

**FIRST SUPPLEMENT TO WATER SUPPLY CONTRACT BETWEEN THE CITY OF
HOUSTON, TEXAS, AND THE NORTH HARRIS COUNTY
REGIONAL WATER AUTHORITY**

This First Supplement to Water Supply Contract ("First Supplement") is made by and between the **CITY OF HOUSTON, TEXAS** ("Houston") and the **NORTH HARRIS COUNTY REGIONAL WATER AUTHORITY** (the "Authority").

WITNESSETH:

Recitals

WHEREAS, Houston is a municipal corporation and home-rule city, principally located in Harris County, Texas; and

WHEREAS, the Authority is a Texas conservation and reclamation district organized and operating under provisions of House Bill No. 2965 of the Seventy-Sixth Texas Legislature, Regular Session, as amended, (the "Act") and the Texas Water Code, as amended; and

WHEREAS, Houston and the Authority entered into a Water Supply Contract effective as of December 16, 2002, (the "Contract").

WHEREAS, Houston has entered into Water Supply Contracts with West Harris County Regional Water Authority, North Fort Bend Water Authority, and Central Harris County Regional Water Authority ("Other Authorities"); and

WHEREAS, the Authority and each of the Other Authorities seek to increase their Untreated Water Facilities Demand Allocation and Houston does not currently have sufficient capacity available in the Existing Untreated Water Facilities to serve such increases; and

WHEREAS, Houston, the Authority and the Other Authorities seek the construction and completion of the project known as "Luce Bayou" that will convey approximately 400 million gallons per day ("MGD") of untreated surface water from the Trinity River to Lake Houston (the "Project") in order to increase untreated surface water supplies available to Houston, the Authority and the Other Authorities; and

WHEREAS, Houston and the Authority seek to supplement the Contract to clarify cost-sharing and capacity with respect to the Project under Section 3.02(c) of the Contract and also to address other matters.

NOW, THEREFORE, for and in consideration of the premises and the mutual covenants and agreements herein contained, the parties hereto do mutually agree as follows:

Section 1. Definitions. In addition to the terms defined elsewhere in this First Supplement, the following terms used in this First Supplement, unless the context requires otherwise, shall have meanings as follows:

“Actual O&M Rate” means the per 1,000 gallon rate calculated by dividing: (i) the actual O&M Expenses for the prior Fiscal Year, by (ii) the actual amount of Water (in millions of gallons) taken by the Authority during the prior Fiscal Year, divided by 1,000.

“Additional Right-of-Way Costs” is defined in Section 2A.

“Anticipated Demand” means the amount of Water (in millions of gallons) that the Authority reasonably anticipates that it will need from Houston during the upcoming Fiscal Year.

“Authority’s Additional Payment for Right-of-Way Costs” means the product of multiplying the Authority’s Right-of-Way Percentage times the Additional Right-of-Way Costs.

“Authority’s Lump Sum Payment for Right-of-Way Costs” means the product of multiplying the Authority’s Right-of-Way Percentage times \$15,000,000.

“Authority’s New UWFDA” means the Authority’s new Untreated Water Facilities Demand Allocation in the amount of 159.0 MGD, which will be effective once the Utility Official has certified that the Project is complete pursuant to Section 3.

“Authority’s Pro-Rata Share of CWA Interest Amount” means \$57,734, which is the result of multiplying \$360,836 by the Authority’s Right-of-Way Percentage.

“Authority’s Pro-Rata Share of Payment for Right-of-Way Costs” means the product of multiplying the Authority’s Right-of-Way Percentage times the total Project Right-of-Way Costs.

“Authority’s Right-of-Way Percentage” means 16.00%.

“CWA” means the Coastal Water Authority.

“CWA Agreement” is defined in Section 1A.

“CWA Interest Amount” means the \$360,836 of interest due to CWA on costs incurred or to be incurred by CWA for the Project prior to CWA obtaining WIF funds.

“Effective Date” means the date this First Supplement is executed by the Houston Controller.

“Estimated O&M Rate” means the per 1,000 gallon rate calculated by dividing: (i) the O&M Expenses reasonably estimated by the City for the coming Fiscal Year, by (ii) the Anticipated Demand, divided by 1,000.

“Fiscal Year” means Houston fiscal year.

“Phase 1” is defined in Section 3.

“Phase 2” is defined in Section 3.

“Phase 1 Annual Letter” is defined in Section 6.

“Phase 2 Annual Letter” is defined in Section 7.

“Project Manager” is defined in Section 1A.

“Public Works Director” means the Director of the Department of Public Works and Engineering of Houston (or the successor equivalent position), or such person as he or she shall designate.

“Phase 1 Remittance Date” is defined in Section 6.

“Phase 2 Remittance Date” is defined in Section 7.

“Project Right-of-Way Costs” means the reasonable and necessary costs and expenses incurred by CWA or Houston for acquisition of Project Right-of-Way.

“Project Right-of-Way” means right-of-way and site acquisition for the Project and interests in land necessary for environmental mitigation (and environmental mitigation credits) for the Project, all as approved by the Public Works Director.

“TexPool Rate” means the monthly “Average Monthly Yield” rate paid by TexPool (or if such rate is discontinued, then a substitute comparable rate agreed upon by the Utility Official and the Authority. (The TexPool Rate for October, 2008 was 1.9762%.))

“Utility Official” means the Public Works Director. (The Contract is hereby amended such that the definition of “Utility Official” in the Contract is deleted and replaced with the definition of “Utility Official” contained in this First Supplement.)

“WIF” is defined in Section 2.

“2008 UWF Reservation” is defined in Section 3.

Section 1A. Coastal Water Authority. Houston and the Authority acknowledge that CWA is the sole entity responsible for all decisions and actions relating to the design, development, procurement and construction of all aspects of the Project ("Project Manager"). Houston will provide, in any agreement between Houston and CWA relating to the design and construction of the Project ("CWA Agreement"), that CWA will regularly communicate with the Authority with respect to the design, development, procurement and construction of the Project, by (i) inviting the Authority to participate in certain development and planning meetings between CWA and its consultants in order to facilitate communication and input from the Authority; and (ii) providing that CWA will provide the Authority with written monthly (or other than monthly if mutually agreed to by CWA and the Authority) updates regarding the progress, status of contracts and other relevant aspects of the Project. Such agreement will also provide that CWA will consider the Authority's input. Houston and the Authority recognize that the communication, input and status reports referenced above do not alter CWA's role as the sole Project Manager. In addition, Houston will ensure that CWA will invite the Authority and Houston to all meetings between CWA and its consultants, and between CWA and its construction contractors, where substantive issues that have a financial or project development impact on the Authority or Houston are being discussed. Houston will allow the Authority a reasonable opportunity to review and comment on any proposed supplements, modifications, or amendments to the CWA Agreement.

