Bond Orders, this Order, the Agreements or the Customer Contracts shall be made, entered into or effective without the prior written consent of the Holders of all remaining outstanding portions of the Bonds.

SECTION 9.02: ADDITIONAL BONDS. The Authority expressly reserves the right to issue Additional Bonds, in one or more installments, upon such other terms and conditions as the Authority deems advisable, upon satisfaction of the following conditions:

- (a) The capacity charges received by the Authority in respect of the Bonds, and the Remaining Outstanding Bonds and any Additional Bonds then outstanding for the most recently completed Fiscal Year or during any period of twelve (12) consecutive calendar months ending no more than ninety (90) days preceding the adoption of the resolution or order authorizing the issuance of such Additional Bonds are not less than 1.25 times the annual average of the principal and interest payments scheduled to become due on the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding and estimated to become due on such proposed Additional Bonds; or

(b) The Authority has revised its capacity charges to the Customers in respect of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding, effective at least sixty (60) days prior to the close of its most recent Fiscal Year or any other period of twelve (12) consecutive calendar months ending no more than ninety (90) days prior to the proposed date of issuance of such Additional Bonds, and the Authority has received a certificate executed by a certified public accountant or firm of certified public accounts to the effect that such capacity charges received by the Authority during such Fiscal Year or twelve-month period, if recalculated on the assumption that such revised capacity charges had been in effect for the entirety of such Fiscal Year or twelve-month period, would have been no less than 1.25 times the annual average of the principal and interest payments scheduled to become due on the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding and estimated to become due on such proposed Additional Bonds; or

(c) The Authority has received the written consent and approval to the issuance of such Additional Bonds from the Holders of not less than two-thirds (2/3) in aggregate principal amount of the Bonds, the Remaining Outstanding Bonds and any Additional Bonds then outstanding; or

(d) The proposed Additional Bonds receive a rating of at least "Aa" from Moody's Investors Service, Inc. or at least "AA" from Standard & Poor's Rating Services, or their successors, or a comparable rating from any other nationally recognized municipal bond rating service, which rating may be obtained through the use of credit enhancements.

SECTION 9.03: SUBORDINATE LIEN BONDS. The Authority further reserves the right to issue subordinate lien bonds in one or more installments and upon such terms and conditions as the Authority deems advisable.

SECTION 9.04: REFUNDING BONDS. Without the necessity for compliance with Section 9.02 hereof, the Authority further reserves the right to issue refunding bonds in any manner permitted by law to refund or defease the Bonds, at or prior to their respective dates of maturity or redemption.

SECTION 9.05: SPECIAL PROJECT BONDS. The Authority further reserves the right to issue special project bonds, for any lawful purpose, which are payable from and secured by any resources, assets, income or revenues of the Authority, other than the Pledged Revenues.

(End of Article Nine)

ARTICLE TEN

BONDHOLDER PROVISIONS

SECTION 10.01: REMEDIES IN EVENT OF DEFAULT. In addition to any other rights and remedies provided by the laws of the State of Texas, the Authority covenants and agrees that in the event of default in the payment of the principal of or interest on any of the Bonds when due, or, in the event the Authority fails to make the payments required to be made into the Debt Service Fund, or defaults in the observance or performance of any other of the covenants, conditions or obligations set forth in this Order, the Holders shall be entitled to seek a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the Authority and the officials thereof to observe and perform the covenants, obligations or conditions prescribed in this Order; provided, however, that nothing herein shall be deemed or construed to require payment by the Authority of amounts due in respect of the Bonds from any source or sources of revenue or income, other than the Pledged Revenues, and the Authority's responsibilities hereunder and under the Bonds shall be limited to the exercise of reasonable diligence to assess, levy, charge, bill and collect capacity charges, and to the due, proper and timely application of the Pledged Revenues to the intended purposes, and to the performance of its covenants, obligations and duties hereunder and under the Bonds.

Any delay or omission in the exercise of any right or power accruing upon any default shall not impair any such right or power or be construed to be a waiver of any such default or acquiescence therein, and every such right and power may be exercised from time to time and as often as may be deemed expedient.

SECTION 10.02: ORDER AS CONTRACT. In consideration of the purchase and acceptance of the Bonds by the Holders, the provisions of this Order shall be deemed to be and shall constitute a contract between the Authority and the Holders of the Bonds, and the covenants and agreements herein set forth to be performed on behalf of the Authority shall be for the equal benefit, protection and security of each of same. Each of the Bonds, regardless of the time or times of their issue, authentication, delivery or maturity, shall be of equal rank, without preference, priority or distinction of any Bond over any other, except as expressly provided herein.

(End of Article Ten)

ARTICLE ELEVEN

CONTINUING DISCLOSURE

SECTION 11.01: DEFINITIONS. As used in this Article, the following terms have the meanings ascribed to them below:

The term "MSRB" means the Municipal Securities Rulemaking Board.

The term "obligated person" has the meaning assigned to such term in the Rule.

The term "Offering" has the meaning assigned to such term in the Rule.

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

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

SECTION 11.02: ANNUAL REPORTS. The Authority shall provide annually to the MSRB, in an electronic format as prescribed by the MSRB, within six (6) months after the end of each Fiscal Year ending in or after 2014, financial information and operating data with respect to the Authority and the Customer Districts of the general type described in Exhibit "A" attached hereto and made a part hereof for all purposes. Any financial statements to be so provided shall be (i) prepared in accordance with the accounting principles described in Exhibit "A" hereto, or such other accounting principles as the Authority and/or the Customer Districts may be required to employ from time to time pursuant to State law or regulations, and (ii) audited, if the Authority and/or the Customer Districts commission an audit of such statements and such audit is completed within the period during which they must be provided hereunder. If any such audit is not completed within such period, then the Authority shall provide such audited financial statements for the applicable Fiscal Year to the MSRB when and if such audit report becomes available.

If the Authority changes its Fiscal Year, the Authority will notify the MSRB of the change (and of the date of the new Fiscal Year end) prior to the next date by which the Authority otherwise would be required to provide financial information and operating data pursuant to this Section 11.02. The financial information and operating data to be provided pursuant to this Section 11.02 may be set forth in full in one or more documents or may be included by specific reference to any document that is available to the public on the MSRB's internet website or filed with the SEC. The Authority shall notify the MSRB, in a timely manner, of any failure of the Authority to provide financial information or operating data in accordance with this Section 11.02 by the time required herein. All documents provided to the MSRB pursuant to this Section 11.02 shall be accompanied by identifying information as prescribed by the MSRB.

SECTION 11.03: MATERIAL EVENT NOTICES. The Authority shall notify the MSRB, in an electronic format as prescribed by the MSRB, in a timely manner not in excess of

ten (10) Business Days after the occurrence of the event, of any of the following events with respect to the Bonds:

- (a) Principal and interest payment delinquencies;
- (b) Non-payment related defaults, if such event is material within the meaning of the applicable provisions of the federal securities laws;
- (c) Unscheduled draws on debt service reserves reflecting financial difficulties;
- (d) Unscheduled draws on credit enhancements reflecting financial difficulties;
- (e) Substitution of credit or liquidity providers, or their failure to perform;
- (f) Adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notice of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax-exempt status of the Bonds, or other material events affecting the tax-exempt status of the Bonds;
- (g) Modifications to the rights of the Holders of the Bonds, if material within the meaning of the federal securities laws;
- (h) Calls for redemption of the Bonds, if material within the meaning of the federal securities laws, and tender offers;
- (i) Defeasances of the Bonds;
- (j) Release, substitution or sale of property securing repayment of the Bonds, if material within the meaning of the federal securities laws;
- (k) Rating changes;
- (l) Bankruptcy, insolvency, receivership or similar event of the Authority;
- (m) The consummation of a merger, consolidation, or acquisition involving the Authority or the sale of all or substantially all of the assets of the Authority, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material within the meaning of the federal securities laws; and
- (n) Appointment of a successor or additional trustee or the change of name of a trustee, if material within the meaning of the federal securities laws.

SECTION 11.04: LIMITATIONS, DISCLAIMERS AND AMENDMENTS.

(a) The Authority shall be obligated to observe and perform the covenants specified in this Article 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 call for redemption of the Bonds or defeasance of the Bonds, in whole or in substantial part, made in accordance with this Order or applicable law that causes such Bonds to no longer be outstanding.

(b) The provisions of this Article are for the sole benefit of the Holders and beneficial owners of the Bonds, and nothing herein, expressed or implied, shall be deemed to confer any benefit or any legal or equitable right, remedy or claim hereunder upon 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 Article 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, conditions or prospects of the Authority, nor does the Authority undertake to update any information provided in accordance with this Article 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 to sell Bonds at any future date.

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

(d) No default by the Authority in observing or performing its obligations under this Article shall constitute a breach of or default under this Order for purposes of any other provision of this Order.

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

(f) Should the Rule be amended to obligate the Authority to make filings with or provide notices to entities other than the MSRB, the Authority hereby agrees to undertake such obligations with respect to the Bonds in accordance with the Rule as amended.

(g) Except as provided hereinafter, the provisions of this Article may be amended by the Authority from time to time, in its discretion, to adapt to changed circumstances that arise from a change in law, the identity, nature, status or type of operations of the Authority, or other circumstances, but only if (i) the provisions of this Article, as so amended, would have permitted

an underwriter to purchase or sell the Bonds in a primary offering of the Bonds in compliance with the Rule, taking into account any amendments or interpretations of the Rule to the date of such amendment, as well as such changed circumstances, and (ii) either (A) the Holders of a majority in aggregate principal amount (or any greater amount required by any other provision of this Order that authorizes such an amendment) of the outstanding Bonds consent to such amendment, or (B) a Person that is unaffiliated with the Authority (such as nationally recognized bond counsel) determines that such amendment will not materially impair the interests of the Holders and beneficial owners of the Bonds. If this Article is so amended, the Authority shall include with any amended financial information or operating data next provided in accordance with this Article an explanation, in narrative form, of the reasons for the amendment and of the impact of any change in the type of financial information or operating data so provided. Notwithstanding the foregoing, the Authority may also repeal or amend the provisions of this Article if the SEC amends or repeals the applicable provisions of the Rule or if any court of final jurisdiction enters judgment that such provisions of the Rule are invalid, but, in either case, only if and to the extent that any such amendment or repeal by the Authority would not prevent an underwriter from lawfully purchasing or selling the Bonds in the primary offering of the Bonds.

