

MINUTES OF A MEETING OF THE BOARD OF DIRECTORS OF
TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE
HELD ON THE 11TH DAY OF MARCH, 1982 AT 9:30 A. M.

The call of the roll disclosed the presence or absence
of Directors as follows:

PRESENT

Wayne E. Newton
C. Victor Thornton
Robert D. Alexander
Preston M. Geren, Jr.
Burford I. King

Also present were Messrs. Bill Hilliard, Assistant General
Manager; James Strawn, Manager of Planning and Development; Paul
Horton, Bond Counsel; Messrs. Bob Banker and Bob Benson,
Engineers; Messrs. Alex Pope and George Christie, Legal Counsel;
Frank Booth, Special Counsel and Ben Hickey General Manager of the
District.

Director Newton acted in his capacity as President and
Director Alexander acted as Secretary, whereupon proceedings were
had and done as follows:

1.

On motion duly made and seconded, and with assurance
from management that all requirements of law relating to the "open
meeting" law had been met, the minutes of the meeting held
March 3, 1982 were read and approved by the Directors and it was
accordingly ordered that such minutes be placed in the permanent
files of the District.

2.

President Newton stated that the primary purpose of this
meeting was to receive reports from Bond Counsel, Engineers,

management and legal counsel of the District as requested at the last meeting of the Board of Directors; and states that he would now declare the open meeting closed:

President Newton called upon Mr. Paul Horton, Bond Council, who presented the following letter, to wit:

March 11, 1982

Board of Directors
Tarrant County Water Control and
Improvement District Number One
800 East North Side Drive
Fort Worth, Texas 76106

Gentlemen:

Re: Tarrant County Regional Water Supply Facilities
Contract, proposed by Fort Worth and Arlington

You have requested our comments on the captioned proposed contract, approved by the City Councils of Fort Worth and Arlington. We have been reading in the newspapers for some time that negotiations were in progress between Fort Worth and Arlington concerning this matter, but have not known of any of the details, or the extent, if any, to which the other parties to this proposed contract have participated in the negotiations.

As you know, our firm has acted as Bond Counsel for the District in the issuance of its outstanding bonds, and also has acted as Bond Counsel for the Cities of Fort Worth and Mansfield as well as Trinity River Authority of Texas. We are not employed by any of the parties in connection with any proposed contract, but are vitually interested in this transaction due to previous involvement, and we sincerely hope for a reasonable and amicable solution. The comments in this letter are written basically to give you our views on this matter as practising bond attorneys, with the interests of bondholders being given obvious importance.

As we understand the matter, the opposing parties in the proceedings before the Texas Water Commission are the City of Arlington and the District, and these proceedings relate solely to rates to Arlington under the 1971 Arlington contract. The base contracts executed in 1979 between the District, the Cities of Fort Worth and Mansfield, and Trinity River Authority are not directly involved in these proceedings insofar as we are aware. These 1979 contracts currently provide the real security for the District's Water Revenue Bonds, Series 1979-A, outstanding in the principal amount of \$342,750,000, being the largest single Texas

issue outstanding on the present date. The Series 1979-A Bonds as well as the contract dated August 29, 1979, between the District and the Cities of Fort Worth and Mansfield, were approved by the Attorney General on October 9, 1979, with the result under the District's Act that such contract is "valid and binding and shall be incontestable for any cause." Such approval likewise resulted in the Series 1979-A Bonds being made "valid and binding" and "incontestable for any cause." Moreover, the Bond Procedures Act of 1981 duly enacted by the Legislature of the State of Texas specifically validated the 1979-A Bonds, as well as all other bonds previously issued by all political subdivisions of the State of Texas, with the following language:

"All bonds heretofore issued and delivered by the governing body of any issuer and all proceedings authorizing same, are hereby validated, ratified, and confirmed in all respects."

The existing 1979 contracts establish specific contractual obligations which legally cannot be changed or amended without the agreement of all of the parties. Also, in the bond resolution under which the 1979-A Bonds are outstanding, the District specifically has contracted and agreed with the bondholders that it will enforce these contracts and that they will not be rescinded, modified, or amended in any way which would adversely affect the rights of the bondholders or the operation of the System. There is no authority for the parties to start all over again and write a completely new contract. Of Course, the United States and Texas Constitutions prohibit any action by the District which would impair the rights of the bondholders.

In our opinion, there are very limited way in which the 1979 contracts can be amended, and the District must be extremely cautious to avoid breaching its agreements with the bondholders. The 1979 contract provisions were very carefully negotiated over a period of many months, with participation of the bond underwriters and their counsel, and the District's reputation and creditability with the national investment banking community is very much involved in this proposed transaction. Obviously, you would not want to jeopardize your ability to market bonds in the future or be sued by bondholders. However, this does not mean that certain logical and permitted amendments cannot be made to all of the existing contracts. In our opinion, the existing contracts can be amended in certain respects by all of the affected parties, and a single contract can be executed with provisions to achieve certain desired results. However, we believe that it is mandatory that you retain the basic provisions and framework of the existing 1979 contracts, and make changes only where actually required, in order to avoid any allegation of possible impairment of bondholders rights.