Section 1B. Project Construction. The Public Works Director shall review and approve: (i) preliminary engineering reports before CWA proceeds with final design of the Project; (ii) final plans for the Project before CWA advertises for construction contracts or otherwise proceeds with construction; and (iii) CWA's proposed award of contract(s) for construction of the Project before CWA awards such construction contract(s). If requested by the Authority, Houston will provide to the Authority copies of documents possessed by Houston regarding the design, construction, or financing of the Project, and Houston may require the Authority to pay for the costs of duplication.

Section 2. Funding of the Project. Subject to the terms of this First Supplement, Houston shall issue (or cause CWA to issue) bonds, notes, or other obligations to pay for all of the costs of the Project, except the Project Right-of-Way Costs and the CWA Interest Amount. Houston shall approve all bonds, notes, or other obligations issued by CWA (including those issued for refunding or refinancing purposes) that are related to the Project prior to CWA's issuance of same. Houston shall ensure that all proceeds, and related accrued interest, from the bonds, notes, or other obligations issued by CWA or Houston for the Project shall only be used by CWA and/or Houston to pay for: (i) costs of construction, surveying, engineering and permitting for the Project; and (ii) issuance costs associated with the bonds, notes, or other obligations for the Project. The Authority shall be obligated to pay Houston the

Phase 1 Annual New Untreated Water Facilities Payments and Phase 2 Annual New Untreated Water Facilities Payments due to Houston pursuant to Sections 5 through 7 of this First Supplement regardless of whether it is Houston or CWA that issues the bonds, notes, or other obligations for the Project. The Authority shall not owe any obligation whatsoever to CWA, including, without limitation, any obligation to pay to CWA any debt service on bonds, notes, or other obligations issued by CWA for the Project.

Houston shall use its best efforts, and shall cause CWA to use its best efforts, to obtain the maximum amount of funds and most favorable financing terms available from the Texas Water Development Board's Water Infrastructure Fund ("WIF") program to pay for the costs for Phase 1, defined below, except for the Project Right-of-Way Costs. In addition to the other terms and conditions of this First Supplement, neither party shall have any obligation to pay any funds for the Project unless and until Houston or CWA have obtained \$28,000,000 in WIF funding for use on the Project under a WIF program that provides for: (i) the accrual of zero interest on such funds for up to 10 years or until the Project is completed, whichever occurs first (the "Up to 10 Year Period"); and (ii) no interest or principal payments on such funds during the Up to 10 Year Period.

Section 2A. Lump Sum Payment for Project Right-of-Way Costs and the Payment for CWA Interest Amount.

Pursuant to this Section 2A, the Authority will be responsible to pay to Houston the Authority's Pro-Rata Share of Payment for Right-of-Way Costs and also the Authority's Pro-Rata Share of CWA Interest Amount. No payments are due from the Authority for Project Right-of-Way or for CWA interest except those payments set forth in this Section 2A. The Authority shall pay Houston the Authority's Pro-Rata Share of CWA Interest Amount no later than January 31, 2009. Promptly (but no later than five (5) business days) thereafter, Houston will forward said funds to CWA.

Currently, Houston estimates that the Project Right-of-Way Costs will be \$15,000,000. The Authority will pay to Houston the Authority's Lump Sum Payment for Right-of-Way Costs in two segments as follows: (i) no later than June 15, 2009, \$1,600,000; and (ii) no later than June 15, 2010, \$800,000. Houston shall (or shall cause CWA to) maintain these funds in an interest bearing account. Houston shall ensure that all proceeds, and related accrued interest, from the Authority's Lump Sum Payment for Right-of-Way Costs shall only be used by CWA and/or Houston to pay for Project Right-of-Way Costs.

In the event Houston reasonably determines that said \$15,000,000 is not sufficient to pay for the Project Right-of-Way Costs, Houston shall immediately notify the Authority and Houston shall reasonably determine the amount of the additional funds

needed to pay for the remainder of the Project Right-of-Way Costs (“Additional Right-of-Way Costs”). Thereafter, Houston shall invoice the Authority for the Authority’s Additional Payment for Right-of-Way Costs, which invoice the Authority shall pay to Houston within ninety (90) days of receipt.

Once CWA or Houston has acquired all of the Project Right-of-Way, but no later than June 30, 2014, Houston shall notify the Authority that all of the Project Right-of-Way has been acquired. Within one hundred eighty (180) days thereafter, Houston shall (or shall cause CWA to) prepare an accounting of the total Project Right-of-Way Costs actually paid by Houston or CWA. Such accounting shall also state the difference, if any, between: (i) the amounts paid by the Authority for Project Right-of-Way Costs pursuant to this Section 2A, and (ii) the Authority’s Pro-Rata Share of Payment for Right-of-Way Costs. Houston shall (or shall cause CWA to) provide the Authority with 65 days to review and comment on such accounting prior to the accounting being finalized. Houston and the Authority agree to “true-up” the payments made by the Authority for Project Right-of-Way Costs such that if the Authority has underpaid, taking into account interest accrued, it will pay Houston such shortfall within 60 days of the Authority receiving the final accounting, and Houston agrees to refund to the Authority any overpayment, taking into account interest accrued, within 60 days of Houston receiving the final accounting if the Authority overpaid.

Section 3. Reservation. The Authority seeks to increase its Untreated Water Facilities Demand Allocation from 31.0 MGD to 159.0 MGD (which is currently estimated to be the Authority’s surface water demand in the year 2040). The Authority hereby makes a Reservation request for said 128.0 MGD increase (the “2008 UWF Reservation”). (It is agreed and understood that nothing in this First Supplement shall be construed to be a Reservation for Treated Water Facilities. Reservations for Treated Water Facilities shall be governed by the Contract.) Upon completion of the Project, as certified by the Utility Official, the 2008 UWF Reservation will be deemed approved.

Houston agrees to cause the construction of the Project so that it is substantially complete and able to deliver water no later than June 30, 2019. The Utility Official shall issue a written certification to the Authority that the Project has been completed no later than sixty (60) days after the Project is completed. Houston shall cause the Project to be designed, acquired and constructed in two phases, as described below. Phase 1 of the Project (“Phase 1”) shall be the permitting, engineering, surveying, right-of-way and site acquisition necessary for the Project, which is currently estimated at a cost of \$43,000,000. Phase 2 of the Project (“Phase 2”) shall be the construction and related costs (for example, without limitation, construction administration, project representation, materials testing) necessary for the Project, which is currently estimated at a cost of \$214,000,000.

