Bryan W. Shaw, Ph.D., *Chairman*
Buddy Garcia, *Commissioner*
Carlos Rubinstein, *Commissioner*
Mark R. Vickery, P.G., *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

September 28, 2009

Mr. Charles W. Merritt, President
Harris County Fresh Water Supply District No. 61
c/o Smith Murdaugh Little & Bonham, L.L.P.
1100 Louisiana Street, Suite 400
Houston, Texas 77002-5211

RE: Harris County Fresh Water Supply District No. 61

This letter is your notice that the Texas Commission on Environmental Quality (TCEQ) executive director (ED) has issued final approval of the above-named application. According to 30 Texas Administrative Code (TAC) Section 50.135 the approval became effective on the date the ED signed the permit or other approval. A copy of the final approval is enclosed and cites the effective date.

You may file a **motion to overturn** with the chief clerk. A motion to overturn is a request for the commission to review the TCEQ executive director's approval of the application. Any motion must explain why the commission should review the TCEQ executive director's action. According to 30 TAC Section 50.139 an action by the ED is not affected by a motion to overturn filed under this section unless expressly ordered by the commission

A motion to overturn must be received by the chief clerk within 23 days after the date of this letter. An original and 7 copies of a motion must be filed with the chief clerk in person or by mail. The Chief Clerk's mailing address is Office of the Chief Clerk (MC 105), TCEQ, P.O. Box 13087, Austin, Texas 78711-3087. On the same day the motion is transmitted to the chief clerk, please provide copies to Robert Martinez, Environmental Law Division Director (MC 173), and Blas Coy, Public Interest Counsel (MC 103), both at the same TCEQ address listed above. If a motion is not acted on by the commission within 45 days after the date of this letter, then the motion shall be deemed overruled.

You may also request **judicial review** of the ED's approval. According to Texas Water Code Section 5.351 a person affected by the ED's approval must file a petition appealing the ED's approval in Travis County district court within 30 days after the effective date of the approval. Even if you request judicial review, you still must exhaust your administrative remedies, which includes filing a motion to overturn in accordance with the previous paragraphs.

Individual members of the public may seek further information by calling the TCEQ Office of Public Assistance, toll free, at 1-800-687-4040.

Sincerely,

LaDonna Castañuela
Chief Clerk

LDC/sw

cc: Blas Coy, TCEQ Public Interest Counsel (MC 103)

Buddy Garcia, *Chairman*
Larry R. Soward, *Commissioner*
Bryan W. Shaw, Ph.D., *Commissioner*
Mark R. Vickery, P.G., *Executive Director*

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

Protecting Texas by Reducing and Preventing Pollution

September 28, 2009

Mr. Charles W. Merritt, President
Board of Directors
Harris County Fresh Water Supply District No. 61
c/o: Smith Murdaugh Little & Bonham, L.L.P.
1100 Louisiana Street, Suite 400
Houston, TX 77002-5211

Re: Issuance of bonds by Harris County Fresh Water Supply District No. 61 (District) in the amount of $8,340,000 at a maximum net effective interest rate of 6.72%.

Dear Mr. Merritt:

Enclosed are certified copies of an Order of the Commission approving your District's project and the issuance of bonds in the amount of $8,340,000 at a maximum net effective interest rate of 6.72% to finance the District's project, all being more fully set out in the Order.

Your attention is directed to TEX. WATER CODE § 54.601, which reads as follows:

> At the time bonds payable in whole or in part from taxes are issued, the board shall levy a continuing direct annual ad valorem tax for each year while all or part of the bonds are outstanding on all taxable property within the District in sufficient amount to pay the interest on the bonds as it becomes due and to create a sinking fund for the payment of the principle of the bonds when due or the redemption price at any earlier required redemption date and to pay the expenses of assessing and collecting the taxes.

We have concluded that initially a tax of not less than $0.44 per $100 valuation should be levied to pay interest and principle, and the cost of assessing and collecting such taxes.

A certificate from the central appraisal district, included in the application for approval of bonds, certifies the total assessed valuation of property within the District to be $667,516,571 as of January 1, 2008, which should increase annually as homes are built and improvements added in the District. Application of the recommended tax rate to this property valuation should provide sufficient funds to satisfy the average annual debt service requirement of $2,864,758.

