

MINUTES OF A SPECIAL MEETING OF THE BOARD OF DIRECTORS OF
TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE
HELD ON THE 24th DAY OF JANUARY, 1979 AT 3:30 P. M.

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

PRESENT: Directors Wayne E. Newton, J. Oliver Shannon and C. Victor
Thornton at the full meeting; ABSENT: Clyde A. Penry, with Director
Preston M. Geren being excused following Item Number Three as listed
on the Agenda.

Also present were Messrs. John M. Scott, General Counsel for the
District; Representatives from McCall, Parkhurst and Horton and
First Southwest; Rita Parsons, Reporter; James L. Strawn, Manager
of Planning and Development for the District and Ben Hickey, General
Manager of the District.

President Newton acted in his capacity as President and
Director Shannon acted in his capacity as Secretary, whereupon pro-
ceedings 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 January 9, 1979
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.

Director Geren moved and the motion was seconded by
Director Shannon and unanimously approved that the following list
of vouchers be approved and paid; Voucher-checks #21994 thru #22110

inclusive, Maintenance Fund, in the amount of \$473,760.46; voucher-checks #6810 thru #6857 inclusive, Revenue Fund, in the amount of \$361,062.85; voucher-checks #625 thru #629 inclusive, Interest and Sinking Fund, in the amount of \$1,430,583.04; voucher-check #3573, Construction Fund, in the amount of \$250 and voucher-checks #4276 thru #4292 inclusive, Cedar Creek Project, Construction Fund, in the amount of \$9,343.85.

3.

President Newton presented the following letter, to-wit:

Mr. Ben F. Hickey
 General Manager
 T.C.W.C.&I.D. No. 1
 P. O. Box 4508
 Fort Worth, Texas 76106

January 19, 1979

Re: TCW-78158
 Balancing Reservoir Enlargement

Dear Mr. Hickey:

We have tabulated bids received at 10:00 A.M., January 12, 1979 as follows:

<u>Bidder</u>	<u>Time In Calendar Days</u>	<u>Bid Amount</u>
1. Central Plains Contracting Co.	300	\$1,663,160.00
2. Joe R. Starks Const. Co., Inc.	330	1,681,743.00
3. D & G Excavating Co.	300	1,709,018.64
4. Drown & Blakney, Inc.	400	1,796,860.00
5. G & M Underground Contracting Co.	340	1,948,880.00
6. Dahlstrom Corp.	300	1,959,700.00
7. H. B. Zachry Co.	270	2,074,270.00
8. Orval Hall/Excavating Co., Inc.	360	2,146,456.00
Engineers Estimate		1,791,800.00

It is our recommendation that the contract be awarded to Central Plains Contracting Company at their low bid of \$1,663,160.00. A copy of the bid tabulation is enclosed.

The low bidder has proposed Globe Linings, Inc. as the lining subcontractor. (copy of letter and references attached). We have checked these references and all give good reports on the installation by Glove Linings and Material by Burke Rubber Co. We would recommend approval of Glove Linings, Inc. as the lining subcontractor.

Very truly yours,

FREESE AND NICHOLS, INC.

/s/ Glen McWhirter

Glen McWhirter, P.E.

GMW:ma

Following a review and general discussion Director Geren moved, seconded by Director Shannon and unanimously approved, that the low bid as submitted by Central Plains Contracting Co. in the amount of \$1,663,160.00 as presented and as recommended by management and consulting engineers of the District be now accepted.

Following the discussion and vote, Director Geren asked to be excused as he had another meeting scheduled at this time.

4.

President Newton called upon the General Counsel of the District, Mr. John M. Scott, to make a general statement respecting the matter to come before the Board of Directors at this special meeting. In response Mr. Scott stated:

"In connection with the proposed action of the District, you have employed the firm of First Southwest Company of Dallas, Texas, as your bond advisors and that firm is considered by me and by others cognizant of the situation to be outstanding in the field of bond advisors to municipal authorities. You have also chosen and employed as your special bond counsel the firm of McCall, Parhurst & Horton of Dallas, Texas and that legal firm is considered by the bond market and by myself as specialists who are capable and outstanding in the

field of their legal expertise and specialty. You have also employed Arthur Young and Company, as independent accountants who are nationally accepted as qualified for such purposes."

"In addition to these consultants your staff under the direction of Mr. Hickey and Mr. Doby has made a very careful and thorough review of all of the documents which are before you today; Mr. Doby has carefully verified the numerous figures which enter into this transaction, and we as your Counsel have reviewed all of the legal documents and have approved them as to form. In addition we have requested the consultants which we have mentioned to give you certain assurances. The assurance of responsibility assumed by the firm of First Southwest Company is contained in the document entitled "Advance Refunding Proposal" prepared for you by First Southwest Company, and more particularly insofar as the assurances we have requested is concerned, appears on Pages 2 and 3 of that document."

"We have requested Messrs. McCall, Harkhurst & Horton to give an appropriate legal opinion to this District respecting its functions and responsibilities as bond counsel, and we have inspected a form of opinion which Mr. Horton states will be issued to you and other parties by that firm. That opinion is satisfactory to us as to form and content."

"The law of Texas provide that any Director who votes in accordance with the legal advice of Counsel for the corporation shall not be personally responsible for any legal omissions or commissions which result from following that advice."

"In order to comply with that statute I advise each of you that in my judgment as your Counsel, you have the full legal authority to take the action which is before you today if you see fit to do so and that such action is predicated upon your due diligence and the utmost good faith on your part personally, so that no personal liability will accrue from contrary claims asserted against any individual Director. Of course, notwithstanding this opinion, if any individual Director participated in the transaction to his personal financial advantage, then this immunity of the statute would not apply. However from my personal acquaintance with each of you I am confident that no such contentions can arise."

Following the statement made by General Counsel Scott, Mr. Frank Medanich, of First Southwest Company, made a statement and explanation of the entire transaction pending before the Board and assured the Board that his firm had exercised all due caution in the preparation of the documents, the use of the figures prepared by the independent certified public accountants, and that it was the judgment

of First Southwest Company that the action before the Board today was in all things in the best interest of the District, and was due and legal and, subject to the judgment and discretion of the Board as the final authority that the action proposed should be taken.

Following the statement of Mr. Medanich, Mr. Paul Horton of McCall, Parkhurst and Horton Bond Counsel, made a statement respecting each of the resolutions which was to be presented to the Board for its action on this day and date.

Thereafter President Newton announced that it was proper for the Board now to consider the adopting or the rejecting of each and every resolutions presented to it today.

On motion of Mr. Thornton, seconded by Mr. Shannon, and with Directors Penry and Geren being absent, the resolution authorizing the issuance of \$7,750,000.00 Tarrant County Water Control and Improvement District Number One Water Revenue Bonds, Series 1979, was unanimously adopted in words and figures appearing as follows:

WHEREAS, Tarrant County Water Control and Improvement District Number One (the "District") is a water control and improvement District (and a conservation and reclamation district) and political subdivision of the State of Texas, created and functioning under Article 16, Section 59, of the Texas Constitution, pursuant to the general laws of the State of Texas, including Chapter 51, Texas Water Code, and which is authorized to issue bonds under the provisions of Chapter 268, Acts of the 55th Legislature, Regular Session, 1957, as amended (the "Act"); and

WHEREAS, the bonds hereinafter authorized are to be issued and delivered pursuant to the Act.
THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE:

Section 1. BONDS AUTHORIZED. That the District's bonds are hereby authorized to be issued in the principal amount of \$7,750,000, FOR THE PURPOSE OF IMPROVING THE DISTRICT'S WATER SYSTEM BY ACQUIRING AND CONSTRUCTING THE WATER PUMPING AND TRANSPORTATION FACILITIES NECESSARY TO PROVIDE AN ADEQUATE WATER SUPPLY FROM

CEDAR CREEK RESERVOIR TO THE CITY OF FORT WORTH AND OTHERS.