(End of Article Eleven)

ARTICLE TWELVE

MISCELLANEOUS PROVISIONS

SECTION 12.01: PAYMENT OF BONDS AND PERFORMANCE OF OBLIGATIONS. The Authority covenants to fully and timely pay, but only out of Pledged Revenues, the principal of and the interest on the Bonds as the same become due and payable, in accordance with the terms of the Bonds and this Order, and to keep and perform faithfully all of its covenants, undertakings and agreements contained in this Order, or in any Bond issued, executed and delivered hereunder.

SECTION 12.02: ISSUANCE OF BONDS UNDER CERTAIN TERMS AND CONDITIONS. The Bonds shall be issued upon and subject to the further terms and conditions contained in the Outstanding Bond Orders, which shall apply with equal force to the Bonds as if set forth fully herein; provided, however, that where the provisions of the Outstanding Bond Orders are inconsistent or in conflict with the terms and provisions of this Order, the terms and provisions of this Order shall govern.

SECTION 12.03: LIMITED RECOURSE. No recourse shall be had for the payment of the principal of or the interest on the Bonds, or for any claim based thereon or on this Order, against any officer, director, agent, representative or employee of the Authority, or any Person executing the Bonds, or against any funds, revenues, resources or assets of the Authority of any type or character, or from any source derived, other than the Pledged Revenues.

SECTION 12.04: PAYING AGENT MAY OWN BONDS. The Paying Agent, in its individual or any other capacity, may become the owner or pledgee of the Bonds with the same rights it would have if it were not Paying Agent.

SECTION 12.05: REGISTRAR. The initial Registrar in respect of the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The Authority will maintain at least one (1) Registrar in the State of Texas, where Bonds may be surrendered for registration of transfer and/or for exchange or replacement for other Bonds, and for the purpose of maintaining the Register on behalf of the Authority; provided, however, that except during any period when the State Treasurer shall be duly designated to act as Registrar hereunder, the Registrar shall at all times be a duly qualified and competent banking corporation or association organized and doing business under the laws of the United States of America, or of any State thereof, with a combined capital and surplus of at least \$25,000,000, and which is subject to supervision or examination by federal or state banking authorities. To the extent now or hereafter permitted by law, the Authority, by order, resolution or other appropriate action, reserves to the right and authority to change any Registrar or to appoint additional Registrars, and upon any such change or appointment, the Authority covenants and agrees to promptly cause written notice thereof, specifying the name and address of such changed or additional Registrar, to be sent to each Holder of the Bonds by United States mail, first class, postage prepaid. The Authority's General Manager is hereby authorized and directed to approve, execute and deliver on behalf of the Authority an agreement for Registrar services with The Bank of New York

Mellon Trust Company, N.A., Dallas, Texas, in such form and upon such terms and conditions as he may deem necessary and appropriate.

SECTION 12.06: PAYING AGENT. The initial Paying Agent in respect of the Bonds shall be The Bank of New York Mellon Trust Company, N.A., Dallas, Texas. The Authority will maintain at least one (1) Paying Agent, who may be the State Treasurer or one (1) or more duly qualified and competent banking corporations or associations organized and doing business under the laws of the United States of America, or of any State thereof, each of which with a combined capital and surplus of at least \$25,000,000, and which is subject to supervision or examination by federal or state banking authorities, where the Bonds may be presented or surrendered for payment and where interest payable on the Bonds may be paid. To the extent now or hereafter permitted by law, the Authority, by order, resolution or other appropriate action, reserves the right and authority to change any Paying Agent or to appoint additional Paying Agents, and upon any such change or appointment, the Authority covenants and agrees to promptly cause written notice thereof, specifying the name and address of such changed or additional Paying Agent, to be sent to each Holder of the Bonds by United States mail, first class, postage prepaid. The Authority's General Manager is hereby authorized and directed to approve, execute and deliver on behalf of the Authority an agreement for Paying Agent services with The Bank of New York Mellon Trust Company, N.A., Dallas, Texas, in such form and upon such terms and conditions as he may deem necessary and appropriate.

SECTION 12.07: LEGAL HOLIDAYS. In any case when any Interest Payment Date, Maturity Date or Redemption Date for any Bond shall be a legal holiday or a day on which the Paying Agent is authorized by law or executive order to close, then payment of such principal or interest need not be made on such date, but may be made on the next succeeding Business Day, with the same force and effect as if made on the scheduled Interest Payment Date, Maturity Date or Redemption Date, and no further interest shall accrue beyond such scheduled date.

SECTION 12.08: ESCHEAT LAWS. Notwithstanding any part or provision of the Bonds or this Order to the contrary, the powers, rights, duties, functions and responsibilities of the Authority, the Paying Agent, the Registrar and the Holders hereunder or under the Bonds shall at all times conform and be subject to the requirements, limitations, procedures and provisions of Title 6, Texas Property Code, as now or hereafter amended, and in case of any conflict or inconsistency therewith now existing or hereafter created, the provisions of such laws shall prevail and control, and the provisions of this Order and the Bonds shall be deemed to be supplemented or amended to conform thereto.

SECTION 12.09: BENEFITS OF ORDER. Nothing in this Order or in the Bonds, expressed or implied, shall give or be construed to give any Person, other than the Authority, the Customers, the Paying Agent, the Registrar, the Escrow Agent, the Underwriter, the municipal bond insurance company (if applicable), and the Holders any legal or equitable right or claim under or in respect of this Order, or under any covenant, condition or provision herein contained, and all the covenants, conditions and provisions contained in this Order or in the Bonds shall be for the sole benefit of the Authority, the Customers, the Paying Agent, the Registrar, the Escrow Agent, the Underwriter, the municipal bond insurance company (if applicable), and the Holders.

SECTION 12.10: SEVERABILITY CLAUSE. If any word, phrase, clause, sentence, paragraph, section or other part of this Order, or the application thereof to any Person or circumstance, shall ever be held to be invalid or unconstitutional by any court of competent jurisdiction, the remainder of this Order and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Order to any other Persons or circumstances shall not be affected thereby.

SECTION 12.11: ACCOUNTING. The Authority will keep proper records and accounts regarding the Projects and the Bonds and, in particular, the establishment, levy, collection, investment and utilization of the proceeds from sale of the Bonds and the Pledged Revenues, which records and accounts will be made available for inspection to any Holder on reasonable request. Each year while any of the Bonds are outstanding, the Authority shall have an audit conducted of its books and accounts by a certified public accountant or firm of certified public accountants, based on its Fiscal Year, and copies of such audits will be made available to any Holder upon request and payment by such Holder of the reasonable costs to the Authority of providing same.

SECTION 12.12: NOTICE. Any notice, authorization, request or demand required or permitted to be given hereunder shall be in writing and shall be deemed to have been duly given when deposited in the United States mail, first class or registered or certified, with postage prepaid, and addressed to the Person to be notified at the latest address shown on the Register. A United States Postal Service registered or certified mail receipt showing delivery of the aforesaid shall be conclusive evidence of the date and fact of delivery of such notice.

SECTION 12.13: FURTHER PROCEEDINGS. The President and Secretary of the Board of Directors, the Authority's General Manager, the Authority's Bond Counsel and all other appropriate officials of the Authority are hereby authorized and directed to do any and all things necessary and/or convenient to carry out the terms of this Order. Without limiting the generality of the foregoing, the Authority's General Manager, as joint custodian of the minutes and records of the Authority, shall be authorized to make, execute, furnish and deliver such certificates of authenticity, showings, projections, estimates and related materials as may be necessary or convenient in connection herewith.

(End of Article Twelve)

ARTICLE THIRTEEN

SALE AND DELIVERY OF BONDS

SECTION 13.01: SALE OF BONDS. (a) The Bonds shall be sold at private sale to the Underwriter in accordance with the terms of this Order. As authorized by the Refunding Act, the General Manager of the Authority, upon determining that the conditions set forth below can be satisfied, is authorized to act on behalf of the Authority in effecting the sale and delivery of the Bonds and carrying out the other procedures specified in this Order, including determining the price at which each of the Bonds will be sold, the number and designation of series of Bonds to be issued, the form in which the Bonds shall be issued, the years in which the Bonds will mature, the principal amount to mature in each of such years, the aggregate principal amount and maturities (or portions of maturities) of the Refunded Bonds to be selected from the Refunded Bond Candidates, and the aggregate principal amount of the Bonds, the rate of interest to be borne by each such maturity, the Initial Date, the initial interest payment date, the dates, prices and terms upon and at which the Bonds shall be subject to redemption prior to maturity at the option of the Authority, and all other matters relating to the issuance, sale and delivery of the Bonds, including the refunding of the Refunded Bonds, all of which shall be specified in the Pricing Certificate; provided that the following conditions can be satisfied:

- (i) the Bonds shall not bear interest at a rate greater than the maximum rate allowed by Chapter 1204, Texas Government Code, as amended;
- (ii) the aggregate principal amount of the Bonds (or, if applicable, the combination of principal amount and net premium received by the Authority with respect to the Bonds) shall not exceed \$13,500,000; and
- (iii) the purchase price, interest rates and terms of the sale of the Bonds shall, after giving effect to any contribution by the Authority from other funds currently on hand and available in the Debt Service Fund and attributable to the Refunded Bonds, result in a net present value debt service savings to the Authority of at least four percent (4.0%).

Satisfaction of the above conditions shall be determined by the General Manager of the Authority on the basis of prevailing bond market conditions and interest rates and prices offered for the Bonds on the date of the sale of the Bonds, all as set forth in the Pricing Certificate and the Bond Purchase Agreement. The Refunded Bonds shall be identified in the Pricing Certificate in accordance with the preceding, except that if less than an entire maturity is to be refunded, the Refunded Bonds to be refunded within a maturity shall be selected as provided in the Refunded Bond Order.