You should read the enclosed order carefully. This action is taken under authority delegated by the Executive Director of the Texas Commission on Environmental Quality. Please take particular note of the provision that no substantial alterations in the approved plans and specifications shall be made without prior Commission approval. This is a requirement of TEX. WATER CODE § 49.182.

A copy of the Commission's Order and this letter are being sent to the Attorney General's Office, Public Finance Division, Austin, Texas. Also copies are being provided to your Attorney, Engineer and Fiscal Agent of record.

Sincerely,

Kelly Rila for

Todd Chenoweth, Director
Water Supply Division
Texas Commission on Environmental Quality

TC: mh

Enclosures

cc: Ms. Sara J. Anderson – Smith Murdaugh Little & Bonham, L.L.P. - 1100 Louisiana Street, - Suite 400 - Houston, TX 77002-5211
Mr. William G. Rosenbaum, P.E. – Lockwood, Andrews & Newman, Inc. – 2925 Briar Park - Houston, TX 77042
Ms. Jan Bartholomew – RBC Capital Markets Corporation – 1001 Fannin Street – Suite 1200 - Houston, TX 77002
Attorney General's Office – Public Finance Division – P.O. Box 12548 – Capitol Station – Austin, Texas 78711-2548

TEXAS COMMISSION ON ENVIRONMENTAL QUALITY

AN ORDER APPROVING AN ENGINEERING PROJECT AND THE ISSUANCE OF $8,340,000 IN UNLIMITED TAX BONDS FOR HARRIS COUNTY FRESH WATER SUPPLY DISTRICT NO. 61

An application by Harris County Fresh Water Supply District No. 61 (hereafter "District") was presented to the Executive Director of the Texas Commission on Environmental Quality (hereafter "Commission") for consideration of approval pursuant to TEX. WATER CODE §§ 5.122 and 49.181. The District requests approval of an engineering project and issuance of $8,630,000 in bonds to finance: Water Plant No. 1 generator; Water Plant No. 3 recoating, Water Plant No. 4 additional construction costs; water line aerial crossing recoating; Huffmeister Road 8-inch wastewater line extension; wastewater line Phase 4 TV surveys and rehabilitation; clearing and grubbing, and construction costs for Phase 1B Detention Pond to serve Cy-Fair ISD High School Site No. 5; land costs for Cypress Creek Forest Detention Pond and Cy-Fair ISD High School Site No. 5 (Hendricks) Phase 1B Detention Pond; internal utilities to serve Ravensway Townhomes; trunk facilities to serve Cy-Fair ISD High School Site No. 5; and water, wastewater, and drainage facilities serving single-family residential development in Cypress Creek Forest and Falls at White Oak. The Commission has jurisdiction to consider this matter, and the following Findings of Fact and Conclusions of Law are appropriate after examining the application and supporting documentation.

FINDINGS OF FACT

1. The District filed an application with the Commission on March 12, 2009, for approval of a proposed engineering project and the issuance of $8,630,000 in bonds.

2. The Executive Director has investigated the District.

3. The application and accompanying documents have been examined. The Utilities and Districts Section has prepared a memorandum on the project, dated September 10, 2009, a copy of which is attached and made a part hereof.

4. The District's project and issuance of a reduced amount of $8,340,000 of bonds at a maximum net effective interest rate of 6.72% to finance the project should be approved.

5. The funding of $294,998, plus related developer interest and engineering fees, should be disallowed as follows:

a. $12,672 for the demolition and removal of existing buildings, electrical utilities, reinforced concrete pipe, and tires (70% of $12,916) and for plugging an existing residential water well (70% of $5,187) associated with the utility construction costs for Cypress Creek Forest (contract with Gin-Spen, Inc.);

b. $2,693 for the District's requested portion of the developer's share of clearing and grubbing (70% of $3,847) associated with change order no. 3 of the utility construction costs for Falls at White Oak (contract with Bay Utilities, LLC).

c. $279,633 for land acquisition costs associated with a 10.201 acre detention pond serving Cy-Fair ISD High School Site No. 5 located in an existing Harris County Flood Control District drainage easement.