As payment for the 2008 UWF Reservation and the Authority's share of the costs of the Project, the Authority shall owe Houston: (i) the payments due under Section 2A; (ii) the four (4) Payments for Existing Untreated Water Facilities, described below; and (iii) the Phase 1 and Phase 2 Annual New Untreated Water Facilities Payments, described below. Upon completion of the Project, as certified by the Utility Official, the Authority's New UWFDA shall be 159.0 MGD and the Authority shall be entitled to receive same. The only payments due from the Authority whatsoever for the Project or the 2008 UWF Reservation are: (i) the payments due under Section 2A; (ii) the four (4) Payments for Existing Untreated Water Facilities, described below; and (iii) the Phase 1 and Phase 2 Annual New Untreated Water Facilities Payments described below.

Section 4A. Payment for Existing Untreated Water Facilities Formula. The formula in Section 3.02(c) of the Contract used to calculate the Payment for Existing Untreated Water Facilities shall not apply to the 2008 UWF Reservation. Instead, the formula and provisions of Sections 4A and 4B of this Supplement shall apply. For the 2008 UWF Reservation, the Authority shall make four (4) Payments for Existing Untreated Water Facilities, as described below:

(1) The 1st Payment for Existing Untreated Water Facilities For the 2008 UWF Reservation shall be calculated as follows: $(A/B)C$

Where: "A" is 90.9 MGD, which is the portion (in MGD) of the 2008 UWF Reservation that the Authority has determined that it needs by June 30, 2025. If pursuant to Section 8 of this First Supplement, prior to June 30, 2019, the Authority submits a written request to Houston to receive (prior to completion of the Project) a portion of the Water included in "A" of the preceding sentence, and said request is approved in writing by the Utility Official pursuant to the Contract, then "A" in the preceding sentence shall be reduced by the amount of such request. (For example, if prior to June 30, 2019, the Authority were to request, and obtain Utility Official approval for, 2 MGD out of the amount included in "A," then "A" would be reduced to 88.9 MGD.)

"B" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during Houston's fiscal year ending June 30, 2011, including such untreated surface water received at Houston's water treatment plants as well as billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"C" is the Outstanding Debt for all Existing Untreated Water Facilities (such facilities being shown on Exhibit "A" of the Contract) as of July 1, 2011. In no event shall "C" be greater than \$182,952,232.

(2) The 2nd Payment for Existing Untreated Water Facilities For the 2008 UWF Reservation shall be calculated as follows: $(A/B)C$

Where: "A" is the additional portion (in MGD) of the 2008 UWF Reservation that the Authority needs by June 30, 2030, as determined by the Authority. No later than June 30, 2020, the Authority shall determine this amount and shall issue a written notice to the Utility Official identifying this amount.

"B" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during Houston's fiscal year ending June 30, 2019, including such untreated surface water received at Houston's water treatment plants as well as billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"C" is the Outstanding Debt for all Existing Untreated Water Facilities (such facilities being shown on Exhibit "A" of the Contract) as of July 1, 2019. In no event shall "C" be greater than \$107,438,399.

(3) The 3rd Payment for Existing Untreated Water Facilities For the 2008 UWF Reservation shall be calculated as follows: $(A/B)C$

Where: "A" is the additional portion (in MGD) of the 2008 UWF Reservation that the Authority needs by June 30, 2035, as determined by the Authority. No later than June 30, 2025, the Authority shall determine this amount and shall issue a written notice to the Utility Official identifying this amount.

"B" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during Houston's fiscal year ending June 30, 2024, including such untreated surface water received at Houston's water treatment plants as well as billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"C" is the Outstanding Debt for all Existing Untreated Water Facilities (such facilities being shown on Exhibit "A" of the Contract) as of July 1, 2024. In no event shall "C" be greater than \$74,538,900.

(4) The 4th Payment for Existing Untreated Water Facilities For the 2008 UWF Reservation shall be calculated as follows: $(A/B)C$

Where: "A" is the additional portion (in MGD) of the 2008 UWF Reservation that the Authority needs by June 30, 2040, as determined by the Authority. No

later than June 30, 2030, the Authority shall determine this amount and shall issue a written notice to the Utility Official identifying this amount.

“B” is the total amount of untreated surface water (in MGD) sold to Houston’s water customers during Houston’s fiscal year ending June 30, 2029, including such untreated surface water received at Houston’s water treatment plants as well as billable quantity (including any take-or-pay amounts) taken by Houston’s untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

“C” is the Outstanding Debt for all Existing Untreated Water Facilities (such facilities being shown on Exhibit “A” of the Contract) as of July 1, 2029. In no event shall “C” be greater than \$46,453,350.

Section 4B. Payment for Existing Untreated Water Facilities Due Dates. Houston shall provide the Authority with the calculation for the 1st Payment for Existing Untreated Water Facilities no later than October 1, 2011. The Authority shall pay Houston the 1st Payment for Existing Untreated Water Facilities no later than sixty (60) days after the Authority receives written certification from the Utility Official that the Project has been completed.

Houston shall provide the Authority with the calculation for the 2nd Payment for Existing Untreated Water Facilities no later than October 1, 2020. The Authority shall pay Houston the 2nd Payment for Existing Untreated Water Facilities upon the earlier of: (i) sixty (60) days after the Authority sends written notice to Houston that the Authority requires the Water included in “A” in the 2nd Payment for Existing Untreated Water Facilities formula; or (ii) June 30, 2025.

Houston shall provide the Authority with the calculation for the 3rd Payment for Existing Untreated Water Facilities no later than October 1, 2025. The Authority shall pay Houston the 3rd Payment for Existing Untreated Water Facilities upon the earlier of: (i) sixty (60) days after the Authority sends written notice to Houston that the Authority requires the Water included in “A” in the 3rd Payment for Existing Untreated Water Facilities formula; or (ii) June 30, 2030.

Houston shall provide the Authority with the calculation for the 4th Payment for Existing Untreated Water Facilities no later than October 1, 2030. The Authority shall pay Houston the 4th Payment for Existing Untreated Water Facilities upon the earlier of: (i) sixty (60) days after the Authority sends written notice to Houston that the Authority requires the Water included in “A” in the 4th Payment for Existing Untreated Water Facilities formula; or (ii) June 30, 2035.

Section 5. Formulas for Phases 1 and 2 Annual New Untreated Water Facilities Payment. The formulas in Section 3.02(c) of the Contract used to calculate the

Annual New Untreated Water Facilities Payments shall not apply to the Authority's New UWFDA. Instead, the formula and provisions of this Section 5 shall apply. For the Authority's New UWFDA, the Authority shall pay Houston the Phase 1 Annual New Untreated Water Facilities Payment and Phase 2 Annual New Untreated Water Facilities Payment as described below:

(1) Phase 1 Annual New Untreated Water Facilities Payment = (D/E)F

Where: "D" is 159.0 MGD, which is the Authority's 31.0 MGD current Untreated Water Facilities Demand Allocation plus the additional 128.0 MGD that the Authority will obtain via the 2008 UWF Reservation upon completion of the Project.