To the extent, if any, that the Authority receives a commitment for issuance of a municipal bond insurance policy from one or more insurers meeting the eligibility requirements of Section 5.08 hereof, the General Manager is hereby further authorized: (i) to determine whether, based upon prevailing market conditions and the costs of such policy, the issuance of such a municipal bond insurance policy is in the best interest of the Authority, (ii) to select the insurer and policy most beneficial to the Authority, and (iii) in the event that all or portions of the terms and conditions of the commitment or policy of the selected insurer so require, to set forth as an attachment to the Pricing Certificate such required terms and conditions, which shall be deemed to constitute a supplement to this Order with the effect therein stated.

The General Manager of the Authority is hereby authorized to complete, execute and deliver the Pricing Certificate, upon satisfaction of the terms and conditions set forth above. Upon completion of the terms of the Bond Purchase Agreement in accordance with the terms of the Pricing Certificate and the provisions of this Order, the General Manager of the Authority is hereby authorized to execute and deliver, on behalf of the Authority, the Bond Purchase Agreement containing such terms and conditions as he may deem satisfactory; and the General Manager of the Authority, the President and Vice President of the Board of Directors and all other officers, agents and representatives of the Authority are hereby authorized to do any and all things necessary or desirable to satisfy the conditions set out therein and to provide for the issuance and delivery of the Bonds.

(b) The authority granted to the General Manager of the Authority under this Section 13.01 shall expire on August 31, 2014, unless otherwise extended by the Board of Directors by separate action.

(c) The General Manager of the Authority, the President and Vice President of the Board of Directors and all other officers of the Authority are authorized to take such actions, to obtain such consents or approvals and to execute such documents, certificates and receipts as they may deem necessary and appropriate in order to consummate the delivery of the Bonds, to pay the costs of issuance of the Bonds, and to effectuate the terms and provisions of this Order.

SECTION 13.02: APPROVAL, REGISTRATION AND DELIVERY. The President and Secretary of the Board of Directors of the Authority, the Authority's General Manager and Bond Counsel for the Authority are hereby authorized and directed to submit the Initial Bonds, and a transcript of the proceedings relating to the issuance of the Bonds, to the Attorney General of Texas for approval and, following said approval, to submit the Initial Bonds to the Comptroller of Public Accounts of the State of Texas for registration. Upon registration of the Initial Bonds, the Comptroller of Public Accounts (or a deputy designated in writing to act for the Comptroller) shall manually sign the Comptroller's registration certificate prescribed herein to be endorsed on each Initial Bond. After the Initial Bonds have been registered and signed by the Comptroller, they shall be delivered to the Underwriter, but only upon receipt of the full purchase price therefor.

(End of Article Thirteen)

ARTICLE FOURTEEN

OPEN MEETING AND EFFECTIVE DATE

SECTION 14.01: OPEN MEETING. The Board of Directors officially finds, determines and declares that this Order was reviewed, considered and adopted at a regular meeting of the Board of Directors beginning at 7:30 a.m., on May 22, 2014, and that a sufficient written notice of the date, hour, place and subject of this meeting was duly and timely posted and/or furnished for posting to the County Clerk of Montgomery County, Texas, and to the Secretary of State of Texas for the time prescribed by law preceding this meeting, as required by the Open Meetings Law, Chapter 551, Government Code, as amended, and that this meeting has been open to the public, as required by law, at all times during which this Order and the subject matter hereof has been discussed, considered and acted upon. The Board of Directors further ratifies, approves and confirms such written notice and the contents and posting thereof.

SECTION 14.02: EFFECTIVE DATE OF ORDER. This Order shall take effect and be in full force and effect upon and after its passage.

(End of Article Fourteen)

PASSED AND ADOPTED this 22nd day of May, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors



337074.1

Exhibit "A"

The information to be updated with respect to the Authority and the Customer Districts includes all quantitative financial information and operating data of the general type included in the Authority's final Official Statement prepared and distributed in connection with the Bonds under the headings therein entitled "SELECTED FINANCIAL INFORMATION," "APPENDIX A - ANNUAL FINANCIAL REPORT OF THE AUTHORITY FOR THE FISCAL YEAR ENDED AUGUST 31, 2013," and "APPENDIX B - SUMMARY OF GENERAL OPERATING FUNDS FOR THE WASTE WATER SYSTEMS OF THE PARTICIPANT DISTRICTS." The accounting principles in any financial statements to be updated shall be as described in APPENDIX "A," or such other or modified accounting principles as may be required of the Authority or the Customer Districts by applicable laws, rules or regulatory requirements.

Exhibit C

SAN JACINTO RIVER AUTHORITY
RATE ORDER
(GRP PARTICIPANTS)

*ADOPTED MAY 22, 2014
EFFECTIVE SEPTEMBER 1, 2014*

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SAN JACINTO RIVER AUTHORITY

RATE ORDER

(GRP PARTICIPANTS)

THE STATE OF TEXAS §
 §
COUNTY OF MONTGOMERY §

RECITALS

WHEREAS, the San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (the "Act"); and

WHEREAS, the Authority is authorized by the Act, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a water supply system for serving its needs and/or the needs of its customers; and

WHEREAS, the Authority has entered into certain contracts (the "Customer Contracts") for the financing, construction and operation of the Woodlands Water Supply System (as defined in the Customer Contracts) to serve the conservation and reclamation district customers of the Woodlands Division of the Authority; and

WHEREAS, each of the Customer Contracts has been amended and supplemented by a written addendum, dated as of November 10, 2009 (the "Addenda"), in order to address compliance with groundwater reduction requirements imposed by the Lone Star Groundwater Conservation District (the "Conservation District") and that are applicable to the Authority and the Woodlands Water Supply System; and

WHEREAS, the Authority has entered into contracts (the "GRP Contracts") with certain Large Volume Groundwater Users (as defined in the Phase II(B) rules of the Conservation District) in order to address compliance with groundwater reduction requirements imposed by the Conservation District that are also applicable to the water supply systems of such Large Volume Groundwater Users; and

WHEREAS, the Addenda and the GRP Contracts provide, in pertinent part, that the Authority will: (a) develop, implement, administer and enforce a groundwater reduction plan ("GRP") for the Woodlands Water Supply System and the water supply systems of such other participating Large Volume Groundwater Users (collectively, and inclusive of the Authority, the

"Participants"); (b) plan, design, permit, construct, operate, maintain and administer a surface water treatment and transmission system, including all related facilities, improvements, appurtenances, property and interests in property and contract rights needed therefor, and administrative facilities needed in connection therewith (the "Project"); (c) furnish and sell treated surface water from the Project to certain of the Participants, as feasible and necessary to implement the GRP; (d) assess fees on the pumpage of groundwater wells operated by the Participants; and (e) utilize revenues derived from such treated surface water sales and pumpage fees to finance the Project and the GRP, including the pledge of such revenues to the payment of, and as security for, the bonds or other obligations of the Authority issued or incurred to finance or refinance the Project and the GRP; and

WHEREAS, the Board of Directors of the Authority deems it necessary and proper at this time to establish certain fees, rates and charges applicable to the Participants, as authorized and required under the Addenda and the GRP Contracts, in order to: (a) achieve and maintain compliance with the rules of the Conservation District and the GRP; (b) develop, implement, administer and enforce the GRP; (c) accomplish the purposes of the Addenda and the GRP Contracts, including making available alternative water supplies; (d) recoup certain losses, damages, costs, interest or expenses; (e) purchase, lease, reserve, option or contract for alternative water supplies, by, through or with third parties or the Authority; (f) meet operation and maintenance expenses related to the Project and the GRP; (g) pay certain capital costs, as well as the principal of and interest on certain notes, bonds and/or other obligations issued or incurred, or to be issued or incurred, in connection with the Project, the GRP or the Authority's obligations under the Addenda or the GRP Contracts; (h) satisfy all rate covenants relating to any of such notes, bonds and/or other obligations of the Authority; and (i) establish, accumulate, maintain or replenish one or more operating, debt service, contingency or emergency reserve funds, as deemed reasonably necessary by the Authority;

NOW THEREFORE, be it ordered by the Board of Directors of the San Jacinto River Authority that:

ARTICLE I

FINDINGS; EFFECTIVE DATE; PRIOR RATE ORDER

Section 1.01: Findings. Each of the recitals stated in this Rate Order are hereby adopted as findings of fact of the Board of Directors. All statutory and contractual requirements and conditions have been met for the establishment of fees, rates, and charges under this Rate Order.

Section 1.02: Effective Date; Prior Rate Order. This Order shall be effective as of September 1, 2014 (the "Effective Date"). That certain prior Rate Order adopted by the Authority on May 24, 2012, shall be repealed and superseded hereby in all respects as of the Effective Date.

ARTICLE II

DEFINITIONS; INTERPRETATIONS; REFERENCES

Section 2.01: Definitions. In addition to terms defined elsewhere in this Rate Order, and unless the context requires otherwise, the following terms used in this Rate Order shall have the following meanings and, to the extent applicable, shall serve to supplement terms defined elsewhere in this Rate Order:

"Act" is defined in the recitals hereto and means and includes any amendments to the Act.

"Addenda" is defined in the recitals hereto and means and includes any amendments or supplements to the Addenda.

"Authority" is defined in the recitals hereto and means and includes the legal successors or assigns of the Authority.

"Authority Meters" has the meaning ascribed to such term in the GRP Contracts.

"AWS Well" means any groundwater well operated by any Participant, whether currently in operation or placed into operation hereafter, that produces water qualifying as an "Alternative Water Source" under the Rules.

"AWS Wells" means each and every AWS Well, collectively, whether one or more.

"Conservation District" is defined in the recitals hereto and means and includes the legal successors or assigns of the Conservation District.

"Contract Quantity" has the meaning ascribed to such term in the GRP Contracts.

"Conversion Date" means the date upon a Converted Participant shall begin making payment for Surface Water.

"Converted Participant" means a Participant receiving Surface Water from the Project.

"Converted Participant's Receiving Facilities" means the water plant or other water system facilities at the Point of Delivery where a Converted Participant receives Surface Water from the Project.

"Customer Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the Customer Contracts.

"Effective Date" is defined in Section 1.02 hereof.

"Fees" means the Pumpage Fee, the Import Fee and the Surface Water Fee, collectively.