6. The District's Board should be directed not to expend a total of $2,864,306 as follows:

a. $1,252,806 for additional construction costs of Water Plant No. 4 pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;

b. $660,000 ($600,000 construction costs plus $60,000 contingencies) for Water Plant No. 1 generator pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;

c. $330,000 ($300,000 construction costs plus $30,000 contingencies) for Water Plant No. 3 recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;

d. $71,500 ($65,000 construction costs plus $6,500 contingencies) for water line aerial crossing recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; and

e. $550,000 ($500,000 construction costs plus $50,000 contingencies) for wastewater line Phase 4 TV surveys and rehabilitation pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction.

7. The District should be directed not to purchase facilities or assume facility contracts from the developer until either (a) the Commission's field office staff has inspected the project, and the District has received a field office report with no deficiencies noted, for which approval is valid for 120 days from the date of this order approving the bonds; or, (b) if a field report indicates deficiencies, the Commission's Districts Review Team staff has received a request from the District and a field office report, reviewed the contract administration, and given written authorization to finalize the purchase or assumption, either one in accordance with 30 TEX. ADMIN. CODE § 293.69.

8. The District's Board of Directors should be directed to review to its satisfaction the detailed calculations of the developer's interest to assure that the costs are authorized District expenditures and in accordance with 30 TEX. ADMIN. CODE § 293.50 before reimbursement to the developer is made.

9. The District should be advised that the legal, fiscal agent and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report.

10. The District should be directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to Commission rules on surplus funds.

CONCLUSIONS OF LAW

1. The Commission has jurisdiction to consider the engineering report and bond application pursuant to TEX. WATER CODE § 49.181.

2. The Executive Director has investigated the District, and the Commission has found it legally organized and feasible.

3. The Utilities and Districts Section's memorandum, dated September 10, 2009, on this engineering project and bond issue should be adopted as the written Commission project report in compliance with TEX. WATER CODE § 49.181(d).

NOW THEREFORE, BE IT ORDERED BY THE TEXAS COMMISSION ON ENVIRONMENTAL QUALITY that the Utilities and Districts Section's memorandum, dated September 10, 2009, on this engineering project and bond issue is adopted as the written Commission project report. Pursuant to TEX. WATER CODE § 49.181, the engineering project for Harris County Fresh Water Supply District No. 61 is hereby approved together with the issuance of a reduced amount of $8,340,000 of bonds at a maximum net effective interest rate of 6.72%. The funding of $294,998, plus related developer interest and engineering fees, is disallowed as follows: (a) $12,672 for the demolition and removal of existing buildings, electrical utilities, reinforced concrete pipe, and tires (70% of $12,916) and for plugging an existing residential water well (70% of $5,187) associated with the utility construction costs for Cypress Creek Forest (contract with Gin-Spen, Inc.); (b) $2,693 for the District's requested portion of the developer's share of clearing and grubbing (70% of $3,847) associated with change order no. 3 of the utility construction costs for Falls at White Oak (contract with Bay Utilities, LLC); and (c) $279,633 for land acquisition costs associated with a 10.201 acre detention pond serving Cy-Fair ISD High School Site No. 5 located in an existing Harris County Flood Control District drainage easement. The District's Board is directed not to expend a total of $2,864,306 as follows: (a) $1,252,806 for additional construction costs of Water Plant No. 4 pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; (b) $660,000 ($600,000 construction costs plus $60,000 contingencies) for Water Plant No. 1 generator pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; (c) $330,000 ($300,000 construction costs plus $30,000 contingencies) for Water Plant No. 3 recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; (d) $71,500 ($65,000 construction costs plus $6,500

contingencies) for water line aerial crossing recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; and (e) $550,000 ($500,000 construction costs plus $50,000 contingencies) for wastewater line Phase 4 TV surveys and rehabilitation pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction. The District is directed not to purchase facilities or assume facility contracts from the developer until either (a) the Commission's field office staff has inspected the project, and the District has received a field office report with no deficiencies noted, for which approval is valid for 120 days from the date of this order approving the bonds; or, (b) if a field report indicates deficiencies, the Commission's Districts Review Team staff has received a request from the District and a field office report, reviewed the contract administration, and given written authorization to finalize the purchase or assumption, either one in accordance with 30 TEX. ADMIN. CODE § 293.69. The District's Board of Directors is directed to review to its satisfaction the detailed calculations of the developer's interest to assure that the costs are authorized District expenditures and in accordance with 30 TEX. ADMIN. CODE § 293.50 before reimbursement to the developer is made. The District is advised that the legal, fiscal agent and engineering fees have not been evaluated to determine whether these fees are reasonable or competitive. These fees are included as presented in the engineering report. The District is directed that any surplus bond proceeds resulting from the sale of bonds at a lower interest rate than that proposed shall be shown as a contingency line item in the Official Statement and the use of such funds shall be subject to approval pursuant to Commission rules on surplus funds. The approval of the sale of these bonds herein shall be valid for one year from the date of this Order unless extended by written authorization of the Commission staff.

