

SETTLEMENT AGREEMENT AND MUTUAL RELEASE

This agreement is by and among San Patricio Municipal Water District ("the District") and South Texas Water Authority ("the Authority") and City of Corpus Christi ("City").

PREMISES/RECITALS

This agreement is based on the following premises and understandings between the parties:

A. The District and the Authority contracted with the City for over 20 years to purchase treated water from the City (the District also purchased raw water).

B. Both the District and the Authority have disputed charges that the City made, and such dispute resulted in the filing by the District and the Authority of Cause No. 08-5366-G in the 319 Judicial District of Nueces County, Texas, *San Patricio Municipal Water District and South Texas Water Authority v. City of Corpus Christi* (referred to hereafter as the "Lawsuit").

C. The parties hereto desire to compromise and settle all claims and causes of action of any kind whatsoever, real or imaginary, which the parties hereto may have against one another deriving from or related to the matters made the subject of Plaintiffs' Second and Third Amended Petition in the Lawsuit, and the parties hereto intend that the full terms and conditions of this settlement be set forth in this agreement.

NOW, THEREFORE, in consideration of the premises set forth above and the agreements herein contained, the parties agree as follows:

Price of Treated Water

1. Notwithstanding anything to the contrary contained in the current contracts between the City and the District, and between the City and the Authority, for the supply of

treated water, the price to be charged for treated water sold by the City to the District, and to the Authority, shall be determined pursuant to the requirements of paragraph 5 (titled "Price of Treated Water") of the Treated Water Supply Contract between the City of Corpus Christi and Nueces County Water Control and Improvement District No. 4, with effective date April 27, 2010, a copy of which paragraph 5 is attached hereto as Exhibit "A." Each year after the City receives its audit, the District and the Authority will conduct a "true-up" for the year to which the audit applies; i.e., the prior year, using the audited costs to determine if there was any over-recovery or under-recovery of costs during that year. Any over-recovery or under-recovery of costs will be carried over as a credit or debit, as appropriate, to the costs included in the budget that are considered to determine the price for the following year. (There will be a one-year delay in each "true-up."). The "true-up" shall be subject to review and approval by the City staff, which approval shall not be unreasonably withheld.

To enable the District and Authority to conduct a "true-up," each year, on or before May 15 of each year, the City will provide to the District and the Authority a copy of the rate model that was used to set rates for the preceding fiscal year, updated to include audited revenues and expenses for the preceding fiscal year, with verification that the information for the three (3) preceding fiscal years shown in that rate model uses audited revenues and expenses. (The rate model consists of an Excel workbook showing the rate calculation, and the audited revenues and expenses for the preceding three (3) fiscal years.) After the City adopts rates for the following fiscal year, the City will furnish a copy of the rate model used to calculate those rates to the District and the Authority.

The City will show on its books the amount held in the operating reserve, the amount held in the Capital Improvements Program reserve and any transfers into or out of those reserve funds. (These reserve funds are identified in Exhibit "A").

Payments to the District and the Authority

2. The City will pay the District the amount of \$1,983,163.00, which sum is \$2,405,702.00 less the amounts withheld from previous billings by the District (\$737,650.00) plus an agreed-upon charge for interest on sums claimed that were in dispute between the District and the City (\$315,111.00 as of May 31, 2013). Such payments shall be made in the following manner: The total sum payable shall be paid by the City to the District on or before thirty (30) days after the Effective Date of this Settlement Agreement. For each day not paid after May 31, 2013, an additional sum of \$186.46 (daily interest rate) shall be added to the total payable.

3. The City will pay the Authority the amount of \$627,935.00, which sum is \$895,677.00 less the amounts withheld from previous billings by the Authority (\$367,517.00) plus an agreed upon charge for interest on sums claimed that were in dispute between the Authority and the City (\$99,775.00 as of May 31, 2013). The total sum payable shall be paid by the City to the Authority on or before thirty (30) days after the Effective Date of this Settlement Agreement. For each day not paid after May 31, 2013, an additional sum of \$59.04 (daily interest rate) shall be added to the total payable.

