

EXCESS CAPACITY PURCHASE AGREEMENT

THE STATE OF TEXAS §
 §
COUNTY OF DALLAS §

THIS EXCESS CAPACITY PURCHASE AGREEMENT (the "Agreement") is made and entered into as of the 31st day of August, 1999 by and between DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO.1-A ("District 1-A") and DENTON COUNTY FRESH WATER SUPPLY DISTRICT NO.1-B ("District 1-B"), District 1-A and District 1-B, being political subdivisions of the State of Texas created and operating under the provisions of Article XVI, Section 59 of the Texas Constitution and Chapter 54, Texas Water Code, as amended (singly, the "District"; together, the "Districts").

W I T N E S S E T H:

WHEREAS, the Districts have been created for the purpose of providing roads, bridges, facilities in aid thereof, water facilities and services, sanitary sewer facilities and services, and drainage facilities and services to the land located within the original boundaries of Denton County Fresh Water Supply District No.1 (collectively the "Facilities"); and

WHEREAS, the Facilities have been purchased and constructed with funds which District 1-B is obligated to repay; and

WHEREAS, the Facilities which have been purchased and constructed contain capacity in excess of that which will be needed by District 1-B; and

WHEREAS, such excess capacity will be needed by District 1-A to service the residents of the area located within the original boundaries of Denton County Fresh Water Supply District No.1; and

WHEREAS, the Boards of Directors of the Districts deem it to be of mutual economic and utilitarian benefit for District 1-B to sell to District 1-A some of the excess capacity purchased and constructed by District 1-B, and for such excess capacity to be jointly used by both Districts; and

WHEREAS, pursuant to the laws of the State of Texas, including particularly, but not by way of limitation, the Interlocal Corporation Act, Article 4413(32c), Vernon's Texas Civil Statutes, as amended, the Boards of Directors of the Districts have determined that this Agreement is beneficial and advantageous to their respective Districts;

NOW THEREFORE, for and in consideration of the mutual promises, covenants, benefits and obligations hereinafter set forth, the Districts hereby contract as follows:

ARTICLE I

PURCHASE OF WATER SYSTEM EXCESS CAPACITY

Section 1.01. Drainage Capacity. Based on the respective acres served within the drainage basin, District 1-B estimates that 25% of the drainage capacity constructed for the drainage basin represents excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

Section 1.02. Offsite Water Facilities. Based on the ultimate ad valorem values of the Districts as they existed on May 1, 1999, District 1-B estimates that 68.58% of its offsite water facilities represent excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

Section 1.03. Offsite Sewer Facilities. Based on the ultimate ad valorem values of the Districts as they existed on May 1, 1999, District 1-B estimates that 68.58% of its offsite sewer facilities represent excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

Section 1.04. Metering Manholes and Major Water Lines. Based on the ultimate ad valorem values of the Districts as they existed on May 1, 1999, District 1-B estimates that 68.58% of its metering manholes and major water lines represent excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

ARTICLE II

PURCHASE OF ROAD SYSTEM EXCESS CAPACITY

Section 2.01. Thoroughfares and Entrances. Based on the ultimate ad valorem values of the Districts as they existed on May 1, 1999, District 1-B estimates that 68.58% of its thoroughfares and entrances represent excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

Section 2.02. Bridges and Structural Road Facilities. Based on the ultimate ad valorem values of the Districts as they existed on May 1, 1999, District 1-B estimates that 68.58% of its offsite water facilities represent excess capacity which can be shared and District 1-A agrees to purchase such from District 1-B.

ARTICLE III

PAYMENT

Section 3.01. District 1-A shall pay District 1-B the sum of \$4,100,000 for the excess

capacity District 1-A desires to purchase from District 1-B. District 1-B understands and agrees that District 1-A may further sell the excess capacity or a portion thereof to other districts.

ARTICLE IV

GENERAL AND MISCELLANEOUS PROVISIONS

Section 4.01. Addresses and Notices. Unless otherwise provided in this Agreement, any notice herein provided or permitted to be given, made or accepted by a District must be in writing and may be given or be served by depositing the same in the United States mail postpaid and registered or certified and addressed to the District to be notified, with return receipt requested, or by delivering the same to an officer of such District, or by prepaid telegram, when appropriate, addressed to the District to be notified. Notice deposited in the mail in the manner hereinabove described shall be conclusively deemed to be effective from and after the expiration of three (3) days after it is so deposited. Notice given in any other manner shall be effective only if and when received by the district notified. For the purposes of notice, the addresses of the Districts shall, until changed as hereafter provided, be as shown below. The Districts shall have the right from time to time and at any time to change their respective addresses and each shall have the right to specify as its address any other address by at least fifteen (15) days written notice to the other District.

If to District No. 1-A, to:

Denton County Fresh Water Supply District No. 1-A
4112 Josey lane
Suite 120-109
Carrollton, Texas 75007

If to District No. 1-B, to:

c/o Leonard Hurt Terry & Blinn
600 N. Pearl
Suite 900
Dallas, Texas 75201

Section 4.02. Parties in Interest. While the provisions of this Agreement are, in part, intended to establish as between the Districts an acceptable manner of providing water, sanitary sewer and drainage service to the residents of the Districts, this Agreement shall be for the sole and exclusive benefit of the Districts and shall not be construed to confer any benefit or right upon any other parties.

Section 4.03. Severability. The provisions of this Agreement are severable, and, if any word, phrase, clause, sentence, paragraph, section or other part of this Agreement or the application thereof to any person or circumstance shall ever be held by any court of competent jurisdiction to be invalid

or unconstitutional for any reason, the remainder of this Agreement and the application of such word, phrase, clause, sentence, paragraph, section or other part of this Agreement to other persons or circumstances shall not be affected thereby.

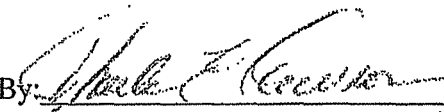
Section 4.04. Amendment. This Agreement shall be subject to change, modification or amendment only by written instrument signed by the Districts.


Section 4.05. Cooperation. Each District hereby agrees that it will take all actions and execute all documents necessary to fully carry out the purposes and intent of this Agreement.

IN WITNESS WHEREOF, the Districts have executed this Agreement in multiple copies, each of which shall be deemed an original, as of the date and year first written above.


EXECUTED AS OF THIS 31st day of August, 1999.

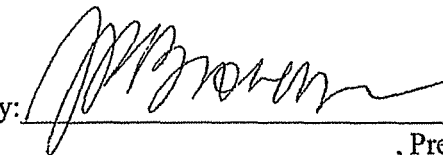
DENTON COUNTY FRESH WATER
SUPPLY DISTRICT NO. 1-A

By: 
133, Secretary
(DISTRICT SEAL)

By: 
, President

DENTON COUNTY FRESH WATER
SUPPLY DISTRICT NO. 1-B

By: 
, Secretary
(DISTRICT SEAL)

By: 
, President