"E" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during the Houston fiscal year that precedes the date Houston calculates the Phase 1 Annual New Untreated Water Facilities Payment, including such untreated surface water received at Houston's water treatment plants as well as the billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"F" is the Annual Outstanding Debt Service for Phase 1 of the Project as of the first day of the Houston fiscal year in which Houston calculates the Phase 1 Annual New Untreated Water Facilities Payment. ("F" shall equal zero for any Houston fiscal year in which the Annual Outstanding Debt Service for Phase 1 is zero.)

(2) Phase 2 Annual New Untreated Water Facilities Payment = (D/E)G

Where: "D" is 159.0 MGD, which is the Authority's 31.0 MGD current Untreated Water Facilities Demand Allocation plus the additional 128.0 MGD that the Authority will obtain via the 2008 UWF Reservation upon completion of the Project.

"E" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during the Houston fiscal year that precedes the date Houston calculates the Phase 2 Annual New Untreated Water Facilities Payment, including such untreated surface water received at Houston's water treatment plants as well as the billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

“G” is the Annual Outstanding Debt Service for Phase 2 of the Project as of the first day of the Houston fiscal year in which Houston calculates the Phase 2 Annual New Untreated Water Facilities Payment. (“G” shall equal zero for any Houston fiscal year in which the Annual Outstanding Debt Service for Phase 2 is zero.)

Section 5A. Definition of “Annual Outstanding Debt Service.” The term "Annual Outstanding Debt Service" shall mean the amount of debt service (principal and interest) actually owed by Houston during a Houston fiscal year on any and all bonds, notes, or other obligations for construction and acquisition of the applicable New Untreated Water Facilities. In determining the amount of principal and interest actually owed by Houston, the amount of any capitalized interest (and its interest earnings) attributable to said bonds, notes, or other obligations and the amount of any debt service reserve fund (and its interest earnings) attributable to said bonds, notes, or other obligations shall be taken into account. In connection with the interest earnings described in the preceding sentence that are attributable to bonds, notes, or other obligations issued for the Project, if rebate or yield reduction payments are due from Houston and/or CWA to the United States of America pursuant to the requirements of the Internal Revenue Code of 1986 (as amended from time to time) or the Treasury Regulations promulgated from time to time thereunder, Houston and/or CWA shall be authorized to use proceeds out of such interest earnings to make such payments; and, if such proceeds are insufficient to make the necessary payment, then any shortfall may thereafter be included in the calculation of “Annual Outstanding Debt Service.”

Section 6. Calculation and Administration of Phase 1 Annual New Untreated Water Facilities Payments. Notwithstanding any provision of this First Supplement, Houston shall cause the bonds, notes, or other obligations issued by CWA or Houston to finance Phase 1 to be structured such that there is no Annual Outstanding Debt Service for Phase 1 until after January 1, 2018. The bonds, notes, or other obligations issued for Phase 1 will have two (2) debt service payments in each Fiscal Year and, accordingly, the Phase 1 Annual New Untreated Water Facilities Payment will be divided into two (2) payments in each Fiscal Year. Starting with the Fiscal Year beginning July 1, 2009, and continuing for each Fiscal Year thereafter, Houston will calculate, according to the formula above, the Authority’s Phase 1 Annual New Untreated Water Facilities Payment and will provide the Authority with a remittance letter (the “Phase 1 Annual Letter”) within 60 days after the beginning of each Fiscal Year. The Phase 1 Annual Letter will include for that Fiscal Year: (i) the calculation for the Authority’s Phase 1 Annual New Untreated Water Facilities Payment; (ii) the calculation of the portion of Annual Outstanding Debt Service for Phase 1 to be paid by the City and all other entities (including water authorities); and (iii) the dollar amounts, wiring instructions, and the remittance date (“Phase 1 Remittance Date”) for each of the two portions of the Authority’s Phase 1 Annual New Untreated Water Facilities Payment. Each of the two Phase 1 Remittance Dates will be no more than twenty (20)

business days prior to the date of the applicable actual debt service payment due from Houston in each Fiscal Year. For any Fiscal Year in which the Annual Outstanding Debt Service for Phase 1 is zero, the Phase 1 Annual Letter shall state that no payment is due from the Authority for such Fiscal Year. The Authority shall wire its Phase 1 Annual New Untreated Water Facilities Payment directly to Houston pursuant to the wiring instructions included in the Phase 1 Annual Letter on or before the Phase 1 Remittance Dates.

Houston shall maintain each Phase 1 Annual New Untreated Water Facilities Payment in an interest-bearing account, which interest (and any interest accrued on such interest) shall be credited by Houston against the Authority's next Phase 1 Annual New Untreated Water Facilities Payment. Each Phase 1 Annual Letter issued by Houston shall identify the amount of such interest credited to the Authority.

The Authority shall owe Houston the Phase 1 Annual New Untreated Water Facilities Payment each year during the life of the bonds, notes or other obligations issued by CWA or Houston to finance Phase 1 or until the Contract is no longer in effect, whichever occurs first. To assist the Authority in its financial planning, Houston shall, prior to the last day of each Fiscal Year, send a written statement to the Authority of Houston's reasonable estimate of: (i) the Annual Outstanding Debt Service for Phase 1 for each of the following three (3) Fiscal Years; and (ii) the amount of untreated surface water that Houston estimates will be included in factor "E" in Section 5 for each of the following three (3) Fiscal Years. Houston shall use the Phase 1 Annual New Untreated Water Facilities Payments, and interest accrued thereon in the interest-bearing account described in the preceding paragraph, only for the purpose of paying Annual Outstanding Debt Service on the bonds, notes or other obligations issued by CWA or Houston for the costs of Phase 1.

Houston will ensure that: (i) at no time will the amount held in any reserve fund associated with bonds, notes or other obligations issued by CWA or Houston for the costs of Phase 1 exceed the amount authorized for a "bona fide debt service fund" for tax-exempt obligations; and (ii) to the extent not required to pay rebate amounts to the United States, surplus or other remaining amounts in any such reserve funds will be applied upon the final maturities of principal of and interest on the bonds, notes or other obligations to pay principal of and interest then due, so that on final maturity of the bonds, notes or other obligations no balances will remain in any reserve fund.