The contract proposed by Arlington and Fort Worth is on the

surface a new contract, and contains dozens of changes in the language of the 1979 contracts, many of which appear merely to be changes in form. The basic predicate for this proposal is that it constitutes the settlement of legal proceedings and a dispute among the parties, whereas actually, at least as we understand the matter, the dispute is only between Arlington and the District, and relates only to the 1971 Arlington contract, and not the 1979 contracts. In any event, if Arlington becomes an additional contracting party along with the others, we presume that the present legal proceedings would become moot automatically, and that they would be dismissed, with or without the approval of such contract by the Texas Water Commission. It should be pointed out that any contract which recites conflicts and disputes between the parties obviously would be very counter-productive in selling bonds in the future. Many of the changes in the proposed settlement contract relate to matters of substance in the operation and construction of the System, and these changes, even where they might be the subject of a valid amendment, involve business decisions of considerable importance to the District. With respect to the most important change proposed, it is our opinion that changing from the "free water" method to the "premium" method could produce approximately the same results as far as bondholders are concerned, with no diminution of security for the bonds.

We were not aware that there were any disputed between the District and Fort Worth with respect to the 1979 contracts, and it is certainly true that these contracts were drawn very specifically in accordance with Fort Worth's full input on every detail. Therefore, we had presumed that, other than the mechanics of adding Arlington as a party, the only substantive amendments (designed to accommodate Arlington) would be to Section 4C, relating to the formula for determining the proportionate share of each Annual Requirement to be paid by each contracting party. From a legal standpoint it is our opinion that some, but not all, of the other proposed changes could be made in such manner that they would not adversely affect the bondholders. If the District wishes to make any of such proposed changes, they need to be discussed further. Most of these proposed changes are of a practical or business nature, and involve business decisions on the part of the District. For example changes in the Points of Delivery can be made, but such changes already are permitted in the existing contracts, and merely require the mutual agreement of the District and the affected party.

You have requested that we draft a form of contract which, in our opinion, would not impair the rights of the bondholders. We have attempted to do so, and have handed you a draft thereof dated 3/5/82. However, an explanation of what we have and have not attempted is necessary. IT is not in any way out intention to attempt to negotiate the terms of the contract, and obviously that must be done by the parties. Our intention is solely to provide

what we believe to be a valid and appropriate framework from which to start, keeping in mind the necessity of conforming to the basic provisions of the 1979 contracts. Obviously, mechanical changes are necessary so as to include Arlington and to have a single contract for all the parties, but the only substantive changes we have attempted to outline are in Section 4C relating to the formula for payments. In that Section we have used the formula proposed by Fort Worth and Arlington, but have left the amounts of the premiums blank, since we are told that these figures are in dispute. However, we would like to see verification by a qualified engineer that the formula would in fact work mathematically and practically. In this connection, there is a clause in the proposed settlement contract which provides for additional credits to Fort Worth relating to payments made by the District from taxes with respect to the West Fork and Benbrook facilities. If agreed to by the parties some sort of arrangement to accommodate this concept probably could be drafted, but the terms would have to be defined further for clarity. Moreover, if Fort Worth is credited, the other parties correspondingly must be debited in order to balance the formula, and we presume that these credits and debits could be worked into the formula.

With respect to the descriptions in Section 9 of the facilities of the various parties, and the various Points of Delivery, we have merely carried forward the language of the 1979 contracts, and have added language for Arlington similar to that proposed in 1979 for Arlington. As stated previously, these provisions are subject to amendment in any reasonable way agreed to by the parties, and we have not attempted to incorporate any proposed changes.

If you wish further comments from us, we will be glad to cooperate.

Sincerely yours,

McCALL, PARKHURST & HORTON

/s/ Paul B. Horton

Following Mr. Horton's presentation and review, a copy of an alternative settlement proposal was presented and reviewed in detail by Mr. Frank Booth, Legal Counsel; following a lengthy discussion it was the consensus of all present that the alternative proposal as presented was fair and equitable to all parties concerned.

5.

President Newton stated that the "closed" meeting would

now be declared "open", stating that during the "closed" session the now proposed alternative settlement agreement was discussed in detail; whereon Director Thornton moved, seconded by Director Geren and unanimously approved that the proposed settlement agreement as proposed by the Cities of Arlington and Fort Worth be not accepted and directed management of the District to pursue a compromise settlement as now proposed by the District

6.

