Texas House of Representatives

Interim Report to the 68th Texas Legislature

Joint Committee to Study Rural Water Cooperatives
INTERIM REPORT OF THE
JOINT COMMITTEE TO STUDY RURAL WATER COOPERATIVES
TEXAS HOUSE OF REPRESENTATIVES
1982

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BRUCE GIBSON
CHAIRMAN
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December 1982

The Honorable Bill Clayton, Speaker
Members of the House of Representatives
Texas State Capitol
Austin, Texas

Dear Mr. Speaker and Fellow Members:

The Joint Committee To Study Rural Water Cooperatives of the 67th Legislature herewith presents its report and recommendations for consideration by the Speaker and members of the 68th Legislature.

Respectfully submitted,

Bruce Gibson, Chairman
Pete Laney
J.W. Buchanan, Vice Chm. Pete Patterson
Robert Saunders
PROBLEMS OF FUNDING, SERVICE AND FINANCING OF

RURAL WATER SYSTEMS
INTERIM CHARGE: Investigate the problems of funding, service and financing of rural water cooperatives and to report its findings and to make recommendations to the 68th Legislature. Specifically, the Committee is asked to investigate the advantages and disadvantages of designating rural water cooperatives as special utility districts.

The Joint Committee To Study Rural Water Cooperatives met on Wednesday, September 8, 1982 in room 346 of the State Capitol. At that meeting public testimony was taken on the problems stated above. Individuals offering testimony were Kenneth Green, General Manager of the Texas Association of Rural Water Corporations (TARWC); Henry Rieff, TARWC President; Bill Parnell, President of the National Rural Water Association; Jack Bishop, TARWC General Counsel; Herb Grubb with the Planning & Development Division of the Texas Department of Water Resources (TDWR); James Duff, representing Duff Consulting Engineers; Ron Freeman, Development Fund Manager with TDWR; and John B. Clayton III and Hobby McCall, both members of the Finance Committee of the Governor's Task Force on Water Resources Use and Conservation.

Committee members were presented copies of two reports prepared by TARWC, entitled "Statement of Facts and Comments," and "Comments On the Possible Creation of a Special Utility District That Could Be Adopted By the Texas Legislature." The reports are included as Appendix I and Appendix II of this report.
Mr. Green introduced several members of TARWC who were in attendance, then yielded the floor to Mr. Rieff whose testimony is included as Appendix III in this report.

Mr. Rieff explained that member-owned and non-profit rural water cooperatives are not political subdivisions of the State of Texas. Each relies almost exclusively on federal funds to finance construction through the Farmers Home Administration (FmHA), whose budget has been reduced sixty-six percent since 1979. As a result, these systems are severely restricted in providing drinkable water to customers. Rieff recommended that rural water cooperatives be included in all necessary state planning and legislation, and that they be able to secure financial assistance from the state and federal government.

In his remarks, Mr. Parnell noted that the population in rural Texas is rapidly growing. Because of increased demand, the state's water table is dropping as much as 27 feet per year in some areas. Many rural water cooperatives are unable to meet the water needs of their customers. The Farmers Home Administration is the only agency through which rural water cooperatives qualify for grants, however, FmHA has over $200 million in pending applications and preapplications. In 1981, FmHA received only $35 million in approved funds for rural water cooperatives in Texas. Rural water cooperatives may also borrow money from FmHA at a current interest rate of more than eleven percent. Short-term money is available from local banks, however, the current interest rate is around fifteen percent. High borrowing costs have
an upward effect on customers' water rates. Municipalities, as political subdivisions, may borrow money from FmHA at nine percent interest. Municipalities may issue tax-exempt bonds whereas bonds sold to finance rural water development are not tax-exempt. Mr. Parnell said he favored changing the designation of rural water cooperatives to special utility districts which would allow the systems to issue tax-exempt revenue bonds and give them access to water funds established by the state.

According to Jack Bishop, rural water cooperatives may become municipal utility districts with taxing authority under existing provisions of the Texas Water Code. This action, however, would require a vote of the residents of a system, including customers and non-customers. Such a tax may be unpopular and unacceptable, but would not be required. Even without being given the authority to levy an ad valorem tax, rural water cooperatives - if designated as special utility districts - could still become political subdivisions of the state and would repay revenue bonds through sale of water.

Mr. Grubb discussed the results of a TDWR survey of water resource problems and management issues confronting Texas rural water systems. The survey is included as Appendix IV of this report. These systems serve 1 in 3 rural residents in Texas, or six percent of the state's population, according to the summary. They rely on wells as their major source of water supply and have inadequate funds to add capacity to serve new customers. Currently,
there are not enough water treatment and distribution fa-
cilities to satisfy customer needs to the year 2000. Low-
interest loans from FmHA are the primary financial method
of funding water supply projects, and Mr. Grubb feels
there is a need for state financial assistance for rural
water systems' projects, mostly in the form of low-interest
loans. Mr. Grubb said the questionnaire would be used by
TDWR to estimate how much water would be needed by rural
water cooperatives, but was unable to provide any estimates.

Mr. Duff, whose Waco firm has been involved in the de-
sign and supervision of construction of around 300 rural wa-
ter systems in Texas, said he favors allowing rural water
cooperatives to issue revenue bonds. Most have a small
amount of capital to operate on and, in many instances,
banks are hesitant to lend money to rural water coopera-
tives. Mr. Duff suggested that any method of forming spe-
cial utility districts should be kept simple.

Mr. Freeman manages two state-operated loan-assistance
funds to extend financial assistance to local political sub-
divisions for water and sewer projects. Under the Water
Development Fund program, established in 1959, water de-
velopment bonds are sold to raise capital. Income from
loans are made to political subdivisions at one-half per-
cent interest above the cost of the money and is used to
pay off debt service on the bonds. There is presently a
constitutional limit of six percent; the state has not
been able to raise additional capital for the program.
Less than $1.5 million is available at this time. The
program is limited by statute to "hardship" situations - political subdivisions that cannot otherwise obtain reasonable financial assistance through commercial market channels. The second fund, the Water Loan Assistance Fund, was created by statute during the 1981 Regular Session. It has a similar lending program. The lending rate is set by the Water Development Board and is tied to an index of municipal bonds nationwide in an attempt to make it approximate the lending rate of Water Development Fund bonds, if they were being sold. The current rate, he added, is ten percent. Half of the $40 million in the fund has been loaned out. He stated that a change in the designation of rural water cooperatives to special utility districts would make them eligible for state financial assistance; this would create an increased demand on available state resources under the lending programs because many would probably qualify under "hardship" situations. If their designation is changed to special utility districts, rural water cooperatives should be left with the option of levying a tax for large projects and for credit purposes.

Mr. Clayton said rural water cooperatives would need the additional collateral and securities of an unlimited tax to attract buyers of revenue bonds. He recommended that they have the power to provide other services in addition to water distribution. Mr. Clayton suggested the Legislature write a new section to the Texas Water Code to reclassify rural water cooperatives

Mr. McCall said this conversion process should be en-
tirely voluntary. He suggested that rural water cooperatives be given taxing authority for credit purposes. If these water systems are given the power to levy a tax, it is important that clear boundaries be established. In addition, he said the cooperatives' existing indebtedness needs to be addressed. There needs to be a method to handle their debt without jeopardizing the position of bondholders and noteholders. And, the cooperatives need to be able to achieve "economy of scale" in order to form viable borrowing units; they should be able to consolidate their operations.

On Friday, December 3, 1982 the Committee held a public meeting in room 3.110 of the Sid Richardson Building at the Lyndon B. Johnson School of Public Affairs to hear testimony related to proposed legislation dealing with rural water cooperatives and their conversion into special utility districts. Separate drafts of proposed statutes were presented by representatives of the Texas Association of Rural Water Corporations and the law firm of McCall, Parkhurst & Horton. Testimony was offered by Kenneth Green, Ron Freeman, Hobby McCall and John B. Clayton III. It was the general consensus of the witnesses that a bill incorporating the best elements of both proposals should be drafted and submitted to the Committee for approval. A copy of the measure is included as Appendix V.

RECOMMENDATION:

As stated by the majority of witnesses, in order to
construct necessary facilities and remain a viable source of water to the rural community of Texas into the next century, rural water cooperatives must have access to adequate funding. The Committee recommends that legislation similar in intent to that drafted by the law firm of McCall, Parkhurst & Horton be passed. The bill adds a new chapter to the Texas Water Code, which authorizes the conversion of rural water supply corporations into special utility districts, and sets forth conversion and approval procedures under which such conversions can occur. The bill sets forth the powers, duties and administrative procedures of the special utility district after such conversion. The Texas Water Commission has the responsibility of administering the affairs of the special utility district after its creation.

The bill grants the special utility district the authority to issue bonds, notes and refunding bonds for the purpose of financing district projects payable from ad valorem taxes, system revenues, or a combination thereof, subject to constituent approval as to the levy and collection of any such taxes as authorized by the bill. The bill sets forth procedures by which the district's boundaries may be enlarged or reduced, and provides procedures for the consolidation of two or more districts into a single special utility district.
APPENDIX I

STATEMENT OF FACTS AND COMMENTS

PREPARED BY LEADERS OF

TEXAS ASSOCIATION OF RURAL WATER CORPORATIONS

AND

PRESENTED TO

TEXAS CONGRESSMEN AND SENATORS

& THE REAGAN ADMINISTRATION

ON

JUNE 14 & 15, 1982
GOALS AND OBJECTIVES OF THIS TRIP

BACKGROUND

FmHA Rural Water and Sewer Funding in 1979 was allocated at
$950,000,000 in loans, and
$300,000,000 in grants.

1982 funding (nation wide) is currently
$300,000,000 in loans, and
$130,000,000 in grants;

with an interest rate jump from 5% to somewhere in the
range of 10 to 25% depending upon various factors. This
has caused a double blow to the financing of rural water
systems.

FmHA is the only source of funding for Texas FmHA financed
rural water systems.

Should President Reagan's Federalism Program be implemented
in Texas -- Texas' Constitutional Law precludes any non-profit
corporation from receiving any type of financial assistance
from any state agency at the present time.

Our association is working to remedy this latter situation
at the state level, but, rural water systems have no alter-
native financing methods other than the private sector. We
know that if money is secured this way the cost of water will
be economically staggering. (It is not uncommon for a normal
household who used 10,000 gallons of water per month to have
to pay $40 to $60 for this amount of water at these interest
rates).

Texas Rural Water Systems desperately need financial assist-
ance to maintain and upgrade rural water systems, etc. from
the federal government, from a state financial assistance pro-
gram, and also other avenues of securing alternative financing
such as perhaps a bank similar to what the REA's presently
have.

GOALS

We are concerned citizens for financing rural water systems
in Texas, or for that matter the country; and want to get
the background information to the appropriate decision makers.

OBJECTIVE

The purpose of this trip is to present the aforementioned
information in an appropriate manner so that our message
is known in the right and appropriate channels of government.
Chairman Bob Poage, House Agriculture Committee, enacted the first rural water grant and loan assistance program in the 1950s. The first rural water loan made by FmHA to a community in Texas was made to Golinda, Texas. Since that time over 2000 loans and 80,000 miles of pipeline have been funded to serve the rural areas of Texas. Now it appears that the FmHA grant and loan program will not be available to most rural water systems in Texas in the future.

There are still many areas of Texas that do not have service and many systems needing expansion or improvements. FmHA presently has requests for six times more funds than they are allocated in Texas. For most of these systems FmHA is the sole source of funding.

IMPORTANT FACTS

WATER CRISIS

There have been food crises, environmental crises, and energy crises. The next crisis facing Texas and the nation is water. A recent study by the Environmental Protection Agency states that two-thirds of the people living in rural areas do not have safe drinking water. In the early 1970's, Congress passed the Safe Drinking Water Act which requires communities to obtain a better water supply. In order to do this in many cases, it required several small communities to unite to obtain an approved supply. This takes several years of planning and organization. Many are ready for funding and no money is available. Further delays will increase the cost.

A typical water bill for rural people is about twice what large cities pay for the same amount of water.

COST EFFECTIVENESS

FmHA has been a very cost effective organization. Engineers, contractors, and other groups report that FmHA has the least amount of paper work of any
Federal agency. For example, FmHA recently completed constructing a sewer system for McAdoo, Texas for $90,000, all loan and no grant. A similar size nearby community with same type of construction hazard had a preliminary plan approved by another agency for over $1,000,000. The community then applied to FmHA for funding their local portion which was approximately 30% of the cost. It was not approved by FmHA because it was not cost effective.

As another example, two communities of similar size, construction problems, and income level applied to FmHA for funding. One borrowed $100,000 from FmHA and used some of their own funds to construct a complete sewer system and treatment plant. The other community had completed construction plans, $600,000 grant, $300,000 state loan, and needed another $300,000 to build the project. The first system is in operation. The second is still being planned.

One major reason for the difference in cost is that FmHA will not advance consultant or engineering fees until the loan or grant is approved. This eliminates most "pie in the sky" proposals. Most other agencies advance the funds for engineering and other planning costs. So some firms are making a living out of just planning. There is a proposal before Congress to have FmHA advance funds for planning. This does not need to be passed!

STATE FUNDING

There needs to be three levels of funding - local, state and federal. To eliminate the federal funding or give the federal funds to the state to administer would increase the cost of the systems and reduce the number of families served. Each level should administer their own funds. The state should not have administrative responsibility of federal funds. This is not being critical of the states or their employees but pointing out that it would add another layer of regulation and administration costs.

LOW INTEREST LOANS VS. GRANTS

FmHA loan program has been criticized because the government loans money below
what it costs the government to borrow. As a result of this criticism, the
FmHA budget was cut 65%. All the other agencies that can fund water and
sewer systems can only advance grant funds. Approximately 75% of FmHA funding
for rural water and sewer systems is in the form of loans with only 25% as grants.
The loans had been 5% interest for years; it is now 12 3/8% with quarterly revisions.
The agencies with grant funds such as HUD received a much smaller budget cut than
did FmHA. With a deficit federal budget, it would be more economical to cut the
grants rather than the loans. If a study were made, the federal government would
find that the most cost effective program is low interest loans, not grants. Also
the community is more careful in spending loan dollars that will be repaid than
in spending grant funds. If it does not cost the community anything, they are not
concerned with cost.

INCREASED INTEREST RATES

The effects of increased interest rates have caused many communities to stop develop-
ment on needed improvements to their systems. In many cases, the system is overloaded
and needs the improvements to meet Health Department approval. However, reasonable
loan rates would assist systems in moving immediately to make these improvements
and to use market rate loans to make up the difference between FmHA assistance and
market rate assistance.

LOCAL INVOLVEMENT

FmHA has county and district offices to administer the programs. The loans
to the communities require local people to organize and plan. With FmHA
involvement on a local level, the persons administering the programs are
more aware of the needs of the community.

CONCLUSION

WHILE OTHERS PLAN, FARMERS HOME ADMINISTRATION BUILDS!
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38,472  27,400,000  6,315  9,700,000
## FmHA Water, Sewer, & Ass’n Loan and Grant Program in Texas as of 3-6-82

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### Under Construction

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### In Operation

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### Community Facilities

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### Energy Impact (601)

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370,444 Families — 1.8 million people being served.

13% total population
FmHA Water and Sewer Loans

FY 78 Loan $750 million
Grant $250 million

FY 79 Loan $900 million
Grant $282.5 million

FY 80 Loan $700 million
Grant $290 million

FY 81 Loan $750 million
Grant $200 million

FY 82 Loan $300 million (proposed in the Reagan Budget)
Grant $100 million (proposed in the Reagan Budget)

Economic Development Administration

FY 79 Public Works Program $273.2 million

FY 80 --------------------------$332.775 million

FY 81 --------------------------$401.525 million

There is no request for FY 82 funds by the Reagan Administration and the EDA funds for FY 81 have been put under Congressional Rescission which means that the Reagan people have asked that funds allocated for this fiscal year be returned to the U.S. Treasury.

HUD Community Development Grants

FY 78 $707.266 million
FY 79 $796.456 million
FY 80 $955.025 million
FY 81 $955.025 million (approximate)
FY 82 $873.000 million (approximate amount requested by Reagan)
### DEBT AMORTIZATION SCHEDULE

**40 years at 5%**

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<th>YEAR</th>
<th>TOTAL PAYMENT</th>
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<th>PRINCIPAL</th>
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**Total:** 16,620,920  | 9,640,920  | 7,130,000

*Adjusted for rounding differences
## Debt Amortization Schedule

40 years at 12%

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<th>YEAR</th>
<th>TOTAL PAYMENT</th>
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<th>PRINCIPAL</th>
<th>BALANCE</th>
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34,595,300  27,463,800  7,130,000

*Adjusted for rounding differences
## Debt Amortization Schedule

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<th>YEAR</th>
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<th>BALANCE</th>
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<td><strong>18,700</strong></td>
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APPENDIX II

COMMENTS ON THE POSSIBLE CREATION
OF A
SPECIAL UTILITY DISTRICT
THAT COULD BE ADOPTED BY THE TEXAS LEGISLATURE
September 3, 1982

The Honorable Bruce Gibson
Texas House of Representatives
Texas State Capitol
Austin, TX

Re: Comments on Special Municipal Utility Districts
   for FmHA-Financed Non-Profit Water Supply Corporations

Dear Representative Gibson:

Attached is a very rough draft of the proposed changes and modifications
which could be used to adapt the current Municipal Utility District
legislation to a special Utility District law for FmHA-financed Non-Profit
Water Supply Corporations. I am sure there will be many questions once
you and your staff have had an opportunity to review the attached. Please
feel free to give me a call at any time if you have any comments or questions.