Section 2. BONDS DESIGNATED. That said bonds shall be designated as the : "TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE WATER REVENUE BONDS, SERIES 1979" (the "Series 1979 Bonds").

Section 3. DATE AND MATURITY. That the Series 1979 Bonds shall be dated MARCH 1, 1979, shall be in the denomination of \$5,000 each, shall be numbered consecutively from one upward, and shall mature on MARCH 1, 1999, unless redeemed prior to maturity as required or permitted in the FORM OF BOND set forth in this Series 1979 Bond Resolution.

Section 4. INTEREST. That the Series 1979 Bonds shall bear interest as follows: from MARCH 1, 1979, to MARCH 1, 1980, at the rate of 6.00% per annum; from MARCH 1, 1980, to SEPTEMBER 1, 1980, at the rate of 6.50% per annum; and from SEPTEMBER 1, 1980, to maturity or redemption, at the rate of 7.00% per annum. Said interest shall be evidenced by interest coupons which shall appertain to the Series 1979 Bonds, and which shall be payable in the manner provided and on the dates stated in the FORM OF BOND set forth in this Series 1979 Bond Resolution.

Section 5. GENERAL CHARACTERISTICS. That the Series 1979 Bonds and Interest coupons shall be issued, shall be payable, shall and may be redeemed prior to their scheduled maturity, shall have the characteristics, and shall be signed and executed (and the Series 1979 Bonds shall be sealed), all as provided, and in the manner indicated, in the FORM OF BOND set forth in this Series 1979 Bond Resolution.

Section 6. FORMS. That the form of the Series 1979 Bonds, including the form of Registration Certificate of the Comptroller of Public Accounts of the State of Texas to be printed and endorsed on each of the Series 1979 Bonds, and the form of the aforesaid interest coupons which shall appertain and be attached initially to each of the Series 1979 Bonds, shall be, respectively, substantially as follows:

FORM OF BOND:

NO. _____

\$5,000

UNITED STATES OF AMERICA
STATE OF TEXAS
COUNTY OF TARRANT
TARRANT COUNTY WATER CONTROL AND
IMPROVEMENT DISTRICT NUMBER ONE
WATER REVENUE BOND
SERIES 1979
(A MUNICIPAL BOND)

ON MARCH 1, 1979, or earlier as hereinafter provided, TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE, IN TARRANT COUNTY, TEXAS (the "District"), a water control and improvement district (and a conservation and reclamation district) and political subdivision of the State of Texas, created and functioning, under Article 16, Section 59, of the Texas Constitution, pursuant to the general laws of the State of Texas, including Chapter 51, Texas Water Code, and which is authorized to issue bonds under the provisions of Chapter 268, Acts of the 55th Legislature, Regular Session, 1957, as amended, hereby promises to pay to bearer hereof the principal amount of

FIVE THOUSAND DOLLARS,

and to pay interest thereon as follows: from MARCH 1, 1979, to MARCH 1, 1980, at the rate of 600 % per annum; from MARCH 1, 1980 to SEPTEMBER 1, 1980, at the rate of 6.50% per annum; and from SEPTEMBER 1, 1980, to maturity or redemption, at the rate of 7.00% per annum, with such interest to be evidenced by interest coupons payable on SEPTEMBER 1, 1979, and semi-annually thereafter on each MARCH 1 and SEPTEMBER 1 while this Bond is outstanding; provided that such principal and interest are payable solely from the sources and in the manner hereinafter described.

THE PRINCIPAL of this Bond and the interest coupons appertaining hereto shall be payable to bearer, in lawful money of the United States of America, without exchange or collection charges to the bearer, upon presentation and surrender of this Bond or proper interest coupon, at any one of the following (at the option of the bearer herself), which collectively shall constitute and be defined as the "Paying Agents" for this Series of Bonds:

THE FORT WORTH NATIONAL BANK, FORT WORTH, TEXAS,
OR AT
THE FIRST NATIONAL BANK OF FORT WORTH, FORT WORTH, TEXAS,
OR AT
CONTINENTAL NATIONAL BANK OF FORT WORTH, FORT WORTH, TEXAS.

THIS BOND is one of a Series dated as of MARCH 1, 1979, authorized and issued in the principal amount of \$7,750,000, FOR THE PURPOSE OF IMPROVING THE DISTRICT'S WATER SYSTEM BY ACQUIRING AND CONSTRUCTING THE WATER PUMPING AND TRANSPORTATION FACILITIES NECESSARY TO PROVIDE AN ADEQUATE WATER SUPPLY FROM CEDAR CREEK RESERVOIR TO THE CITY OF FORT WORTH AND OTHERS.

ON SEPTEMBER 1, 1979,

or on any date whatsoever thereafter, the outstanding Bonds of this Series are subject to optional redemption and may be redeemed prior to their scheduled maturity, at the option of the District, as a whole (but not in part) for the principal amount thereof and accrued interest thereon to the date fixed for redemption, and without premium.

ON MARCH 1, 1982, and annually on MARCH 1 of each year thereafter, the outstanding Bonds of this Series are subject to mandatory redemption prior to their scheduled maturity, with funds from the "Interest and Redemption Fund" maintained pursuant to the resolution authorizing the issuance of this Series of Bonds (the "Series 1979 Bond Resolution"), and shall be redeemed by the District, in part, prior to their scheduled maturity, with funds from said "Interest and Redemption Fund", for the principal amount thereof and accrued interest to the date of redemption, and without premium, on MARCH 1 of each year, and in the principal amounts, as set forth in the following schedule:

<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>	<u>YEAR</u>	<u>PRINCIPAL AMOUNT</u>
1982	\$225,000	1991	\$400,000
1983	225,000	1992	425,000
1984	250,000	1993	475,000
1985	275,000	1994	500,000
1986	275,000	1995	550,000
1987	300,000	1996	600,000
1988	325,000	1997	725,000
1989	350,000	1998	725,000
1990	375,000		

The particular Bonds to be redeemed on each such date shall be chosen at random, by lot or other customary method, by the District; provided however that the principal amount of the Bonds required to be redeemed pursuant to the schedule set forth above shall be reduced, at the option of the District, by the principal amount of any Bonds which, at least 15 days prior to the mandatory redemption date, shall have been purchased by the District and delivered to any one of the "Paying Agents" for cancellation, with funds from said "Interest and Redemption Fund", at a price not exceeding the principal amount of such Bonds plus accrued interest to the date of purchase thereof.

AT LEAST ten days prior to the date fixed for any such redemption of the Bonds (either optional or mandatory) prior to their scheduled maturity, the District shall cause an appropriate written notice of such redemption to be given to each of the "Paying Agents", and by the date fixed for any such redemption due provision shall be made with any one of the "Paying Agents", at the option of the District, for the payment of the principal amount of the Bonds which are to be so redeemed and accrued interest thereon to the date fixed for redemption. If such written notice of redemption is given, and if due provision for such payment is made, all as provided above, the Bonds which are designated to be redeemed thereby automatically shall be redeemed prior to their scheduled maturity, and they shall not bear interest after the date fixed for redemption, and they shall not be regarded as being outstanding except for the right of the bearer to receive the redemption price from the one of the "Paying Agents" with which provision for such payment has been made, and solely out of the funds provided for such payment.

IT IS HEREBY certified, recited, and covenanted that this Bond has been duly and validly authorized, issued, and delivered that all acts, conditions, and things required or proper to be performed, exist, and be done precedent to or in the authorization, issuance, and delivery of this Bond have been performed, existed, and been done in accordance with law; that this Bond and the Series of which it is a part are special obligations of the District which, together with other outstanding bonds of the District, and the interest coupons appertaining thereto are secured by and payable equally and ratably on a parity from an irrevocable first lien on and pledge of the "Pledged Revenues", as defined in the Resolution authorizing this Series of Bonds (the "Bond Resolution"), which include the "Net Revenues of the District's Water System", as defined in the Bond Resolution, which specifically include certain amounts to be received by the District pursuant to water supply contracts with the City of Fort Worth, in Tarrant County, Texas, and other water customers of the District.