Section 7. Calculation and Administration of Phase 2 Annual New Untreated Water Facilities Payments. Notwithstanding any provision of this First Supplement, Houston shall use its best efforts to cause the bonds, notes, or other obligations issued by CWA or Houston to finance Phase 2 to be structured such that there is no Annual Outstanding Debt Service for Phase 2 until after January 1, 2018. The bonds, notes, or other obligations issued for Phase 2 will have two (2) debt service payments in each Fiscal Year and, accordingly, the Phase 2 Annual New Untreated Water Facilities

Payment will be divided into two (2) payments in each Fiscal Year. Starting with the first Fiscal Year in which such bonds, notes, or other obligations are issued, and continuing for each Fiscal Year thereafter, Houston will calculate, according to the formula above, the Authority's Phase 2 Annual New Untreated Water Facilities Payment and will provide the Authority with a remittance letter (the "Phase 2 Annual Letter") within 60 days after the beginning of each Fiscal Year. The Phase 2 Annual Letter will include for that Fiscal Year: (i) the calculation for the Authority's Phase 2 Annual New Untreated Water Facilities Payment; (ii) the calculation of the portion of Annual Outstanding Debt Service for Phase 2 to be paid by the City and all other entities (including water authorities); and (iii) the dollar amount, wiring instructions, and the remittance date ("Phase 2 Remittance Date") for each of the two portions of the Authority's Phase 2 Annual New Untreated Water Facilities Payment. Each of the two Phase 2 Remittance Dates will be no more than twenty (20) business days prior to the date of the applicable actual debt service payment due from Houston in each Fiscal Year. For any Fiscal Year in which the Annual Outstanding Debt Service for Phase 2 is zero, the Phase 2 Annual Letter shall state that no payment is due from the Authority for such Fiscal Year. The Authority shall wire its Phase 2 Annual New Untreated Water Facilities Payment directly to Houston pursuant to the wiring instructions included in the Phase 2 Annual Letter on or before the Phase 2 Remittance Dates.

Houston shall maintain each Phase 2 Annual New Untreated Water Facilities Payment in an interest-bearing account, which interest (and any interest accrued on such interest) shall be credited by Houston against the Authority's next Phase 2 Annual New Untreated Water Facilities Payment. Each Phase 2 Annual Letter issued by Houston shall identify the amount of such interest credited to the Authority.

The Authority shall owe Houston the Phase 2 Annual New Untreated Water Facilities Payment each year during the life of the bonds, notes or other obligations issued by CWA or Houston to finance Phase 2 or until the Contract is no longer in effect, whichever occurs first. To assist the Authority in its financial planning, Houston shall, prior to the last day of each Fiscal Year, send a written statement to the Authority of Houston's reasonable estimate of: (i) the Annual Outstanding Debt Service for Phase 2 for each of the following three (3) Fiscal Years; and (ii) the amount of untreated surface water that Houston estimates will be included in factor "E" in Section 5 for each of the following three (3) Fiscal Years. Houston shall use the Phase 2 Annual New Untreated Water Facilities Payments, and interest accrued thereon in the interest-bearing account described in the preceding paragraph, only for the purpose of paying Annual Outstanding Debt Service on the bonds, notes or other obligations issued by CWA or Houston for the costs of Phase 2.

Houston will ensure that: (i) at no time will the amount held in any reserve fund associated with bonds, notes or other obligations issued by CWA or Houston for the costs of Phase 2 exceed the amount authorized for a "bona fide debt service fund" for

tax-exempt obligations; and (ii) to the extent not required to pay rebate amounts to the United States, surplus or other remaining amounts in any such reserve funds will be applied upon the final maturities of principal of and interest on the bonds, notes or other obligations to pay principal of and interest then due, so that on final maturity of the bonds, notes or other obligations no balances will remain in any reserve fund.

Prior to commencement of Phase 2, Houston shall attempt to obtain the Authority's written consent as to the date that Houston proposes commencement of Phase 2. The Authority shall not be obligated to pay any Phase 2 Annual New Untreated Water Facilities Payments until the Authority has consented in writing to the commencement of Phase 2; provided, however, if the Authority fails to provide such written consent to Houston by January 1, 2014, Houston shall have the right to commence Phase 2 and the Authority shall, after January 1, 2014, be required to pay Phase 2 Annual New Untreated Water Facilities Payments pursuant to this First Supplement.

Section 8. Requests To Obtain Water Prior To June 30, 2019. If, prior to July 1, 2012, the Authority submits a written request to Houston to receive (prior to completion of the Project) a portion of the Untreated Water included in "A" of the 1st Payment for Existing Untreated Water Facilities formula, and said request is approved in writing by the Utility Official pursuant to the Contract, then the payment for said request shall be calculated under 3.02(b) of the Contract and "B" and "C" in Section 3.02(b) of the Contract shall have the definition that is provided for "B" and "C", respectively, in Section 3.02(b) of the Contract. If, however, after July 1, 2012, but before June 30, 2019, the Authority submits a written request to Houston to receive (prior to completion of the Project) a portion of the Untreated Water included in "A" of the 1st Payment for Existing Untreated Water Facilities formula, and said request is approved in writing by the Utility Official pursuant to the Contract, then for purposes of that request, "B" and "C" in Section 3.02(b) of the Contract shall be revised to mean the definitions of "B" and "C" that are provided in Section 4A(1) of this First Supplement. The payment for Water received under any requests made pursuant to this Section 8 shall be made by the applicable due date required in Section 3.02(b) of the Contract; provided, however, in no event shall such payment be made to Houston later than sixty (60) days after the Authority receives written certification from the Utility Official that the Project has been completed. Any request submitted to the Utility Official under Section 3.02(b) of the Contract prior to June 30, 2019, as provided for in this Section 8, shall not be considered as exceeding the Authority's New UWFDA.

Section 9. Payment for Untreated Water Facilities Costs Avoided. If before December 31, 2028, the Authority submits a Reservation request that exceeds the Authority's New UWFDA and such Reservation does not require the construction of New Untreated Water Facilities, the Authority shall pay Houston the "Payment for Untreated Water Facilities Costs Avoided." The Payment for Untreated Water Facilities

Costs Avoided shall equal the total dollar amount, without interest or penalty, of the applicable Payment for Existing Untreated Water Facilities, as calculated under this First Supplement, and the total accrued Phase 1 and 2 Annual New Untreated Water Facilities Payments which would have been paid by the Authority, according to the hereinbefore formulas of this First Supplement, had the Authority made a Reservation request for such increase in this First Supplement. The Payment for Untreated Water Facilities Costs Avoided shall be made to Houston within one hundred twenty (120) days of the Authority's receipt of the Utility Official's approval of such later Reservation request. The Authority shall not owe Houston the Payment for Untreated Water Facilities Costs Avoided for a Reservation request that exceeds the Authority's New UWFDA if: (i) the Authority submits the Reservation request before December 31, 2028, and the Reservation requires the construction of New Untreated Water Facilities; or (ii) the Authority submits the Reservation request, regardless of whether or not it requires construction of New Untreated Water Facilities, after December 31, 2028.

The Payment for Untreated Water Facilities Costs Avoided, if any, with respect to the Project shall be calculated and determined pursuant to the preceding paragraph of this Section 9, and not pursuant to the final paragraph of Section 3.02 of the Contract.