"GRP" is defined in the recitals hereto and means and includes any amendments or supplements to the GRP.

"GRP Administrator" has the meaning ascribed to such term in the GRP Contracts.

"GRP Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the GRP Contracts.

"GRP Drought Contingency Plan" means the Drought Contingency Plan for San Jacinto River Authority GRP Division, adopted by the Board of Directors of the Authority on March 27, 2014, and any amendments or supplements thereto.

"GRP Water Conservation Plan" means the Water Conservation Plan for San Jacinto River Authority GRP Division, adopted by the Board of Directors of the Authority on March 27, 2014, and any amendments or supplements thereto.

"Import Fee" means the fee imposed under Section 3.02(a) hereof.

"Participant" means any of the Participants, without distinction.

"Participant Meters" has the meaning ascribed to such term in the GRP Contracts.

"Participants" is defined in the recitals hereto and means and includes the Authority, and any Large Volume Groundwater User that executes a GRP Contract with the Authority.

"Payment Commencement Date" has the meaning ascribed to such term in a Participant's GRP Contract with respect to such Participant, or August 1, 2010, with respect to the Authority, if applicable.

"Point of Delivery" has the meaning ascribed to such term in the GRP Contracts.

"Project" is defined in the recitals hereto and means and includes any and all extensions, modifications, enlargements or improvements to the Project permitted under the Addenda and the GRP Contracts.

"ORS" means the online reporting system offered and maintained by or on behalf of the Authority, currently the "Pumpage Reporting Online System" or any successor system.

"Pumpage Fee" means the fee imposed under Section 3.01(a) hereof

"Rules" means the District Regulatory Plan duly adopted by the Conservation District and includes any amendments or supplements to the District Regulatory Plan.

"Surface Water Fee" means the fee imposed under Section 3.03 hereof applicable to Surface Water delivered by and through the Project to a Converted Participant.

"Surface Water" means treated surface water delivered by and through the Project (i.e., "Water" as defined under the GRP Contracts).

"Well" means any groundwater well operated by any Participant, whether currently in operation or placed into operation hereafter, that is subject to the groundwater reduction requirements set forth in the Rules. Accordingly, such term does not include any AWS Well.

"Wells" means each and every Well, collectively, whether one or more.

Section 2.02: Interpretations. The article, section, subsection and paragraph headings of this Rate Order are included herein for convenience of reference purposes only and shall not constitute a part of this Rate Order or affect its interpretation in any respect. Except where the context otherwise requires, words imparting the singular number shall include the plural and vice versa. References to an entity refer to the legal successors of such entity, and to the board of directors, officers, or other officials of such entity where appropriate.

Section 2.03: References. For the avoidance of doubt, any reference in this Rate Order to a document shall mean such document and all exhibits thereto, as amended or supplemented from time to time.

ARTICLE III

FEES AND RATES

Section 3.01: Pumpage Fee.

(a) *General.* Each Participant shall pay a Pumpage Fee of \$2.25 per 1,000 gallons of groundwater pumped from its Wells during each whole or partial calendar month, beginning on the later of the Effective Date or the Payment Commencement Date stated in such Participant's GRP Contract. Such pumpage of groundwater shall be metered by Participant in accordance with Article VII hereof and reported to the Authority in accordance with Article IV hereof. Payment of the Pumpage Fee shall be remitted to the Authority in accordance with Article V hereof.

(b) *Exception.* Notwithstanding paragraph (a) above, no Pumpage Fee shall be due with respect to Wells acquired by Participant that is a municipality if such Wells were formerly owned or operated by a conservation and reclamation district or entity that functioned under a groundwater reduction plan separate from the GRP, and such Participant has notified the Authority in writing that the Wells owned or operated by the district or entity will remain part of the groundwater reduction plan that is separate from the GRP. If a Participant is exempt, in whole or in part, from paying an Import Fee pursuant to the above, then Participant shall submit a statement describing with reasonable detail the basis on such exemption in place of, or along with, payment to the Authority under Article V hereof.

Section 3.02: Import Fee.

(a) *General.* Each Participant shall pay an Import Fee of \$2.25 per 1,000 gallons of water imported by Participant from any person or entity, during each whole or partial calendar month, beginning on the later of the Effective Date or the Payment Commencement Date stated in such Participant's GRP Contract. Such importation of water shall be metered by Participant as in accordance with Article VII hereof and reported to the Authority in accordance with Article IV hereof. Payment of the Import Fee shall be remitted to the Authority in accordance with Article V hereof.

(b) *Exceptions.* Notwithstanding paragraph (b) above, no Import Fee shall be due if –

(1) such imported water was supplied to a Participant from another Participant;

(2) such imported water was derived from the re-use of water (from any source) or wastewater effluent;

(3) such imported water was derived from water withdrawn from an AWS Well; or

(4) such importation is necessary due to an emergency impacting the ability of Participant to meet its water demands, the period of importation lasts for less than fifteen (15) consecutive days, and Participant has not imported water during more than thirty (30) days during the current calendar year.

If a Participant is exempt, in whole or in part, from paying an Import Fee pursuant to the above, then Participant shall submit a statement describing with reasonable detail the basis for the exemption along with, or in place of, payment to the Authority under Article V hereof.

Section 3.03: Surface Water Fee. Each Converted Participant shall pay a Surface Water Fee of \$2.44 per 1,000 gallons of Surface Water delivered by and through the Project to the Converted Participant's Receiving Facilities during each whole or partial calendar month, beginning on the Conversion Date. Such delivery of Surface Water shall be metered at the Point(s) of Delivery by Authority in accordance with Article VII hereof and reported to the Converted Participant in accordance with Article IV hereof. Payment of the Surface Water Fee shall be remitted to the Authority in accordance with Article V hereof.

ARTICLE IV

REPORTING

Section 4.01: Self-Reporting.

(a) *Measurement of Groundwater.* Each Participant shall be responsible for measuring the amount of groundwater pumped from each of its Wells and/or AWS Wells by reading the Participant Meters on the Payment Commencement Date and on the first day of every month thereafter.

(b) *Measurement of Imported Water.* Each Participant shall be responsible for measuring the amount of water imported from any non-Participant by reading the Participant Meters on the Payment Commencement Date and on the first day of every month thereafter. A Participant shall not be responsible for measuring the amount of water imported from another Participant.

(c) *Measurement of Surface Water.* The Authority shall be responsible for measuring the amount of Surface Water supplied to each Converted Participant by reading the Authority Meters on the Conversion Date and on the first day of every month thereafter. Such reading shall generally be conducted remotely but from time to time may be conducted by direct reading by the Authority or its agents.

(d) *Other Measurement.* In order to monitor Participant water demands, the GRP Administrator may implement reasonable procedures to directly or indirectly measure (1) water imported from another Participant, and (2) water demands met by a Participant with water derived from the re-use of water (from any source) or wastewater effluent. Such procedures shall not require the installation of meters unless such installation is at the cost and expense of the Authority.

(e) *Reporting.* Water usage measured by the Participant shall be reported to the Authority by submitting readings through ORS on or before the applicable due date under Section 5.03 hereof. Surface Water usage measured by the Authority Meters shall be made available by the Authority to the Converted Participant through ORS. The GRP Administrator may provide a form to be submitted to the Authority in writing to supplement reporting through ORS with respect to any category of water usage that is not then supported through the ORS reporting system. In addition, the GRP Administrator will provide a form that may be submitted to the Authority in writing to report usage as an alternative to reporting same through ORS but only upon request of Participant.

Section 4.02: Failure to Report. In the event a Participant fails or refuses to read its Participant Meters, the Authority shall have the right, but not the obligation, to read the Participant Meters. In the event that a Participant fails or refuses to read its Participant Meters on the Payment Commencement Date, the Authority shall have the right to read the Participant Meters on two or more occasions in order to calculate Participant's average daily usage and, based on such calculation of average daily usage, to estimate the reading of the Participant

Meters as of the Payment Commencement Date. If the Authority is required to read the Participant Meters, such Participant will be charged an inspection fee of \$250, and any Fees due under Article III hereof shall be calculated based on the Authority's readings or average daily usage, if necessary, regardless of when the Authority reads the Participant Meters.

Section 4.03: Direct Reading. As provided in the GRP Contracts, the Authority may, by amendment, revision or restatement of this Rate Order, modify or repeal self-reporting procedures applicable to the Participant Meters and require readings by the Authority or its agents.

ARTICLE V

PAYMENT OF FEES

Section 5.01: Payment of Fees.

(a) *ORS Reporting.* Once all Participant Meter readings have been entered into ORS pursuant to Section 4.01 hereof, each Participant shall print its statement of Fees from the ORS and deliver the statement to the Authority with full payment, on or before the due date specified in Section 5.03 hereof.

(b) *Form Reporting.* If a Participant does not report through ORS, or must supplement reporting through ORS, then such Participant shall calculate Fees due the Authority for a given calendar month on the form provided by the GRP Administrator and deliver the completed form to the Authority with full payment, on or before the due date specified in Section 5.03 hereof.

Section 5.02: Manner and Method of Payment.

(a) All Fees due the Authority under Sections 5.01 hereof, and any other fees, rates or charges payable to the Authority under this Rate Order, shall be paid in money which is legal tender in the United States of America. Payments will be accepted only by check or money order made payable to the "San Jacinto River Authority", or by wire transfer according to written wiring instructions provided by the Authority. No cash will be accepted. Written wire instructions are available upon request.

(b) For purposes of submitting payments, ORS fee statements, reporting forms, or other documents pursuant to this Rate Order, the address of the Authority shall be as set forth below.

San Jacinto River Authority
Attn: GRP Administrator
GRP Division
P.O. Box 329
Conroe, TX 77305

Section 5.03: Due Date. A ORS fee statement or a completed reporting form, and payment of all Fees due under Article III hereof, must be received by the Authority on or before the 18th day of the second calendar month following the whole or partial calendar month for during which such Fees were incurred (e.g., payment for pumpage during September, 2014, is due by November 18, 2014; payment for pumpage during October, 2014, is due by December 18, 2014; etc.).