Very truly yours,

Jack Bishop

jg

attachment

xc: Mr. Ken Green, General Manager
    Texas Assn. of Rural Water Corporations
Suggested legislation to enable Farmers Home-Financed Non-Profit Water Supply Corporations to convert to a special district with or without ad valorem taxation authority in an effort to obtain the status of a political subdivision and the benefits thereunder.

1. The following items, in all likelihood, should be incorporated in the legislation directly from Chapter 54 of the Water Code:

A. Section 54.001 could be kept in tact. There may be possible problems with Item 7 as will be addressed later in this discussion.

B. Throughout the rest of Chapter B, the following changes, suggestions and adoptions are suggested. In an effort to prevent excessive duplication, all items referred to in Chapter B will be referred to by their last numbers.

   .011    kept as is
   .012    "    "    "
   .013    "    "    "
   .014    "    "    "
   .015    kept as is subject to the various rulings by the Public Utility Commission and the public body administering the Texas Water Code
   .016    changes need to be made that would allow the creation of the district even though it was within the extraterritorial jurisdiction of a city as long as that district agreed to consult with and defer to the subdivision ordinances of the city relating to water service demands and water facility designs
   .017    kept as is
   .018    "    "    "
   .019    "    "    "
   .020    "    "    "
   .021    "    "    "
   .022    "    "    "
   .023    "    "    "
   .024    "    "    "
   .025    "    "    "
   .026    "    "    "
   .027    "    "    "
   .028    "    "    "
   .029    "    "    "

This section may need to be modified in that the creation of a new class of district relating specifically to Farmers Home Administration-financed systems may not be compatible with the conversion provisions as set forth in this section.

Note comments under .030

C. Due to the organization of the current Farmers Home-financed water systems, the administrative provisions and the duties of the directors, terms of office, and bylaws should be kept in tact as much as possible (note copy attached of FmHA standard bylaws). In general, these provisions correspond with the provisions of Subchapter C of Chapter 54 of the Water Code. Any changes in the legislative authorization could affect the funding of these systems. Each system has an outstanding indebtedness through the Farmers Home Administration and the United States Department of Agriculture which must be considered. I would, therefore, recommend that the bylaws be kept in tact.

D. Subchapter D relating to the powers and duties could be structured as follows:

kept as is with a local option on behalf of the members to limit the authority and obligations as set forth in Item 201(b)(1 through 7)

kept as is

This provision would again be on a local option basis assumed after a vote of the membership of the corporation

kept as is

(on a local option basis)

(note that the water supply corporations currently have the right of eminent domain which may be exercised if necessary to obtain easements for water lines and well sites)
212 kept as is
213 This provision should be modified to refer to the
extension policy and/or relocation policy of the
corporation as set forth in its rules and regulations
and/or tariff.
214 kept as is
215 " " "
216 " " "
217 " " "
218 This provision, in general, should be kept as written;
however, it should be examined and modified to correspond
to both Article 1434a, Vernon's Texas Civil Statutes
(the enabling legislation for water supply corporations)
and to the current Articles of Incorporation of those
corporations.
219 Provisions should be made that any source of contractual
payments would be made based on whether or not the special
district had chosen to issue general obligation (tax
supported) bonds or revenue bonds.
220 There may need to be changes in this particular section;
however, the state statutes involving municipal corpora-
tions and the state constitution may require that this
provision be included.
221 Note comments on .220
222 " " " "
223 " " " "
224 " " " "
225 " " " "
226 kept as is
227 " " "
228 " " "
229 Again, there may be constitutional requirements that
229 be kept as written; however, those items should be
reviewed in light of the fact that these entities are to
have the option to be non-taxing entities. Therefore,
the property of the members and the users of water within
the special district would not be responsible for any-
thing but revenue producing sources if such contracts
were properly written.
230 kept as is
231 " " "
232 " " "
This particular section should again be based on a local preference. As the statute (Article 1334a) is currently written, the corporations have the authority to handle waste treatment. The decision to handle that local waste treatment should remain with the local board of directors based on a vote of the members of the systems.

E. Once again, due to the organization of the current Farmers Home-financed water systems, the general administration and expenditures are handled by the current bylaws. Therefore, as much as possible, those items should not be disturbed in any transition from a non-profit Farmers Home system to a special utility district. The specific items in Subchapter E of Section 54 of the Water Code which need consideration are as follows:

.301 The current bylaws be allowed to stay in tact unless there is some reason to change them to bring the system into a district operation.

.302 kept as is

.303 This section needs to be reviewed both as to the term of the notes and the interest rate that can be paid. The systems should have access to finances at the most reasonable terms as possible.

.304 This section can remain basically in tact except for those entities that decide not to become tax based entities. In such a situation, the notes would only apply to revenues from water sales.

.305 This section should again be structured in accordance with the Farmers Home Administration organizational guidelines.

.306 kept as is

.307 " " "

.308 " " "

.309 A provision must be made that the audit will comply with the annual audit required by the Farmers Home Administration.

.310 kept as is

.311 Once again, this is a tax item and the taxes should be left to a local option basis.

.312 Note comments on .311
F. Subchapter F of Chapter 54 discusses in detail the types of bonds to be issued, the authority to issue those bonds, and the voting requirements involved prior to the issuance of bonds. I would suggest that a more competent bond counsel review this section and that his comments be considered prior to any legislation being drafted or presented to the legislature.

G. Subchapter G, TAXES, of Chapter 54 of the Water Code, sets forth all of the provisions necessary to issue taxes on the property within the geographic area of a municipal district, or, in our case, a special utility district. Since it is anticipated that each of these districts would have taxation authority only on a local option basis, I would recommend that Subchapter G be included in any bylaws or articles adopted by a district that chose to have ad valorem taxation. Should that district choose not to have ad valorem taxation, then there would be no need for Subchapter G. The Subchapter, as written, appears to meet all of the requirements that a taxing authority would need.

The main recommendation under this subchapter is that if a body intends to tax, then the items included in Sections 601 through 637 would be adequate.

H. Throughout Subchapter H of Chapter 54, there are various paragraphs, sections and subsections that refer to the taxing issue. Once again, it is proposed that this legislation allow taxing on a local option basis and, therefore, any section referring to taxes would need to be excluded from the entity formed which had elected to not have ad valorem taxation. The best way to handle such a situation would be through the certification process as it currently exists under Section 54 of the Public Utility Regulatory Act (Article 1446c, Vernon's Texas Civil Statutes). Even though this recommendation might create some overlapping jurisdiction under the Water Code and the Public Utility Regulatory Act, it would still seem to be the most practical way to create a recognizable political subdivision and, at the same time, allow entry into and exclusion from the
service area of that subdivision.

JACK BISHOP
GENERAL COUNSEL
TEXAS ASSOCIATION OF RURAL WATER CORPORATIONS
1108 Nueces
Austin, TX 78701
(512) 478-7381
BY-LAWS

WATER SUPPLY CORPORATION

By-laws of Water Supply Corporation, having been presented to the Board of Directors of said Corporation and duly adopted as follows:

ARTICLE I.

The President shall preside at all members' and directors' meetings. He may, and upon demand of one-third (1/3) of the members shall, call a special meeting of the members or directors, and he may, and shall, upon demand of one-third (1/3) of such directors, call a special meeting of the directors or membership. Such special meeting shall be held upon giving the notice required in Article XII of the by-laws. He shall perform all other duties that usually pertain to the office or are delegated to him by the Board of Directors.

ARTICLE II.

The Vice-President shall, in case of the absence or disability of the President, perform the duties of the President.

ARTICLE III.

The Secretary-Treasurer shall have the custody of all the monies and securities of the Corporation. He shall keep regular books and shall keep minutes of all meetings of members and directors. All monies of the Corporation shall be deposited by him in such depository as shall be selected by the directors. Checks must be signed by him and the President or Vice-President, in the absence of the President. He shall have custody of the seal of the Corporation and affix it as directed.
hereby or resolution passed by the Board of Directors or members.

The position of the Secretary-Treasurer shall be placed under a
fidelity bond in an amount which shall be set by the Board of Directors.
The amount of said bond shall be set from time to time by the Board of
Directors, but shall not be less than $1,000.

ARTICLE IV.

The Board of Directors shall consist of ______ directors,
a majority of whom shall constitute a quorum. Upon issuance of the
Charter and annually thereafter on ______ the Board of
Directors shall elect a President, a Vice-President and a Secretary-
Treasurer. The directors shall be elected by the members' at the members'
regular meeting provided for in Article XI of the by-laws. The directors
shall be divided into three classes, each class to be as near as equal
in number as possible, the terms of the directors of the first class to
expire at the first annual meeting of the shareholders at their
election, the terms of the directors of the second class to expire at
the second annual meeting after their election and the terms of the
directors of the third class to expire at the third annual meeting after
their election. At each annual meeting after such classification, the
number of directors equal to the number of the class whose term expires
at the time of such meeting shall be elected to hold office until the
third succeeding annual meeting. The directors shall serve without pay,
but may be compensated for actual expenses by a majority vote of directors.
Upon the death or resignation of a director, a successor shall be elected
by a majority of the directors remaining to serve out the remaining
portion of the term thus vacated.

*This election shall be held prior to May 1, but after the members'
annual meeting. Insert day of week, week of month, and month of year.
ARTICLE V.

Regular meeting of the Board of Directors shall be held at such time and place as the board may determine at the next previous regular meeting. No further notice to the directors of such regular meetings shall be required, and it shall be the duty of each director to attend the same without further notice.

ARTICLE VI.

The Corporation shall conduct its business on a non-profit basis, and no dividends shall ever be paid upon the memberships of such Corporation. All profits arising from the operation of such business shall be annually paid out to the persons who have, during the past year, transacted business with such Corporation, in direct proportion to the amount of business transacted, provided that no such dividends shall ever be paid while any indebtedness of the Corporation remains unpaid.

ARTICLE VII.

The directors of the Corporation shall establish and maintain, so long as the Corporation is indebted to the Government, in a bank within the State of Texas, insured with the Federal Deposit Insurance Corporation, a reserve account separate and apart from other funds accounts of the Corporation. There shall be deposited in such fund the sum of $_________ per month from the revenues of the Corporation. Such deposits will continue until the total amount deposited equals $_________, provided, however, that after any withdrawals, such deposits shall be resumed until the amount accumulated in the fund is restored to $_________.

Withdrawals from this fund shall be made only for emergency repairs obsolescence of equipment, and for making up any deficiencies in revenue
for loan payments. One of the objectives of the reserve fund is to assure, during the periods of non-water deliveries or water shortages, the availability of funds equal to the difference between collection from the sale of water and collections that would have been made had the members been able to purchase the quantity of water used normally.

The directors shall invest all sums in this fund not required to be expended within the year in which the same are deposited in bonds or other evidence of indebtedness to the United States of America, or they shall deposit said sums at interest in a savings account, in a bank insured with FDIC. Securities so purchased shall be deemed at all times to be a part of the reserve fund account.

ARTICLE VIII.

Section 1. Every person (which includes any legal entity) owning or having a legal right to the control, possession or occupancy of property served or which may reasonably be served by the Corporation shall have the right to become a member of the Corporation upon payment of the membership fee hereinafter provided and upon compliance with the reasonable requirements of the Corporation governing the purchase of water, charges for connection and operation of and service by the system. Membership shall not be denied because of the applicant's race, color, creed or national origin. It is the intent of the Corporation to provide service on a non-discriminatory basis to all persons desiring service to the extent that the capabilities of the system will reasonably permit.

Section 2. The membership fee shall be one hundred dollars ($100.) which shall entitle the member to one connection to the water
main of the Corporation. A person may own more than one membership but each member shall be entitled to only one vote regardless of the number of memberships owned. Membership certificates shall be in such form as shall be determined by the Board of Directors.

ARTICLE IX.

For the purpose of determining members entitled to notice of or to vote at any meeting of members or any adjournment thereof, in order to make a determination of membership for any proper purpose, ownership of memberships shall be deemed to be in those persons who are the record owners of memberships as evidenced by the membership transfer book on the 15th day of the month next preceding the month of the date upon which the action requiring such determination is to be taken.

ARTICLE X.

In order to insure that business done by the Corporation shall continue within the capacity of its facilities and to prevent undue financial burden on the members of the Corporation, membership in the Corporation shall be transferred from the original members, their transferees, pledges, administrators or executors, or purchasers at judicial sale, or other persons, only after approval by the directors of the person proposing to buy said membership. Membership in the Corporation shall be deemed personal estate, and shall be transferable only upon surrender of membership certificate endorsed by the record owner to the transferee, and after all indebtedness due the Corporation has been paid by the transferer member.

ARTICLE XI.

There shall be a regular meeting of the members annually, on **

**This meeting shall be held between January 1 and May 1. Insert the day of week, week of month and month of year.
brought before it. The Secretary-treasurer shall give at least fifteen (15) days written notice of such annual meeting to the membership indicating the time, place and purpose of such meeting, and shall address and mail the notice to each member at the address last known to the Corporation. Voting by proxy shall be permitted. The presence at a meeting of members entitled to cast in their own right or by proxy twenty-five percent (25%) of the total number of votes shall constitute a quorum for the transaction of business.

ARTICLE XII.

Special meeting of the directors may be held upon reasonable notice, either written or oral. Prior to any special meeting of the members, the President shall request in writing that the Secretary-Treasurer give ten (10) days notice to the members. Such notice shall indicate the time, place and purpose of the meeting, and shall be addressed and mailed to such members at their address last known to the Corporation.

ARTICLE XIII.

The business of the Corporation may be handled under the direction of the Board of Directors, by a manager to be elected by majority vote of the Board, and he shall serve with or without compensation. The manager, with the approval of the Board of Directors, may employ, with or without compensation, such supervisory, clerical or other employees as he may require to effectively operate the business of the Corporation.

ARTICLE XIV.

All members will be billed, disconnected, or reconnected in accordance with the written policies of the Corporation. In the event a member should surrender his membership certificate properly endorsed to the
Secretary-Treasurer of the Corporation, his water service shall be discontinued and his obligation to pay for water service shall terminate except as for the minimum charge for the current month or the charge for water used during the current month, whichever is greater, and except as for any prior unpaid amounts due the Corporation. In the event membership is terminated, cancelled, withdrawn, or surrendered, whether voluntarily or involuntarily, the former member's rights and interest in the assets of the Corporation will not be forfeited.

ARTICLE XV.

Upon dissolution of the Corporation, all assets of the Corporation remaining after payment of the indebtedness of the Corporation shall be distributed among the members and former members in direct proportion to the amount of their patronage with the Corporation insofar as practicable. Any indebtedness due the Corporation by a member for water service or otherwise shall be deducted from such member's share prior to final distribution.

ARTICLE XVI

The fiscal year of the Corporation shall be from __________ to __________.

ARTICLE XVII.

For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the Farmers Home Administration, the Corporation shall insure with a reputable insurance company such of its properties and in such amounts as is required by the State Director of the Farmers Home Administration for the State of Texas.
ARTICLE XVIII.

(a) If at the end of any fiscal year or in the event of emergency repairs the Board of Directors determines the total amount derived from the collection of water charges to be insufficient for the payment of all costs incident to the operation of the Corporation's system during the year in which such charges are collected, the Board shall make and levy an assessment against each member of the Corporation as the Board may determine or as may be required by Farmers Home Administration, so that the sum of such assessments and the amount collected from water and other charges is sufficient to fully pay all costs of operation, maintenance, replacement and repayment on indebtedness for the year's operations, but this provision shall not operate for the benefit of any third party creditor other than Farmers Home Administration without a favorable vote of the majority of the members. Any assessments levied to make up operational deficits in any year shall be levied against members in proportion to their patronage with the corporation.

(b) In the event a member should surrender his membership certificate properly endorsed to the Secretary-Treasurer of the Corporation, his obligation to pay such assessments shall be limited to assessments made and levied prior to the date of surrender of his membership certificate, provided, however, that this paragraph and the second sentence of Article XIV shall not apply to relieve a member of his obligation under special agreements covering multiple membership certificates held by one member which may have been required or approved by the Farmers Home Administration.
ARTICLE XIX.

The books and accounts of the Corporation shall be audited by a person competent to perform such audit at least once each year. The reports prepared by such auditor shall be submitted to the members at the annual meeting of such members.

ARTICLE XX.

These by-laws may be altered, amended, or repealed by a vote of a majority of the members present at any regular meeting of the Corporation, or at any special meeting of the Corporation called for that purpose, except that the members shall not have the power to change the purpose of the Corporation so as to decrease its rights and powers under the laws of the State, or to waive any requirements of bond or other provisions for the safety and security of the property and funds of the Corporation or its members, or to deprive any member of rights and privileges then existing, or so to amend the by-laws as to effect a fundamental change in the policies of the Corporation. Notice of any amendment to be made at a special meeting of the members must be given at least ten (10) days before such meeting and must set forth the amendments to be considered. For so long as the Corporation is indebted for a loan or loans made to it by the United States of America through the Farmers Home Administration, these by-laws shall not be altered, amended or repealed without the prior written consent of the State Director of the Farmers Home Administration for the State of Texas.

ARTICLE XXI.

The seal of the Corporation shall consist of a circle within which shall be inscribed "WATER SUPPLY CORPORATION".
The above by-laws and regulations were unanimously adopted by the Board of Directors of the __________________________
WATER SUPPLY CORPORATION, at a meeting in the __________________________ on the _____ day of __________________________,
A. D. 19______.