Section 10. Future Reservations. The provisions of Sections 10, 10A, 10B, 10C, 10D, and 10E apply only to: (i) future Reservations of the Untreated Water Facilities Demand Allocation that exceed the Authority's New UWFDA; or (ii) to New Untreated Water Facilities, except for the Project. The Project shall be considered "New Untreated Water Facilities" for purposes of the Contract and this First Supplement. Subject to the provisions of this Section 10 (and Sections 10A, 10B, 10C, 10D, and 10E), the payment for all future Reservations of the Untreated Water Facilities Demand Allocation that exceed the Authority's New UWFDA (regardless of whether or not the Reservation requires construction of New Untreated Water Facilities) shall be calculated and made pursuant to the formulas of Section 3.02(c) of the Contract, as amended by this First Supplement, and not Sections 3.02(a) or (b) of the Contract. The Payment for Existing Untreated Water Facilities shall remain as set forth in Section 3.02(c) of the Contract and the Annual New Untreated Water Facilities Payment shall be revised and due as described below in Sections 10A, 10B, 10C, 10D, and 10E.

Section 10A. For a future Reservation of the Untreated Water Facilities Demand Allocation by the Authority that exceeds the Authority's New UWFDA and does not require the construction of New Untreated Water Facilities, the formula for Annual New Untreated Water Facilities Payment in Section 3.02(c) of the Contract shall be revised to read as described below in this Section 10A.

Annual New Untreated Water Facilities Payment = $(X/E)Z$

Where: "X" is the amount (in MGD) that the Authority seeks to increase its Untreated Water Facilities Demand Allocation, as identified in the applicable Authority Reservation request pursuant to this Section 3.02(c).

"E" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during the Houston fiscal year that precedes the date Houston calculates the Annual New Untreated Water Facilities Payment, including such untreated surface water received at Houston's water treatment plants as well as the billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"Z" is the Annual Outstanding Debt Service for all New Untreated Water Facilities as of the first day of the Houston fiscal year in which Houston calculates the Annual New Untreated Water Facilities Payment.

Section 10B. For a future Reservation of the Untreated Water Facilities Demand Allocation by the Authority that exceeds the Authority's New UWFDA and requires the construction of New Untreated Water Facilities, the formula for Annual New Untreated Water Facilities Payment in Section 3.02(c) of the Contract shall be revised to read as described below in this Section 10B.

Annual New Untreated Water Facilities Payment = $(X1/E)Y$ plus $(X/E)Y1$

Where: "X1" is the Authority's then-current Untreated Water Facilities Demand Allocation, plus the amount (in MGD) that the Authority seeks to increase its Untreated Water Facilities Demand Allocation upon completion of the New Untreated Water Facilities, as identified in the applicable Authority Reservation request pursuant to this Section 3.02(c).

"E" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during the Houston fiscal year that precedes the date Houston calculates the Annual New Untreated Water Facilities Payment, including such untreated surface water received at Houston's water treatment plants as well as the billable quantity (including any take-

or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"Y" is the Annual Outstanding Debt Service for all New Untreated Water Facilities (except the Project) as of the first day of the Houston fiscal year in which Houston calculates the Annual New Untreated Water Facilities Payment.

"X" is the amount (in MGD) that the Authority seeks to increase its Untreated Water Facilities Demand Allocation, as identified in the applicable Authority Reservation request pursuant to this Section 3.02(c).

"Y1" is the Annual Outstanding Debt Service for the Project as of the first day of the Houston fiscal year in which Houston calculates the Annual New Untreated Water Facilities Payment.

Section 10C. If Houston constructs or acquires New Untreated Water Facilities for any reason and the Authority does not desire capacity in the New Untreated Water Facilities and accordingly does not make a Reservation request for same, the formula for Annual New Untreated Water Facilities Payment in Section 3.02(c) of the Contract shall be revised to read as described below in this Section 10C.

Annual New Untreated Water Facilities Payment = (U/E)Y

Where: "U" is the Authority's then-current Untreated Water Facilities Demand Allocation (in MGD).

"E" is the total amount of untreated surface water (in MGD) sold to Houston's water customers during the Houston fiscal year that precedes the date Houston calculates the Annual New Untreated Water Facilities Payment, including such untreated surface water received at Houston's water treatment plants as well as the billable quantity (including any take-or-pay amounts) taken by Houston's untreated surface water customers, but excluding untreated surface water loss by evaporation or leakage.

"Y" is the Annual Outstanding Debt Service for all New Untreated Water Facilities (except the Project) as of the first day of the Houston fiscal year in which Houston calculates the Annual New Untreated Water Facilities Payment.

Section 10D. Any Annual New Untreated Water Facilities Payments that may be due pursuant to Sections 10A, 10B, or 10C shall be in addition to the Phase 1 Annual New Untreated Water Facilities Payments and Phase 2 Annual New Untreated Water Facilities Payments otherwise due under Sections 5 through 7.

Section 10E. The paragraph in Section 3.02(c) of the Contract that begins with the phrase “Within ninety (90) days . . .” and ends with the phrase “three (3) Houston fiscal years” is deleted. The paragraph in Section 3.02(c) of the Contract that begins with the phrase “Houston shall maintain” and ends with the phrase “if the Authority overpaid” is deleted. The following provisions of this Section 10E hereby replace the two (2) aforementioned deleted paragraphs:

“The bonds, notes, or other obligations issued for New Untreated Water Facilities will have two (2) debt service payments in each Fiscal Year and, accordingly, the Annual New Untreated Water Facilities Payment will be divided into two (2) payments in each Fiscal Year. Starting with the Fiscal Year in which the Authority makes a Reservation under Sections 10A or 10B (or the Fiscal Year in which Houston first issues bonds, notes, or other obligations to finance New Untreated Water Facilities under Section 10C), and continuing for each Fiscal Year thereafter, Houston will calculate, according to the applicable formula above, the Authority’s Annual New Untreated Water Facilities Payment and will provide the Authority with a remittance letter within 60 days after the beginning of each Fiscal Year. Such letter will include for that Fiscal Year: (i) the calculation for the Authority’s Annual New Untreated Water Facilities Payment; (ii) the calculation of the portion of Annual Outstanding Debt Service to be paid by the City and all other entities (including water authorities); and (iii) the dollar amounts, wiring instructions, and the remittance date for each of the two portions of the Authority’s Annual New Untreated Water Facilities Payment. Each of the two remittance dates will be no more than twenty (20) business days prior to the date of the applicable actual debt service payment due from Houston in each Fiscal Year. For any Fiscal Year in which the Annual Outstanding Debt Service for the New Untreated Water Facilities is zero, said letter shall state that no payment is due from the Authority for such Fiscal Year. The Authority shall wire its Annual New Untreated Water Facilities Payment directly to Houston pursuant to the wiring instructions included in said letter on or before said remittance dates.