BE IT FURTHER ORDERED that pursuant to TEX. WATER CODE § 5.701, the District shall pay to the Commission 0.25% of the principal amount of bonds actually issued not later than the seventh (7th) business day after receipt of the bond proceeds. The fees shall be paid by check payable to the Texas Commission on Environmental Quality.

BE IT FURTHER ORDERED that to enable the Commission to carry out the responsibilities imposed by TEX. WATER CODE §§ 49.181-182, the District shall (1) furnish the Utilities and Districts Section copies of all bond issue project construction documentation outlined under 30 TEX. ADMIN. CODE § 293.62, including detailed progress reports and as-built plans required by TEX. WATER CODE § 49.277(b), which have not already been submitted; (2) notify the Utilities and Districts Section and obtain approval of the Texas Commission on Environmental Quality for any substantial alterations in the engineering project approved herein before making such alterations; and (3) ensure, as required by TEX. WATER CODE § 49.277(b), that all construction financed with the proceeds from the sale of bonds is completed by the construction contractor according to the plans and specifications contracted.

BE IT FURTHER ORDERED that failure of said District to comply with all applicable laws and with provisions of this Order shall subject the District and its directors to all penalties that are provided by law and shall further be considered by the Commission as grounds for refusal to approve other bonds of the District.

The Chief Clerk of the Commission is directed to forward the District a copy of this Order.

If any provision, sentence, clause, or phrase of this Order is for any reason held to be invalid, the invalidity of any portion shall not affect the validity of the remaining portions of the Order.

Issue Date: **September 18, 2009**

For the Commission

Texas Commission on Environmental Quality

INTEROFFICE MEMORANDUM

To: Todd Chenoweth, Director
Water Supply Division

Date: September 10, 2009

Thru: Doug Holcomb, P.E., Manager, Utilities and Districts Section
Alex A. (Skip) Ferris, P.E., Leader, Districts Review Team

From: Districts Review Team

Subject: Harris County Fresh Water Supply District No. 61; Application for Approval of $8,630,000 Unlimited Tax Bonds, Fifteenth Issue, 6.72% Net Effective Interest Rate, Series 2009; Pursuant to Texas Water Code Section 49.181.
TCEQ Internal Control No. 03122009-D02 (TC)
CN: 600735708 RN: 101393007

A. GENERAL INFORMATION

The Commission received an application from Harris County Fresh Water Supply District No. 61 (the "District") requesting approval for the issuance of $8,630,000 in unlimited tax bonds to finance the District's share of the following projects:

1. Water Plant No. 1 generator;
2. Water Plant No. 3 recoating;
3. Water Plant No. 4 additional construction costs;
4. Water line aerial crossings recoating;
5. Huffmeister Road 8-inch wastewater line extension;
6. Wastewater line Phase 4 TV surveys and rehab;
7. Clearing and grubbing, and construction costs for Phase 1B Detention Pond to serve Cy-Fair ISD High School Site No. 5;
8. Land costs for Cypress Creek Forest Detention Pond and Cy-Fair ISD High School Site No. 5 (Hendricks) Phase 1B Detention Pond;
9. Internal utilities serving Ravensway Townhomes;
10. Trunk facilities serving Cy-Fair ISD High School Site No. 5; and
11. Water distribution, wastewater collection and storm drainage facilities serving the following development within the District:

Section	Type of Development	Acreage	Active ESFCs[1]	Ultimate ESFCs
Cypress Creek Forest	Single-Family	21.35	35	88
Falls at White Oak	Single-Family	38.12	114	205
Total		59.47	149	293

Note:
(1) Equivalent single-family connections as seen during the inspection on April 8, 2009.

The District's previous bond issues funded utilities to serve approximately 8,628 ESFCs on 1,678.89 acres. Including this bond issue (59.47 acres and 293 ESFCs), the District will have funded utilities to serve approximately 8,921 ESFCs on 1,738.36 acres. According to the engineering report, at ultimate build-out, the District is projected to serve approximately 9,023 ESFCs on 1800.11 total acres, including 15.26 acres annexed on March 19, 2008.