________________________________________
Secretary-Treasurer
APPENDIX III

TESTIMONY

OF

HENRY RIEFF, PRESIDENT

OF THE

TEXAS ASSOCIATION OF RURAL WATER CORPORATIONS

Given in public hearing before the Joint Committee
To Study Rural Water Cooperatives

September 8, 1982
JOINT LEGISLATIVE COMMITTEE
TO
STUDY RURAL WATER CORPORATIONS

MR. CHAIRMAN AND MEMBERS OF THE COMMITTEE:

I AM HENRY RIEFF, THE PRESIDENT OF THE TEXAS ASSOCIATION OF RURAL WATER CORPORATIONS. I WISH TO THANK THIS BODY FOR THE OPPORTUNITY TO ADDRESS THE PROBLEMS FACING CONSUMER, MEMBER-OWNED, NON-PROFIT FmHA-FINANCED WATER SUPPLY CORPORATIONS IN THIS STATE. AS LEGISLATION EXISTS, THESE SYSTEMS AND THEIR SEVERAL THOUSAND CUSTOMERS ARE NOT ABLE TO OBTAIN FINANCING WITHIN THE STATE OF TEXAS AND ARE FORCED TO Rely UPON FINANCING FROM THE FARMERS HOME ADMINISTRATION FOR THEIR WATER IMPROVEMENTS.

THERE SEEMS TO BE SOME CONFUSION AS TO WHAT RURAL WATER SUPPLY CORPORATIONS ACTUALLY ARE AND WHAT THEY DO. THESE SYSTEMS ARE MEMBER-OWNED, MEANING THAT EACH CUSTOMER OWNS A PORTION OF THE SYSTEM AND HAS A VOTE ON ALL DECISIONS MADE BY THAT SYSTEM. THEY ARE NOT POLITICAL SUBDIVISIONS, AS THAT TERM IS USED IN THE STATE OF TEXAS. THEY ARE NON-PROFIT CORPORATIONS, AND, AS SUCH, ALL ASSETS AND LIABILITIES ARE ASSUMED BY THE INDIVIDUAL CONSUMERS. MOST ALL OF THE SYSTEMS HAVE VOLUNTEER BOARDS OF DIRECTORS, WHO CONSIST OF FARMERS, SMALL BUSINESSMEN, ACCOUNTANTS, ATTORNEYS, ETC. ALL OF THOSE MEMBERS OF THE BOARD OF DIRECTORS ARE MEMBERS OF THE SYSTEM AND ARE CONSUMERS OF THE WATER SUPPLIED BY THE CORPORATION. THESE MEMBERS ON THE BOARD OF DIRECTORS ARE DEALING DAILY WITH THEIR NEIGHBORS AND ARE PROVIDING THEIR TIME AND EXPERTISE AS A PUBLIC SERVICE.

AS EACH OF YOU KNOW, THERE IS AN ONGOING DISCUSSION OF FUNDING FROM FEDERAL SOURCES. EACH OF THESE SYSTEMS RELY ALMOST EXCLUSIVELY ON FEDERAL FUNDS THROUGH THE FARMERS HOME ADMINISTRATION. (CURRENTLY, THIS FmHA BUDGET HAS BEEN REDUCED 66% SINCE 1979.) WITH THESE FUNDS CUT SO DRastically, THE RESULT TODAY IS THESE SYSTEMS ARE SEVERELY RESTRICTED IN PROVIDING DRINKABLE WATER AND PORTABLE WATER TO THE RURAL RESIDENTS OF THIS STATE.

IF THE STATE OF TEXAS IS GOING TO CONTINUE TO HAVE A VIABLE RURAL WATER SUPPLY SYSTEMS, A SYSTEM WHICH IS OWNED AND MANAGED BY THE CONSUMERS, THEN IT IS ESSENTIAL THAT THESE PARTICULAR SYSTEMS BE INCLUDED IN ALL NECESSARY STATE PLANNING, LEGISLATION, AND ULTIMATELY ABLE TO SECURE FINANCIAL ASSISTANCE FROM THE STATE AND FEDERAL GOVERNMENT.
APPENDIX IV

SURVEY OF WATER RESOURCES PROBLEMS
AND MANAGEMENT ISSUES
CONFRONTING
TEXAS RURAL WATER SYSTEMS
Response rates:

* 243 returned out of
overall response rate of

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<th>Region</th>
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<td>.9%</td>
<td>(2)</td>
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<tr>
<td>High Plains</td>
<td>6.0%</td>
<td>(14)</td>
</tr>
<tr>
<td>Low Rolling Plains</td>
<td>8.1%</td>
<td>(19)</td>
</tr>
<tr>
<td>North Central</td>
<td>35.7%</td>
<td>(84)</td>
</tr>
<tr>
<td>Northeast</td>
<td>20.4%</td>
<td>(48)</td>
</tr>
<tr>
<td>South Central</td>
<td>11.5%</td>
<td>(27)</td>
</tr>
<tr>
<td>Lower Rio</td>
<td>3.8%</td>
<td>(9)</td>
</tr>
<tr>
<td>Southeast - Gulf</td>
<td>13.6%</td>
<td>(32)</td>
</tr>
</tbody>
</table>
SURVEY OF WATER RESOURCES PROBLEMS AND MANAGEMENT ISSUES
CONFRONTING TEXAS RURAL WATER SYSTEMS

Part I - General Information

System Name ____________________________ County/s _____________________

Mailing Address ____________________________

A. Present source of water supply:

- Well/s; number 59.7% (145) combination 20.6% (50)
- Reservoir; name 2.9% (7)
- Purchased; supplier/s name ____________________________

B. Potential problems are listed below. Please check those which affect your system.

% For Yes Responses, is a problem

- Tax status of nonprofit water supply corporations, 50.2% (122)
- Inadequate long-range planning, 10.3% (98)
- Inadequate maintenance, 5.8% (14)
- Shortage of certified operators, 18.5% (45)
- Lack of water rights to surface water, 15.6% (38)
- Competition for available ground water, 14.4% (35)
- Inferior quality of water supply, (Please explain) 8.2% (20)

- Inadequate funds to add capacity to serve new customers, 61.7% (150)
- Inadequate supply of water to serve new customers, 70.0% (73)
- Sewage disposal, 8.6% (21)
- Other (Please identify) 6.2% (15)

Part II - Planning Information

Please Note: In this context the term "planning" refers to the engineering, economic and demographic analyses that (1) identify future water supply and wastewater facility requirements; and (2) develop ways to meet these future requirements.

1. Are your existing water supplies adequate to the year 2000?

- Yes. 40.7% (91)
- No (If not, when do you anticipate the necessity of obtaining additional water supplies?)

55.1% (134)
2. Are your existing water treatment and distribution facilities adequate to satisfy needs to the year 2000?

☐ Yes. 31.3% (76)

☐ No (if not, when do you anticipate the necessity of either replacing or developing additional water treatment and distribution facilities?)

☐ 61.7% (150)

3. Are your existing sewage treatment and collection facilities adequate to the year 2000?

☐ Not Applicable. 83.1% (202)

☐ Yes. 6.6% (16)

No (if not, when do you anticipate the necessity of either replacing or developing additional sewage treatment and collection facilities?)

☐ 3.7% (9)

4. If you are planning to obtain additional water supplies, please indicate the type(s) of projects: "YES" RESPONSES

☐ Purchase from another system/utility 25.1% (61)

☐ Surface water diversion 2.5% (6)

☐ Surface water reservoir 12.3% (30)

☐ Ground water 35.8% (87)

☐ Desalting system 8.1% (27)

☐ Other (please specify) 11.1% (27)

5. Do you think your system will ultimately need to participate in a regional water system, (if not already) to obtain long-term water supplies?

☐ No. 55.1% (134)

☐ Yes, (If yes, would you please indicate the extent and status of any regional planning efforts along these lines.)

☐ 37.4% (91)

6. Do you think your system will ultimately need to participate in a regional sewage treatment system (if not already)?

☐ Not Applicable. 69.5% (169)

☐ No. 19.3% (47)

☐ Yes, (If yes, would you please indicate the extent and status of any regional planning efforts along these lines.)

☐ 4.5% (11)
7. Do you consider flooding to be a problem in your area?

☐ No. 85.6% (208)

☐ Yes. (Please explain briefly.) 12.3% (30)

8. Have you ever found it necessary to institute a water rationing or mandatory program to curtail water use?

☐ No. 63.4% (154)

☐ Yes, (if yes, please describe) 35.4% (86)

9. Does your system provide a program of public awareness and public information about water conservation to customers in your service area?

☐ No. 74.1% (180)

☐ Yes, (if yes, please indicate). 25.1% (61)

3.3% (8) Coordination and cooperation with local school systems

1.1% (1) Maintenance of a Public Affairs Office

11.1% (29) News releases and media coverage

11.7% (29) Organized mailing of conservation information

7.8% (19) Other

10. Does your system have an "Emergency Plan" to be used in case of severe droughts and water shortages?

☐ No. 79.8% (194)

☐ Yes, (if yes, please describe) 16.9% (41)

11. Does your system have a program for replacing existing water using equipment with water saving devices (i.e. restricted-flow shower heads, low-flush toilets, etc.) in houses and commercial facilities?

☐ No. 97.5% (237)

☐ Yes, (if yes, please describe) 2.5% (2)
12. Does your system require customers to install water savings devices in the construction of new housing and commercial facilities?

□ No. 97.5% (237)

□ Yes, (if yes, please describe) 1.6% (4)

13. Briefly describe the primary financial methods used by your system to fund water supply projects and water quality protection projects. *YES REPSONSES*

□ Grants from federal government (Please Indicate) □ FHA □ HUD □ EDA 33.7% (32)

□ Loans from government sources (Please Indicate) □ FHA □ HUD □ EDA 12.1% (5)

□ Loans from non-government sources (Please describe) 96.4% (216)

□ Other 5.8% (14)

□ Other 11.1% (27)

14. Have the above mentioned sources of financing proved adequate for your needs thus far, and do you feel they will continue to be so in the future to the year 2000?

30% (75) □ Yes, financing sources are adequate now and will be so in the future.

19.2% (152) □ Yes, financing sources have proved adequate so far but we anticipate having some difficulty in the future beginning ________________.

9% (41) □ No, financing sources are presently inadequate (if no, please explain)

15. In your opinion, is there a need for State financial assistance for rural water systems projects?

25.1% (6) □ No.

74.5% (185) □ Yes, (if yes, how would you rank the following types of financial assistance in order of importance? Note highest = 1 and lowest = 4. For an explanation of the types of funding source see below). (RANKED FIRST)

48.6% (118) (a)* Low interest loans*

8.6% (21) (b) Loans at State bond rates

20.6% (50) (c) Grants

3.3% (8) (d) Loan guarantees

*(a) Low interest loans - Funds for loans obtained from State appropriated tax revenues or dedicated taxes, with interest rates set by the Legislature.
15. (Continued)

(b) **Loans at State bond rates** – The State sells bonds and uses proceeds to make loans to local government (Present Water Development Bond program, with bonding limit set in the Constitution).

c) **Grants** – State appropriated tax revenues or dedicated taxes.

d) **Loan guarantees** – State guarantee local government bonds and thereby increase credit rating of local governments so that interest rate on local bonds is lowered to that of State Bonds.

16. Please look at the seven basic types of water projects/activities listed below and place them in rank order of importance, with respect to financial assistance insofar as rural water systems are concerned (highest = 1 and so on to lowest). (RANKED FIRST)

<table>
<thead>
<tr>
<th>Type of Project/Activity</th>
<th>Rank Order Position</th>
</tr>
</thead>
<tbody>
<tr>
<td>Water supply development</td>
<td>73.7% (17)</td>
</tr>
<tr>
<td>Water quality improvement and maintenance</td>
<td>9.5% (23)</td>
</tr>
<tr>
<td>Flood control</td>
<td>1.2% (3)</td>
</tr>
<tr>
<td>Research and development</td>
<td>0.9% (2)</td>
</tr>
<tr>
<td>Fish and wildlife mitigation and enhancement</td>
<td>0.4% (1)</td>
</tr>
<tr>
<td>Weather modification</td>
<td></td>
</tr>
<tr>
<td>Water conservation programs (meaning more efficient use)</td>
<td>7.0% (17)</td>
</tr>
<tr>
<td>Other (please specify project and rank)</td>
<td>9.4% (1)</td>
</tr>
</tbody>
</table>

17. What is the number of customers served?

(A). Currently

(B). Estimated for the year 2000

18. In general, per capita water use has been increasing in Texas over the last 20 years, have you observed this tendency in your service area?

- [ ] No. 25.9% (63)
- [ ] Yes, (if yes, how far into the future do you expect this tendency to continue)

73.3% (178)

Please Note: The questions asked thus far have related to conditions and problems associated with water supply, wastewater facilities and flood protection. The terms "plan" and "planning" refer to a process whereby a community seeks to identify a basic set of goals and evaluate the various ways to accomplish these goals. Often, the result of this process is the production of a written document that incorporates the results of engineering, economic, and demographic studies into a broad plan for the guidance of future water development.
19. Has your system developed a plan or is it engaged in a planning activity that is directed toward meeting future water supply facility requirements?

☐ No. 40.3% (98)

☐ Yes, (if yes, does this plan carry you): 58.8% (143)

☐ to the year 1985 16.0% (39)
☐ to the year 1990 18.5% (45)
☐ to the year 2000 14.8% (36)
☐ beyond the year 2000? 8.6% (21)
Part III - Survey of Issues

Part III of this survey contains statements pertaining to important water resource issues in Texas. These issues are described in AN OVERVIEW OF THE TEXAS WATER RESOURCE PROBLEMS AND WATER RESOURCE ISSUES (provided for your information). For each such question, would you please indicate your opinion by saying whether you AGREE, TEND TO AGREE, are INDIFFERENT, TEND TO DISAGREE or STRONGLY DISAGREE. (It is suggested that you read the entire list of questions before answering any of them.)

Would you say that the document (OVERVIEW) has identified the major water issues of Texas?

☐ A. Definitely yes
☐ B. Generally yes, but certain aspects have been overlooked
☐ C. Generally no, as many key aspects have been overlooked
☐ D. Definitely no
☐ E. No opinion

If you answered either "B", "C", or "D" above would you please indicate by marking the box below, and, if time permits, attach a separate sheet outlining your ideas as to what should be included.

☐ The OVERVIEW omits certain views and I have attached a separate sheet on which I have listed additional views.

Statement 1  A GOAL OF THE TEXAS WATER PLAN SHOULD BE TO SATISFY THE PROJECTED WATER REQUIREMENTS OF COMMUNITIES, AND NOT DELIBERATELY USE WATER AS A MEANS TO INFLUENCE THE DIRECTION OF POPULATION OR ECONOMIC GROWTH.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
<th>Indifferent</th>
<th>Tend to Disagree</th>
<th>Strongly Disagree</th>
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<tbody>
<tr>
<td>60%</td>
<td>27%</td>
<td>2%</td>
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</table>

Statement 2  ECONOMIC AND POPULATION GROWTH IN TEXAS WILL BE INFLUENCED BY THE AVAILABILITY OF FUTURE WATER SUPPLIES.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
<th>Indifferent</th>
<th>Tend to Disagree</th>
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<tr>
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<td>25%</td>
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Statement 3  TEXAS NEEDS STRONGER LAWS TO PROTECT UNDERGROUND WATER RESOURCES FROM OVERPUMPING IN THOSE AREAS WHERE OVERPUMPING CREATES A PROBLEM.

<table>
<thead>
<tr>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
<th>Indifferent</th>
<th>Tend to Disagree</th>
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<tr>
<td>48%</td>
<td>32%</td>
<td>7%</td>
<td>5%</td>
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</table>
Statement 4: PRESENTLY, UNDERGROUND WATER BELONGS TO THE LANDOWNER, BUT IT SHOULD BE MANAGED BY A PUBLIC AGENCY IN THE PUBLIC INTEREST.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
<th>Indifferent</th>
<th>Tend to Disagree</th>
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Statement 5: THE MOST DESIRABLE WAY TO MANAGE UNDERGROUND WATER IS ON A LOCAL OR REGIONAL BASIS AS OPPOSED TO UNIFORM STATEWIDE CONTROL.

<table>
<thead>
<tr>
<th>Percentage</th>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
<th>Indifferent</th>
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<td>37%</td>
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Statement 6: EFFORTS TO MAINTAIN CLEAN WATER SHOULD BE CONTINUED AT THE PRESENT LEVEL EVEN IF FEDERAL FUNDING IS REDUCED.

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<thead>
<tr>
<th>Percentage</th>
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<th>Tend to Agree</th>
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<th>Tend to Disagree</th>
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Statement 7: IN THE FACE OF REDUCED FEDERAL ASSISTANCE, LOCAL AND/OR REGIONAL AUTHORITIES MUST ASSUME THE COST OF SUSTAINING HIGH WATER QUALITY.

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<tr>
<th>Percentage</th>
<th>Strongly Agree</th>
<th>Tend to Agree</th>
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<tr>
<td>40%</td>
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Statement 8: LOCAL AND/OR REGIONAL AUTHORITIES WILL NEED STATE ASSISTANCE IN ORDER TO BE ABLE TO FINANCE THE COSTS OF SUSTAINING HIGH WATER QUALITY.

<table>
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<tr>
<th>Percentage</th>
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Statement 9  IF PEOPLE LOCATE IN A KNOWN FLOOD PRONE AREA, THEY SHOULD BE GIVEN FLOOD PROTECTION ASSISTANCE BY PUBLIC AGENCIES.

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<th>3%</th>
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<th>34%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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Statement 10  IF THE FEDERAL GOVERNMENT REDUCES ITS FUNDING SUPPORT FOR FLOOD CONTROL, THEN IT IS ESSENTIAL FOR LOCAL COMMUNITIES TO ASSUME THIS RESPONSIBILITY.

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<th></th>
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<th>37%</th>
<th>16%</th>
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Statement 11  NONSTRUCTURAL FLOOD PLAIN MANAGEMENT SUCH AS LAND USE ZONING OR STRICT BUILDING CODES IS MORE DESIRABLE THAN STRUCTURAL METHODS SUCH AS CONSTRUCTION OF DAMS, LEVEES, AND OTHER FLOOD CONTROL PROJECTS.