Section 5.04: Self-Remission. Each Participant shall be responsible for remitting payment to the Authority for Fees on or before the due date specified under Section 5.03 hereof. The Authority will not and shall not be obligated to send an invoice or bill to a Participant for Fees unless the Authority, except to the extent that the Authority reads the Participant Meters under Sections 4.02 or 4.03 hereof. In such case, the Fees and any related charges owed by a Participant hereunder shall be specified in a written invoice promptly delivered to such Participant by the Authority. Such invoice shall specify thereon a due date for payment, which due date shall not be less than ten (10) days after the date of the invoice.

ARTICLE VI

LATE FEES; INTEREST CHARGES; COLLECTIONS

Section 6.01: Late Fees. Fees due under Article III hereof shall be increased by 5% if not paid on or before the due date specified under Section 5.03 hereof. Any other amounts due under this Rate Order shall be increased by 5% if not paid on or before the due date specified on an invoice therefor.

Section 6.02: Interest Charges. Overdue amounts (including applicable late fees) shall accrue interest at 12% per annum (i.e., 1% per month) for each whole or partial calendar month such payment is past due.

Section 6.03: Invoice for Late Fees and Interest Charges. The Authority will provide a written invoice to a Participant for any late fees or interest charges due under Section 6.01 and/or 6.02 hereof. Such invoice shall specify thereon a due date for payment, which due date shall not be less than ten (10) days from the date of the invoice.

Section 6.04: Collection Costs. If the Authority is required to incur costs to collect an overdue account, all such costs, including reasonable attorney's fees, court costs and expenses, shall be paid by the delinquent Participant, and the Authority shall be entitled to collect such costs in any suit for collection of a delinquent account.

ARTICLE VII

METERING AND CALIBRATION; PERMITS

Section 7.01: Maintenance and Testing of Meters. The provisions of Section 5.03 of the GRP Contracts, relative to the maintenance, testing and calibration of Participant Meters and Authority Meters, are incorporated herein for all purposes. The provisions of Section 5.05 of the GRP Contracts, relative to the resolution of disputes concerning tests of Participant Meters and/or Authority Meters, are incorporated herein for all purposes.

In the event that Participant fails or refuses to test and calibrate the Participant Meters in accordance with such provisions of the GRP Contracts, the Authority shall have the right, but not the obligation, to test and calibrate the Participant Meters. If the Authority so tests and calibrates the Participant Meters, such Participant will be charged a fee of \$250 plus the Authority's actual and direct expenses for such testing and calibration. Such fee shall be specified in a written invoice promptly delivered to such Participant by the Authority, and the invoice shall specify thereon a due date for payment, which due date shall be less than then (10) days after the date of the invoice.

Section 7.02: Audits. The Authority shall have the right to audit the readings from Participant Meters by examining the books and records of a Participant, reading such Participant Meters, or by any other means and methods prescribed by the Authority.

Section 7.03: Right to Enter Land. The Authority and its representatives shall have the right to enter upon the land of a Participant, at any reasonable time in order to audit the readings of the Participant Meters, to read Participant Meters in the event a Participant has failed or refused to do so, to directly read any Authority Meters, or to perform testing and calibration of the Participant Meters in the event Participant has failed or refused to do so.

Section 7.04: Adjustments. The provisions of Section 5.04 of the GRP Contract, relative to the adjustment of pumpage measured by inaccurate Participant Meters and/or Authority Meters, are incorporated herein for all purposes.

Section 7.05: Notice of Permit Filings. A Participant shall provide the GRP Administrator with copies of any permit applications filed with the Conservation District within ten (10) business days after filing, but only if such filings (1) request a permit for the installation of a new Well or AWS Well, (2) relate to the removal, abandonment or closure of an existing Well or AWS Well, (3) request an increase or decrease in annual groundwater pumpage, or (4) relate to the transfer, assignment or termination of a Conservation District permit held by Participant.

Section 7.06. Other Documents or Information. A Participant shall provide the GRP Administrator with copies of documents or other reasonably available or ascertainable information, data or materials date that, as determined by GRP Administrator, is necessary in connection with the implementation of the GRP. Unless otherwise extended by the GRP Administrator, such documents, information, data or materials shall be submitted to the GRP

Administrator no later than thirty (30) days following receipt of a written request for same.

ARTICLE VIII

CONVERSION TO SURFACE WATER

Section 8.01: Terms of Service. Surface Water shall be provided by the Authority and received and used by a Converted Participant in accordance with the terms and conditions set forth in the GRP Contract. Without limiting the foregoing, the Authority specifically incorporates by reference the following provisions of the GRP Contracts: Section 4.09 (Contract Quantity, relating to force majeure, penalties for failure to take the Contract Quantity, and use of groundwater wells and other sources of supply to meet demands); Section 4.10 (Warranties Regarding Water); Section 4.12 (Passing of Title to Water; Re-use); Section 10.02 (Delivery Limitations); and Section 12.03 (Continuation of Service).

Section 8.02: Failure to Take Contract Quantity. If a Participant fails or refuses to timely connect to the Project in accordance with Section 4.07 of the GRP Contracts, or if a Converted Participant has connected to the Project and fails or refuses to at least take the Contract Quantity designated by the GRP Administrator, the GRP Administrator may impose penalties under Section 10.03 hereof.

Section 8.03: Reimbursements.

(a) *Alkalinity Costs.* The Authority shall reimburse a Converted Participant for its actual and reasonable chemical costs incurred to make adjustments to alkalinity in its wastewater treatment processes if, as a result of taking delivery of Surface Water, a Converted Participant must make such adjustments to meet applicable permit and regulatory requirements. Such reimbursement shall be made on a semi-annual basis in accordance with procedures specified by the GRP Administrator.

(b) *Other.* Except as set forth in subsection (a) or as agreed to in writing by a Converted Participant and the Authority, no reimbursement shall be due to a Converted Participant from the Authority for costs that may be incurred to accept delivery of and use Surface Water.

ARTICLE IX

DROUGHT CONTINGENCY AND WATER CONSERVATION

Section 9.01: Updating and Submittal of Plans. In accordance with Section 3.05 of the GRP Contracts, all Participants must adopt and enforce a water conservation plan (see 30 T.A.C. §§ 288.1-288.7), as well as a drought contingency plan (see 30 T.A.C. §§ 288.20-288.22), that meets the minimum requirements adopted by the Authority under the GRP Water Conservation Plan and the GRP Drought Contingency Plan. Unless otherwise extended by the GRP Administrator, such plans shall be submitted to the GRP Administrator no later than thirty (30)

days following receipt of a written request for same.

Section 9.02: Drought Management Surcharge. The goal of the GRP Drought Contingency Plan is to reduce the total water demand of all Participants by targeted percentages in response to various stages of drought or due to emergency conditions. Accordingly, the GRP Administrator may impose a surcharge on water usage to enforce the GRP Drought Contingency Plan during any whole or partial calendar month in which Stages 2 through 4 of the GRP Drought Contingency Plan has been triggered, or during any Emergency Water Supply Condition under the GRP Drought Contingency Plan. The surcharge on Fees shall only apply to the extent that Participant's actual water usage (as determined by the Authority based on reporting information submitted pursuant to Article IV hereof) exceeds targeted water usage (as calculated pursuant to Section 3.6 of Drought Contingency Plan and reduced by the applicable percentage). The surcharge on Fees shall be calculated based upon the maximum civil penalty rate that may be imposed by the Conservation District on Large Volume Groundwater Users that are not part of a GRP under the Rules (currently \$4.00 per 1,000, which is subject to increase hereafter) unless a lesser rate is determined to be sufficient to achieve compliance by the GRP Administrator. The surcharge shall be in addition to any other Fees or other amounts due to the Authority.

ARTICLE X

PENALTIES; RECOVERY; VIOLATION OF RATE ORDER

Section 10.01: Generally Applicable Penalties.

(a) *Reporting.* A Participant shall be subject to penalties for failure or refusal to report water usage to the Authority in accordance with Section 4.01 hereof.

(b) *Access to Meters.* A Participant shall be subject to penalties for failure or refusal to provide timely access to any Participant Meters or Authority Meters in accordance with Section 7.03 hereof and/or the GRP Contracts.

(c) *Calibration.* A Participant shall be subject to penalties for failure or refusal to timely calibrate its Participant Meters in accordance with Section 7.01 hereof and/or the GRP Contracts.

(d) *Water Conservation and Drought Contingency Plans.* A Participant shall be subject to penalties for failure or refusal to –

(1) timely submit the Participant's water conservation plan or drought contingency plan to the Authority in accordance with Section 9.01 hereof and/or the GRP Contracts;

(2) include provisions in the Participant's water conservation plan or drought contingency plan that meet minimum criteria established by the Authority in accordance with the GRP Contract; or

(3) implement or enforce the Participant's water conservation plan or drought contingency plan .

(e) *Conservation District Documents.* A Participant shall be subject to penalties for failure or refusal to timely provide the GRP Administrator with copies of any permit applications filed with the Conservation District as and if required under Section 7.05 hereof.

(f) *Bond Sale Documents.* If the Authority provides Participant with a written request that certain documentation be executed and returned to the Authority pursuant to Section 8.02 and/or Section 8.03 of the GRP Contracts, then Participant shall be subject to penalties when –

(1) the written request was delivered to Participant in accordance with the notice provisions of Section 13.03 of the GRP Contracts;

(2) the documentation was provided simultaneously with the written request;
and

(3) the Participant does not execute and return the documentation to the Authority on or before the later of (i) the deadline specified in the written request, or (ii) the 30th day following receipt of the written request by Participant.

(f) *Other Documents.* A Participant shall be subject to penalties for failure or refusal to timely provide the GRP Administrator with documents, information, data or materials requested under Section 7.06 hereof.

Section 10.02: Imposition of Penalty; Penalty Amount. The GRP Administrator shall be authorized to impose a penalty if permitted under Section 10.01 hereof or any other provision of this Rate Order. The penalty amount shall be determined at the discretion of the GRP Administrator, taking into consideration the relative water demands of such Participant compared to the demands of all Participants; provided, however, the penalty shall not exceed \$2,500 per day per violation.

Section 10.03: Additional Penalties Related to Conversion to Surface Water.