B. ECONOMIC ANALYSIS

Tax Rate Analysis

The financial feasibility of this bond issue is based on no-growth to the existing 6,001 ESFCs and an assessed valuation (AV) of $667,516,571. A market study was not provided, and is not required since the economic feasibility of the bond issue is based on no-growth.

According to a certificate from the Harris County Appraisal District, the District's January 1, 2008 certified AV is $667,516,571. The annual debt service requirements for the reduced bond amount of $8,340,000 and existing debt averages $2,864,758 for the 22-year life of the District's bond debt. The District did not levy a maintenance tax in 2008, and according to the engineering report, does not intend to levy a maintenance tax in the future.

The District's financial advisor submitted a cash flow schedule considering the requested $8,630,000 bond issue, no-growth to the certified AV of $667,516,571, no capitalized interest, a 6.5% bond interest rate, a 3% bond discount, a 100% collection rate, and a projected tax rate of $0.45 per $100 assessed valuation. The Utilities and Districts Section's financial analyst has reviewed the financial information submitted and concluded that the following level debt service tax rates would be sufficient for an $8,340,000 bond issue.

	Projected Tax Rate	
District		
Debt Service	$0.44	(1)
Maintenance	$0.00	
Total District Taxes	$0.44	(2)

Notes:
(1) Based on a net effective interest rate of 6.72%, a collection rate of 98%, no-growth to an assessed valuation of $667,516,571, and at least a 25% ending debt service fund balance.
(2) Represents the combined projected tax rate as defined by 30 Texas Administrative Code (TAC) Section 293.59(f).

Additional Financial Comments

75% Build-out Requirement

The feasibility of the District's fourteenth bond issue was based on no additional growth to the projected January 1, 2006 assessed valuation of $480,225,103. The District's taxable AV as of January 1, 2008 is $667,516,571, which meets the 75% build-out requirement of 30 TAC Section 293.59(l)(4).

25% Build-out Requirement

The feasibility of this bond issue is based on no additional growth to the January 1, 2008 Harris County Appraisal District taxable AV of $667,516,571. Therefore, the 25% build-out requirement of 30 TAC Section 293.59(k)(7) does not apply.

C. ENGINEERING ANALYSIS

Water Supply

The District's source of water is currently groundwater from three District water plants and five active water wells plus an additional water plant and water well under construction. The water wells have a permitted (Harris-Galveston Subsidence District Permit Nos. 135601 through 135606) withdrawal of 825 million gallons for the period September 1, 2008 through August 31, 2009. The five active water wells have a combined capacity of 6,600 gallons per minute (gpm). Water Plant No. 4 is currently under construction and will contain a 1,500 gpm well, which will increase the capacity to a total of 8,100 gpm. The following table summarizes the District's water supply facilities along with the ESFC capacity of each component based on TCEQ minimum criteria:

Facility	Minimum Requirements	Existing Capacity	Proposed Capacity(1)	Total Capacity (ESFC Capacity)
Water Wells	0.6 gpm/ESFC	6,600 gpm	1,500 gpm	8,100 gpm (13,500 ESFCs)
Ground Storage	200 gal/ESFC	1,840,000 gal	840,000 gal	2,680,000 gal (13,400 ESFCs)
Elevated Storage	100 gal/ESFC	750,000 gal	----	750,000 gal (7,500 ESFCs)
Pressure Tanks	20 gal/ESFC	104,000 gal(2)	54,000 gal	158,000 gal (7,900 ESFCs)
Booster Pumps	2.0 gpm/ESFC	10,500 gpm(2)	4,000 gpm	14,500 gpm (7,250 ESFCs)

Note:
(1) Represents facilities currently under construction at Water Plant No. 4. Certain facilities (ie. ground storage, pressure tanks, and booster pumps) vary in capacities from the District's previous bond issue due to final design capacities.
(2) Represents capacities as stated in the engineering report.

Pursuant to a Water Supply Contract dated August 30, 2000, as amended, the District has agreed to provide water supply capacity for up to 2,000 ESFCs to Harris County MUD No. 248 (MUD 248). Based on the information provided, the District currently provides capacity for 6,001 ESFCs within the District and an additional 1,502 ESFCs in MUD 248, for a total of 7,503 ESFCs. The District's existing and proposed water supply facilities appear adequate to serve the existing 6,001 ESFCs upon which the feasibility of this bond issue is based, and the 1,502 currently allocated to MUD 248.