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<th>15%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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Statement 12  THE TEXAS WATER PLAN SHOULD FULLY RECOGNIZE WATER CONSERVATION (MEANING TO INCREASE EFFICIENCY AND REDUCE PER CAPITA CONSUMPTION) AS WELL AS SUPPLY DEVELOPMENT.

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<tr>
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<th>43%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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</table>

Statement 13  THE PRIMARY RESPONSIBILITY FOR MUNICIPAL, INDUSTRIAL AND AGRICULTURAL WATER CONSERVATION PROGRAMS SHOULD REST WITH THE LOCAL OR REGIONAL AUTHORITIES.

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<thead>
<tr>
<th></th>
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<th>46%</th>
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<td>Tend to Disagree</td>
<td>Strongly Disagree</td>
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</table>
Statement 14  MARKET FORCES, INCLUDING INCREASED WATER PRICE, NOT GOVERNMENT REGULATIONS, IS THE BEST WAY TO ENCOURAGE EFFICIENT WATER USE.

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<thead>
<tr>
<th></th>
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<th>39%</th>
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<td>Tend to Disagree</td>
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</tbody>
</table>

Statement 15  MANY TEXAS COMMUNITIES AND RURAL AREAS WILL FACE MAJOR WATER SHORTAGES BY THE YEAR 2000 IF PRESENT FACILITIES AND WATER USE PATTERNS REMAIN UNCHANGED.

<table>
<thead>
<tr>
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<th>33%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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</tbody>
</table>

Statement 16  THE STATE SHOULD HAVE A STRONG PROGRAM AND ADEQUATE FUNDING FOR PUBLIC EDUCATION AND PUBLIC AWARENESS RELATING TO WATER RESOURCES, WATER QUALITY PROTECTION, AND WATER CONSERVATION.

<table>
<thead>
<tr>
<th></th>
<th>44%</th>
<th>41%</th>
<th>5%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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</tbody>
</table>

Statement 17  FUTURE RESERVOIR PROJECTS SHOULD PROVIDE WATER FOR FRESHWATER INFLOWS TO THE BAYS AND ESTUARIES TO PROTECT PRODUCTIVITY OF THOSE AREAS, EVEN IF IT MAY REDUCE WATER AVAILABLE FOR OTHER USES.

<table>
<thead>
<tr>
<th></th>
<th>9%</th>
<th>27%</th>
<th>23%</th>
<th>25%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
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</table>

Statement 18  TEXAS SHOULD CHANGE ITS EXISTING STATUTORY PRIORITIES RELATED TO THE BENEFICIAL USES OF WATER TO INCLUDE MINIMUM STREAM FLOWS FOR MAINTAINING INSTREAM FISH AND WILDLIFE ENVIRONMENTS EVEN IF THIS CONFLICTS WITH EXISTING WATER RIGHTS.

<table>
<thead>
<tr>
<th></th>
<th>11%</th>
<th>23%</th>
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<td>Indifferent</td>
<td>Tend to Disagree</td>
<td>Strongly Disagree</td>
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</tbody>
</table>
Statement 19  THE COSTS OF MITIGATING FISH AND WILDLIFE HABITATS ALTERED BY RESERVOIR PROJECTS SHOULD BE PAID FOR BY THE STATE OR FEDERAL GOVERNMENT RATHER THAN BY USERS OF WATER FROM SUCH PROJECTS.

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<thead>
<tr>
<th>19%</th>
<th>31%</th>
<th>16%</th>
<th>16%</th>
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<td>Tend to Agree</td>
<td>Indifferent</td>
<td>Tend to Disagree</td>
<td>Strongly Disagree</td>
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</tbody>
</table>

Statement 20  SINCE EFFORTS TO ESTABLISH REGIONAL SEWER SYSTEMS HAVE GENERALLY NOT SUCCEEDED, THE STATE SHOULD TAKE A MORE ACTIVE FINANCIAL AND REGULATORY ROLE TO PROMOTE REGIONALIZATION OF SUCH FACILITIES.

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<thead>
<tr>
<th>13%</th>
<th>23%</th>
<th>28%</th>
<th>20%</th>
<th>9%</th>
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<td>Strongly Agree</td>
<td>Tend to Agree</td>
<td>Indifferent</td>
<td>Tend to Disagree</td>
<td>Strongly Disagree</td>
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</tbody>
</table>

Statement 21  THE STATE SHOULD HAVE THE AUTHORITY TO MAXIMIZE RIVER BASIN YIELDS THROUGH COORDINATED OPERATION OF RESERVOIRS EVEN THOUGH IT COULD INFRINGE UPON EXISTING WATER RIGHTS.

<table>
<thead>
<tr>
<th>8%</th>
<th>28%</th>
<th>21%</th>
<th>28%</th>
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<td>Tend to Agree</td>
<td>Indifferent</td>
<td>Tend to Disagree</td>
<td>Strongly Disagree</td>
</tr>
</tbody>
</table>

Statement 22  ADDITIONAL INTERBASIN TRANSFERS OF WATER FROM BASINS HAVING WATER SURPLUS TO THEIR LONG-TERM NEEDS SHOULD BE DONE IN ORDER TO MEET SHORTAGES IN OTHER BASINS, PROVIDED THE BENEFICIARIES PAY THE COSTS.

<table>
<thead>
<tr>
<th>16%</th>
<th>57%</th>
<th>12%</th>
<th>7%</th>
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Statement 23  IRRIGATION FARMING AND FOOD PROCESSING BUSINESS IN TEXAS IS SO IMPORTANT THAT THE STATE SHOULD PLAN FOR THE DEVELOPMENT OF FUTURE AGRICULTURAL WATER SUPPLIES.

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Statement 24: The Texas Water Plan should continue to consider the importation of surplus water from outside the state in order to meet the long-term needs of agriculture and other uses in semi-arid regions such as the Texas High Plains and the Rio Grande Valley. (Surplus means water in excess of the needs of the areas from which it would be obtained.)

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Statement 25: The state (either the Governor, Legislature, Texas Water Development Board, or a combination thereof) should develop a priority system to establish the merits of water development projects competing for the same water resources and for future state and/or federal funds.

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Statement 26: The state should take a more active role, including increased financing, of water resources and related research.

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Statement 27: The state should assist local and regional governments in the financing of water supply, and wastewater and flood control systems.

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Statement 28: The state should provide loans to local and regional governments for the construction of water supply, and wastewater and flood control systems.

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**Statement 29**  
THE STATE SHOULD FUND A PROGRAM OF NON-REPAYABLE GRANTS TO ASSIST LOCAL AND REGIONAL GOVERNMENTS IN THE CONSTRUCTION OF WATER-RELATED FACILITIES.

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**Statement 30**  
THE STATE SHOULD MAKE LOAN GUARANTEES TO STRENGTHEN THE BORROWING POWER OF LOCAL AND REGIONAL WATER AUTHORITIES.

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**Statement 31**  
THE BEST APPROACH TO FUNDING STATE WATER-RELATED RESEARCH PROJECTS IS A NON-REPAYABLE GRANT.

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**Statement 32**  
TO THE EXTENT THEY CAN BE IDENTIFIED, THE DIRECT BENEFICIARIES OF A WATER PROJECT SHOULD PAY FOR IT.

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Figure 4

MAJOR GEOGRAPHIC AREAS

Legend
1. Upper Rio Grande
2. High Plains
3. Low Rolling Plains
4. North Central
5. Northeast
6. South Central
7. Lower Rio Grande
8. Southeast/Gulf Coast
APPENDIX V

A BILL TO BE ENTITLED
AN ACT
AUTHORIZING THE CONVERSION OF
WATER SUPPLY CORPORATIONS
INTO
SPECIAL UTILITY DISTRICTS
A BILL TO BE ENTITLED

AN ACT

AUTHORIZING THE CONVERSION OF WATER SUPPLY CORPORATIONS CREATED PURSUANT TO ARTICLE 1434a, V.A.T.C.S., INTO SPECIAL UTILITY DISTRICTS; THE PROCEDURES FOR SUCH CONVERSION; GENERAL POWERS OF THE DISTRICT; ELECTION PROCEDURES; AUTHORIZING THE DISTRICTS TO ISSUE BONDS, NOTES, BOND ANTICIPATION NOTES AND REFUNDING BONDS; PROVIDING FOR APPROVAL OF THE BONDS, NOTES AND BOND ANTICIPATION NOTES, AND REGISTRATION OF THE BONDS, NOTES AND BOND ANTICIPATION NOTES BY THE COMPTROLLER OF PUBLIC ACCOUNTS; PROVIDING FOR DEPOSITORIES, QUALIFICATION OF SUCH BONDS AND NOTES FOR INVESTMENT AND SECURITY PURPOSES; PROVIDING FOR SEVERABILITY; AND DECLARING AN EMERGENCY.

BE IT ENACTED BY THE LEGISLATURE OF THE STATE OF TEXAS:

Section 1. The Texas Water Code, is hereby amended by adding a new Chapter 65, which shall read as follows:

"CHAPTER 65 SPECIAL UTILITY DISTRICTS

SUBCHAPTER A. GENERAL PROVISIONS

§ 65.001. Definitions

In this Chapter:

(1) "District" means a special utility district operating under this Chapter.

(2) "Board" means the board of directors of a district.

(3) "Director" means a member of the board of directors of a district.

(4) "Commission" means the Texas Water Commission.

(5) "Executive director" means the executive director of the Texas Department of Water Resources.

(6) "Public agency" means any city, the United States, the State of Texas, and any district or authority created under Article XVI, Section 59, or Article III, Section 52, of the Texas Constitution, including any river authority, or any other
political subdivision or governmental agency of the United States or the State of Texas.

(7) "City" means any incorporated city, town, or village of the State of Texas whether operating under general law or under its home-rule charter.

(8) "Extraterritorial jurisdiction" means the extraterritorial jurisdiction of a city as defined in Article I, Chapter 160, Acts of the 58th Legislature, 1963, as amended (Article 970a, Vernon's Texas Civil Statutes).

(9) "Sole expense" means the actual cost of the relocation, raising, rerouting, or changing grade or alteration of construction and providing comparable replacement without enhancing the facilities after deducting from it the net salvage value derived from the old facility.

(10) "Water Supply Corporation" means any water supply corporation created pursuant to and operating under Chapter 76, Acts of the 43rd Legislature, 1st Called Session, 1933, as amended (Article 1434a, V.A.T.C.S.).

SUBCHAPTER B. CREATION OF DISTRICT; CONVERSION OF DISTRICT

§ 65.011. Creation of District

A special utility district may be created under and subject to the authority, conditions, and restrictions of Article XVI, Section 59 of the Texas Constitution.

§ 65.012. Purposes of a District

A district shall be created for the following purposes:

(1) the right to purchase, own, hold, lease, and otherwise acquire water wells, springs and other sources of water supply; to build, operate, and maintain pipe lines for the transportation of water; and to sell water to towns, cities and other political subdivisions of the
State of Texas, to private business entities and to individuals:

(2) the establishment, operation and maintenance of firefighting facilities to perform all firefighting activities within the district; and

(3) the protection, preservation, and restoration of the purity and sanitary condition of water within the district.

§65.013. Composition of District

(a) A district may include the area in all or part of any county or counties including all or part of any cities and other public agencies.

(b) the land composing a district need not be in one body, but may consist of separate bodies of land separated by land which is not included in the district.

§65.014. Certified Resolution seeking Creation of District

When it is proposed to create a district, a certified copy of a resolution requesting creation shall be filed with the commission. The resolution shall be signed by the president and secretary of the board of directors of a Water Supply Corporation and such resolution shall state that the Water Supply Corporation, acting through its board of directors, has found that it is necessary and desirable for the Water Supply Corporation to be converted into a district.

§65.015. Additional Contents of Resolution

In addition to the requirements set forth in the preceding section, the resolution shall:

(1) describe the boundaries of the proposed district by metes and bounds or by lot and block number, if there is a recorded map or plat and survey of the area, or by any other commonly recognized means in a certificate attached to the resolution executed by a registered professional engineer;
(2) state the general nature of the services presently performed by the Water Supply Corporation, the general nature of the services proposed to be provided by the district, and the necessity for the services provided by the district; and

(3) include a name of the district which shall be generally descriptive of the locale of the district followed by the words Special Utility District. The proposed district shall not have the same name as any other district in the same county; and

(4) the names of five qualified persons to serve as the initial board of directors of the district.

§65.016. Consent of City

A district may operate within the corporate limits of a city or within the extraterritorial jurisdiction of a city, provided that a city may require that the district construct all facilities to serve the land in accordance with plans and specifications which have been approved by the city. The city may also require that the city shall have the right to inspect all facilities being constructed by a district.

§65.017. Deposit

(a) The resolution shall be accompanied by a deposit of $250 which shall be paid to the commission for the use of the state, and no part of the deposit shall be returned except as provided in Subsection (c) of this section.

(b) The deposit shall be deposited with the state treasurer to be held in trust outside the state treasury until the commission either grants or refuses the request contained in the resolution to allow the Water Supply Corporation to convert into a district, at which time the commission shall direct the state treasurer to transfer the deposit to the general revenue fund.

(c) If at any time before the hearing the board of directors who submitted the resolution desire to withdraw
the resolution, the commission shall direct the refund of
the deposit to such board of directors, or their attorney of
record, whose receipt for the deposit shall be sufficient.
§65.018. Establishing a Date of Hearing

On the filling of a resolution, the commission or
someone authorized by the commission, shall fix a date,
time, and place at which the resolution shall be heard and
shall issue notice of the date, time, and place of hearing.
The notice shall inform all persons of their right to appear
and present evidence and testify for or against the
allegations in the resolution, the form of the resolution,
the necessity and feasibility of the district's request for
conversion, and the benefits to accrue.
§65.019. Notice of Hearing

(a) Notice of the hearing shall be published in a
newspaper with general circulation in the county or counties
in which the district is located once a week for two
consecutive weeks. The first publication shall be at least
14 days before the day of the hearing.

(b) Notice of the hearing shall also be given by
mailing a copy of the notice to each city which has
extraterritorial jurisdiction in the county or counties in
which the proposed district is located and which has
formally requested notice of the creation of all districts
in the county or counties in which the city's
extraterritorial jurisdiction is located.

(c) The request by a city for notice of hearings on
the creation of districts shall be filed annually with the
commission during the month of January. The request shall
state the names of not more than two persons who are to
receive the notice on behalf of the city and the mailing
address of the persons.

(d) A certificate of a representative of the
commission that notice was mailed to all cities which have
extraterritorial jurisdiction in the county or counties in
which the proposed district is located and which have
formally requested notice shall be conclusive evidence that
notice was properly mailed to all these cities.
§65.020. Hearing

(a) At the hearing, the commission shall examine the
resolution to ascertain its sufficiency, and any person
interested may appear before the commission in person or by
attorney and offer testimony on the sufficiency of the
resolution and whether the request for conversion is
feasible and practicable and is necessary and would be a
benefit to all or any part of the land proposed to be
included in the district.

(b) The commission shall have jurisdiction to
determine all issues on the sufficiency of the resolution
and the creation of the district.

(c) The hearing may be adjourned from day to day, and
the commission shall have power to make all incidental
orders necessary with respect to the matters before it.

§65.021. Granting or Refusing Creation of District

(a) After the hearing of the resolution if it is found
that the resolution conforms to the requirements of Section
65.015 of this Chapter and that the request for conversion
is feasible and practicable and is necessary and would be a
benefit to the land to be included in the district, the
commission shall so find by its order and grant the creation
of the district.

(b) In determining if the request for conversion is
feasible and practicable and if it is necessary and would be
a benefit to the land included in the district, the
commission shall consider:

(1) the availability of comparable service from
other systems, including but not limited to water
districts, municipalities, and regional authorities;
(2) The reasonableness of projected construction costs, if any, tax rates, and water and sewer rates; and

(3) whether or not the district and its system and subsequent development within the district will have an unreasonable effect on the following:

(A) land elevation;

(B) subsidence;

(C) groundwater level within the region;

(D) recharge capability of a groundwater sources.

(E) natural run-off rates and drainage;

(F) water quality; and

(G) total tax assessments on all land located within a district.

(c) If the commission finds that not all of the land proposed to be included in the district will be benefited by the creation of the district, the commission shall so find and exclude all land which is not benefited from the proposed district and shall redefine the proposed district's boundaries accordingly.

(d) If the commission finds that the resolution does not conform to the requirements of Section 65.015 of this code or that the request for conversion is not feasible, practicable, necessary, or a benefit to the land in the district, the commission shall so find by its order and deny the creation of a district.

(e) A copy of the order of the commission granting or denying a the request for conversion set forth in the resolution shall be mailed to each city have extraterritorial jurisdiction in the county or counties in which the district is located who requested notice of hearings as provided in Section 65.019 of this code.

§65.022. Temporary Directors
If the commission approves the creation of the district, it shall appoint those persons whose names are listed in the resolution filed with the Commission by the Water Supply Corporation to serve as directors until successor directors are elected in accordance with Subchapter C.

§65.023. Appeal From Order of the Commission

Any city, or any person who appeared in person or by attorney or agent and offered testimony for or against the creation of the district, may appeal from the order of the commission granting or refusing the creation of the district within 30 days after the entry of the order.

§65.024. Supervision by Commission

The rights, powers, privileges, authority, and functions conferred on a district by creating the district shall be subject to the continuing right of supervision of the state to be exercised by and through the commission.

SUBCHAPTER C. ADMINISTRATIVE PROVISIONS

§65.101. Board of Directors

A district shall be governed by a board of five directors.

§65.102. Qualifications for Directors

To be qualified to serve as a director, a person shall be at least 18 years old, a resident citizen of the State of Texas, and either own land subject to taxation in the district or be a qualified voter within the district.