(a) *Connection to Project.* A Participant shall be subject to penalties for failure or refusal to timely connect to the Project as and if required under Section 4.04 of the GRP Contract.

(b) *Contract Quantity.* A Converted Participant shall be subject to penalties for failure or refusal to at least take the applicable Contract Quantity of Surface Water from the Project on a monthly basis.

(c) *Imposition of Penalty; Penalty Amount.* The GRP Administrator shall be authorized to impose a penalty if permitted under subsection (a) or (b), above. The penalty amount shall be determined on a monthly or other periodic basis by multiplying the Contract Quantity of Surface Water that was not taken from the Project (whether through a failure to connect to the Project under subsection (a) or as a result of a failure to at least take the Contract Quantity) by the maximum civil penalty rate that may be imposed by the Conservation District on Large Volume Groundwater Users that are not part of a GRP under the Rules (currently \$4.00 per 1,000, which is subject to increase hereafter) unless a lesser rate is determined to be sufficient to achieve compliance by the GRP Administrator.

Section 10.04: Invoice for Penalties. The GRP Administrator shall provide a written invoice to the Participant for any penalty imposed under this Article. Such invoice shall specify thereon a due date for payment, which due date shall not be less than ten (10) days from the date of the invoice. All penalties imposed under this Article shall be in addition to, and not in substitution for, any other Fees or amounts owed the Authority.

Section 10.05: Appeal of Penalty. A Participant that has been invoiced a penalty under this Article may appeal the penalty to the GRP Administrator. The final decision of the GRP Administrator shall be subject to further review by the Board of Directors of the Authority as specified in Section 9.03(f) of the GRP Contracts.

Section 10.06: Recovery. In addition to the payment of any Fees, penalties, surcharges or other amounts under this Rate Order, the Authority has and reserves the right under Section 4.11 of the GRP Contracts the right to recover from a Participant by any lawful means, including intervention in legal proceedings of a Participant, for any losses, damages, claims, expenses, costs, or judgments, including reasonable attorneys fees and court costs incurred by the Authority, and interest not to exceed the interest rate permitted by Section 2251.025, Texas Government Code, as amended.

Section 10.07: Violation of Rate Order. The adoption of this Rate Order is authorized by the Addenda and by the GRP Contracts and, therefore, any violation of this Rate Order shall be deemed a breach of such contracts. This Rate Order is also intended to set forth, in part, the rules and regulations of the Authority applicable to the GRP and the Project. The Authority is authorized to adopt rules and regulations under Section 10f of the Act and, therefore, any violation of this Rate Order shall be deemed a violation of such rules and regulations. The Authority may exercise any remedy specified under the Addenda or the GRP Contracts, or otherwise available in law or equity to the Authority, where a violation of this Rate Order occurs or is threatened to occur. The right to exercise any such remedy under the Addenda or the GRP Contracts shall not be deemed to be waived by the exercise of any remedies specified herein, specifically including but not limited to the imposition of penalties, which remedies shall be cumulative.

ARTICLE XI

MISCELLANEOUS

Section 11.01: Conflict with Addenda or GRP Contracts. In the event that any provision of this Rate Order is in conflict with any provision of the Addenda or the GRP Contracts, the terms and provisions of this Rate Order shall control unless the Addenda or GRP Contracts specifically provide otherwise.

Section 11.02: Future Amendments. As determined necessary by the Authority, the Authority reserves the right to amend from time to time: (1) the rates, charges and fees contained in this Rate Order; and (2) any other terms and provisions of this Rate Order.

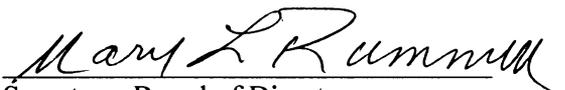
[SIGNATURES COMMENCE ON FOLLOWING PAGE]

PASSED AND APPROVED on May 22, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(SEAL)

Exhibit D

RESOLUTION CONFIRMING AND CREATING FUNDS FOR GROUNDWATER
REDUCTION PLAN DIVISION; ESTABLISHING POLICIES AND PROCEDURES
RELATED TO THE USE OF SUCH FUNDS; AND ESTABLISHING POLICY RELATED TO
THE SUFFICIENCY OF FEES, RATES AND CHARGES

WHEREAS, the San Jacinto River Authority (the "Authority"), is a conservation and reclamation district, body politic and corporate and a governmental agency of the State of Texas created and operating under the provisions of Chapter 426, Acts of the 45th Texas Legislature, Regular Session, 1937, as amended, enacted pursuant to the provisions of Section 59 of Article XVI of the Texas Constitution (the "Act"); and

WHEREAS, the Authority is authorized by the Act, and the general laws of the State to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend, inside and outside its boundaries, any and all works, improvements, facilities, plants, equipment and appliances necessary to provide a water supply system for serving its needs and/or the needs of its customers; and

WHEREAS, the Authority has entered into certain contracts (the "Customer Contracts") for the financing, construction and operation of the Woodlands Water Supply System (as defined in the Customer Contracts) to serve the conservation and reclamation district customers of the Woodlands Division of the Authority; and

WHEREAS, each of the Customer Contracts has been amended and supplemented by a written addendum, dated as of November 10, 2009 (the "Addenda"), in order to address compliance with groundwater reduction requirements imposed by the Lone Star Groundwater Conservation District (the "Conservation District") and that are applicable to the Authority and the Woodlands Water Supply System; and

WHEREAS, the Authority has entered into contracts (the "GRP Contracts") with certain Large Volume Groundwater Users (as defined in the Phase II(B) rules of the Conservation District) in order to address compliance with groundwater reduction requirements imposed by the Conservation District that are also applicable to the water supply systems of such Large Volume Groundwater Users; and

WHEREAS, the Addenda and the GRP Contracts provide, in pertinent part, that the Authority will: (a) develop, implement, administer and enforce a groundwater reduction plan ("GRP") for the Woodlands Water Supply System and the water supply systems of such other participating Large Volume Groundwater Users (collectively, and inclusive of the Authority, the "Participants"); (b) plan, design, permit, construct, operate, maintain and administer a surface water treatment and transmission system, including all related facilities, improvements, appurtenances, property and interests in property and contract rights needed therefor, and administrative facilities needed in connection therewith (the "Project"); (c) furnish and sell treated surface water from the Project to certain of the Participants, as feasible and necessary to implement the GRP; (d) assess fees on the pumpage of groundwater wells operated by the Participants; and (e) utilize revenues derived from such treated surface water sales and pumpage

fees to finance the Project and the GRP, including the pledge of such revenues to the payment of, and as security for, the bonds or other obligations of the Authority issued or incurred to finance or refinance the Project and the GRP; and

WHEREAS, the Board of Directors of the Authority has heretofore adopted, and may from time to time hereafter amend, supplement or re-adopt, an order adopting fees, rates and charges applicable to the Participants (the "Rate Order"), as authorized and required under the Addenda and Section 6.04 of the GRP Contracts; and

WHEREAS, the Addenda and Section 6.04 of the GRP Contracts authorize the adoption of fees, rates and charges sufficient to establish, accumulate, maintain, or replenish one or more operating, debt service, contingency, or emergency reserve funds relating to the Project or the GRP, as deemed reasonably necessary by the Authority; and

WHEREAS, the Board of Directors of the Authority has heretofore created and made provision for the funding of a debt service fund and a debt service reserve fund in connection with the issuance of bonds for the financing of the Project; and

WHEREAS, the Board of Directors of the Authority deems it necessary and proper at this time to adopt a resolution creating a multi-purpose operating reserve fund, a renewal and replacement reserve fund, and a capital reserve, and adopting policies related to such funds;

NOW THEREFORE, be it ordered by the Board of Directors of the San Jacinto River Authority that:

ARTICLE I

FINDINGS; EFFECTIVE DATE

Section 1.01: Findings. Each of the recitals stated in this Resolution are hereby adopted as findings of fact of the Board of Directors.

Section 1.02: Effective Date. This Resolution shall be effective as of September 1, 2014 (the "Effective Date").

ARTICLE II

DEFINITIONS; INTERPRETATIONS; REFERENCES

Section 2.01: Definitions. In addition to terms defined elsewhere in this Resolution, and unless the context requires otherwise, the following terms used in this Resolution shall have the following meanings and, to the extent applicable, shall serve to supplement terms defined elsewhere in this Resolution:

"Act" is defined in the recitals hereto and means and includes any amendments to the

Act.

"Addenda" is defined in the recitals hereto and means and includes any amendments or supplements to the Addenda.

"Authority" is defined in the recitals hereto and means and includes the legal successors or assigns of the Authority.

"Bonds" is defined in the Series 2009 Resolution and, for purposes of this Resolution only, means and includes the terms "Outstanding Bonds" and "Additional Bonds" as also defined in the Series 2009 Resolution.

"Conservation District" is defined in the recitals hereto and means and includes the legal successors or assigns of the Conservation District.

"Construction Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Customer Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the Customer Contracts.

"Debt Service Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Debt Service Reserve Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Effective Date" is defined in Section 1.02 of this Resolution.

"Emergency Condition" shall have the meaning ascribed to such term under the prevailing Purchasing Policy approved by the Board of Directors of the Authority.

"Fiscal Year" shall mean the annual fiscal period for the Authority from September 1, through August 31, or such other annual fiscal period as may hereafter be established by the Authority.

"General Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"General Fund Minimum Balance" means and refers to a minimum balance to be retained in the General Fund, which balance shall equal three (3) months of budgeted Operations and Maintenance Expenses for the Fiscal Year.

"Gross Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"GRP" is defined in the recitals hereto and means and includes any amendments or supplements to the GRP.

"GRP Administrator" shall have the meaning ascribed to such term in the GRP Contracts.

"GRP Contracts" is defined in the recitals hereto and means and includes any amendments or supplements to the GRP Contracts.

"Investment Policy" means and refers to the orders of resolutions adopted by the Board of Directors of the Authority pursuant to Chapter 2256, Texas Government Code, as amended, and Section 49.199, Texas Water Code, as amended, establishing investment rules, regulations and policies applicable to the investment of Authority funds.

"Net Revenues" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Operations and Maintenance Expenses" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Participant" means any of the Participants, without distinction.