THE DISTRICT has reserved the right, subject to the restrictions stated in the Bond Resolution, to issue Additional Bonds payable from and secured by an irrevocable first lien on and pledge of the "Pledged Revenues", and such Additional Bonds shall be payable from and secured by either (1) an irrevocable first lien on and pledge of the "Pledged Revenues" on a parity with the Bonds, or (2) an irrevocable first lien on and pledge of the "Pledged Revenues" on a parity with the Bonds, and additionally by a pledge of unlimited ad valorem taxes, and no Additional Bonds shall be payable from or secured by any other revenues.

THE DISTRICT also has reserved the right to amend the Bond Resolution, with the approval of the owners of 51% of the outstanding bonds secured by a first lien on the Pledged Revenues, subject to the restrictions stated in the Bond Resolution.

THE BEARER HEREBY shall never have the right to demand payment of this Bond or the interest coupons appertaining hereto out of any funds raised or to be raised by taxation, or from any source whatsoever other than the "Pledged Revenues".

IN WITNESS WHEREOF, this Bond and the interest coupons appertaining hereto have been signed with the facsimile signature of the President of the Board of Directors of the District and countersigned with the facsimile signature of the Secretary of said Board of Directors, and the official seal of the District has been duly impressed, or placed in facsimile, on this Bond.

XXXXXXXXXXXXX
Secretary, Board of Directors,
Tarrant County Water Control
and Improvement District
Number One

XXXXXXXXXXXXX
President, Board of Directors,
Tarrant County Water Control
and Improvement District
Number One

FORM OF REGISTRATION CERTIFICATE

COMPTROLLER'S REGISTRATION CERTIFICATE: REGISTER NO.

I hereby certify that this Bond has been examined, certified as to validity, and approved by the Attorney General of the State of Texas, and that this Bond has been registered by the Comptroller of Public Accounts of the State of Texas.

Witness my signature and seal this

XXXXXXXXXX
Comptroller of Public Accounts of
the State of Texas

FORM OF INTEREST COUPON:

NO. _____ \$ _____

ON _____ 1, 19____,

TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE, IN TARRANT COUNTY, TEXAS, promises to pay to bearer the amount shown on this interest coupon, in lawful money of the United States of America, without exchange or collection charges to the bearer, unless due provision has been made for the redemption prior to maturity of the Bond to which this interest coupon appertains, upon presentation and surrender of this interest coupon, at any one of the following (at the option of the bearer hereof):

- THE FORT WORTH NATIONAL BANK, FORT WORTH, TEXAS,
- OR AT
- THE FIRST NATIONAL BANK OF FORT WORTH, FORT WORTH, TEXAS,
- OR AT
- CONTINENTAL NATIONAL BANK OF FORT WORTH, FORT WORTH, TEXAS,

said amount being interest due that day on the Bond, bearing the number hereinafter designated, of that issue of TARRANT COUNTY WATER CONTROL AND IMPROVEMENT DISTRICT NUMBER ONE WATER REVENUE BONDS, SERIES 1979, DATED MARCH 1, 1979. The bearer hereof shall never have the right to demand payment of this interest coupon out of any funds raised or to be raised by taxation, or from any source whatsoever other than the "Pledged Revenues" defined in the Bond to which this coupon is attached.

Bond No. _____.

Secretary, Board of Directors,
Tarrant County Water Control
and Improvement District
Number One

President, Board of Directors,
Tarrant County Water Control
and Improvement District
Number One

Section 7. DEFINITIONS. That as used in this Resolution the following terms shall have the meanings set forth below, unless the text hereof specifically indicates otherwise:

The term "District" shall mean Tarrant County Water Control and Improvement District Number One.

The term "Board" shall mean the Board of Directors of the District, being the governing body of the District, and it is further resolved that the declarations and covenants of the District contained in this Resolution are made by, and for and on behalf of the Board and the District, and are binding upon the Board and the District for all purposes.

The term "Series 1977 Bond Resolution" shall mean the resolution adopted by the Board of Directors of the District on November 17, 1977, authorizing the issuance of the Tarrant County Water Control and Improvement District Number One Combined Water Revenue and Unlimited Tax Refunding Bonds, Series 1977.

The term "Series 1977 Bonds" means the bonds authorized by the Series 1977 Bond Resolution.

The term "Series 1979 Bond Resolution" shall mean this resolution authorizing the Tarrant County Water Control and Improvement District Number One Water Revenue Bonds, Series 1979; and it is hereby provided that Sections 7 through 23 of the Series 1979 Bond Resolution substantially restate and are cumulative of Sections 7 through 23 of the Series 1977 Bond Resolution, with the appropriate changes and additions which are required with respect to the issuance of the Series 1979 Bonds.

The term "Series 1979 Bonds" shall mean the bonds authorized by the Series 1979 Bond Resolution; and the Series 1979 Bonds are Additional Bonds issued to be payable from and secured by a first lien on and pledge of the Pledged Revenues only (and not from ad valorem taxes), equally and ratably on a parity with the Series 1977 Bonds with respect to the Pledged Revenues, as permitted by Sections 20 and 21 of the Series 1977 Bond Resolution; it being understood that the Series 1977 Bonds (but not the Series 1979 Bonds) are additionally payable from the levy and collection of ad valorem taxes to the extent provided in the Series 1977 Bond Resolution and this Series 1979 Bond Resolution.

The term "Bonds" shall mean collectively (i) the Series 1977 Bonds and (ii) the Series 1979 Bonds.

The term "Additional Bonds" shall have the meaning assigned to it in Sections 20 and 21 hereof.

The term "District's Water System" or "System" shall mean all of the District's existing water storage, treatment, transportation, distribution, and supply facilities, including all dams, reservoirs, and other properties, wherever located, (a) which are currently being used for water supply purposes and, to the extent financed with the proceeds from the sale of the Bonds or Additional Bonds or moneys

from the Contingency Fund (hereinafter created), all facilities acquired or constructed in the future, and all improvements to any of the foregoing, and (b) all other facilities which in the future are deliberately and specifically, at the option of the Board, made a part of the System by resolution of the Board, but such term does not include any oil, gas, and other mineral properties owned by the District or property disposed of from time to time in accordance with the provisions of Section 22(g) hereof, provided that any property acquired in substitution therefor shall be included in the System, along with all repairs to and other replacements of the System. In particular such term includes all of the District's Cedar Creek Project, a dam and reservoir on Cedar Creek in Henderson and Kaufman Counties, Texas, and Eagle Mountain Dam and Reservoir and Bridgeport Dam and Reservoir, which are water supply facilities of the District on the West Fork of the Trinity River, and all transportation and storage facilities related to all of the foregoing. Unless deliberately added to the System by the Board, at its option, in the manner prescribed above, said term does not include any District flood control facilities or facilities which provide waste treatment or other wastewater services of any kind. Said term does not include any facilities acquired or constructed by the District with the proceeds from the issuance of "Special Facilities Bonds", which are hereby defined as being revenue obligations of the District which are not issued as Additional Bonds, and which are payable from any source, contract, or revenues whatsoever other than the Pledged Revenues; and Special Facilities Bonds may be issued for any lawful purpose and made payable from any source, contract, or revenues whatsoever other than the Pledged Revenues.

The term "Contracts" shall mean collectively: (a) the water supply contract between the District and the City of Fort Worth, in Tarrant County, Texas, authorized at an election held in Fort Worth on December 2, 1959, as amended on March 4, 1968, on August 10, 1978, and on January 9, 1979, and all water supply contracts heretofore or hereafter executed between the District and other cities and customers in connection with the District's Water System, other than the following:

(1) Contract with Texas Electric Service Company dated May 6, 1952, as amended and supplemented by an agreement dated August 4, 1959, to increase the payments for raw water.