The District currently owns seven emergency interconnects and is projecting to fund one more with proceeds from this bond issue. The interconnects are normally closed.

Wastewater Treatment

Wastewater treatment for the District is provided by the 1,600,000 gallon per day (gpd) Barwood wastewater treatment plant (WWTP No. 1) and the 3,000,000 gpd Hastings wastewater treatment plant (WWTP No. 2). The plants have a permitted capacity of 1.6 million gallons per day (MGD) and 3.0 MGD (TPDES Permit Nos. 10876-001 and 10876-002, respectively). Pursuant to the "First Amendment To Permanent Wastewater Treatment Capacity Contract By and Between Harris County Fresh Water Supply District No. 61 and Harris County Municipal Utility District No. 248", effective December 8, 2004, the District agrees to sell MUD 248 a total wastewater treatment capacity of 866,250 gpd; and pursuant to the "Contract for Purchase and Sale of Permanent Wastewater Treatment Capacity By and Between Harris County Fresh Water Supply District No. 61 (Seller) and Harris County Municipal Utility District No. 222 (Purchaser)", effective November 14, 1995, the District agrees to sell MUD 222 a total wastewater treatment capacity of 570,000 gpd. The District's remaining share of the total combined capacity is 3,163,250 gpd (4,600,000 gpd – 866,250 gpd – 570,000 gpd). Based on design criteria of 315 gpd per ESFC, the District's share of the capacity is adequate to serve approximately 10,044 ESFCs. The District's share of existing wastewater capacity appears adequate to serve the existing 6,001 ESFCs upon which the feasibility of the bond issue is based.

Storm Water Drainage

Storm water within the District generally drains through an underground system of lines and roadside ditches into drainage channels which then outfall into White Oak Bayou which bisects the District in an east/west direction. Bond proceeds are programmed for drainage facilities specific to subdivision development.

Purchase of Existing Facilities and/or Assumption of Existing Contracts

Project	Contractor	% Complete Date	Final Contract Amount	Amt. Subj. to Distr. Contrib.
Cypress Creek Forest - W, WW & D	Gin-Spen, Inc.	100% 2/13/2008	$787,912	$769,809[1]
Cy-Fair ISD High School Site No. 5 – C & G	Deep South Construction	100% 12/20/2006	$146,204	$146,204

Cy-Fair ISD High School Site No. 5 – Detention Pond Ph.1B	Double Oak Construction, Inc.	99%	$1,309,656	$1,191,396(2)
Cy-Fair ISD High School Site No. 5 – W, WW & D	Joel A. Trimm Construction Co., Inc.	100% 10/14/1992	$865,150	$649,121(3)
Falls at White Oak - C & G	Lindsey Construction, Inc.	100% 12/25/2005	$142,678	$29,891(4)
Falls at White Oak - W, WW & D	Bay Utilities, L.L.C.	100% 9/13/2006	$1,147,289	$1,136,614(5)
Huffmeister Road – 8-inch WW Line Extension	TRCU, Ltd	100% 2/27/2008	$43,687	$43,687
Ravensway Townhomes - W, WW & D	Abyss Construction, LLC	100% 7/12/2006	$96,845	$95,345(6)

Notes:

(1) Excludes $18,103 for demolition and removal of existing buildings, electrical utilities, reinforced concrete pipe, and tires ($12,916) and for plugging an existing residential water well ($5,187). These costs are considered developer items and are not eligible for reimbursement.

(2) Original contract amount ($1,121,979) plus $187,677 in change orders minus $32,543 for relocating private utilities and $85,717 for costs deemed ineligible under the District's reimbursement policy.

(3) Final contract amount ($865,150) less $156,209 for installation of a wastewater trunk line, which was reimbursed in a previous bond issue, and $59,820 for developer's share of clearing and grubbing and road system costs.

(4) Original contract amount ($168,390) minus $25,713 a change order deleting 6,250 feet of fence. The District's share of the clearing and grubbing is 20.95% of the final contract amount ($142,678).