§65.103. Disqualification of Members of the Board

(a) A person is disqualified from serving as a member of the board of a district proposed to provide or actually providing the services which are the principal functions of the district, if:

(1) he is related within the third degree of affinity or consanguinity to a developer of property in the district or to a member of the board or the manager, engineer, or attorney for the district;
(2) he is an employee of any developer of property in the district or any other director, manager, engineer, or attorney for the district;

(3) he is a developer of property in the district;

(4) he is serving as an attorney, consultant, engineer, manager, architect, or in some other professional capacity for the district or a developer of property in the district in connection with the district or property located in the district; or

(5) he is:

(A) a party to a contract with or along with the district except for the purchase of public services furnished by the district to the public generally; or

(B) a party to a contract with or along with a developer of property in the district relating to the district or to property within the district, other than a contract limited solely to the purpose of purchasing or conveying real property in the district for the purpose of either establishing a permanent residence or establishing a commercial business within the district.

(b) Within 60 days after the board determines a relationship or employment which constitutes a disqualification under Subsection (a) of this section, it shall replace the person serving as a member of the board with a person who would not be disqualified.

(c) Any person who willfully occupies an office as director and exercises the powers and duties of that office when disqualified under the provisions of Subsection (a) of this section is guilty of a misdemeanor, and on conviction, shall be fined not less than $100 nor more than $1,000.

(d) As used in this section, "developer of property in the district" means any person who owns land located within
a district covered under this section and who has divided or proposes to divide the land into two or more parts for the purpose of laying out any subdivision or any tract of land or any addition to any town or city, or for laying out suburban lots or building lots, or any lots, and streets, alleys, or parks or other portions intended for public use, or the use of purchasers or owners of lots fronting thereon or adjacent thereto.

(e) Any rights obtained by any third party through official action of a board of a district covered by this section are not impaired or affected by the disqualification under this section of any member of the board to serve, provided that the third party had no knowledge at the time the rights were obtained of the fact that the member of the board was disqualified to serve.

§65.104. Election of Directors; Term of Office

(a) On the first available election date following the adoption by the commission of the order creating the district, an election shall be held in a district for the election of two directors who shall each serve two-year terms. One year after the election of the two directors for the two-year terms, an election shall be held in the district for the election of three directors who shall be elected to serve two years. Thereafter, on the same date in each following year, there shall be an annual election of two directors in one year and three directors in the next year in continual sequence.

(b) All elections of directors shall be held in districts on one of the dates provided in Article 2.01b of Vernon's Texas Election Code.

(c) The permanent directors may assign position number to each director's office, in which case directors shall thereafter be elected by position and not at large.

§65.105. Application to Get on Ballot
Except for the first elected board of directors, any candidate for the office of director shall file with the secretary of the board of directors or any agent who may be designated by the board his application to have his name printed on the ballot. An application shall be signed by a candidate, or by 10 qualified voters, and shall be filed at least 30 days before the election.

§65.106. Vacancies on the Board

A vacancy in the office of director or any office on the board shall be filled by appointment of the board for the unexpired term. If at any time the number of qualified directors shall be less than three because of the failure or refusal of one or more directors to qualify or serve, because of death, or incapacitation, or for any other reason, then the commission shall, upon the petition of any landowner in the district, appoint the necessary number of directors to fill all vacancies on the board.

§65.107. Organization of Board; Election of Officers

After the issuance of the order by the commission creating the district, and after the directors elected at each election have qualified by executing a bond and taking the proper oath, they shall organize by electing a president, a vice president, a secretary, and any other officers as in the judgment of the board are considered necessary.

§65.108. Quorum; Officers' Duties

(a) Any three directors shall constitute a quorum, and all directors shall have a vote. The district shall act and proceed by and through resolutions adopted by the board, and the affirmative vote of at least three of the directors shall at all times be necessary to adopt any resolution.

(b) The president shall preside at all meetings of the board and shall be the chief executive officer of the district. The vice president shall act as president in case of the absence or disability of the president.
(c) The secretary shall act as president if both the president and vice president are absent or disabled. The secretary shall act as secretary of the board and shall be charged with the duty of seeing that all records and books of the district are properly kept.

(d) The board may appoint another directors, the general manager, or any employee as assistant or deputy secretary to assist the secretary and any such person shall be entitled to certify as to the authenticity of any record of the district, including all proceedings relating to bonds, contracts, or indebtedness of the district.

§65.109 Bylaws

The board is empowered to adopt bylaws to govern:

(1) the time, place, and manner of conducting its meetings;

(2) the powers, duties, and responsibilities of its officers and employees;

(3) the disbursement of funds by checks, drafts, and warrants;

(4) the appointment and authority of director committees;

(5) the keeping of records and accounts; and

(6) other matters as the board considers appropriate.

§65.110 Meetings and Notice

(a) The board may establish regular meetings to conduct district business and may hold special meetings at other times as the business of the district requires. The board shall hold its meetings within the district unless the board by a majority vote at a public meeting, votes to hold the meetings outside the district.

(b) Notice of the time, place, and purpose of any meeting of the board shall be given by posting at a place convenient to the public within the district. A copy of the notice shall be furnished to the clerk or clerks of the
county or counties in which the district is located, who shall post them on a bulletin board in the county courthouse used for such purpose. The notice of a meeting shall be posted for at least three days before the meeting, unless there is an emergency or urgent public necessity, in which case no posting of notice shall be required.

(c) Failure to post notice shall not affect the validity of any action taken at a regular meeting of the board, but may affect the validity of action taken at that special meeting that an emergency existed.

(d) Except as herein provided the provisions of Chapter 271, Acts of the 60th Legislature, Regular Session, 1967, as amended (Article 6252-17, Vernon's Texas Civil Statutes), shall be applicable to meetings of the board of directors. Any interest person may attend any meeting of the board.

§65.111. District Office and Meeting Place

(a) The board shall designate, and establish a district office and meeting place within the district, and the board may also establish a meeting place outside the district. Either or both district meeting places may be a private residence or office provided that the board in its order establishing the meeting place declares the same to be a public place and invites the public to attend any meeting of the board.

(b) If the board establishes a meeting place outside the district, it shall give notice of its location by filing a true copy of the resolution establishing the location of the district office with the commission and also by publishing notice of the location in a newspaper of general circulation in the county or counties in which the district is located. If the location of the meeting place outside the district is changed, notice of the change shall be given in the same manner.

§65.112. Management of District
(a) The board of directors shall have control over and management of all the affairs of the district and shall employ all persons, firms, partnerships, or corporations deemed necessary by the board for the conduct of the affairs of the district, including, but not limited to engineers, attorneys, financial advisors, a general manager, a utility operator, bookkeepers, auditors, and secretaries.

(b) The board shall determine the term of office and the compensation of all employees and consultants by contracts or by resolution of the board.

(c) All employees may be removed by the board.

(d) The board may require a bond of any officer or employee payable to the district and conditioned on the faithful performance of his duties.

§65.113. Supplies

The board shall also have the right to purchase all materials, supplies, equipment, vehicles, and machinery needed by the district.

§65.114. Seal

The directors shall adopt a seal for the district.

§65.115. Fees of Office

(a) The directors are entitled to receive as fees of office not more than $25 a day for each day of service necessary to discharge their duties. The fees shall not exceed the sum of $100 in any one month regardless of the number of days of necessary service during that month.

(b) Upon approval by the board, a director may be reimbursed for travel or other expenses incurred on behalf of the district upon presentation of a verified statement.

§65.116. General Manager

A director may be employed as general manager of the district at the compensation fixed by the other four directors, and when so employed, he shall continue to perform the duties of a director.
§65.117. Bond and Oath of Office

(a) As soon as practicable after a director is elected or appointed he shall execute a bond for $10,000 payable to the district and conditioned on the faithful performance of this duties. In the event any temporary director is elected at the first director's election, he shall be confirmed as a director without the necessity of executing a new bond.

(b) All bonds of the directors, including the bonds of the temporary directors, shall be approved by the board.

(c) Each director shall take the oath of office prescribed by the Constitution for public officers.

(d) The bond and oath shall be filed with the district and retained in its records.

§65.118. Records

(a) All original minutes and orders of the board, all construction contracts and all related instruments, all bonds of the district's board and all bonds of the district's officers and employees shall be kept in a safe place and maintained as permanent records of the district.

(b) No minutes or orders of the board shall be destroyed.

(c) If the district levies taxes on the property located within the district, ad valorem tax records shall be maintained at the office of the tax appraisal district within which the district's boundaries lie, and all records necessary for the district's annual audits and necessary to comply with the terms of its bond orders or resolutions shall be retained for at least one full year after the expiration of the preceding fiscal year. District contracts other than construction contracts, and the records relating to them shall be retained for at least four years after the performance thereof.

(d) Except for the foregoing, a district's records may be destroyed when the board determines that they are no longer needed or useful. As to any district records
destroyed, the board shall designate the person or persons to destroy them and the manner of the destruction. If the board considers it advisable, it may have any instruments to be first inventoried or microfilmed before they are destroyed.

§55.019. Director Interested in Contract

(a) A director who is financially interested in any contract with the district or a director who is an employee of a person who or firm which is financially interested in any contract with the district shall disclose that fact to the other directors, and the disclosure shall be entered into the minutes of such meeting.

(b) An interested director may not vote on the acceptance of the contract or participate in the discussion on the contract.

(c) The failure of a director to disclose his financial interest and to have it entered on the minutes shall invalidate the contract.

§55.120. Suits

(a) All districts created under this chapter shall be governmental agencies and bodies politic and corporate and are declared to be defined districts within the meaning of Article XVI, Section 59, of the Texas Constitution, and may, through their directors, sue and be sued in any and all courts of this state in the name of the district. Service of process in any suit may be had by serving any two directors.

(b) All courts of this state shall take judicial notice of the establishment of any districts.

§55.121. Contracts

A district shall contract and be contracted with in the name of the district.

§55.122. Payment of Judgment
Any court in the state rendering judgment for debt against a district may order the board to levy, assess, and collect taxes or assessments to pay the judgment.

§65.123. Elections

Unless otherwise provided, notice of all elections ordered by the board shall be given by publication once a week for two consecutive weeks with the first publication in a newspaper with general circulation in the county or counties in which a district may be located for at least 14 days before the election. In addition, notice of such election shall be posted in two public places within the district at least 14 days before the day set for the election. The clerk or clerks for absentee voting need not be a resident or qualified voter in the district.

§65.124. Employee Benefits

(a) The board may provide for and administer a retirement, disability, and death compensation fund for the officers and employees of the district, and may adopt a plan or plans to effectuate the purpose of this section, including the forms of insurance and annuities which are considered advisable by the board. The board, after notice to the employees and a hearing, may change any plan, rule, or regulation.

(b) All money provided from the compensation of the officers and employees participating in the fund and plan authorized by this section and by the district for the retirement, disability, and death compensation fund after the money has been received by the district shall be invested as the board from time to time considers advisable. The money may be invested in the following manner:

(1) in bonds of the United States, the State of Texas, any county, city, or other political subdivision of this state, or in bonds issued by any agency of the United States, the payment of the principal and
interest on which is guaranteed by the United States;
and

(2) in life insurance policies, endowment or
annuity contracts, or interest-bearing certificates of
legal reserve life insurance companies authorized to
write the contracts in the State of Texas.
(c) A sufficient amount of the money shall be kept on
hand to meet the immediate payment of amounts likely to
become due each year out of the fund as determined by the
board.
(d) The recipients or beneficiaries from the fund
shall not be eligible for any other pension, retirement
fund, or direct aid from the State of Texas, unless the fund
created under this Chapter is released to the State of Texas
as a condition precedent to receiving the other pension,
aid, or joining of any other system.
(e) The board may include hospitalization and medical
benefits to their officers and employees as part of the
compensation currently paid to the officers and employees
and may adopt any plan, rule, or regulation in connection
with it and amend or change the plan, rule, or regulation as
it may determine.
§65.125. Worker's Compensation

The board may also become a subscriber under the Texas
Workmen's Compensation Act with any old line legal reserve
insurance company authorized to write the policies of the
State of Texas.

SUBCHAPTER D. POWERS AND DUTIES

§65.201. Powers

(a) A district shall have the functions, powers,
authority, rights, and duties which will permit
accomplishment of the purposes for which it was created.

(b) A district is authorized to purchase, construct,
acquire, own, operate, maintain, repair, improve, or extend
inside and outside its boundaries any and all works.
improvements, facilities, plants, equipment, and appliances necessary to accomplish the purposes of its creation, including all works, improvements, facilities, plants, equipment, and appliances incident, helpful, or necessary to:

(1) supply water for municipal uses, domestic uses, power and commercial purposes and all other beneficial uses or controls;

(2) collect, transport, process, dispose of, and control all domestic, industrial, or communal wastes whether in fluid, solid, or composite state;

(3) gather, conduct, divert, and control local storm water or other local harmful excesses of water in a district;

(4) irrigate the land in a district;

(5) alter land elevation in a district where it is needed; and

(6) provide fire fighting services for the inhabitants of the district.

§55.202. Acquisition of Existing Facilities

If a district acquires existing works, improvements, facilities, plants, equipment, and appliances which are completed or partially created or under construction (including those works, improvements, facilities, plants, equipment, and appliances owned by the district's predecessor Water Supply Corporation), a district may assume the contracts and obligations of the previous owner and perform the obligations of the previous owner in the same manner and to the same extent that any other purchaser or assignee would be bound.

§55.203. Solid Waste

A district may purchase, construct, acquire, own, operate, maintain, repair, improve, and extend a solid waste collection and disposal system inside and outside the district and make proper charges for it.
§55.204. Fees and Charges

(a) A district may adopt and enforce all necessary charges (including standby charges), fees, or rentals, in addition to taxes, for providing any district facilities or service.

(b) A district may require a deposit for any service or facilities furnished and the district may or may not provide that the deposit will bear interest.

(c) A district may discontinue a facility or service to prevent an abuse or enforce payment of an unpaid charge, fee, or rental due the district including taxes which have been due for not less than six months.

§55.205. Adopting Rules and Regulations

A district may adopt and enforce reasonable rules and regulations to:

(1) secure and maintain safe, sanitary, and adequate plumbing installations, connections and appurtenances as subsidiary parts of its sanitary sewer system;

(2) preserve the sanitary condition of all water controlled by the district;

(3) prevent waste or the unauthorized use of water controlled by the district;

(4) regulate privileges on any land or any easement owned or controlled by the district;

(5) provide and regulate a safe and adequate freshwater distribution system; and

(6) insure adequate safeguards in the performance of the district's firefighting activities.

§55.206. Effect of Rules

After the required publication, rules adopted by the district under Section 65.205 of this chapter shall be recognized by the courts as if they were penal ordinances of a city.

§55.207. Publication of Rules
(a) The board shall publish once a week for two consecutive weeks a substantive statement of the rules and the penalty for their violation in one or more newspapers with general circulation in the area in which the district is located.

(b) The substantive statement shall be condensed as far as possible to intelligently explain the purpose to be accomplished or the act forbidden by the rules.

(c) The notice must advise that breach of the rules will subject the violator to a penalty and that the full text of the rules are on file in the principal office of the district where they may be read by any interested person.

(d) Any number of rules may be included in one notice.

§65.208. Effective Date of Rules

The penalty for violation of a rule is not effective and enforceable until five days after the publication of the notice. Five days after the publication, the published rule shall be in effect and ignorance of it is not a defense to a prosecution for the enforcement of the penalty.

§65.209. Penalties For Violation of Rule

(a) The board may set reasonable penalties for the breach of any rule of the district, which shall not exceed fines of more than $200 or imprisonment for more than 30 days or both.

(b) These penalties shall be in addition to any other penalties provided by the laws of the state and may be enforced by complaints filed in the appropriate court of jurisdiction in the county in which the district's principal office is located.

§65.210. Enforcement by Peace Officers

A district may employ its own peace officers with power to:

(1) make arrests when necessary to prevent or abate the commission of any offense against the rules of the district and against the laws of the state when
the offense or threatened offense occurs on any land, water, or easement owned or controlled by the district; and

(2) make an arrest in case of an offense involving injury or detriment to any property owned or controlled by the district.

§65.211. Acquisition of Land

(a) A district may acquire land, materials, waste grounds, easements, rights-of-way, and everything considered necessary for the purpose of accomplishing any one or more of the purposes provided in this Chapter.

(b) A district shall have the right to acquire property by gift, grant, or purchase and the right to acquire property shall include property considered necessary for the construction, improvement, extension, enlargement, operation, or maintenance of the plants, works, improvements, facilities, equipment, or appliances of a district.

(c) A district may acquire either the fee simple title to or an easement on all land, both public and private, either inside or outside the boundaries and may acquire the title to or an easement on property other than land held in fee.

(d) A district may also lease property on such terms and conditions as the board may determine to be advantageous to the district.

§65.212. Eminent Domain

(a) A district may acquire any land, easement, or other property inside the district or within five miles of the district solely for sewer, water, storm drainage, and flood drainage connections when necessary by condemnation, and may elect to condemn either the fee simple title or an easement only.

(b) The right of eminent domain shall be exercised in the manner provided in Title 52, Revised Civil Statutes of
Texas, 1925, as amended, except that a district shall not be required to give bond for appeal or bond for costs in any condemnation suit or other suit to which it is a party and shall not be required to deposit double the amount of any award in any suit.

(c) The proceedings shall be instituted under the direction of the board and in the name of the district.

§65.213. Costs of Relocation of Property

In the event that the district, in the exercise of the power of eminent domain or power of relocation, or any other power, make necessary the relocation, raising, rerouting, or changing the grade of, or altering the construction of, any highway, railroad, electric transmission line, telephone or telegraph properties and facilities, or pipeline, all necessary relocations, raising, rerouting, changing of grade, or alteration of construction shall be accomplished at the sole expense of the district.