(2) Contract with Texas Electric Service Company dated December 11, 1953, as amended and supplemented by an agreement dated August 4, 1959, to increase the payments for raw water.

(3) Contract with the Town of Westover Hills dated December 11, 1953, as amended and supplemented by an agreement dated August 19, 1959, to increase the payments for raw water.

(4) Contract with the City of River Oaks dated March 30, 1954, as amended and supplemented by agreement between DISTRICT and City of River Oaks dated September 18, 1959, to increase the payments

for raw water.

(5) Contract with J. M. Leonard dated March 21, 1957, whereby a minimum standby charge of \$350 per year is paid to DISTRICT and water used is paid for at the going rate as established by DISTRICT.

The term "Gross Revenues of the System" shall mean all of the revenues, income, rentals, rates, fees, and charges of every nature derived by the Board or the District from the operation and/or ownership of the System (except as hereinafter provided), including specifically all payments and amounts received by the Board or the District from Contracts, and any interest income from the investment of money in any Funds created by this Resolution. There is excepted from such term, and such term does not include (i) the revenues and income from the contracts excluded from the definition of the term "Contracts", above, (ii) revenues derived by the District from the production of oil, gas, and other minerals owned by the District, or the revenues derived from the granting, sale, or lease of the right to explore for and produce same, or (iii) the royalties, rentals, license fees, and other income (other than from water sales) derived by the District (a) lands and assets owned by the District as flood control facilities or (b) property of the District at Eagle Mountain Dam and Reservoir and Bridgeport Dam and Reservoir on the West Fork of the Trinity River.

The term "Operation and Maintenance Expenses of the System" or "Current Expenses" shall mean all reasonable and necessary current costs of operation and maintenance of the System including, but not limited to, repairs and replacements, operating personnel, utilities, supervision, engineering, accounting, auditing, legal services, insurance premiums, paying agents fees, and any other supplies necessary for proper operation and maintenance of the System, as well as payments made for the use or operation of any property, and payments made by District in satisfaction of judgments or other liabilities resulting from claims not covered by District's insurance. Neither depreciation nor any other expense which does not represent a cash expenditure shall be considered an item of Operation and Maintenance Expense.

The terms "Net Revenues of the District's Water System", "Net Revenues of the System", and "Net Revenues" shall mean the Gross Revenues of the System less the Operation and Maintenance Expenses of the System.

The term "Pledged Revenues" shall mean: (a) the Net Revenues of the System and (b) any additional revenues, income, receipts, grants, donations, or other resources, received or to be received from any public or private source, whether pursuant to an agreement or otherwise, which in the future may, at the option of the District, be pledged to the payment of the Bonds or the Additional Bonds.

The terms "year" and "fiscal year" shall mean the District's

fiscal year, which initially shall be the calendar year, but which subsequently may be any other 12 month period hereafter established by the District as a fiscal year for the purposes of the System and any resolution authorizing the Bonds or any Additional Bonds.

Section 8. PLEDGE. That the Bonds (which term means and includes the Series 1977 Bonds and the Series 1979 Bonds) and any Additional Bonds, and the interest coupons appertaining thereto, are and shall be secured equally and ratably on a parity by and payable from an irrevocable first lien on and pledge of the Pledged Revenues; but the Series 1979 Bonds are not in any way additionally secured by or payable from a pledge of ad valorem taxes, or by the "Special Reserve Fund" created by the Series 1977 Bond Resolution, as are the Series 1977 Bonds; and the Series 1977 Bonds are not in any way secured by or payable from the "Reserve Fund", hereinafter created, as are the Series 1979 Bonds; and the Pledged Revenues are further pledged to the establishment and maintenance of the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, as hereinafter provided.

Section 9. REVENUE FUND. That there has been created and established pursuant to the Series 1977 Bond Resolution, and there shall be maintained on the books of the District, and accounted for separate and apart from all other funds of the District, a special fund to be entitled the "Tarrant County Water Control and Improvement District Number One Water Supply Bonds Revenue Fund" (hereinafter called the "Revenue Fund"). All Gross Revenues of the System (except investment interest and income from the other Funds created by the Series 1977 Bond Resolution or the Series 1979 Bond Resolution) shall be credited to the Revenue Fund immediately upon receipt. All Operation and Maintenance Expenses of the System shall be paid from such Gross Revenues credited to the Revenue Fund, as a first charge against same.

Section 10. INTEREST AND REDUMPTION FUND. That for the sole purpose of paying the principal of and interest on all Bonds and any Additional Bonds, as the same come due, either upon mandatory redemption or at maturity, there has been created and established pursuant to the Series 1977 Bond Resolution, and there shall be maintained, at an official depository bank of the District, a separate fund to be entitled the "Tarrant County Water Control and Improvement District Number One Water Supply Bonds Interest and Redemption Fund" (hereinafter called the "Interest and Redemption Fund").

Section 11. THE SPECIAL RESERVE FUND, THE CONTINGENCY AND IMPROVEMENT FUND, AND THE REVENUE BONDS RESERVE FUND. (a) That there has been created and established pursuant to the Series 1977 Bond Resolution, and there shall be maintained at an official depository bank of the District a separate fund to be entitled the "Tarrant County Water Control and Improvement District Number One Water Supply Bonds Special Reserve Fund" (hereinafter called the "Special Reserve Fund"), solely for the further security and benefit of the Series 1977 Bonds and any Additional Bonds which are payable from and secured by a first

lien on and pledge of the Pledged Revenues as well as the levy of unlimited ad valorem taxes (hereinafter in this Section called "Combined Revenue and Tax Bonds"). The Special Reserve Fund shall be used solely for the purpose of (i) finally retiring the last of the Series 1977 Bonds and any Additional Bonds which are Combined Revenue and Tax Bonds, and (ii) paying principal of and interest on any Series 1977 Bonds or Additional Bonds which are Combined Revenue and Tax Bonds when and to the extent the amounts in the Interest and Redemption Fund and Contingency Fund are insufficient for such purpose. Promptly after the delivery of the Series 1977 Bonds the District deposited to the credit of the Special Reserve Fund an amount not less than \$1,000,000. No additional amounts are required to be deposited in or credited to the Special Reserve Fund except for investment interest and income. All investment interest and income from the Special Reserve Fund shall be retained in the Special Reserve Fund and become a part thereof. The Special Reserve Fund shall not be used to pay Additional Bonds which are payable solely from Pledged Revenues.

(b) That there has been created and established pursuant to the Series 1977 Bond Resolution, and there shall be maintained, at an official depository bank of the District, a separate fund to be entitled the "Tarrant County Water Control and Improvement District Number One Water Supply Bonds Contingency and Improvement Fund" (hereinafter called the "Contingency Fund"). The Contingency Fund shall be used solely for the purpose of paying the costs of improvements, enlargements, extensions, additions, or other capital expenditures relating to the System, and unexpected or extraordinary replacements of the System, for which System funds are not otherwise available, or for paying unexpected or extraordinary Operation and Maintenance Expenses of the System for which System funds are not otherwise available, or for paying principal of and interest on any Bonds or Additional Bonds, when and to the extent the amount in the Interest and Redemption Fund is insufficient for such purpose.