(5) Excludes $6,828 (50% of $13,656) for the change in scope to connect to the Cy-Fair ISD High School No. 5 drainage system and $3,847 (50% of $7,695) for developer's share of clearing and grubbing the area within the Tuckerton Road 100-foot right-of-way, pursuant to 30 TAC Section 293.44 (a) (3).

(6) Final contract amount ($96,845) less $1,500 for relocating a fire hydrant.

Approved plans and specifications, preconstruction agreements, and various construction contract documents have been provided.

Facilities to be Constructed

Project Description	Amt. Subj. to Dist. Contrib.
Water Plant No. 4 Additional Funds	$1,252,806(1)
Water Plant No. 1 Generator	$660,000(2)
Water Plant No. 3 Recoating	$330,000(2)
Water Line Aerial Crossing Recoating	$71,500(2)
Wastewater Line Phase 4 TV Surveys and Rehabilitation	$550,000(2)

Notes:

(1) The District's $7,720,000 bond issue included a total of $3,410,000 for construction of Water Plant No. 4. The District's engineer has indicated the current estimate includes $4,398,054 for construction, plus $112,752 for clearing and grubbing and $152,000 change order for a standby generator resulting in a shortfall of $1,252,806.

(2) Includes 10% contingencies.

Approved plans, specifications and other documentation have not been provided.

Inspection

The District was inspected by a member of the Commission's Utilities and Districts Section staff on April 8, 2009. Streets and utilities appeared to be complete within Cypress Creek Forest, Falls at White Oak, Ravensway Townhomes, and Cy-Fair ISD High School Site No. 5. Active home building was observed in various sections of the District. District name signs were properly posted.

D. SUMMARY OF COSTS

Construction Costs	Amount Subject to District Contribution	District's Share[1]
A. Developer Contribution Items		
1. Cypress Creek Forest – W, WW & D	$ 769,809	$ 538,867
2. Cy-Fair ISD High School Site No. 5 – C & G	146,204	102,343
3. Cy-Fair ISD High School Site No. 5 – Detention Pond	1,191,396	852,011[2]
4. Cy-Fair ISD High School Site No. 5 - W, WW & D	649,121	454,384
5. Falls at White Oak – C & G	29,891	20,924
6. Falls at White Oak - W, WW & D	1,136,614	822,311[2]
7. Huffmeister Road – 8-inch WW line extension	43,687	30,581
8. Ravensway Townhomes – W, WW & D	95,345	66,741
9. Engineering (27.4% of Items 1-7)	1,137,658	794,875
Total Developer Contribution Items	$ 5,239,096	$ 3,683,037
B. District Items		
1. Water Plant No. 4 Additional Funds		$ 1,252,806
2. Water Plant No. 1 Generator		600,000
3. Water Plant No. 3 Recoating		300,000
4. Water Line Aerial Crossing Recoating		65,000
5. Wastewater Line Phase 4 TV Surveys and Rehab		500,000
6. Contingencies (10% of Items 2-5)		146,500
7. Engineering (18% of Items 2-5)		263,700
8. Land Costs		239,842[3]
Total District Items		$ 3,367,848
TOTAL CONSTRUCTION COSTS (84.5% of BIR)		$ 7,050,885
Non-Construction Costs		
A. Legal Fees (2.06%)		$ 171,800[4]
B. Fiscal Agent Fees (1.48%)		123,400[5]
C. Developer Interest		644,500[6]
D. Bond Discount (3%)		250,200
E. Bond Issuance Expenses		20,365
F. Bond Application Report Costs		58,000
G. TCEQ Bond Issuance Fee (0.25%)		20,850
TOTAL NON-CONSTRUCTION COSTS (15.5% of BIR)		$ 1,289,115
TOTAL BOND ISSUE REQUIREMENT		**$ 8,340,000**

Notes:

(1) The District is not requesting a waiver of the 30% developer contribution requirement.
(2) Includes minor line item costs which are 100% District items.
(3) Includes 3.915 acres at $50,092.79 per acre ($196,113), plus $10,935 in taxes and $32,794 in interest for Cypress Creek Forest Drainage Facility. The costs do not include $279,633 (10.201 acres at $7,600 per acre, plus $19,973 in taxes and $182,133 in interest) for Hendricks Phase 1B Drainage Facility (see Special Consideration No. 2).
(4) Pursuant to the contract provided fees are 3% for the first $500,000 of bonds sold plus 2% of bonds sold over $500,000.
(5) Pursuant to the contract provided, fees are 2% for the first $3,000,000 of bonds issued, plus 1.5% of bonds issued over $3,000,000 and up to $5,000,000, plus 1% of bonds issued over $5,000,000.
(6) Based on an estimated interest rate of 6.5% and a reimbursement date of May 1, 2009 or two years maximum in accordance with 30 TAC Section Rule 293.50(a).