§65.214. Sale of Surplus Land

Any property or land owned by the district which may be found to be surplus and not needed by the district may be sold under order of the board either by public or private sale or the property may be exchanged for other property.

§65.215. Leases

A district may lease to any person all or any part of any facilities constructed or acquired or to be constructed or acquired by it. The lease may contain the terms and provisions which the board determines to be advantageous to the district. The term of any lease shall not exceed 40 years from its date.

§65.216. Right to Enter Land

The directors, engineers, and employees of a district may go on any land inside or outside the district to make surveys and examine the land with reference to the location of works, improvements, plants, facilities, equipment, or appliances and to attend to any business of the district;
provided that two weeks' notice be given to all landowners involved and that if any activities cause damage to the land or property, the land or property shall be restored as nearly as possible to the original state. The cost of the restoration shall be borne by the district.

§65.217. Right to Use Road Right-of-Way

All districts are given right-of-way along and across all public, state, or county roads or highways, but they shall restore the roads crossed to their previous condition of use, as nearly as possible at the sole expense to the district.

§65.218. Contracts

(a) A district may contract with a person for the joint ownership and operation of any works, improvements, facilities, plants, equipment, and appliances necessary to accomplish any purpose or function permitted by a district, or a district may purchase an interest in any project used for any purpose or function permitted by a district.

(b) A district may enter into contracts with any person in the performance of any purpose or function permitted by a district.

(c) Without limiting the generality of the foregoing, a district may enter into contracts of not exceeding 40 years with persons on the terms and conditions the board may consider desirable, fair, and advantageous for:

(1) the purchase and sale of water, or either;

(2) the collection, transportation, treatment, and disposal of its domestic, industrial, and communal wastes or the collection, transportation, treatment, and disposal of domestic, industrial, and communal wastes of other persons;

(3) the gathering, diverting, and control of local storm water, or other local harmful excess of water;

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(4) the continuing and orderly development of the land and property within the district through the purchase, construction, or installation of works, improvements, facilities, plants, equipment, and appliances which the district may otherwise be empowered and authorized to do or perform so that, to the greatest extent reasonably possible, considering sound engineering and economic practices, all of the land and property may be placed in a position to ultimately receive the services of the works, improvements, plants, facilities, equipment, and appliances;

(5) the maintenance and operation of any works, improvements, facilities, plants, equipment, and appliances of the district or of another person;

(6) the collection, treatment, and disposal of solid wastes collected inside or outside the district;

and

(7) the exercise of any other rights, powers, and duties granted to a district.

§65.219. Source of Contractual Payments

(a) A contract may provide that the district will make payment under the contract from proceeds from the sale of notes or bonds, from taxes, or from any other income of the district or any combination of these.

(b) A district may make payments under a contract from taxes other than maintenance taxes, after the provisions of the contract have been approved by a majority of the electors voting at an election held for that purpose.

(c) Any contract election may be held at the same time and in conjunction with an election to authorize bonds, and the procedure for calling the election, giving notice, conducting the election, and canvassing the returns shall be the same as the procedure for a bond election.
(d) If the contract is approved, it will constitute an obligation against the taxing power of the district to the extent provided in the contract.

§65.220. Contracts For Materials, Machinery, Construction.

For More Than $25,000

(a) The board shall advertise a contract for more than $25,000 for the purchase of materials, machinery, and all things to constitute the works, improvements, facilities, plants, equipment, and appliances of the district or for construction.

(b) The board shall advertise the letting of a contract, including the general conditions, time, and place of opening of sealed bids. The notice shall be published in one or more newspapers with general circulation in the state, and one or more newspapers published in each county in which part of the district is located. If there are more than four counties in the district, notice may be published in any newspaper with general circulation in the district. If no newspaper is published in the county or counties in which the district is located, publication in one or more newspapers with general circulation in the state shall be sufficient. The notice shall be published once a week for three consecutive weeks before the date that the bids are opened, and the first publication shall be at least 21 days before the opening of sealed bids.

(c) A contract may cover all the improvements to be provided by the district or the various elements of the improvements may be segregated for the purpose of receiving bids and awarding contracts. A contract may provide that the improvements will be constructed in stages over a period of years.

(d) A contract may provide for the payment of a total sum which is the completed cost of the improvement or may be based on bids to cover cost of units of the various elements entering into the work as estimated and approximately
specified by the district's engineers or a contract may be let and awarded in any other form or composite of forms and to any responsible person or persons which, in the board's judgment, will be most advantageous to the district and result in the best and most economical completion of the district's proposed plant, improvements, facilities, works, equipment, and appliances.

§65.221. Additional Work; Change Orders

After a contract has been awarded and the district determines that additional work is needed or that the character or type of work or facilities should be changed, the board may authorize change orders to the contract upon such terms as the board may approve provided the change does not increase nor decrease the total cost of the contract by more than 25 percent unless the order increasing or decreasing the work is approved by the commission or its duly appointed representative.

§65.222. Construction Bids

(a) A person who desires to bid on proposed construction work shall submit to the board a written sealed bid together with a certified or cashier's check on a responsible bank in the state or a bidder's bond for at least two percent of the total amount of the bid.

(b) Bids shall be opened at the same time, and the board may reject any or all of the bids.

(c) If the successful bidder fails or refuses to enter into a proper contract with the district or fails or refuses to furnish the bond required by law, he shall forfeit the amount of the check or bond which accompanied his bid.

(d) The district may specify reasonable additional requirements.

§65.223. Reports Furnished to Prospective Bidders

The board shall furnish to any person who desires to bid on construction work, and who makes a request in writing, a copy of the engineer's report which shows the
work to be done and all details of it. The board may charge for each copy of the engineer's report an amount sufficient to cover the cost of making the copy.

§65.224. Provisions of Contracts For Construction Work

(a) Any contract made by the board for construction work shall conform to the provisions of this subchapter, and the provisions of this subchapter will be considered to be a part of the contract and shall prevail when the provisions of this Chapter and the contract are in conflict.

(b) The contract shall contain, or have attached to it, the specification, plans, and details for work included in the contract, and all work shall be done in accordance with these plans and specifications under the supervision of the board and the district engineer.

§65.225. Executing and Recording Construction Contract

(a) Contracts for construction work shall be in writing and signed by an authorized representative of the district and the contractor.

(b) The contract shall be kept in the district's records and be available for public inspection.

§65.226. Contractor's Bond

Any person, firm, partnership, or corporation to whom a contract is let must give good and sufficient performance and payment bonds in accordance with Article 5160, Revised Civil Statutes of Texas, 1925, as amended.

§65.227. Inspection of and Reports on Construction Work

(a) The board shall have control of construction being done for the district under contract to determine whether or not the contract is being fulfilled and shall have the construction work inspected by the district engineer or his assistants.

(b) During the progress of the construction work, the district engineer shall submit to the board detailed written reports showing whether or not the contract is complying with the contract, and when the work is completed, the
district engineer shall submit to the board a final detailed report including as-built plans of the facilities showing whether or not the contractor has fully complied with the contract.

§65.228. Payment For Construction Work

(a) The district shall pay the contract price of construction contracts as provided in this section.

(b) The district will make progress payments under construction contracts monthly as the work proceeds, or at more frequent intervals as determined by the district engineer, on estimates approved by the district engineer.

§65.229. Contracts For Materials, Machinery, and Construction of More Than $5,000 But Less Than $25,000

If the estimated amount of the proposed contracts for works, plant improvements, facilities other than land, or the purchase of equipment, appliances, materials or supplies is more than $5,000 but less than $25,000, or for a duration of more than two years, competitive bids on uniform written specifications shall be asked from at least three bidders. Contracts shall be written and shall be awarded to the lowest and best bidder.

§65.230. Contracts With Governmental Agencies

The provisions of this subchapter shall not prohibit a district from purchasing property from public agencies by negotiated contract or without the necessity of advertising for bids.

§65.231. Personal or Professional Services Contracts

The provisions of this subchapter shall not apply to contracts for personal or professional services or for a utility service operator.

§65.232. Grants and Gifts

A district may accept grants, gratuities, advances, and loans in any form from any source approved by the board, including the United States, the state or any of its
agencies, any private or public corporation, and any other person and to make and enter into contracts, agreements, and covenants which the board considers appropriate in connection with acceptance of grants, gratuities, advances, and loans.

§65.233. Area-Wide Waste Treatment

The powers and duties conferred on the district are granted subject to the policy of the state to encourage the development and use of integrated area-wide waste collection, treatment, and disposal systems to serve the waste disposal needs of the citizens of the state, it being an objective of the policy to avoid the economic burden to the people and the impact on the quality of the water in the state which result from the construction and operation of numerous small waste collection, treatment, and disposal facilities to serve an area when an integrated area-wide waste collection, treatment, and disposal system for the area can be reasonably provided.

SUBCHAPTER E. GENERAL FISCAL PROVISIONS

§65.301. Expenditures

A district's money may be disbursed only by check, draft, order, or other instrument which shall be signed by at least three directors. The general manager, treasurer, or other employee of the district when authorized by resolution of the board may sign checks, drafts, orders, or other instruments on any district operation account and these need not be signed by anyone else.

§65.302. Purposes For Borrowing Money

The district may borrow money for any corporate purposes or combination of corporate purposes.

§65.303. Revenue Notes

(a) The board, without the necessity of an election, may borrow money on negotiable notes of the district to mature over a term of not more than 20 years and to bear interest at a rate not more than 10 percent a year to be
paid solely from the revenues derived from the ownership of all or any designated part of the district's works, plant, improvements, facilities, or equipment after deduction of the reasonable cost of maintaining and operating the facilities.

(b) The notes may be first or subordinate lien notes within the discretion of the board, but no obligation may ever be a charge on the property of the district or on taxes levied or collected by the district but shall be solely a charge on the revenues pledged for the payment of the obligation. No part of the obligation may ever be paid from taxes levied or collected by the district.

§65.304. Bond Anticipation Notes; Tax Anticipation Notes

(a) The board may declare an emergency in the matter of funds not available to pay principal of and interest on any bonds of the district payable in whole or in part from taxes or to meet any other needs of the district and may issue negotiable tax anticipation notes or negotiable bond anticipation notes to borrow the money needed by the district. Bond anticipation notes and tax anticipation notes may bear interest at any rate or rates not to exceed 18 percent and shall mature within one year of their date.

(b) Tax anticipation notes may be issued for any purpose for which the district is authorized to levy taxes, and tax anticipation notes shall be secured with the proceeds of taxes to be levied by the district in the succeeding 12-month period. The board may covenant with the purchasers of the notes that the board will levy a sufficient tax in the following October to pay principal of and interest on the notes and pay the costs of collecting the taxes.

(c) Bond anticipation notes may be issued for any purpose for which bonds of the district may have previously been voted or may be issued for the purpose of refunding previously issued bond anticipation notes. A district may
covenant with the purchasers of the bond anticipation notes
that the district will use the proceeds of sale of any bonds
in the process of issuance for the purpose of refunding the
bond anticipation notes, in which case the board will be
required to use the proceeds received from sale of the bonds
in the process of issuance to pay principal, interest, or
redemption price on the bond anticipation notes.
§65.305. Repayment of Organizational Expenses

The district's directors are authorized to pay all
costs and expenses necessarily incurred in the creation and
organization of a district, the cost of investigation and
making plans, the cost of the engineer's report, legal fees,
and other incidental expenses, and to reimburse any person
for money advanced for these purposes. These payments may
be made from money obtained from the issuance of notes or
the sale of bonds first issued by the district or out of
maintenance taxes or other revenues of the district.
§65.306. Premium on Directors or Employees Bonds

The board may pay the premium on surety bonds required
of officials or employees of the district out of any
available funds of the district including proceeds from the
sale of bonds.
§65.307. Depository

(a) The board, by order or resolution, shall designate
one or more banks inside or outside the district to serve as
the depository for the funds of the district. All funds of
the district shall be deposited in the depository bank or
banks unless otherwise required by orders or resolutions
authorizing the issuance of the district's bonds.

(b) To the extent that funds in the depository bank or
banks are not insured by the Federal Deposit Insurance
Corporation, they shall be secured in the manner provided by
law for the security of funds of counties of the State of
Texas.
(c) The board, by resolution, may authorize a designated representative to supervise the substitution of securities pledged to secure the district's funds.

§65.308. Investments

(a) Funds of the district may be invested and reinvested by the board or its authorized representative in direct or indirect obligations of the United States, the state, or any county, city, school district, or other political subdivision of the state. Funds of the district may be placed in certificates of deposit of state or national banks or savings and loan associations within the state provided that they are secured in the manner provided for the security of the funds of counties of the State of Texas.

(b) The board, by resolution, may provide that an authorized representative of the district may invest and reinvest the funds of the district and provide for money to be withdrawn from the appropriate accounts of the district for the investments on such terms as the board considers advisable.

§65.309. Accounts and Records; Audits

(a) A complete system of accounts shall be kept by the district and an audit of its affairs for each year shall be prepared in accordance with any procedures or requirements approved by the board by an independent certified public accountant or a firm of independent certified public accounts.

(b) The fiscal year of the district shall be from January 1 to December 31, until changed by the board.

(c) A signed copy of the audit report shall be delivered to each member of the board of directors not later than 120 days after the close of each fiscal year, and a copy of the audit shall be kept on file at the district office and shall constitute a public record open for
inspection by any interested person during normal office hours.


All district bonds and interest coupons or notes when paid shall be delivered to the district or destroyed and evidence of the destruction furnished by the board.

§65.311. Maintenance Tax

(a) A district may levy and collect tax for maintenance purposes, including funds for planning, maintaining, repairing, and operating all necessary plants, works, facilities, improvements, appliances, and equipment of the district and for paying costs of proper services, engineering, and legal fees, and organization and administrative expenses.

(b) A maintenance tax may not be levied by a district until it is approved by a majority of the electors voting at an election held for that purpose.

§65.312. Maintenance Tax Election

The maintenance tax election may be held at the same time and in conjunction with the election to authorize bonds, and the procedure for calling the election, giving notice, conducting the election, and canvassing the returns shall be the same as the procedure for a bond election.

SUBCHAPTER E. POWERS AND DUTIES WITH RESPECT TO FIRE FIGHTING ACTIVITIES

§65.401. Fire Departments

(a) A district may establish, operate, and maintain a fire department to perform all fire-fighting activities within the district as provided in this section and may issue, with voter approval, bonds for financing the establishment of the fire department including the construction and purchase of necessary buildings, facilities, and equipment and the provision of an adequate water supply.
(b) After approval by a majority vote of the resident electors of the district of a plan to operate or jointly operate a fire department, the district or districts shall provide an adequate system and water supply for fire-fighting purposes and may construct and purchase necessary buildings, facilities, and equipment and may employ all necessary personnel including supervisory personnel to operate the fire department.

(c) Bonds issued for establishment of the fire department shall be authorized and issued, and a district shall be authorized to levy a tax to pay the principal of and interest on such bonds, as provided by this Chapter for authorization and issuance of other bonds of the district.

(d) Two or more districts, or a district and a city, or two or more districts and a city, may contract to operate a joint fire department for their districts and shall include in the contract a system for joint administration and operation of the fire department, the extent of services to be provided, a method for funding the department from funds of each district, and any other terms and conditions the parties consider necessary.

(e) A district may contract with any other person to perform fire-fighting services within the district.

(f) Before a district establishes a fire department, contracts to operate a joint fire department, or contracts with another person to perform fire-fighting services within the district, the district must comply with the provisions of subsections (g), (h), and (i) of this section.

(g) A district or districts proposing to act jointly shall develop a detailed plan for the establishment, operation, and maintenance of the proposed department, including a detailed presentation of all financial requirements. If a district is entering into a contract under subsection (e) of this section, the district shall develop a plan that describes in detail the facilities and
equipment to be devoted to service to the district and all proposals for providing the service and that includes a presentation of the financial requirements under the contract. Before adoption of a plan and any contract by the district, the governing board of the district shall hold a hearing at which any person residing in the district may present testimony for and against the proposed plan and any proposed contract. Notice of the hearing and the place at which the plan and any contract may be examined shall be posted in two public places within the district at least 14 days before the date of the hearing.

(h) After adoption of the plan and any contract by the governing board, the plan and financial presentation, together with any contract and a written report in a form prescribed by the executive director describing existing fire departments and fire-fighting services available within 25 miles of the boundaries of the district, shall be submitted to the executive director for consideration by the commission under rules adopted by the board. Before approval or disapproval, the commission shall hold a hearing. Notice of the hearing before the commission shall be posted by the governing board of the district in at least two public places in the district at least five days before the hearing. Before the commission approves the application, it must find that it is economically feasible for the district to implement the plan and meet the provisions of any contract and shall take into consideration in giving its approval the general financial condition of the district and the economic feasibility of the district carrying out the plan or meeting the obligations of the contract.

(i) After approval by the commission, the district shall submit to the electors of the district at the election to approve bonds for financing the plan, or if no bonds are to be approved, at an election called for approval of the
plan, the proposition of whether or not the plan should be implemented or entered into by the district. The ballots at the election shall be printed, as applicable, to provide for voting for or against the proposition: "The implementation of the plan for (operation/joint operation) of a fire department"; or "The plan and contract to provide fire-fighting services for the district".

(j) No funds of the district may be used to establish a fire department, to enter into joint operation of a fire department or to contract for fire-fighting without the approval of a plan by the electors as provided in this section. However, the district may use available funds for preparation of a plan and any contract.