Houston shall maintain each Annual New Untreated Water Facilities Payment in an interest-bearing account, which interest (and any interest accrued on such interest) shall be credited by Houston against the Authority’s next Annual New Untreated Water Facilities Payment. Each aforementioned letter issued by Houston shall identify the amount of such interest credited to the Authority.

The Authority shall owe Houston the Annual New Untreated Water Facilities Payment each year during the life of the bonds, notes or other obligations issued by Houston to finance the New Untreated Water Facilities or until the Contract is no longer in effect, whichever occurs first. To assist the Authority in its financial planning, Houston shall, prior to the last day of each Fiscal Year, send a written statement to the Authority of Houston’s reasonable estimate of: (i) the Annual Outstanding Debt

Service for New Untreated Water Facilities for each of the following three (3) Fiscal Years; and (ii) the amount of untreated surface water that Houston estimates will be included in factor "E" in Sections 10A, 10B, or 10C for each of the following three (3) Fiscal Years. Houston shall use the Annual New Untreated Water Facilities Payments, and interest accrued thereon in the interest-bearing account described in the preceding paragraph, only for the purpose of paying Annual Outstanding Debt Service on the bonds, notes or other obligations issued for the New Untreated Water Facilities.

Houston will ensure that: (i) at no time will the amount held in any reserve fund associated with bonds, notes or other obligations issued by Houston for the costs of New Untreated Water Facilities exceed the amount authorized for a "bona fide debt service fund" for tax-exempt obligations; and (ii) to the extent not required to pay rebate amounts to the United States, surplus or other remaining amounts in any such reserve funds will be applied upon the final maturities of principal of and interest on the bonds, notes or other obligations to pay principal of and interest then due, so that on final maturity of the bonds, notes or other obligations no balances will remain in any reserve fund."

Section 11. Bonds, Notes and Other Obligations Issued for the Project. Houston shall cause the Annual Outstanding Debt Service for the Project and the bonds, notes, or other obligations issued by CWA or Houston for the Project to be structured in a manner consistent with the criteria set forth in Exhibit "A" attached hereto. Houston may from time to time refinance, or cause the refinancing of, the outstanding debt service or outstanding debt for the Project; provided, however, Houston shall not refinance or modify (or allow any refinancings or modifications) of the outstanding debt service or outstanding debt for the Project that would increase any payments due from the Authority or extend any time-period(s) during which the Authority owes payments to Houston. Starting in 2008, Houston will annually provide to the Authority a copy of Houston's Comprehensive Annual Financial Report ("CAFR") and a report showing Houston's outstanding debt and outstanding debt service for all Untreated Water Facilities.

Section 12. Terms of Contract. This First Supplement shall control over the Contract with respect to the matters addressed in this First Supplement, included, without limitation: (i) the Project and all payments from the Authority related to same, and (ii) the 2008 UWF Reservation, the Authority's New UWFDA, and all payments related to both of same. Except to the extent inconsistent with this First Supplement, all terms of the Contract remain in full force and effect. Capitalized terms used in this First Supplement that are not defined in this First Supplement shall have the same meanings given such terms in the Contract. This First Supplement, the Contract, the "Interlocal Cost Sharing Agreement (Greens Road Water Line Project)" effective March 11, 2005, and the "Interim Treated Water Supply Contract" effective March 18, 2003, contain all the agreements made between the parties. This First Supplement shall be for the sole

and exclusive benefit of the parties hereto and shall not be construed to confer any rights upon any third party. The parties agree that this First Supplement shall not be construed in favor of or against either party on the basis that the party did or did not author this First Supplement.

Section 13. Use of Water. While it is understood that Houston may use, dispose of, sell and/or transfer any water (other than the Authority's Untreated Water Facilities Demand Allocation) from the Project, Houston agrees that such use, disposition, sale or transfer shall not harm the Authority or impinge upon the Authority's rights under the Contract or this First Supplement. Although CWA is the Project Manager and may issue bonds, notes, or other obligations for the Project, Houston shall at all times be obligated to provide the Authority with the Authority's Water Demand Allocation (including its Untreated Water Facilities Demand Allocation) pursuant to the Contract and this First Supplement.

Section 14. Existing Payments. With respect to the Authority's Water Demand Allocation as it existed prior to the Effective Date, nothing in this First Supplement shall be construed to relieve the Authority of its obligation to pay the City payments, if any, that are otherwise due to the City: (i) for Existing Untreated Water Facilities pursuant to Section 3.02(a) and 3.02(b) of the Contract; (ii) for Treated Water Facilities pursuant 3.03 of the Contract; or (iii) for O&M Expenses pursuant to Article IV of the Contract.

Section 15. Term. Article V of the Contract is deleted and replaced with the following: "The Contract (being effective as of the date provided in the Contract) and the First Supplement (being effective as of the Effective Date) shall expire at noon on January 1, 2080. At such time as the Contract and the First Supplement are no longer in force and effect, if requested in writing by the Authority, Houston agrees to continue to provide water services to the Authority upon the payment of reasonable rates and charges therefor which take into account the capital payments paid by the Authority to Houston pursuant to the Contract (and any supplements, including the First Supplement, or amendments thereto) and the Authority's equitable interest described below. Upon the date that the Contract and the First Supplement are no longer in force and effect, the Authority will own the right to use the capacity of the Untreated Water Facilities and Treated Water Facilities proportionate to the amount of its Water Demand Allocation as it existed immediately prior to such date. The immediately preceding two (2) sentences shall survive the expiration or termination of the Contract and the First Supplement."

Section 16. O&M Expenses. The Contract currently provides that the Authority will pay the estimated O&M Expenses monthly by paying 1/12 of the Annual O&M Budget. The parties, however, seek to hereby amend the Contract to instead provide that the Authority will pay the estimated O&M Expenses on a per 1,000 gallons

consumption basis. The parties also seek to hereby amend the Contract to delete the requirement that an O&M Reserve be maintained.

The first sentence of Section 4.03 of the Contract is deleted and replaced with the following: "Ninety (90) days prior to the commencement of delivery of Water under this Contract, and ninety (90) days prior to the beginning of each Fiscal Year thereafter, Houston shall provide the Authority for its review and comment the proposed Annual O&M Budget showing (i) an estimate of costs and expenses to be included in items "C" and "D" of the formula shown in Section 4.02 of the Contract for the coming Fiscal Year; (ii) a calculation of the estimated O&M Expenses for the coming Fiscal Year, and (iii) the Estimated O&M Rate for the coming Fiscal Year."