(c) That there is hereby created and there shall be established and maintained at an official depository bank of the District a separate fund to be entitled the "Tarrant County Water Control and Improvement District Number One Water Supply Revenue Bonds Reserve Fund" (hereinafter called the "Reserve Fund"), solely for the further security and benefit of the Series 1979 Bonds and any Additional Bonds which are payable solely from Pledged Revenues (and not from ad valorem taxes). The Reserve Fund shall be used solely for the purpose of (i) finally retiring the last of the Series 1979 Bonds and any Additional Bonds which are payable solely from Pledged Revenues (and not from ad valorem taxes), and (ii) paying principal of interest on the Series 1979 Bonds or any Additional Bonds which are payable solely from Pledged Revenues (and not from ad valorem taxes) when and to the extent the amounts in the Interest and Redemption Fund and Contingency Fund are insufficient for such purpose. The Reserve Fund shall not be used to pay Additional Bonds which are payable from both Pledged Revenues and ad valorem taxes. Promptly after the delivery of the Series 1979 Bonds the District shall cause to be deposited to the

credit of the Reserve Fund, from the proceeds from the sale of the Series 1979 Bonds, an amount equal to the average annual principal and interest requirements on the Series 1979 Bonds. When and so long as the money and investments in the Reserve Fund are not less in market value than a "Required Amount" equal to the average annual principal and interest requirements of all then outstanding Series 1979 Bonds, no deposits shall be made to the credit of the Reserve Fund; but when and if the Reserve Fund at any time contains less than said "Required Amount" in market value, then, subject and subordinate to making the required deposits to the credit of the Interest and Redemption Fund, the District shall transfer from Pledged Revenues and deposit to the credit of the Reserve Fund, semi-annually on or before the 25th day of each February and each August of each year a sum equal to 1/10th of the average annual principal and interest requirements of all then outstanding Series 1979 Bonds, until the Reserve Fund is restored to said "Required Amount". So long as the Reserve Fund contains said "Required Amount", any surplus in the Reserve Fund over said "Required Amount" shall, immediately upon receipt, be deposited to the credit of the Interest and Redemption Fund.

Section 12. DEPOSITS OF PLEDGED REVENUES; INVESTMENTS.

(a) The Pledged Revenues shall be deposited into the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, when and as required by this Series 1979 Bond Resolution. (b) That money in any Fund established pursuant to the Series 1977 Bond Resolution or the Series 1979 Bond Resolution may, at the option of the District, be placed in time deposits or certificates of deposit secured by obligations of the type hereinafter described, or be invested in direct obligations of the United States of America, obligations guaranteed or insured by the United States of America, which, in the opinion of the Attorney General of the United States, are backed by its full faith and credit or represent its general obligations, or invested in indirect obligations of the United States of America, including, but not limited to, evidences of indebtedness issued, insured, or guaranteed by such governmental agencies as the Federal Land Banks, Federal Intermediate Credit Bank, Banks for Cooperatives, Federal Home Loan Banks, Government National Mortgage Association, United States Postal Service, Farmers Home Administration, Federal Home Loan Mortgage Association, Small Business Administration, Federal Housing Association, or Participation Certificates in the Federal Assets Financing Trust; provided that all such deposits and investments shall be made in such manner that the money required to be expended from any Fund will be available at the proper time or times. Such investments shall be valued by the District in terms of current market value as of the 20th day of February of each year. All interest and income derived from such deposits and investments immediately shall be credited to, and any losses debited to, the Fund from which the deposit or investment was made, and surpluses in any Fund shall be disposed of as herein provided. Such investments shall be sold promptly when necessary to prevent any default in connection with the Bonds or Additional Bonds.

Section 13. FUNDS SECURED. That money in all Funds maintained pursuant to this Series 1979 Bond Resolution shall be secured in the manner prescribed by law for securing funds of the District.

Section 14. DEBT SERVICE REQUIREMENTS. (a) That promptly after the delivery of the Series 1979 Bonds the District shall cause to be deposited to the credit of the Interest and Redemption Fund any accrued interest received from the sale and delivery of the Series 1979 Bonds, and any such deposit shall be used to pay part of the interest coming due on the Series 1979 Bonds.

(b) That the District shall transfer from the Pledged Revenues and deposit to the credit of the Interest and Redemption Fund the amounts, at the times, as follows:

(1) such amounts, deposited semiannually on or before the 25th day of each February and each August of each year, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Redemption Fund and available for such purpose, to pay the interest scheduled to accrue and come due on the Series 1977 Bonds and the Series 1979 Bonds on the next succeeding interest payment date; and

(2) such amounts, deposited annually, on or before the 25th day of each February, as will be sufficient, together with other amounts, if any, then on hand in the Interest and Redemption Fund and available for such purpose, to pay the principal scheduled to mature and come due on the Series 1977 Bonds on the next succeeding MARCH 1, and to pay the principal of the Series 1979 Bonds scheduled to be redeemed prior to maturity on the next succeeding MARCH 1 in accordance with the mandatory redemption provisions and schedule set forth in the FORM OF BOND in Section 6 hereof, and to pay the remaining principal of the Series 1979 Bonds scheduled to mature on MARCH 1, 1999.

Section 15. CONTINGENCY REQUIREMENTS. That there is now on deposit to the credit of the Contingency Fund an amount equal to \$1,100,000. No additional deposits are required to be made to the credit of the Contingency Fund unless and until such amount therein is reduced or depleted. If and when such amount in the Contingency Fund is reduced or depleted then, subject and subordinate to making the required deposits to the credit of the Interest and Redemption Fund and the Reserve Fund, such reduction or depletion shall be restored from amounts which shall be provided for such purpose in the District's Annual Budget for the next ensuing fiscal year or years; provided that the District is not required to budget more than \$100,000 for such purpose during any one fiscal year; but the District shall have the right to budget additional amounts for such purpose if it is deemed necessary or advisable by the Board. So long as the Contingency Fund contains money and investments not less than the

amount of \$1,100,000 in market value, any surplus in the Contingency Fund over said amount shall, semiannually on or before February 15 and August 15 of each year, be withdrawn, deposited to the credit of the Revenue Fund, commingled with other revenues from the operation of the System, and used for any lawful purpose for which Gross Revenues of the System may be used.

Section 16. DEFICIENCIES; EXCESS PLEDGED REVENUES.

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

(b) That, subject to making the required deposits to the credit of the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, when and as required by this Series 1979 Bond Resolution, or any resolution authorizing the issuance of Additional Bonds, the excess Pledged Revenues may be used for any lawful purpose.

Section 17. TAX LEVY. (a) That the Series 1977 Bond Resolution provided that for the then current year and during each year while any of the Series 1977 Bonds or interest coupons appertaining thereto are outstanding and unpaid, the Board shall compute and ascertain a rate and amount of ad valorem tax which will be sufficient to raise and produce the money required to pay the interest on the Series 1977 Bonds as such interest comes due, and to provide and maintain a sinking fund adequate to pay the principal of the Series 1977 Bonds as such principal matures, and said tax shall be based on the latest approved tax rolls of the District, with full allowance being made for tax delinquencies and the cost of tax collection. Said rate and amount of ad valorem tax was thereby levied, and ordered to be levied, against all taxable property subject to such taxation in the District for each year while any of said Series 1977 Bonds or interest coupons appertaining thereto are outstanding and unpaid; and said tax was ordered to be assessed and collected each such year and used to pay the principal of and interest on the Series 1977 Bonds. Said ad valorem taxes sufficient to provide for the payment of the interest on and principal of the Series 1977 Bonds, as such interest comes due and such principal matures, were, in the Series 1977 Bond Resolution, pledged irrevocably for such payment, without limit as to rate or amount.

(b) It was specifically provided in the Series 1977 Bond Resolution, however, that notwithstanding the provisions of Section 17(a), above, that if, prior to August 1 of any calendar year, the Board shall prepare an estimate based on anticipated revenues from Contracts and other sources of Pledged Revenues, and shall prepare and adopt the Annual Budget for the District on or before October 1 of such calendar year based on such anticipated revenues, then the amount of ad valorem taxes which otherwise would be required to be levied for

such year by Section 17(a) may be reduced or eliminated to the extent that Pledged Revenues are estimated to be available to the District for paying the principal of and interest on the Series 1977 Bonds coming due during said next year. Notwithstanding any other provisions of this Section 17(b), if during any year any default has occurred with the respect to the payment of the principal of or interest on the Series 1977 Bonds, then the provisions of this Section 17(b) shall not be applicable to the next year, and the full amount of ad valorem tax required by Section 17(a) shall be levied, assessed, and collected for the next year.