E. SPECIAL CONSIDERATIONS

1. Waiver of the Market Study Requirements

By board resolution, the District has requested a waiver of the market study requirement (30 TAC Section 293.59(k)(10)) associated with this bond issue, based on the District obtaining an acceptable credit rating on the bonds, pursuant to 30 TAC Section 293.59(l)(5)(B). Since the feasibility of the bond issue is based on no-growth, the District is exempt from the market study requirement and granting a waiver is not necessary.

2. Ineligible Land Costs

The requested cost summary includes $279,633 for land costs associated with the 10.201 acre detention pond serving Cy-Fair ISD High School Site No. 5. Based on the recorded plat, the detention pond is located in an existing 255-foot Harris County Flood Control District drainage easement. Commission staff has determined that since the District already has the right to utilize the acreage subject to existing drainage easements, reimbursement of land costs is considered ineligible.

F. CONCLUSIONS

1. Based on a net of $75,545,000 in unlimited tax bonds authorized by voters and $54,055,000 previously approved by the Commission or the Texas Water Development Board and issued by the District, the District has sufficient voter-authorized bonds ($21,490,000) for the proposed bond issue.

2. Based on the review of the engineering report, plans, specifications, and supporting documents, the bond issue is considered feasible and meets the criteria established by the Commission's economic feasibility rules, 30 TAC Section 293.59.

3. The recommendations are made under authority delegated by the Executive Director of the Texas Commission on Environmental Quality.

G. RECOMMENDATIONS

1. Approve the bond issue in the reduced amount of $8,340,000 in accordance with the recommended summary of costs, at a maximum net effective interest rate of 6.72%.

2. Direct the District to levy an initial ad valorem debt service tax of not less than $0.44 per $100 assessed valuation.

3. Disallow the funding of $294,998, plus related developer interest and engineering fees, as follows:
   a. $12,672 for the demolition and removal of existing buildings, electrical utilities, reinforced concrete pipe, and tires (70% of $12,916) and for plugging an existing residential water well (70% of $5,187) associated with the utility construction costs for Cypress Creek Forest (contract with Gin-Spen, Inc.).
   b. $2,693 for the District's requested portion of the developer's share of clearing and grubbing (70% of $3,847) associated with change order no. 3 of the utility construction costs for Falls at White Oak (contract with Bay Utilities, LLC).
   c. $279,633 for land acquisition costs associated with a 10.201 acre detention pond serving Cy-Fair ISD High School Site No. 5 located in an existing Harris County Flood Control District drainage easement.

4. Direct the District not to expend a total of $2,864,306 as follows:
   a. $1,252,806 for additional construction costs of Water Plant No. 4 pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;
   b. $660,000 ($600,000 construction costs plus $60,000 contingencies) for Water Plant No. 1 generator pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;
   c. $330,000 ($300,000 construction costs plus $30,000 contingencies) for Water Plant No. 3 recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction;
   d. $71,500 ($65,000 construction costs plus $6,500 contingencies) for water line aerial crossing recoating pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction; and
   e. $550,000 ($500,000 construction costs plus $50,000 contingencies) for wastewater line phase 4 TV surveys and rehabilitation pending the District Board receipt of plans and specifications approved by all authorities having jurisdiction.

5. Direct the District not to purchase facilities or assume facility contracts from the developer until either (a) the Commission's field office staff has inspected the project, and the District has received a field office report with no deficiencies noted, for which approval is valid for 120 days from the date of the order approving the bonds; or (b) if a field office report indicates deficiencies, the Commission's District Review Team staff has received a request from the District and a field office report, reviewed contract administration, and given written authorization to finalize the purchase or assumption, either one in accordance with 30 TAC Section 293.69.

6. Standard recommendations regarding developer interest, consultant fees, surplus proceeds, time of approval, and bond proceeds fee apply.

Mike Holder

Mike Holder, P.E.
Districts Review Team