The first paragraph of Section 4.04 of the Contract is deleted and replaced with the following: "During Each Fiscal Year, Houston will invoice the Authority monthly for the Authority's share of estimated O&M Expenses, and the charge on such invoice shall be calculated by multiplying (A) the Estimated O&M Rate times (B) the amount of Water taken by the Authority during the prior month, as determined by Houston's reading of the measuring equipment at the Point(s) of Measurement. The Authority shall pay such invoices within 35 days after receipt. Any late payment shall bear interest at the rate applicable under Chapter 2251, Texas Government Code."

In addition to the requirements of Section 4.06 of the Contract, the Annual Audit shall include: (i) the difference between the Estimated O&M Rate and the Actual O&M Rate; (ii) the amount of overpayment or underpayment of O&M Expenses by the Authority; and (iii) the amount of interest due pursuant to this paragraph. The fourth sentence of Section 4.06 is deleted and replaced with the following: "During the next Fiscal Year, Houston and the Authority agree to "true-up" the payments made for O&M Expenses during the prior Fiscal Year such that if the Authority has underpaid it will make timely payment of all O&M Expenses owed, plus interest described below, in the next monthly billing following the Authority's receipt of the final audit; and Houston agrees to give credit to the Authority if it has overpaid O&M Expenses for the prior Fiscal Year, such credit, plus the interest described below, shall be given on the next monthly billing(s) following Houston's receipt of the final audit. The amount of any underpayments or overpayments of O&M Expenses by the Authority shall accrue simple interest at the Texpool Rate, on a monthly basis, from the date payment was due until the date the true-up is completed pursuant to the preceding sentence. Prior to completion of the audit, Houston will provide the Authority at least 40 days to review and comment on the draft audit."

On or before January 15th each year, the Authority shall provide Houston with its Anticipated Demand in order for Houston to be able to prepare the Annual O&M Budget as required under the Contract.

The requirement in the Contract requiring that an O&M Reserve be maintained is hereby deleted. Accordingly, the second paragraph of Section 4.04 of the Contract is hereby deleted.

Section 17. Outstanding Debt for Untreated Water Facilities. Exhibit "E" of the Contract included estimated costs for certain items (the "Items") listed in said Exhibit "E." Section 3.02(a) of the Contract contemplated that Houston would, after the effective date of the Contract, incur actual Outstanding Debt for the Items. Houston has heretofore incurred Outstanding Debt for the Items. Accordingly, the Authority and Houston agree that: (i) Factor "C" on Exhibit "E" of the Contract is revised to read as shown on the attached Exhibit "B"; and (ii) the definition of "C" on page 6 of the Contract is amended to read as follows "C equals \$365,655,353, which is the Outstanding Debt as shown on Exhibit "B" to the First Supplement, items 1-8 inclusive, for all Existing Untreated Water Facilities (such facilities being shown on Exhibit "A" of the Contract)".

[EXECUTION PAGES FOLLOW]

IN WITNESS WHEREOF, the parties hereto have executed this First Supplement in multiple copies, each of which shall be deemed to be an original, effective on the date of countersignature indicated below.

CITY OF HOUSTON, TEXAS

By: _____
Mayor

Executed for and on behalf of City pursuant to authority granted by the City Council Ordinance No. ____, passed _____, _____, 20____, a copy of which is attached hereto for reference.

ATTEST/SEAL

City Secretary

APPROVED:

Director, Department of Public Works and Engineering

APPROVED AS TO FORM:

Sr. Assistant City Attorney
L.D. File No. 80-99041-01

COUNTERSIGNED BY:

City Controller

DATE COUNTERSIGNED: _____

**NORTH HARRIS COUNTY REGIONAL
WATER AUTHORITY**

By: _____
Kelly P. Fessler, President

Date Signed: _____

ATTEST:

By: _____
Ron Graham, Secretary

(AUTHORITY SEAL)

APPROVED:

By: _____
Jimmie Schindewolf, P.E.
General Manager

Exhibit "A"

The Annual Outstanding Debt Service for the Project and the bonds, notes, or other obligations issued by CWA or Houston for the Project will adhere to the following:

1. The bonds, notes, or other obligations will have a final stated maturity no earlier than 20 years, and no later than 30 years, after their date of issuance (though serial maturities and sinking fund redemption may be earlier).
2. During the period where debt service is due, the maximum annual debt service payment on any issuance of bonds, notes, or other obligations shall not exceed the average annual debt service payment on that issuance by more than 25%.
3. The bonds, notes, or other obligations shall be optionally callable, without a premium, no later than 15 years after the date of issuance.
4. Any debt service reserve fund for the bonds, notes, or other obligations shall be: (i) funded with proceeds of the bonds, notes, or other obligations; and/or (ii) satisfied with a surety policy acquired from a financial institution with a long term credit rating in the highest generic rating category from at least two nationally recognized rating services.
5. All costs of issuance, including, without limitation, underwriters' discount, bond insurance premium, surety bond policy, rating agency fees, bond counsel and financial advisory fees shall be funded with proceeds of the bonds, notes, or other obligations.
6. None of the issues of bonds, notes, or other obligations shall be sold for less than 95% of par and the net effective interest rate on same, taking into account any discount or premium as well as the interest rate borne on same, will not exceed two percent (2%) above the highest average interest rate reported by the Daily Bond Buyer in its weekly "20 Bond Index" during the one month period next preceding the date of sale of same.

Notwithstanding the provisions hereof, any of the above-provisions of this Exhibit shall be considered modified if a written modification is approved by the Utility Official and 3 out of the 4 boards of directors of the following water authorities: (i) West Harris County Regional Water Authority, (ii) North Harris County Regional Water Authority, (iii) North Fort Bend Water Authority, (iv) Central Harris County Regional Water Authority. The Authority recognizes that if Houston is unable to obtain financing pursuant to the above-provisions of this Exhibit, or if Houston believes that a lower cost alternative to the above-provisions may be reasonably available, Houston will request that the Authority consider modification of one or more of the above-provisions pursuant to the procedure of the preceding sentence.

Exhibit “B”

Factor C = Houston’s Untreated Water Facilities Outstanding Debt

<u>Facility Component</u>	<u>Outstanding Debt</u>
1. Coastal Water Authority	\$254,187,160
2. Trinity River Authority Total Water Debt:	\$ 13,000,000
3. Coastal Water Authority (Proposed Trinity/Lynchburg Upgrade)	\$ 40,385,000
4. Trinity River Authority – Current Lake Livingston	\$ 17,996,000
5. Allen’s Creek Land Purchase	\$ 14,000,000
6. Lake Houston Dam/Reservoir Improvements	\$ 10,356,486
7. Wallisville Lake Project	\$ 10,580,707
8. Dayton Canal	\$ 5,150,000
Total	\$365,655,353

Note:

Items 1 through 8 represent actual Outstanding Debt.