SUBCHAPTER C, ISSUANCE OF BONDS

§ 65.501. Issuance of Bonds

The district may issue its bonds for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving, or extending any district works, improvements, facilities, plants, equipment, and appliances needed to accomplish the purposes set forth in Section 65.012 of this chapter for which a district shall be created, including works, improvements, facilities, plants, equipment, and appliances needed to provide a waterworks system, sanitary sewer system, storm sewer system, solid waste disposal system, or to provide fire fighting services and facilities.

§ 65.502. Form of Bonds

(a) A district may issue its bonds in various series or issues.

(b) Bonds shall mature serially or otherwise not more than 40 years from their date and shall bear interest at any rate permitted by the Constitution and laws of the state, all as shall be determined by the board.

(c) A district's bonds and interest coupons, if any, shall be investment securities under the terms of Chapter 8.
of the Business & Commerce Code and may be issued registrable as to principal or as to both principal and interest and shall or may be made redeemable before maturity, at the option of the district or may contain a mandatory redemption provision all as may be provided by the board. A district’s bonds may be issued in the form, denominations, and manner and under the terms, conditions, and details, and shall be signed and executed, as provided by the board in the resolution or order authorizing their issuance.

§ 65.503. Manner of Repayment of Bonds

The board may provide for the payment of principal of and interest and redemption price on the bonds in any one of the following manners:

1. from the levy and collection of ad valorem taxes on all taxable property within the district;

2. by pledging all or any part of the designated revenues to result from the ownership or operation of the district’s works, improvements, facilities, plants, equipment, and appliances or under specific contracts for the period of time the board determines;

3. a combination of the sources set forth in subsections (1) and (2) of this section.

§ 65.504. Additional Security For Bonds

(a) The bonds, within the discretion of the board, may be additionally secured by a deed of trust or mortgage lien on part or all of the physical properties of the district, and franchises, easements, water rights, and appropriation permits, leases, and contracts and all rights appurtenant to such properties, vesting in the trustee power to sell the properties for payment of the indebtedness, power to operate the properties, and all other powers and authority necessary for the further security of the bonds.

(b) The trust indenture, regardless of the existence of the deed of trust or mortgage lien on the properties, may
contain provisions prescribed by the board for the security of the bonds and the preservation of the trust estate, and may make provisions for amendment or modification, and may condition the right to spend district money or sell district property on approval of a registered professional engineer selected as provided in the trust indenture and may make provisions for investment of funds of the district.

(c) Any purchaser under a sale under the deed of trust or mortgage lien, where one is given, shall be absolute owner of the properties, facilities, and rights purchased and shall have the right to maintain and operate them.

§ 65.505. Election on Tax Bonds

Bonds payable solely from revenues may be issued by resolution or order of the board, but no bonds, except refunding bonds, payable wholly or partially from ad valorem taxes shall be issued until authorized by a majority vote of the resident electors of the district voting in an election called and held for that purpose.

§ 65.506. Engineer's Report

Before an election is held to authorize the issuance of bonds, there shall be filed in the office of the district and open to inspection by the public an engineer's report covering the plant, improvements, facilities, plants, equipment, and appliances to be purchased or constructed and their estimated cost, together with maps, plats, profiles, and data fully showing and explaining the report.

§ 65.507. Notice of Bond Election

(a) Notice of a bond election shall be published once a week for two consecutive weeks in a newspaper with general circulation in the county or counties in which the district is located. The first publication of the notice shall be at least 14 days before the day set for the election. In addition, notice of such election shall be posted in two public places within the district at least 14 days before the day set for the election. The notice shall contain the
proposition or propositions to be voted upon, with an estimate of the probable cost of acquisition or construction and incidental expenses connected with acquisition or construction and an estimate of the cost of the purchase of improvements, if any, or the purchase of the improvements and the construction of additions to the improvements.

(b) All or any part of any facilities or improvements which may be acquired by a district by the issuance of its bonds may be included in one single proposition to be voted on at the election or the bonds may be submitted in several propositions.

(c) If a majority of the votes cast at the election are in favor of the issuance of the bonds, the bonds may be issued by the board.

§ 65.508. Form of Ballots

(a) At any election to authorize bonds payable wholly from ad valorem taxes, in addition to the requirements of the Texas Election Code, the ballots shall be printed to provide for voting for or against the proposition: "The issuance of bonds and the levy of taxes in payment of the bonds."

(b) At any election to authorize bonds payable from both ad valorem taxes and revenues, the ballots shall be printed to provide for voting for or against: "The issuance of bonds and the pledge of net revenues and the levy of ad valorem taxes adequate to provide for the payment of the bonds."

§ 65.509. Absentee Voting

Absentee balloting in bond elections shall not commence until 10 days before the election.

§ 65.510. Provisions of Bonds

(a) In the orders or resolutions authorizing the issuance of bonds, including refunding bonds, the board may provide for the flow of funds, the establishment and maintenance of the interest and sinking fund, the reserve
fund, and other funds, and may make additional covenants
with respect to the bonds and the pledged revenues and the
operation and maintenance of those works, improvements,
plants, facilities, equipment, and appliances the revenue of
which is pledged, including provisions for the operation or
for the leasing of all or any part of the improvements and
the use or pledge of money derived from the operation
contracts and leases, as the board may consider appropriate.

(b) The orders or resolutions of the board authorizing
the issuance of bonds may also prohibit the further issuance
of bonds or other obligations payable from the pledged
revenue or may reserve the right to issue additional bonds
to be secured by a pledge of and payable from the revenue on
a parity with or subordinate to the lien and pledge in
support of the bonds being issued, subject to the conditions
which may be set forth in the orders or resolutions.

(c) The orders or resolutions of the board issuing
bonds may contain other provisions and covenants as the
board may determine, not prohibited by the Constitution or
by this Chapter.

(d) The board may adopt and cause to be executed any
other proceedings or instruments necessary and convenient in
the issuance of bonds.

§ 65.511. Use of Bond Proceeds

The district may use bond proceeds to pay interest,
administrative and operating expenses expected to accrue
during the period of construction which shall not be more
than three years as may be provided in the bond orders or
resolutions, and to pay all expenses incurred and to be
incurred in the issuance, sale, and delivery of the bonds.

§ 65.512. Sale or Exchange of Bonds

(a) The board shall sell the bonds on the best terms
and for the best possible price but none of the bonds may be
sold for less than 95 percent of face value.

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(b) The district may exchange bonds for property acquired by purchase or in payment of the contract price of work done or services performed for the use and benefit of the district.

§ 65.513. Notice of Bond Sale

(a) Except for refunding bonds, bonds sold to a state or federal agency, and bonds registered with any federal agency, after any bonds are finally approved and before they are sold by a district, the board shall publish an appropriate notice of the sale:

(1) at least one time not less than 10 days before the date of sale in a newspaper of general circulation which is published in the county or counties in which the district is located; and

(2) at least one time in one or more recognized financial publications of general circulation in the state as approved by the attorney general.

(b) If a newspaper publication required by subsection (a) (1) of this section is not published in the county, then notice may be published in any newspaper of general circulation in such county.

§ 65.514. Approval by Attorney General; Registration by Comptroller

(a) All bonds issued by a district shall be submitted to the Attorney General of the State of Texas for examination.

(b) If he finds that the bonds have been authorized in accordance with law, he shall approve them, and they shall be registered by the Comptroller of Public Accounts of the State of Texas.

(c) After the approval and registration of bonds by the comptroller they shall be incontestable in any court or other forum, for any reason, and shall be valid and binding obligations in accordance with their terms for all purposes.
(d) When any bonds payable from net revenues recite that they are secured partially or otherwise by a pledge of the proceeds of a contract or a lease made between the district and another party or parties, a copy of the contract or lease and the proceedings authorizing the contract or lease may or may not be submitted to the attorney general along with the bond records, and if submitted, the approval by the attorney general of the bonds shall constitute an approval of the contract or lease, and the contract or lease shall be incontestable.

§ 65.515. Refunding Bonds

(a) A district may issue bonds to refund all or any part of its outstanding bonds, notes, or other obligations including matured but unpaid interest coupons.

(b) Refunding bonds shall mature serially or otherwise not more than 40 years from their date and shall bear interest at any rate or rates permitted by the Constitution and laws of the state.

(c) Refunding bonds may be payable from the same source as the bonds, notes, or other obligations being refunded or from other additional sources.

(d) The refunding bonds shall be approved by the attorney general as in the case of other bonds and shall be registered by the comptroller on the surrender and cancellation of the bonds being refunded.

(e) The orders or resolutions authorizing the issuance of the refunding bonds may provide that they shall be sold and the proceeds deposited in the place or places where the bonds being refunded are payable, in which case the refunding bonds may be issued before the cancellation of the bonds being refunded provided an amount sufficient to pay the interest on and principal of the bonds being refunded to their maturity dates, or to their option dates if the bonds have been duly called for payment prior to maturity according to their terms, has been deposited in the place or
places where the bonds being refunded are payable. The comptroller shall register them without the surrender and cancellation of bonds being refunded.

(f) A refunding may be accomplished in one or in several installment deliveries. Refunding bonds and their interest coupons shall be investment securities under the provisions of Article 8 of the Business & Commerce Code.

(g) In lieu of the method set forth in Section 65.514(a)-(f) of this code, a district may refund bonds, notes, or other obligations as provided by the general laws of the state.

§ 65.516. Obligations, Legal Investment; Security For Funds

All bonds, notes, and other obligations issued by a district shall be legal and authorized investments for all banks, trust companies, building and loan associations, savings and loan associations, insurance companies of all kinds and types, fiduciaries, and trustees, and for all interest and sinking funds and other public funds of the State of Texas, and all agencies, subdivisions, and instrumentalities of the state including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic. A district's bonds, notes, and other obligations shall be eligible and lawful security for all deposits of public funds of the State of Texas, and all agencies, subdivisions, and instrumentalities of the state including all counties, cities, towns, villages, school districts, and all other kinds and types of districts, public agencies, and bodies politic, to the extent of the market value of the bonds, notes, and other obligations when accompanied by any unmatured interest coupons attached to them.

§ 65.517 Authority of Commission Over Issuance of District Bonds
(a) The commission shall investigate and report on the organization and feasibility of all districts that issue bonds, other than refunding bonds, under this Chapter.

(b) Any district that desires to issue bonds under this Chapter other than refunding bonds shall submit to the commission a written application for investigation, together with copies of the engineer's report and data, profiles, maps, plans, and specifications prepared in connection with the engineer's report.

(c) The executive director shall examine the application and accompanying documents and shall visit and carefully inspect the project. The executive director may request and shall be supplied with additional data and information requisite to a reasonable and careful investigation of the project and proposed improvements.

(d) The executive director shall file in his office written suggestions for changes and improvements and shall furnish a copy of the report to the board of the district.

(e) If the commission approves or refuses to approve the project or the issuance of bonds for the improvements, it shall make a full written report which it shall file in its office and a copy of the report shall be furnished to the district.

§ 65.518. Commission Supervision of Projects and Improvements

(a) During construction of projects and improvements approved by the commission, no substantial alterations may be made in the plans and specifications without the approval of the commission.

(b) The commission or its designated agent may inspect the improvements at any time during construction to determine if the project is being constructed in accordance with the plans and specifications approved by the commission.
(c) If the commission finds that the project is not being constructed in accordance with the approved plans and specifications, it shall give written notice immediately by certified mail to each member of the board of the district and the district's manager.

(d) If within 10 days after the notice is mailed the board does not take steps to insure that the project is being constructed in accordance with the approved plans and specifications, the commission shall give written notice of this fact to the attorney general.

(e) After the attorney general receives this notice, he may bring an action for injunctive relief or quo warranto proceedings against the directors. Venue for either suit is exclusively in a district court in Travis County.

§ 65.519. Mandamus by Bondholders

In addition to all other rights and remedies provided by the laws of the state, in the event the district defaults in the payment of principal, interest, or redemption price on its bonds when due, or in the event it fails to make payments into any fund or funds created in the order or resolution authorizing the issuance of the bonds, or defaults in the observation or performance of any other covenants, conditions, or obligations set forth in the resolution or order authorizing the issuance of its bonds, the owners of any of the bonds shall be entitled to a writ of mandamus issued by a court of competent jurisdiction compelling and requiring the district and its officials to observe and perform the covenants, obligations, or conditions prescribed in the order or resolution authorizing the issuance of the district's bonds.

§ 65.520. Service to Areas Outside the District

(a) A district may purchase, construct, acquire, own, operate, repair, improve, or extend all works, improvements, facilities, plants, equipment, and appliances necessary to provide a water system and a sewer system or fire-fighting
services for areas contiguous to or in the vicinity of the
district provided the district does not duplicate a service
of another public agency. A district shall not provide a
water or a sanitary sewer system or fire-fighting services
to serve areas outside the district which is also within a
city without securing a resolution or ordinance of the city
granting consent for the district to serve the area within
the city.

(b) To secure money for this purpose, a district is
authorized to issue and sell negotiable bonds and notes
which are payable from the levy and collection of ad valorem
taxes on all taxable property within the district or from
all or any designated part of the revenues received from the
operation of the district's works, improvements, facilities,
plants, equipment, and appliances or from a combination of
taxes and revenues.

(c) Any bonds and notes may be issued upon the terms
and conditions set forth in this chapter.

(d) A district is authorized to establish, maintain,
revise, charge, and collect the rates, fees, rentals, tolls,
or other charges for the use, services and facilities of the
water and sewer system or fire-fighting services which
provide service to areas outside the district which are
considered necessary and which may be higher than those
charged for comparable service to residents within the
district.

(e) The rates, fees, rentals, tolls, or other charges
shall be at least sufficient to meet the expense of
operating and maintaining the water and sewer system or
fire-fighting services serving areas outside the district
and to pay the principal of and interest and redemption
price on bonds issued to purchase, construct, acquire, own,
operate, repair, improve, or extend the system.

§ 65.521. Cancellation of Unsold Bonds
(a) The board, by order or resolution, may provide for the cancellation of all or any part of any bonds which have been submitted to and approved by the attorney general and registered by the comptroller, but not yet sold, and provide for the issuance of new bonds in lieu of the old bonds in the manner as provided by law for the issuance of the original bonds including their approval by the attorney general and their registration by the comptroller.

(b) The order or resolution of the board shall describe the bonds to be cancelled, and shall also describe the new bonds to be issued in lieu of the old bonds.

(c) A certified copy of the order or resolution of the board providing for the cancellation of the old bonds, together with the old bonds, shall be delivered to the comptroller, who shall cancel and destroy the old bonds and make a record of the cancellation.

SUBCHAPTER H. TAXES

§ 65.601. Tax Levy For Bonds

At the time bonds payable in whole or in part from taxes are issued, after the election required by Section 65.505 has been held, 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 principal 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.

§ 65.602. Establishment of Tax Rate in Each Year

(a) A tax rate shall be established by the board pursuant to the procedures set forth in the Texas Tax Code.

(b) In determining the actual rate to be levied in each year, the board shall consider among other things:
(1) the amount which should be levied for maintenance and operation purposes, if a maintenance tax has been authorized;

(2) the amount which should be levied for the payment of principal, interest, and redemption price of each series of bonds or notes payable in whole or in part from taxes;

(3) the amount which should be levied for the purpose of paying all other contractual obligations of the district payable in whole or in part from taxes; and

(4) the percentage of anticipated tax collections and the cost of collecting the taxes.

(c) In determining the amount of taxes which should be levied each year, the board may consider whether proceeds from the sale of bonds have been placed in escrow to pay interest during construction and whether the board reasonably expects to have revenue or receipts available from other sources which are legally available to pay principal or interest or redemption price on the bonds. The board shall levy a tax in the first full year after issuance of its first series of bonds.

§ 65.603. Mandamus by Bondholders

In the event the board fails or refuses to levy a sufficient tax in each year which, together with other revenues or receipts which may be legally used for these purposes, will be sufficient to pay the required principal of or interest or redemption price on the bonds, notes, or other contractual obligations when due, or to pay the district's other contractual obligations payable from taxes in addition to all other remedies which may be available, the owner of the district's bonds, notes, or other contractual obligations shall be entitled to a writ of mandamus issued by a court of competent jurisdiction to compel the board to levy a sufficient tax to meet the
district's obligations to the owners of its bonds, notes, or other contractual obligations.

SUBCHAPTER H. ADDING AND EXCLUDING TERRITORY;

CONSOLIDATING AND DISSOLVING DISTRICTS

§ 65.701. Excluding Land from District

(a) Before the board calls an election for the authorization of bonds payable in whole or in part from taxes, the board may on its own motion call a hearing on the question of the exclusion of land from the district under the provisions of Sections 65.702-65.707 of this code, if the exclusions are practicable, just, or desirable.

(b) The board must call a hearing on the exclusion of land or other property from the district on the written petition of any landowner or property owner in the district filed with the secretary of the board before the time the first election on the question of the issuance of bonds payable in whole or in part from taxes is called.

§ 65.702. Hearing to Announce Proposed Exclusions and to Receive Petitions

If the board determines that an exclusion hearing should be held or if a written petition requesting an exclusion hearing is filed with the secretary of the board as provided in Section 65.701 of this subchapter, the board shall give notice of a time and place of a hearing to announce its own conclusions relating to land or other property to be excluded and to receive petitions for exclusion of land or other property.

§ 65.703. Notice of Hearing

(a) The board shall publish notice of the hearing once a week for two consecutive weeks in one or more newspapers with general circulation in the district. The first publication shall appear at least 14 days before the day of the hearing. In addition, notice of such hearing shall be posted in two public places within the district at least 14 days before the day set for the hearing.
(b) The notice shall advise all interested property owners of their right to present petitions for exclusions of land or other property and to offer evidence in support of the petitions and their right to contest any proposed exclusion based on either a petition or the board's own conclusions and to offer evidence in support of the contest.

§ 65.704. Petition

(a) A petition for exclusion of land must accurately describe by metes and bounds or lot and block number the land to be excluded. A petition for exclusion of other property must describe the property to be excluded.