"Participants" is defined in the recitals hereto and means and includes the Authority, and any Large Volume Groundwater User that executes a GRP Contract with the Authority.

"Project" is defined in the recitals hereto and means and includes any and all extensions, modifications, enlargements or improvements to the Project permitted under the Addenda and the GRP Contracts.

"Rate Order" shall mean the order adopted by the Board of Directors of the Authority pursuant to the Addenda and Section 6.04 of the GRP Contracts establishing, among other items, fees, rates and charges applicable to the pumping of groundwater and the importation of groundwater by Participants, and the delivery of treated surface water from the Project to Participants.

"Required Debt Service Reserve Fund Amount" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

"Rules" means the District Regulatory Plan duly adopted by the Conservation District and includes any amendments or supplements to the District Regulatory Plan.

"Series 2009 Resolution" means the resolution of the Board of Directors of the Authority adopted on October 14, 2009, authorizing the issuance of the Authority's Special Project Revenue Bonds (GRP Project), Series 2009, in the original aggregate principal amount of \$21,500,000, and all amendments and supplements thereto, including but not limited to the amendment affected by that certain Amendatory Resolution passed and approved by the Board of Directors of the Authority on March 24, 2011.

"Surplus Revenue Fund" shall have the meaning ascribed to such term under Section 2.01 of the Series 2009 Resolution.

Section 2.02: Interpretations. The article, section, subsection and paragraph headings of this Resolution are included herein for convenience of reference purposes only and shall not constitute a part of this Resolution or affect its interpretation in any respect. Except where the context otherwise requires, words imparting the singular number shall include the plural and vice versa. References to an entity refer to the legal successors of such entity, and to the board of directors, officers, or other officials of such entity where appropriate.

Section 2.03: References. For the avoidance of doubt, any reference in this Resolution to a document shall mean such document and all exhibits thereto, as amended or supplemented from time to time.

ARTICLE III

CONFIRMATION AND CREATION OF FUNDS; USE OF FUNDS; TARGET FUND BALANCES; EXPENDITURE AUTHORIZATION

Section 3.01: General Fund.

(a) *Creation.* The creation of the General Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) *Use of Fund.* The General Fund shall be funded and used in accordance with the Series 2009 Resolution and this Resolution. In summary, Gross Revenues shall be deposited from time to time, as received by the Authority, into the General Fund. Operation and Maintenance Expenses shall be paid directly from the General Fund.

(c) *Minimum Balance.* It is the policy of the Authority that, after payment of Operation and Maintenance Expenses from the General Fund and the transfer of Net Revenues from the General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2009 Resolution, Net Revenues in an amount equal to the General Fund Minimum Balance shall be retained in the General Fund before making any transfers of Net Revenues to the other reserve funds created pursuant to this Resolution.

Section 3.02: Multi-Purpose Operating Reserve Fund.

(a) *Creation.* There shall be created within the General Fund a Multi-Purpose Operating Reserve Fund.

(b) *Use of Fund.* The Multi-Purpose Operating Reserve Fund shall be funded in accordance with Section 4.02 of this Resolution. It is the policy of the Authority that amounts on

deposit in the Multi-Purpose Operating Reserve Fund shall be used for three purposes: (1) cash flow management, (2) rate stabilization, and (3) revenue stabilization. Amounts in the Multi-Purpose Operating Reserve Fund may be transferred to the General Fund for such purposes in the event that Gross Revenues and other funds in the General Fund are insufficient to pay Operations and Maintenance Expenses and to make any required transfer of Net Revenues from the General Fund to the Debt Service Fund and the Debt Service Reserve Fund in accordance with Section 4.02 of this Resolution and the Series 2009 Resolution.

(c) *Target Fund Balance.* It is acknowledged that, as of the Effective Date, Phase I of the Project has not been completed and placed into service. In order to mitigate the impact of unanticipated or extraordinary expenses in Fiscal Years 2015 and 2016 when Phase I of the Project is expected to be completed and placed into service, it is the policy of the Authority that the Target Fund Balances for the Multi-Purpose Operating Reserve Fund shall be established as follows. For Fiscal Year 2015, the Target Fund Balance for the Multi-Purpose Operating Reserve Fund shall equal twenty-three (23) months of budgeted Operation and Maintenance Expenses. For Fiscal Year 2016, the Target Fund Balance for the Multi-Purpose Operating Reserve Fund shall equal nine (9) months of budgeted Operation and Maintenance Expenses. Fiscal Year 2017 and subsequent Fiscal Years, the Target Fund Balance for the Multi-Purpose Operating Reserve Fund shall equal six (6) months of budgeted Operation and Maintenance Expenses.

(d) *Authorization.* The persons holding the following titles or positions within the Authority shall be authorized to make expenditures from the General Fund for payment of Operations and Maintenance Expenses: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Raw Water Enterprise, Controller, and GRP Division Manager, and the designees of such persons. Approval of such expenditures by the Board of Directors of the Authority shall not be required (1) for Operations and Maintenance Expenses included in the budget for the Fiscal Year, or (2) in the event of an Emergency Condition. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.03: Renewal and Replacement Reserve Fund.

(a) *Creation.* There shall be created within the General Fund a Renewal and Replacement Reserve Fund.

(b) *Use of Fund.* The Renewal and Replacement Reserve Fund shall be funded as set forth in Section 4.02 of this Resolution. It is the policy of the Authority that amounts in the Renewal and Replacement Fund shall be used for the purpose of providing a full or partial source of funds for (1) the planned renewal and replacement of GRP Division and/or Project capital assets having a significant replacement value, a short-term useful life (generally ten (10) years or less), and for which such renewal and replacement is not generally budgeted for on a current Fiscal Year basis, and (2) the unplanned renewal and replacement of GRP Division and/or Project capital assets. Amounts on deposit in the Renewal and Replacement Reserve Fund may be used for such purpose along with any other funds available to the Authority for such purpose.

(c) *Target Fund Balance.* It is the policy of the Authority to establish the Target Fund Balance for the Renewal and Replacement Reserve Fund each Fiscal Year such that amounts are accrued in the Renewal and Replacement Reserve Fund as necessary to meet forecasted expenditures from the Renewal and Replacement Reserve Fund over time and without the need for short-term rate adjustments. The Target Fund Balance need not be established by written order or resolution of the Board of Directors of the Authority and, among other means or methods, may be established by line item or in the notes of the budget adopted by the Board of Directors of the Authority for a Fiscal Year.

(d) *Authorization.* The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Renewal and Replacement Reserve Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Raw Water Enterprise, Controller, and GRP Division Manager, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required (1) for renewals or replacements included in the budget for the Fiscal Year, or (2) in the event of an Emergency Condition. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.04: Capital Reserve Fund.

(a) *Creation.* There shall be created within the General Fund a Capital Reserve Fund.

(b) *Use of Fund.* The Capital Reserve Fund shall be funded as set forth in Section 4.02 of this Resolution. It is the policy of the Authority that amounts in the Capital Reserve Fund shall be used for the purpose of providing a full or partial source of funds for planned capital improvements to the Project, expansions of the Project, extensions of the Project, or other additions to GRP Division and/or Project capital assets having a significant replacement value and a long-term useful life (generally in excess of ten (10) years), or major repairs or rehabilitation of existing GRP Division and/or Project capital assets having a significant replacement value and a long-term useful life. Amounts in the Capital Reserve Fund may be used for such purpose along with any other funds available to the Authority for such purpose. By way of example, and without limiting the generality of the foregoing, amounts in the Capital Reserve Fund may be used to supplement funds in the Construction Fund and/or Escrow Fund, and/or avoid or delay the issuance of additional Bonds, in order to fund the design, permitting and construction of subsequent phases of the Project.

(c) *Target Fund Balance.* It is the policy of the Authority to establish the Target Fund Balance for the Capital Reserve Fund each Fiscal Year taking into consideration the forecasted capital requirements of the Authority and the extent to which such requirements will be satisfied with accrued cash. The Target Fund Balance need not be established by written order or resolution of the Board of Directors of the Authority and, among other means or methods, may be established by line item or in the notes of the budget adopted by the Board of Directors of the Authority for a Fiscal Year.

(d) *Authorization.* The persons holding the following titles or positions within the

Authority shall be authorized to make expenditures or transfers from the Capital Reserve Fund for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Raw Water Enterprise, Controller, and GRP Division Manager, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required for items with a cost of \$75,000 or less. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.05: Construction Fund; Escrow Fund.

(a) *Creation.* The creation of the Construction Fund and the Escrow Fund pursuant to the Series 2009 Resolution are hereby confirmed.

(b) *Use of Funds.* The Construction Fund and the Escrow Fund shall be funded and used in accordance with the Series 2009 Resolution. In summary, certain proceeds from the sale of the Bonds have been or shall be deposited into the Construction Fund (or the Escrow Fund pending approval by the Texas Water Development Board) and used to pay eligible Project costs in whole or in part. Following completion of the Project, amounts remaining in the Construction Fund may, subject to certain requirements, be used to redeem Bonds. The Authority may create multiple accounts within the Construction Fund and/or the Escrow Fund to facilitate the management of such funds. By way of example, and without limiting the generality of the foregoing, accounts may be created to (1) segregate the proceeds of each series of Bonds in order monitor compliance with Sections 103 and 141-150 of the Internal Revenue Code of 1986, (2) allocate and monitor the expenditure of the proceeds of Bonds in order to facilitate reporting the Texas Water Development Board, or (3) allocate and monitor the expenditure of the proceeds of Bonds on a project or contract basis.

(c) *Authorization.* The persons holding the following titles or positions within the Authority shall be authorized to make expenditures or transfers from the Construction Fund and the Escrow for the purposes described under subsection (b), above: General Manager, Deputy General Manager, Director of Finance and Administration, Director of Raw Water Enterprise, Controller, and GRP Division Manager, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required for items with a cost of \$75,000 or less. Otherwise, approval of such expenditures or transfers by the Board of Directors of the Authority shall be required.

Section 3.06: Debt Service Fund.