(c) It is specifically provided that the foregoing Sections 17(a) and 17(b) are applicable only to the Series 1977 Bonds, and the District is not authorized to, and shall not, levy, collect, or use any tax of any nature to pay the principal of or interest on the Series 1979 Bonds.

Section 18. PAYMENT OF BONDS. On or before March 1, 1979, and semiannually on or before each September 1 and March 1 thereafter while any of the Bonds are outstanding and unpaid, the District shall make available to the paying agents therefor, retably and on a parity out of the Interest and Redemption Fund, and/or the Contingency Fund, or, solely as to the Series 1977 Bonds either (i) from the Special Reserve Fund or (ii) from taxes levied as provided in Sections 17(a) and 17(b) hereof, or solely as to the Series 1979 Bonds, from the Reserve Fund, money sufficient to pay such interest on and such principal of the Bonds as will accrue or mature, or which is scheduled to be redeemed prior to maturity, on each such March 1 and September 1, respectively. The paying agents shall destroy all paid Bonds, and the coupons appertaining thereto, and furnish the District with an appropriate certificate of cancellation or destruction.

Section 19. FINAL DEPOSITS; GOVERNMENTAL OBLIGATIONS.

(a) That any Bond or Additional Bond shall be deemed to be paid, retired, and no longer outstanding, when payment of the principal of, redemption premium, if any, on such Bond or Additional Bond, and interest thereon to the due date thereof (whether such due date be by reason of maturity, upon redemption, or otherwise) either (i) shall have been made or caused to be made in accordance with the terms thereof (including the giving of any required notice of redemption), or (ii) shall have been provided by irrevocably depositing with, or making available to, a paying agent therefor, in trust and irrevocably set aside exclusively for such payment (1) money sufficient to make such payment or (2) Government Obligations, as hereinafter defined in this Section, certified by an independent public accounting firm of national reputation to mature as to principal and interest in such amounts and at such times as will insure the availability, without reinvestment, of sufficient money to make such payment, and all necessary and proper fees, compensation, and expenses of such paying agent pertaining to the Bonds and Additional Bonds and with respect to which such deposit is made shall have been paid or the payment thereof provided for to the satisfaction of such paying agent. At

such time as a Bond or Additional Bond shall be deemed to be paid hereunder, as aforesaid, it shall no longer be secured by or entitled to the benefits of any Bond Resolution or a line on and pledge of the Pledged Revenues, or, with respect to the Series 1977 Bonds, the ad valorem taxes levied for the benefit of the Series 1977 Bonds, and shall be entitled to payment solely from such money or Government Obligations.

(b) That any moneys so deposited with a paying agent may at the direction of the District also be invested in Government Obligations, maturing in the amounts and times as hereinbefore set forth, and all income from all Government Obligations in the hands of the paying agent pursuant to this Section which is not required for the payment of the Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, with the respect to which such money has been so deposited, shall be turned over to the District or deposited as directed by the District.

(c) That the District covenants that no deposit will be made or accepted under clause (a)(ii) of this Section and no use made of any such deposit which would cause the Bonds or any Additional Bonds to be treated as arbitrage bonds within the meaning of Section 103(c)(2) of the Internal Revenue Code of 1954, as amended.

(d) That for the purpose of this Section, the term "Government Obligations" shall mean direct general obligations of the United States of America that are not subject to redemption prior to maturity except at the option of the holder or owner thereof, including obligations the principal of and interest on which are unconditionally guaranteed by the United States of America, and which may be United States Treasury obligations such as its State and Local Government Series, and may be in book-entry form.

(e) That notwithstanding any other provisions of any Bond Resolution, all money or Government Obligations set aside and held in trust pursuant to the provisions of this Section for the payment of Bonds and Additional Bonds, the redemption premium, if any, and interest thereon, shall be applied to and used for the payment of such Bonds and Additional Bonds, the redemption premium, if any, and interest thereon.

Section 20. ADDITIONAL BONDS. (a) That the District shall have the right and power at any time and from time to time, and in one or more Series or issues, to authorize, issue, and deliver additional bonds (herein called "Additional Bonds"), which may be either (1) payable from and secured by a first lien on and pledge of the Pledged Revenues only, or (2) payable from and secured by a first lien on and pledge of the Pledged Revenues as well as the levy of unlimited ad valorem taxes, all as hereinafter provided. No Additional Bonds shall be payable from or secured by any other revenues.

(b) Additional Bonds, if and when authorized, issued, and delivered in accordance with the provisions hereof, shall be payable

from the Interest and Redemption Fund, and shall be payable from and secured by an irrevocable first lien on and pledge of the Pledged Revenues, equally and ratably on a parity with the Bonds and all other outstanding Additional Bonds. Also, the Additional Bonds, at the option of the District, additionally may be made payable from and secured by the levy of unlimited ad valorem taxes, if and to the extent authorized or permitted by, and subject to all requirements (including voting requirements, if any) of, the then applicable provisions of the Constitution and Statutes of the State of Texas.

(c) That the principal of all Additional Bonds must be scheduled to be paid or mature on March 1 of the years in which such principal is scheduled to be paid or mature; and all interest thereon must be payable on March 1 and September 1.

Section 21. FURTHER REQUIREMENTS FOR ADDITIONAL BONDS.

(a) That Additional Bonds shall be issued only in accordance with the provisions hereof, and then applicable laws, and may be issued in any amounts, for any lawful purpose relating to the System, including the refunding of any Bonds or Additional Bonds. No installment, Series, or issue of Additional Bonds shall be issued or delivered unless the President and the Secretary of the Board sign a written certificate to the effect (i) that the District is not in default as to any covenant, condition, or obligation in connection with all outstanding Bonds and Additional Bonds, and the resolution authorizing the same, (ii) that the Interest and Redemption Fund and the Reserve Fund (disregarding and not including the Special Reserve Fund) contain the amount then required to be therein, and (iii) if, but only if, the then proposed Additional Bonds are to be payable solely from Pledged Revenues on a parity with the Bonds and any outstanding Additional Bonds (and not from ad valorem taxes) that either (1) the Pledged Revenues in each fiscal year, commencing (A) with the third complete fiscal year following the execution of such certificate or report, or (B) with the fiscal year following the estimated completion date of any project for which the then proposed Additional Bonds are being issued (whichever of (A) or (B) is later) are estimated, based on a report of an independent engineer or firm of engineers, to be at least equal to 1.25 times the average annual principal and Interest requirements of all Bonds and Additional Bonds to be outstanding after the delivery of the then proposed Additional Bonds, or (2) based upon an opinion of legal counsel to the District, there are Contracts then in effect pursuant to which parties to such Contracts are obligated to make minimum payments to the District on a "take or pay" basis as such times and in such amounts as shall be necessary to provide to the District Pledged Revenues sufficient to pay when due all principal of and interest on all Bonds and Additional Bonds.

(b) That each resolution authorizing the issuance of Additional Bonds payable solely from Pledged Revenues (and not from ad valorem taxes) shall confirm the Reserve Fund created by Section 11(c) of the Series 1979 Bond Resolution, as additional security for all such revenue bonds payable solely from Pledged Revenues and the Reserve Fund

shall be increased to the extent required to cause the "Required Amount" to be maintained in the Reserve Fund to be an amount not less than the average annual principal and interest requirements on all such revenue bonds payable solely from Pledged Revenues to be outstanding after the issuance of such then proposed Additional Bonds (or any greater amount as may, at the option of the District, be provided for in any resolution authorizing the issuance of any such revenue bonds payable solely from Pledged Revenues), and shall make provision for funding such Reserve Fund from Pledged Revenues, or, at the option of the District, from bond proceeds or other available sources. Such Reserve Fund may be funded in whole or in part initially, or may be funded in whole or in part from Pledged Revenues by approximately equal periodic payments, not less than annual, and within not more than five years from the date of such then proposed Additional Bonds.