(b) A petition for exclusion shall be filed with the district at least seven days before the hearing and shall state clearly the particular grounds on which the exclusion is sought. Only the stated grounds shall be considered.

§ 65.705. Grounds for Exclusion

Exclusions from the district may be made on the grounds that:

(1) to retain certain land or other property within the district's taxing power would be arbitrary and unnecessary to conserve the public welfare, would impair or destroy the value of the property desired to be excluded, and would constitute the arbitrary imposition of a confiscatory burden;

(2) to retain any given land or other property in the district and to extend to it, either presently or in the future, the benefits, service, or protection of the district's facilities would create an undue and uneconomical burden on the remainder of the district; or

(3) the land desired to be excluded cannot be bettered as to conditions of living and health, or provided with water or sewer service or protected from flood, or drained, or freed from interruption of traffic caused by excess of water on the roads.
highways, or other means of transportation serving the land, or otherwise benefited by the district's proposed improvements.

§ 65.706. Hearing Procedure

The board may adjourn the hearing from one day to another and until all persons desiring to be heard are heard. The board immediately shall specifically describe all property which it proposes to exclude on its own motion and shall hear first any protests and evidence against exclusions proposed on the board's own motion.

§ 65.707. Order Excluding Land

After considering all engineering data and other evidence presented to it, the board shall determine whether the facts disclose the affirmative of the propositions stated in subsection (1) or (2) or, if appropriate, in subsection (3) of Section 65.705 of this subchapter. If the affirmative exists, the board shall enter an order excluding all land or other property falling within the conditions defined by the respective subsections and shall redefine in the order the boundaries of the district to embrace all land not excluded. A copy of the order excluding land and redefining the boundaries of the district shall be filed in the deed records of the county or counties in which the district is situated.

§ 65.708. Suit to Review Exclusion

Any person owning an interest in land affected by the order may file a petition within 20 days after the effective date of the order to review, set aside, modify, or suspend the order.

§ 65.709. Venue of Suit

The venue in any action shall be in any district court which has jurisdiction in the county in which the district is located. If the district includes land in more than one county, the venue shall be in the district court having jurisdiction in the county in which the major portion of the
acreage of the land sought to be excluded from the district is located.

§ 65.710. Appeal

A person may appeal from the judgment or order of a district court in a suit brought under the provisions of Sections 65.708-65.709 of this subchapter to the court of civil appeals and supreme court as in other civil cases in which the district court has original jurisdiction. The appeal is subject to the statutes and rules of practice and procedure in civil cases.

§ 65.711. Adding Land by Petition of Landowner

The owner or owners of land contiguous to the district or otherwise may file with the board a petition requesting that there be included in the district the land described in the petition by metes and bounds or by lot and block number if there is a recorded plat of the area to be included in the district.

§ 65.712. Assumption of Bonds

If the district has bonds, notes, or other obligations outstanding or bonds payable in whole or in part from taxes which have been voted but are unissued, the board may require the petitioner or petitioners to assume their share of the outstanding bonds, notes, or other obligations and the voted but unissued tax bonds of the district and authorize the board to levy a tax on their property in each year while any of the bonds, notes, or other obligations payable in whole or in part from taxation are outstanding to pay their share of the indebtedness.

§ 65.713. Petition Signed and Executed

The petition of the landowner to add land to the district shall be signed and executed in the manner provided by law for the conveyance of real estate.

§ 65.714. Hearing and Determination of Petition

(a) The board shall hear and consider the petition and may add to the district the land described in the petition
if it is considered to be to the advantage of the district and if the water, sewer, and drainage system and other improvements or services of the district are sufficient or will be sufficient to supply the added land without injuring land already in the district.

(b) If the district has bonds payable in whole or in part from taxation which are voted but unissued at the time of an annexation, and the petitioners assume the bonds and authorize the district to levy a tax on their property to pay the bonds, then the board may issue the voted but unissued bonds even though the boundaries of the district have been altered since the authorization of the bonds.

§ 65.715. Recording Petition

A petition which is granted adding land to the district shall be filed for record and shall be recorded in the office of the county clerk of the county or counties in which the land is located.

§ 65.716. Adding Land by Petition of Less Than All the Landowners

In addition to the method of adding land to a district which is described in Sections 65.711-65.715 of this subchapter, defined areas of land, whether or not they are contiguous to the district, may be annexed to the district in the manner set forth in Sections 65.717-65.724 of this subchapter.

§ 65.717. Filing of Petition

A petition requesting the annexation of a defined area signed by a majority in value of the owners of land in the defined area, as shown by the tax rolls of the county or counties in which such area is located, or signed by 50 landowners if the number of landowners is more than 50, shall be filed with the secretary of the board.

§ 65.718. Hearing on Petition

It shall be the duty of the board to pass an order fixing a time and place at which the petition for annexation
shall be heard which shall not be less than 30 days from the
day of the order calling the hearing.
§ 65.719. Notice of Hearing

The secretary shall issue a notice setting forth the
time and place of the hearing and describing the area
proposed to be annexed. Notice of the hearing shall be
given by posting copies of the notice in three public places
in the district, and in one public place in the area
proposed to be annexed for at least 14 days before the day
of the hearing and by publishing a copy of the notice in a
newspaper of general circulation in the county or counties
in which the area proposed to be annexed is located one time
at least 14 days before the day of the hearing. In
addition, notice of such hearing shall be posted in three
public places within the district at least 14 days before
the day set for the hearing.
§ 65.720. Order Adding Defined Area

If upon the hearing of the petition it is found by the
board that the proposed annexation of the area to the
district is feasible and practicable and would be of benefit
both to the area and to the district, then the board, by
order entered in its minutes, may receive the proposed area
as an addition to and to become a part of the district. The
order adding the proposed territory to the district need not
include all of the land described in the petition, if on the
hearing a modification or change is found necessary or
desirable by the board.
§ 65.721. Filing of Order Adding Land

(a) A copy of the order annexing land to the district,
signed by a majority of the members of the board and
attested by the secretary of the board, shall be filed and
recorded in the deed records of the county or counties in
which the district is located if the land is finally annexed
to the district.
(b) After the order is recorded the area shall be a component part of the district.

§ 65.722. Election to Assume Obligation and Unissued Bonds and to Authorize Additional Bonds

(a) The annexed area shall bear its pro rata share of all bonds, notes, or other obligations or taxes which may be owed, contracted, or authorized by the district to which it has been added.

(b) Before the added area shall be subject to all or any part of the bonds, notes, obligations, or taxes, created before the annexation of the area to the district, the board shall order an election to be held in the district, as enlarged by reason of the annexation of the area, on the question of the assumption of the bonds, notes, obligations, and taxes by the annexed area.

(c) At the same election, the board may also submit a proposition on the question of whether the annexed area should assume its part of the bonds of the district payable in whole or in part from taxes which have been voted previously but not yet issued or sold and the levy of an ad valorem tax on all taxable property within the area annexed along with a tax on the rest of the district for the payment of the bonds.

(d) If the election results favorably, the district shall be authorized to issue its voted but unissued tax bonds even though the boundaries of the district have been changed since the original election approving of the bonds.

(e) At the election called for the purpose of determining whether the annexed area shall assume the bonds, notes, or other obligations or taxes of the district, the board, in a separate proposition, may also submit the question of whether the board should be authorized to issue bonds payable in whole or in part from taxes to provide service to the area annexed.

§ 65.723. Unfavorable Assumption Election or Bond Election
(a) In the event that the district has bonds, notes, or obligations or taxes which may be owed, contracted, or authorized at the time an area is annexed or if the district has voted but unissued bonds payable in whole or in part from taxes at the time of an annexation, the board may provide in its order annexing an area to the district that the annexation will not be complete or final unless the indebtedness, tax or bond, note, or other obligation assumption elections result favorably to the assumption of the district's outstanding bonds, notes, or other obligations and voted but unissued bonds.

(b) If the board elects to submit the question of whether the board should be authorized to issue bonds to provide service to the area annexed, the board may also provide in its order annexing an area to the district that the annexation will not be complete unless the election results favorably to the issuance of bonds to serve the annexed area.

§ 65.724. Notice of Assumption Election

Whenever an election is ordered to be held in the district for the purpose of the assumption of bonds, notes, or other obligations or taxes or the assumption of voted but unissued bonds by reason of the annexation of any area, then the election shall be held and notice given as provided for bond elections held by the district.

§ 65.725. Suit to Review Annexation

The provisions of Sections 65.708-65.710 of this subchapter with respect to an appeal from an order excluding land from the district shall apply to review of an order annexing land to the district.

§ 65.726. Right to Serve New Land Included in District

The district has the same right and duty to furnish service to the annexed land that it previously had to furnish service to other land in the district and the board
shall endeavor to serve all land in the District without discrimination.

§ 65.727. Duty to Advise Executive Director

The board shall furnish the executive director a detailed description of any land excluded from or annexed to the district within 30 days after the exclusion or annexation or as soon after that time as practicable.

§ 65.728. Consolidation of Districts

Two or more districts governed by the provisions of this Chapter may consolidate into one district as provided by Sections 65.729-65.733 of this subchapter.

§ 65.729. Elections to Approve Consolidation

(a) After the board of each district has agreed on the terms and conditions of consolidation, which may include the assumption by each district of the other district's bonds, notes, or other obligations and voted but unissued bonds payable in whole or in part from taxation, the levy of taxes to pay for the bonds, and adoption of a name for the consolidated district, the board shall order an election in each district to determine whether the districts should be consolidated.

(b) The directors of each district shall order the election to be held on the same day in each district and shall give notice of the election for the time and in the manner provided by law for bond elections.

(c) The districts may be consolidated only if the electors in each district vote in favor of the consolidation.

§ 65.730. Governing Consolidated Districts

(a) After two or more districts are consolidated, they become one district and are governed as one district, except for the payment of debts created before consolidation if the conditions of consolidation do not provide for the assumption by each district of the other's bonds, notes, or other obligations and voted but unissued bonds.
(b) During a period of 90 days after the date of the election to approve consolidation, the officers of each district shall continue to act jointly as officers of the original districts to settle the affairs of their respective districts.

(c) The consolidation agreement may provide that the officers of the original districts shall continue to act jointly as officers of the consolidated district until the next general election or name persons to serve as officers of the consolidated district until the next general election if all officers of the original districts agree to resign. At the next general election, directors will be elected for the consolidated district in the same manner and for the same term as directors elected pursuant to Section 65.104.

(d) New officers of the consolidated district must qualify as officers of the district within the period of 90 days after the election and shall assume their offices at the expiration of the 90-day period.

(e) The current board shall approve the bond of each new officer.

§ 65.731. Debts of Original Districts

(a) After two or more districts are consolidated, the debts of the original districts shall be protected and may not be impaired. These debts may be paid by taxes levied on the land in the original districts as if they had not consolidated or from contributions from the consolidated district on terms stated in the consolidation agreement.

(b) If each district assumed the other's bonds, notes, and other obligations, taxes may be levied uniformly on all taxable property within the consolidated district in payment of the debts.

§ 65.732. Assessment and Collection of Taxes

After consolidation, the district shall assess and collect taxes on property in the original districts to pay
debts created by the original districts unless each district has assumed the other district's bonds, notes, or other indebtedness payable in whole or in part from taxation.
§ 65.733. Voted But Unissued Bonds

In the event either district has voted but unissued bonds payable in whole or in part from taxation and the consolidated district assumed the voted but unissued bonds and the consolidated district was authorized to levy taxes to pay for the bonds, then the consolidated district shall be authorized to issue the voted but unissued bonds in the name of the consolidated district and levy a uniform tax on all taxable property in the consolidated district to pay for the bonds.

§ 65.734. Dissolution of District Prior to Issuance of Bonds

(a) If the board considers it advisable before the issuance of any bonds, notes, or other indebtedness, the board may dissolve the district and liquidate the affairs of the district as provided in Sections 65.734-65.738 of this subchapter.

(b) If a majority of the board finds at any time before the authorization of bonds, notes, or other obligations or the final lending of its credit in another form that the proposed undertaking for any reason is impracticable or apparently cannot be successfully and beneficially accomplished, the board may issue notice of a hearing on a proposal to dissolve the district.

§ 65.735. Notice of Hearing

The board shall post notice of the hearing on the bulletin board at the courthouse door of each county in which the district is located and at three or more other public places within the boundaries of the district and shall publish notice of the hearing two times in a newspaper with general circulation in the district. The notice must
be posted and published at least 14 days before the hearing on the proposed dissolution of the district.

§ 65.736. Hearing

The board shall hear all interested persons and shall consider their evidence at the time and place stated in the notice.

§ 65.737. Board's Order to Dissolve District

If the board unanimously determines from the evidence that the best interests of the persons and property in the district will be served by dissolving the district, the board shall enter the appropriate findings and order in its records dissolving the district. Otherwise the board shall enter its order providing that the district has not been dissolved.

§ 65.738. Judicial Review of Board's Order

The board's decree to dissolve the district may be judicially reviewed in the manner set forth in Sections 65.708-65.710 of this subchapter for the review of an order excluding land from the district."

Section 2. In case any one or more of the sections, provisions, clauses, or words of this Act, or the application thereof to any situation or circumstance, shall for any reason be held to be invalid or unconstitutional, such invalidity or unconstitutionality shall not affect any other sections, provisions, clauses, or words of this Act, or the application thereof to any other situation or circumstance, and it is intended that this Act shall be severable and shall be construed and applied as if any such invalid or unconstitutional section, provision, clause, or word had not been included herein.

Section 3. The fact that authority is required for the conversion of Water Supply Corporations into Special Utility Districts and for the issuance of bonds or notes by such Special Utility Districts for financing facilities necessary for the performance of the duties of such Special Utility
Districts, and the fact that such facilities are urgently needed, create an emergency and an imperative public necessity so that the constitutional rule prohibiting the final passage of a bill during the first 60 days of a regular legislative session and that the constitutional rule requiring bills to be read on three several days in each house should be suspended, and so that this Act be effective from and after the date of its passage, and said rules are hereby suspended, and it is so enacted.
APPENDIX VI

BILL ANALYSIS
The proposed legislation sets forth the procedure by which non-profit water supply corporations created pursuant to and in accordance with Article 1434a, V.A.T.C.S., can convert into special utility districts, operating under and subject to the authority, conditions, and restrictions of Article XVI, Section 59 of the Texas Constitution. An existing water supply corporation may convert into a special utility district upon the following conditions: (1) the board of directors of the water supply corporation present a resolution requesting the conversion to the Texas Water Commission; (2) the Texas Water Commission holds a public hearing on the merits of the conversion; (3) the Texas Water Commission makes findings in favor of the creation of the special utility district; and (4) by order the Texas Water Commission either approves or disapproves of the creation of the special utility district. A special utility district can be created for the following purposes:

(1) the right to purchase, own, hold, lease, and otherwise acquire water wells, springs and other sources of water supply; to build, operate, and maintain pipe lines for the transportation of water; and to sell water to towns, cities and other political subdivisions of the State of Texas, to private business entities and to individuals;

(2) the establishment, operation and maintenance of fire-fighting facilities to perform all fire-fighting activities within the district; and

(3) the protection, preservation, and restoration of the purity and sanitary condition of water within the district.

After the creation of the special utility district has been approved, the Texas Water Commission shall maintain continuing rights of supervision over the affairs of the special utility district.

The proposed legislation establishes a board of directors which shall govern the affairs of the special utility district, and sets forth the qualifications for directors. The proposed legislation sets forth election procedures, terms of office, how vacancies on the board of directors shall be filled, and the election and duties of the officers
of the board. The board is empowered to adopt bylaws to govern the administrative activities of the board. The proposed legislation requires that the public be given adequate notice of when and where meetings are to be held, and the manner in which notice is to be given. All minutes and orders of the board, all contracts and all bonds of the district's board and officers are to be maintained as permanent records of the district.

Any special utility district is authorized to purchase, construct, acquire, own, operate, maintain, repair, improve, or extend inside and outside its boundaries any and all works, improvements, facilities, plants, equipment, and appliances necessary to accomplish the purposes of its creation. The district may acquire existing facilities, and may charge fees or rentals for providing any district facilities or services. The district may adopt and enforce reasonable rules and regulations relating to the operation and performance of the district's functions and facilities. The district shall have the right to acquire land by gift, grant, purchase, or through eminent domain. The district may sell land found by its board of directors to be surplus land, and may lease any facilities constructed, acquired, or to be constructed or acquired. The district may contract with any person in the performance of any purpose or function permitted by a district, and the proposed legislation sets forth the procedures by which contracts may be entered into.

The proposed legislation sets forth procedures by which a special utility district may issue notes, bond anticipation notes and tax anticipation notes, and establishes auditing procedures for the special utility district to follow in maintaining records of its affairs.

A special utility district, upon compliance with certain criteria, may establish, operate and maintain a fire department to perform all fire-fighting activities within the district. The resident electors within the special utility district must approve by majority vote a plan to operate a fire department, and the Texas Water Commission must approve the plan before the special utility district can operate a fire department.

A special utility district may issue bonds for the purpose of purchasing, constructing, acquiring, owning, operating, repairing, improving, or extending any district works, improvements, facilities, plants, equipment, and appliances needed to accomplish the purposes of the district. The bonds shall be backed by a pledge of the district's revenues, taxes, or a combination of revenues and taxes. The bonds may have a term of up to 40 years, and may
bear interest at rates allowed by law. The Attorney General must approve the issuance of any bonds issued by the special utility district, and the Comptroller of Public Accounts shall register the bonds after the Attorney General has approved their issuance.

The legislation sets forth procedures by which ad valorem taxes may be levied and collected by a special utility district, and how land may be excluded from or annexed by a special utility district. The legislation also provides a method for the dissolution of a special utility district.