(a) *Creation.* The creation of the Debt Service Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) *Use of Fund.* The Debt Service Fund shall be funded in accordance with the Series 2009 Resolution, as summarized in subsection (c), below. The Debt Service Fund shall be used in accordance with the Series 2009 Resolution to make principal and interest payments on Bonds. The Authority may create multiple accounts within the Debt Service Fund to facilitate the management of such funds. By way of example, and without limiting the generality of the

foregoing, accounts may be created to ensure that applicable funding requirements are met with respect to each series of Bonds.

(d) *Authorization.* The persons holding the following titles or positions within the Authority shall be authorized to make payments on Bonds from the Debt Service Fund in accordance with the Series 2009 Resolution: General Manager, Deputy General Manager, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

(c) *Funding Requirements.* As provided under the Series 2009 Resolution, during each Fiscal Year while any Bonds remain outstanding, the Authority shall deposit or cause to be deposited into the Debt Service Fund, monthly as collected, Net Revenues in an amount not less than one-twelfth (1/12) of the scheduled amount of principal and interest to come due on the Bonds in such Fiscal Year; provided, however, such monthly deposits may be reduced or curtailed, as appropriate, based on the amount of funds already on hand in the Debt Service Fund. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Fund.

Section 3.07: Debt Service Reserve Fund.

(a) *Creation.* The creation of the Debt Service Reserve Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) *Use of Fund.* The Debt Service Reserve Fund shall be funded in accordance with the Series 2009 Resolution, as summarized in subsection (c), below. The Debt Service Reserve Fund shall be used in accordance with the Series 2009 Resolution to pay the principal and interest on any Bonds remaining outstanding, if and whenever sufficient funds for such purpose are not available in the Debt Service Fund, and may be used to pay and retire the last of the Bonds to mature or to be redeemed. The Authority may create multiple accounts within the Debt Service Reserve Fund to facilitate the management of such funds. By way of example, and without limiting the generality of the foregoing, accounts may be created to ensure that applicable funding requirements are met with respect to each series of Bonds.

(c) *Funding Requirements.* As provided under the Series 2009 Resolution, during each Fiscal Year while any portion of the Bonds remain outstanding, after making the required deposits to the Debt Service Fund, the Authority shall deposit or cause to be deposited into the Debt Service Reserve Fund, monthly as collected out of Net Revenues, an amount not less than one-sixtieth (1/60) of the Required Debt Service Reserve Fund Amount (equal to the average annual sum payable in respect of the principal and interest scheduled to become due on any Bonds remaining outstanding) until the amount therein equals the Required Debt Service Reserve Fund Amount. Subject to certain restrictions, the Authority may capitalize and debt-fund deposits to the Debt Service Reserve Fund.

(d) *Authorization.* The persons holding the following titles or positions within the Authority shall be authorized to make transfers or expenditures from the Debt Service Reserve

Fund in accordance with the Series 2009 Resolution: General Manager, Deputy General Manager, Director of Finance and Administration, and Controller, and the designees of such persons. Approval of such expenditures or transfers by the Board of Directors of the Authority shall not be required.

Section 3.08: Surplus Revenue Fund.

(a) *Creation.* The creation of the Surplus Revenue Fund pursuant to the Series 2009 Resolution is hereby confirmed.

(b) *Use of Fund.* The Surplus Revenue Fund may be funded and used in accordance with the Series 2009 Resolution and Section 4.02 of this Resolution. The Surplus Revenue Fund does not constitute a trust fund for the benefit of the holders of the Bonds. Amounts in the Surplus Revenue Fund may be used for any lawful purpose, subject to the provisions of the Addenda and/or the GRP Contracts.

(c) *Authorization.* Approval of expenditures or transfers from the Surplus Revenue Fund by the Board of Directors of the Authority shall be required in all instances.

ARTICLE IV

SEPARATION OF FUNDS;
FLOW OF FUNDS; SECURITY AND INVESTMENT OF FUNDS

Section 4.01: Separation of Funds. The funds described in Article III of this Resolution shall be kept separate and apart from each other, and separate and apart from all other funds of the Authority. The Authority reserves the right to create, establish and maintain one or more additional funds or accounts within any of the funds described in Article III of this Resolution; provided, however, that such funds or accounts are used solely for the purposes herein described and are secured and invested in a manner consistent herewith.

Section 4.02: Flow of Funds.

(a) *General.* Gross Revenues received by the Authority shall be deposited into the General Fund and, together with any balance in the General Fund, shall be applied as follows on a monthly basis:

(1) Operation and Maintenance Expenses shall be paid directly from the General Fund.

(2) After payment of Operations and Maintenance Expenses in accordance with the above, remaining Net Revenues in the General Fund shall be transferred to the Debt Service Fund in accordance with the Series 2009 Bond Resolution.

(3) After the above transfer of Net Revenues, remaining Net Revenues in the General Fund shall then be transferred to the Debt Service Reserve Fund in accordance with the Series 2009 Bond Resolution.

(4) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excesses of the General Fund Minimum Balance shall then be transferred to the Multi-Purpose Operating Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(5) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excesses of the General Fund Minimum Balance shall then be transferred to the Renewal and Replacement Reserve Fund until the amount in such fund equals the applicable Target Fund Balance.

(6) After the above transfer of Net Revenues, any remaining Net Revenues in the General Fund in excesses of the General Fund Minimum Balance shall then be transferred to the Capital Reserve Fund.

(b) *Surplus Revenues.* If the balance of the Capital Reserve Fund exceeds the applicable Target Fund Balance for a given Fiscal Year as of the last business day of such Fiscal Year, then the Board of Directors may by written resolution or order direct that all or part such excess funds be deposited to the credit of any fund identified in subsection (a), above, notwithstanding the flow of funds set forth therein. It is the policy of the Authority not to transfer any part of such excess funds to the Surplus Revenue Fund in accordance with the Series 2009 Resolution.

Section 4.03: Valuation of Funds. For purposes of determining from time to time whether a fund contains the balance prescribed by this Resolution, all investments belonging or allocable to the fund shall be valued at their fair market value with all interest earnings and/or investment profits accrued thereon to the date of such computation; provided, however, that nothing herein shall be deemed or construed to require the sale or liquidation of such investments prior to their maturity as a result of capital gains or losses in the value of such investments.

Section 4.04: Security of Funds. Any cash balance in any of the funds described in Article III of this Resolution, to the extent not insured by the Federal Deposit Insurance Corporation, or its successor, shall be continuously secured as, if and to the extent required by the Series 2009 Resolution and/or Investment Policy.

Section 4.05: Investment of Funds. Moneys in any of the funds described in Article III of this Resolution may be invested or reinvested in accordance with the Series 2009 Resolution and/or the Investment Policy. All investments and any profits realized from or interest accruing on such investments shall belong to the fund from which the moneys for such investments were taken; provided, however, that in the discretion of the Board of Directors of the Authority, the profits realized from and the interest accruing on investments made from the Debt Service Reserve Fund may be transferred to the Debt Service Fund. If any moneys are so invested, the Authority shall have the right to have sold in the open market a sufficient amount of such

investments to meet its obligations in the event any fund does not have sufficient uninvested funds on hand to meet the obligations payable out of such fund. After such sale, the moneys resulting therefrom shall belong to the fund from which the moneys for such investments were initially taken.

ARTICLE V

SUFFICIENCY OF FEES, RATES AND CHARGES

Section 5.01: Coverage.

(a) *Minimum Coverage.* It is the policy of the Authority that the fees, rates and charges under the Rate Order shall be adopted, maintained, billed and collected in such a manner as will be at least sufficient to generate Gross Revenues to make all of the payments, transfers and deposits described in Section 4.02 without reliance upon existing balances in the General Fund. It is hereby acknowledged, however, that the reduction in the Multi-Purpose Operating Reserve Fund from Fiscal Year 2015 through Fiscal Year 2017 shall be accomplished by and through the intentional transfer of funds from the Multi-Purpose Operating Reserve Fund to the General Fund to supplement Gross Revenues.

(b) *Additional Coverage.* In advance of the issuance of additional Bonds or other obligations of the Authority which will be secured by a pledge of and lien on Net Revenues, whether in whole or in part, the fees, rates and charges under the Rate Order may be adopted, maintained, billed and collected in such a manner as will generate Gross Revenues in excess of those necessary to make all of the payments, transfers and deposits described in Section 4.02, if it is reasonably determined by the Board of Directors of the Authority that (1) such additional coverage is a required as a condition to the issuance of such additional Bonds or other obligations (e.g., to satisfy an "additional bonds test"), (2) such additional coverage will reduce the borrowing costs of the Authority (e.g., by enhancing the credit rating assigned to the additional Bonds or other obligations), or (3) such additional coverage is justified by any other compelling factor in connection with issuance of such additional Bonds or other obligations.

ARTICLE VI

MISCELLANEOUS

Section 6.01: Implementation. The General Manager, Deputy General Manager or other staff of the Authority are hereby authorized and directed to implement this Resolution and the policies adopted hereunder. In the event that the provisions of this Resolution authorizing the expenditure of Authority funds shall be in conflict with any other orders, resolutions, policies or procedures relating to the expenditure of Authority funds which have been or may be adopted or approved by the Board of Directors of the Authority, the provisions of this Resolution shall prevail and control.

Section 6.02: Conflicts. In the event that any provision of this Resolution is in conflict with any provision of the Series 2009 Resolution, the Addenda and/or the GRP Contracts, or the Rate Order, the provisions of the Series 2009 Resolution, the Addenda or the GRP Contracts, and/or the Rate Order shall prevail and control.

Section 6.03: Future Amendments. As determined necessary by the Authority, the Authority reserves the right to amend from time to time amend this Resolution and the policies set forth herein, subject to any provisions of the Series 2009 Resolution, the Addenda and/or the GRP Contracts. The Authority specifically reserves the right to open, close, transfer or consolidate the funds described in this Resolution by subsequent resolution, order, agreement, or other action authorized by its Board of Directors, subject to any provisions of the Series 2009 Resolution, the Addenda and/or the GRP Contracts.

[SIGNATURES COMMENCE ON FOLLOWING PAGE]

PASSED AND APPROVED on May 22, 2014.



President, Board of Directors

ATTEST:



Secretary, Board of Directors

(SEAL)