Section 22. GENERAL COVENANTS, REPRESENTATIONS, AND WARRANTS. That the District further covenants, represents, warrants, and agrees that:

(a) PERFORMANCE. It will faithfully perform at all times any and all covenants, undertakings, stipulations, and provisions contained in each resolution authorizing the issuance of the Bonds and any Additional Bonds, and in each and every Bond and Additional Bond; that it will promptly pay or cause to be paid the principal of and interest on every Bond and Additional Bond, on the dates and in the places and manner prescribed in such resolutions and Bonds or Additional Bonds, and that it will, at the times and in the manner prescribed, deposit or cause to be deposited the amounts required to be deposited into the Interest and Redemption Fund; and any holder of the Bonds or Additional Bonds may require the District, its Board, and its officials and employees, to carry out, respect, or enforce the covenants and obligations of each resolution authorizing the issuance of the Bonds and any Additional Bonds, by all legal and equitable means, including specifically, but without limitation, the use and filing of mandamus proceedings, in any court of competent jurisdiction, against the District, its Board, and its officials and employees.

(b) DISTRICT'S LEGAL AUTHORITY. It is a duly created and existing conservation and reclamation district of the State of Texas pursuant to Article 16, Section 59, of the Texas Constitution, and the laws of the State of Texas, and is duly authorized under the laws of the State of Texas to create and issue the Bonds; that all action on its part for the creation and issuance of the Bonds has been duly and effectively taken, and that the Bonds in the hands of the holders and owners thereof are and will be valid and enforceable obligations of the District in accordance with their terms.

(c) TITLE. It has and will obtain lawful title to, or the lawful right to use and operate, the lands, buildings, and facilities constituting the System, that it warrants that it will defend the title to or lawful right to use and operate, all of the foresaid lands, buildings, and facilities, and every part thereof, for the benefit of the holders and owners of the Bonds and Additional Bonds against the claims and demands of all persons whomsoever, and is lawfully qualified to pledge the Pledged Revenues to the payment of the Bonds and Additional

Bonds in the manner prescribed herein, and has lawfully exercised such rights.

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

(e) OPERATION OF THE SYSTEM. While the Bonds or any Additional Bonds are outstanding and unpaid it will cause the System to be continuously and efficiently operated and maintained in good condition, repair, and working order, and at a reasonable cost.

(f) FURTHER ENCUMBRANCE. While the Bonds or any Additional Bonds are outstanding and unpaid, it will not additionally encumber the Pledged Revenues in any manner, except as permitted hereby in connection with Additional Bonds, unless said encumbrance is made junior and subordinate in all respects to the liens, pledges, covenants, and agreements of each resolution authorizing the issuance of the Bonds and any Additional Bonds; but the right of the District and the Board to issue revenue bonds for any lawful purpose payable from a subordinate lien on the Pledged Revenues is specifically recognized and retained. This Resolution does not and is not intended to affect, limit, or prohibit the issuance of bonds payable solely from ad valorem taxes.

(g) SALE OF PROPERTY. While the Bonds or any Additional Bonds, are outstanding and unpaid, it will maintain its current legal corporate status as a conservation and reclamation district, and it will not sell, convey, mortgage, or in any manner transfer title to, or lease or otherwise dispose of the entire System, or any significant or substantial part thereof; provided that whenever the District deems it necessary to dispose of any real or personal property, machinery, fixtures, or equipment, it may sell or otherwise dispose of such real or personal property, machinery, fixtures, or equipment when it has made arrangements to replace the same or provide substitutes therefor, unless it is determined by resolution of the Board that no such replacement or substitute is necessary; and all proceeds from the sale thereof shall be credited to the Revenue Fund.

(h) INSURANCE. (1) IT will carry or cause to be carried such insurance as usually would be carried by corporations or other business entities operating like properties and engaged in similar activities, with a responsible insurance company or companies; provided that no insurance shall be required to the extent that the Board determines, based on the advice of legal counsel, that no substantial liability can or will arise under a particular hazard. At any time while any contractor engaged in construction work shall be fully responsible therefor, the District shall not be required to carry insurance on the works being constructed, if the contractor is required to carry appropriate insurance. All such policies shall be open to the inspection of the owners or holders of the Bonds and Additional Bonds and their representatives at all reasonable times.

(2) Upon the happening of any loss or damage covered by insurance from one or more of said causes, the District shall make due proof of loss and shall do all things necessary or desirable to cause the insuring companies to make payment in full directly to the District. The proceeds of insurance covering such property, together with any other funds necessary and available for such purpose, shall be used forthwith by the District for repairing the property damaged or replacing the property destroyed; provided, however, that if said insurance proceeds and other funds are insufficient for such purpose, then said insurance proceeds pertaining to the System shall be used promptly as follows:

(a) for the redemption prior to maturity of the Bonds and Additional Bonds, if any, ratably in the proportion that the outstanding principal of each Series or issue of Bonds or Additional Bonds bears to the total outstanding principal of all Bonds and Additional Bonds; provided that if on any such occasion the principal of any such Series or issue is not subject to redemption, it shall not be regarded as outstanding in making the foregoing computation; or

(b) if none of the outstanding Bonds or Additional Bonds is subject to redemption, then for the purchase on the open market and retirement of said Bonds and Additional Bonds, in the same proportion as prescribed in the foregoing clause (a), to the extent practicable; provided that the purchase price for any such Bond or Additional Bonds shall not exceed the redemption price of such Bond or Additional Bond on the first date upon which it becomes subject to redemption; or

(c) to the extent that the foregoing clauses (a) and (b) cannot be complied with at the time, the insurance proceeds, or the remainder thereof, shall be deposited in a special and separate trust fund, at an official depository of the District, to be designated the Insurance Account. The Insurance Account shall be held until such time as the foregoing clauses (a) and/or (b) can be complied with, or until other funds become available which, together with the Insurance Account, will be

sufficient to make the repairs or replacements originally required, whichever of said events occurs first.

(3) The annual audit hereinafter required shall contain a list of all such insurance policies carried, together with a statement as to whether or not all insurance premiums upon such policies have been paid.

(i) RATE COVENANT. It will fix, establish, maintain, revise (if and when necessary), and collect such rates, charges, and fees for the sale of water from the System and for the use and availability of the System as are necessary to produce Gross Revenues of the System sufficient, together with any other Pledged Revenues and any taxes as may be levied by the District for such purpose, (1) to pay all Operation and Maintenance Expenses of the System, and (2) to produce Pledged Revenues adequate to provide for all payments and deposits required to be made into the Interest and Redemption Fund, the Reserve Fund, and the Contingency Fund, when and as required by the resolutions authorizing all Bonds and Additional Bonds.

(j) RECORDS. It will keep proper books of records and account in which full, true, and correct entries will be made of all dealings, activities, and transactions relating to the System, the Pledged Revenues, and all Funds created pursuant to the Series 1977 Bond Resolution and the Series 1979 Bond Resolution; and all books, documents, and vouchers relating thereto shall at all reasonable times be made available for inspection upon request of any bondholder.

(k) AUDITS. Each year while any of the Bonds or Additional Bonds are outstanding, an audit will be made of its books and accounts relating to the System and the Pledged Revenues by an independent certified public accountant or an independent firm of certified public accountants. As soon as practicable after the close of each year, and when said audit has been completed and made available to the District, a copy of such audit for the preceding year shall be mailed to the Municipal Advisory Council of Texas and to any bondholders who shall so request in writing. Such annual audit reports shall be open to the inspection of the owners or holders of the Bonds and Additional Bonds and their agents and representatives at all reasonable times.

(l) GOVERNMENTAL AGENCIES. It will comply with all of the terms and conditions of any and all franchises, permits, and agreements applicable to the System and the Bonds or Additional Bonds entered into between the District and any governmental agency, and the District will take all action necessary to enforce said terms and conditions; and the District will obtain and keep in full force and effect all franchises, permits, and other requirements necessary with respect to the acquisition, construction, operation, and maintenance of the System.