It was the concensus of the Directors and their order that the following statement be furnished all parties concerned at the earliest possible time:

March 11, 1982

The cities of Fort Worth and Arlington seek to settle Arlington's water rate complaint against Tarrant County Water Control and Improvement District Number One which has been pending before the Texas Water Commission since April, 1980. On February 23, 1982, the city councils of Fort Worth and Arlington approved an agreement to settle Arlington's water rate complaint and submitted the same to the District on February 24, 1982, for consideration by the Board of Directors. The settlement agreement required the following actions: (1) Amendment of the District's 1979 raw water supply contracts with Fort Worth, Mansfield and the Trinity River Authority; (2) Arlington as well as Fort Worth, Mansfield and Trinity River Authority joining as parties to the amended contract; and (3) Entry by the Texas Water Commission of a Permanent Rate Order approving the amended contract and the raw

water supply rates contained in the amended contract.

The settlement agreement was presented to the Board of Directors of the District at its meeting on March 3, 1982. At that time the Board instructed its general manager, rate consultants, legal counsel and bond counsel to complete their review of the settlement agreement and report back to the Board on March 11, with recommendations. The Board also instructed its manager to consult with other parties to the 1979 contract as to their views concerning the proposed amendment to their 1979 contracts.

Based upon the recommendations of the District's general manager, rate consultants, legal counsel and bond counsel, the Board of Directors of Tarrant County Water Control and Improvement District Number One adopts the following principles for settlement of Arlington's rate complaint:

1. Arlington must become a party to the 1979 contract, as amended, in lieu of its 1971 contract and Fort Worth, Mansfield and the Trinity River Authority must approve and sign the 1979 contract, as amended.
2. Any amendment to the 1979 contracts cannot restrict the District's statutory and bond covenant duty and obligation to operate its existing raw water supply system (Lake Bridgeport, Eagle Mountain and Cedar Creek) or the project (Richland and Chambers Creek lake).
3. Any amendment to the 1979 contracts cannot impair the District's obligation to the holders of bonds issued by the District to finance its existing raw water supply

system or the project or restrict the District's ability to issue additional bonds in the future should the same become necessary.

4. The rates to be paid by the District's raw water supply customers under any amendment to the 1979 contracts must be equitable and nondiscriminatory.
5. Any amendment to the 1979 contracts must include the dismissal of Arlington's pending rate complaint against the District. Arlington must agree to dismiss its rate complaint as a condition to any amendment to the 1979 contract.
6. Any amendment to the 1979 contract cannot delay trial on the merits of Arlington's complaint.

Based upon the recommendation of the District's general manager, rate consultants, legal counsel and bond counsel, the Board of Directors of Tarrant County Water Control and Improvement District Number One concludes that the settlement agreement proposed by Fort Worth and Arlington violates the above enumerated settlement principles in the following respects:

1. The proposed amendments to the 1979 contracts unduly restrict the District's duty and obligation to operate its existing raw water supply project and the Richland and Chambers Creeks project.
2. The proposed amendments to the 1979 contracts in certain respects would impair the District's obligation to its existing bondholders and could render the District unable to issue additional bonds in the future should the

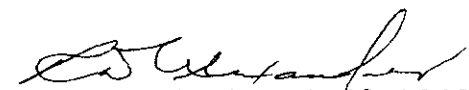
same be necessary;

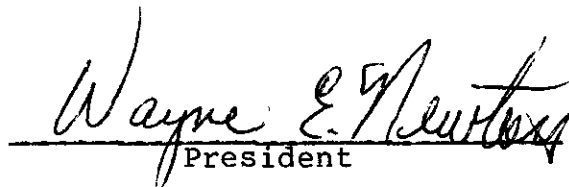
3. The raw water supply rates proposed in the amended contract unreasonably discriminate in Arlington's favor against the District's other out-of-district customers, including those served by Fort Worth, TRA and Mansfield; and
4. The Texas Water Commission lacks jurisdiction to enter a Permanent Rate Order approving the District's water supply contracts and fixing the rates the District may charge for raw water supply for 40 years into the future.

WHEREFORE, PREMISES CONSIDERED, the Board of Directors of Tarrant County Water Control and Improvement District Number One finds and concludes that the settlement agreement proposed by Fort Worth and Arlington is not acceptable to the District and the other parties to the 1979 contracts. The District's general manager, rate consultants, legal counsel and bond counsel have submitted to the Board of Directors an alternative settlement proposal which satisfies the settlement principles enumerated above. The board expresses confidence in its management, rate consultants and attorneys and hereby authorizes the alternative settlement agreement to be proposed to Fort Worth, Arlington, Mansfield and Trinity River Authority for their consideration. The board instructs its management to pursue compromise settlement of the Arlington Rate case with diligence, if the same can be settled consistent with the above enumerated settlement principles.

7.

There being no further business before the Board of Directors, the meeting adjourned.


Secretary


President