(m) CONTRACTS. It will comply with the terms and conditions of the Contracts and will cause the other parties to the

Contracts to comply with all of their obligations thereunder by all lawful means; and the Contracts will not be rescinded, modified, or amended in any way which would have a materially adverse effect on the operation of the System or the rights of the owners of the Bonds and Additional Bonds.

(n) ANNUAL BUDGET. On or before August 1 of each calendar year, it will prepare the preliminary Annual Budget of Operation and Maintenance Expenses of the System for the ensuing fiscal year, and such budget shall include a showing as to the proposed expenditures for such ensuing fiscal year, and shall show the estimated amount of Net Revenues of the System for such year. If the owners or holders of 25% in aggregate principal amount of the Bonds and Additional Bonds then outstanding shall so request on or before the 15th day of the aforesaid month, the Board shall hold a public hearing on or before the 15th day of the following month, at which any bondholder may appear in person or by agent or attorney and present any objections he may have to the final adoption of such budget. Notice of the time and place of such hearing shall be published twice, once in each of two successive weeks, in a newspaper of general circulation published in the District, with the date of the first publication to be at least fourteen days before the date fixed for the hearing; and copies of such notice shall be mailed at least ten days before the hearing to each bondholder who shall have filed his name and address with the Secretary of the Board for such purpose. The District further covenants that on or before October 1 of each calendar year it will finally adopt the Annual Budget of Operation and Maintenance Expenses of the System for such fiscal year (hereinafter sometimes called the "Annual Budget"). If for any reason the Board shall not have adopted the Annual Budget before the first day of any fiscal year, the budget for the preceding fiscal year shall be deemed to be in force until the adoption of the Annual Budget. The Operation and Maintenance Expenses of the System incurred in any fiscal year will not exceed the reasonable and necessary amount thereof. The District may, at any time deemed necessary by the Board, adopt an Amended or Supplemental Budget for the remainder of the current fiscal year.

(o) NO ARBITRAGE. The District covenants to and with the purchasers of the Bonds that it will make no use of the proceeds of the Bonds at any time throughout the term of the Bonds which, if such use had been reasonably expected on the date of delivery of the Bonds to and payment for the Bonds by the purchasers, would have caused the Bonds to be arbitrage bonds within the meaning of Section 103(c) of the Internal Revenue Code of 1954, as amended, or any regulations or rulings pertaining thereto); and by this covenant the District is obligated to comply with the requirements of the aforesaid Section 103(c) and all applicable and pertinent Department of the Treasury regulations relating to arbitrage bonds. The District further covenants that the proceeds of the Bonds will not otherwise be used directly or indirectly so as to cause all or any part of the Bonds to be or become arbitrage bonds within the meaning of the aforesaid Section 103(c), or

any regulations pertaining thereto.

Section 23. AMENDMENT OF RESOLUTION. (a) The holders of Bonds and Additional Bonds aggregating 51% in principal amount of the aggregate principal amount of then outstanding Bonds and Additional Bonds shall have the right from time to time to approve any amendment to any resolution authorizing the issuance of any Bonds or Additional Bonds, which may be deemed necessary or desirable by the District, provided, however, that nothing herein contained shall permit or be construed to permit the amendment of the terms and conditions in said resolutions or in the Bonds or Additional Bonds so as to:

- (1) Make any change in the maturity of the outstanding Bonds or Additional Bonds;
- (2) Reduce the rate of interest borne by any of the outstanding Bonds or Additional Bonds;
- (3) Reduce the amount of the principal payable on the outstanding Bonds or Additional Bonds;
- (4) Modify the terms of payment of principal of or interest on the outstanding Bonds or Additional Bonds, or impose any conditions with respect to such payment;
- (5) Effect any change in the rights of the holders of the Bonds and Additional Bonds then outstanding, other than a change which similarly affects all such holders;
- (6) Change the minimum percentage of the principal amount of Bonds and Additional Bonds necessary for consent to such amendment.

(b) If at any time the District shall desire to amend a resolution under this Section, the District shall cause notice of the proposed amendment to be published in a financial newspaper or journal published in The City of New York, New York, once during each calendar week for at least two successive calendar weeks. Such notice shall briefly set forth the nature of the proposed amendment and shall state that a copy thereof is on file at the principal office of The Fort Worth National Bank, Fort Worth, Texas, or its successor, for inspection by all holders of Bonds and Additional Bonds. Such publication is not required, however, if notice in writing is given to each holder of Bonds and Additional Bonds.

(c) Whenever at any time not less than thirty days, and within one year, from the date of the first publication of said notice or other service of written notice the District shall receive an instrument or instruments executed by the holders of at least 51% in aggregate principal amount of all Bonds and Additional Bonds then outstanding, which instrument or instruments shall refer to the proposed amendment described in said notice and which specifically

consent to and approve such amendment in substantially the form of the copy thereof on file as aforesaid, the District may adopt the amendatory resolution in substantially the same form.

(d) Upon the adoption of any amendatory resolution pursuant to the provisions of this Section, the resolution being amended shall be deemed to be amended in accordance with amendatory resolution, and the respective rights, duties, and obligations of the District and all the holders of then outstanding Bonds and Additional Bonds and all future Additional Bonds shall thereafter be determined, exercised, and enforced hereunder, subject in all respects to such amendment.

(e) Any consent given by the holder of a Bond or Additional Bonds pursuant to the provisions of this Section shall be irrevocable for a period of six months from the date of the first publication of the notice provided for in this Section, and shall be conclusive and binding upon all future holders of the same Bond or Additional Bonds during such period. Such consent may be revoked at any time after six months from the date of the first publication of such notice by the holder who gave such consent, or by a successor in title, by filing notice thereof with The Fort Worth National Bank, Fort Worth, Texas, or its successor, and the District, but such revocation shall not be effective if the holders of 51% in aggregate principal amount of the then outstanding Bonds and Additional Bonds as in this Section defined have, prior to the attempted revocation, consented to and approved the amendment.

(f) For the purpose of this Section, the fact of the holding of Bonds or Additional Bonds by any bondholder and the amount and numbers of such Bonds and Additional Bonds, and the date of their holding same, may be provided by the affidavit of the person claiming to be such holder, or by a certificate executed by any trust company bank, banker, or any other depository wherever situated showing that at the date therein mentioned such person had on deposit with such trust company, bank, banker, or other depository, the Bonds or Additional Bonds described in such certificate. The District may conclusively assume that such ownership continues until written notice to the contrary is served upon the District.


Section 24. APPROVAL AND REGISTRATION OF SERIES 1979 BONDS.

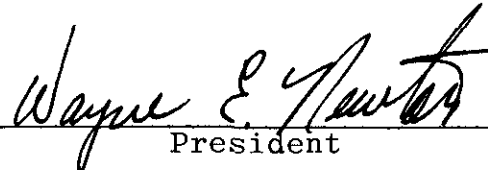
That the President of the Board is hereby authorized to have control of the Series 1979 Bonds and all necessary records and proceedings pertaining to the Series 1979 Bonds pending their delivery and their investigation, examination, and approval by the Attorney General of the State of Texas, and their registration by the Comptroller of Public Accounts of the State of Texas. Upon registration of the Series 1979 Bonds, said Comptroller of Public Accounts (or a deputy designated in writing to act for said Comptroller) shall manually sign the Comptroller's Registration Certificate printed and endorsed on the Series 1979 Bonds, and the seal of said Comptroller shall be impressed, or placed in facsimile, on each of the Series 1979 Bonds.

Section 25. SALE OF THE SERIES 1979 BONDS. That said Series 1979 Bonds are hereby sold and shall be delivered to The Fort Worth National Bank, The First National Bank of Fort Worth, and Continental National Bank of Fort Worth, for cash for the par value thereof and accrued interest to date of delivery; and it is hereby determined by the Board that the price and terms of such sale are the most advantageous reasonably obtainable.

5.

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


Secretary


President