Mutual Releases and Dismissal with Prejudice of Lawsuit

4. As part of the material consideration for this Agreement, **THE DISTRICT FULLY AND FINALLY RELEASES, ACQUITS, FOREVER DISCHARGES AND HOLDS HARMLESS THE CITY**, its employees, agents, attorneys, representatives,

successors, and assigns of and from any and all manner of claims, costs, losses, injuries, expenses, damages, liabilities, actions and causes of action, of whatever nature, kind or character, known or unknown, accrued or un-accrued, anticipated or unanticipated, direct or indirect, fixed or contingent, at law whether by statute, contract, tort, or in equity, whether now existing or which may hereafter come into existence, whether now or hereafter fully, partially or not disclosed, which the District has had, now has, or may ever have, based upon, arising from, or in any way relating to the occurrences and claims alleged and described in the Lawsuit, wholly or partially, it being intended to release all claims of any kind which the District might have against the City that are described in the Lawsuit as amended.

5. As part of the material consideration for this Agreement, **THE AUTHORITY FULLY AND FINALLY RELEASES, ACQUITS, FOREVER DISCHARGES AND HOLDS HARMLESS THE CITY**, its employees, agents, attorneys, representatives, successors, and assigns of and from any and all manner of claims, costs, losses, injuries, expenses, damages, liabilities, actions and causes of action, of whatever nature, kind or character, known or unknown, accrued or un-accrued, anticipated or unanticipated, direct or indirect, fixed or contingent, at law whether by statute, contract, tort, or in equity, whether now existing or which may hereafter come into existence, whether now or hereafter fully, partially or not disclosed, which the Authority has had, now has, or may ever have, based upon, arising from, or in any way relating to the occurrences and claims alleged and described in the Lawsuit, wholly or partially, it being intended to release all claims of any kind which the Authority might have against the City that are described in the Lawsuit as amended.

6. As part of the material consideration for this Agreement **THE CITY FULLY AND FINALLY RELEASES, ACQUITS, FOREVER DISCHARGES, AND HOLDS HARMLESS THE AUTHORITY AND THE DISTRICT, AND EACH OF THEM**, their respective employees, agents, attorneys, representatives, successors and assigns of and from any and all manner of claims, costs, losses, injuries, expenses, damages, liabilities, actions, and causes of action, of whatever nature, kind or character, known or unknown, accrued or unaccrued, anticipated or unanticipated, direct or indirect, fixed or contingent, at law whether by statute, contract, tort, or in equity, whether now existing or which may hereafter come into existence, whether now or hereafter fully, partially or not disclosed, which **THE CITY** had, now has, or may ever have, based upon, arising from, or in any way relating to claims by the City for charges for water sold to either the Authority or the District before the Effective Date of this Settlement Agreement and any other claims that the City now has, or may ever have, based upon, arising from, or in any way relating to the occurrences alleged and described in the Lawsuit, whether asserted or not asserted by the City against either the Authority or the District.

7. **THE RELEASES SET OUT IN PARAGRAPHS 4, 5, AND 6 ABOVE SHALL NOT EXTEND TO OR INCLUDE THE OBLIGATIONS TO MAKE PAYMENTS AND FULFILL THOSE OTHER COVENANTS WHICH ARE TO OCCUR AFTER THE EFFECTIVE DATE OF THIS SETTLEMENT AND THE CLOSING HEREOF, WHICH OBLIGATIONS SHALL SURVIVE THE CLOSING OF THIS AGREEMENT.**

Dismissal of Lawsuit

8. It is further understood and agreed that the parties shall present to the above described court an Agreed Motion to Dismiss the Lawsuit and an Agreed Order of Dismissal which shall have the effect of dismissing the Lawsuit and all claims therein in all respects and with prejudice to the rights of Plaintiffs or the Defendant to re-file same or any part thereof as to any party hereto, such Agreed Order of Dismissal to provide that all costs of suit are to be taxed against the party incurring same.

Miscellaneous Provisions

9. It is understood and agreed as follows:

a. This Settlement Agreement shall be binding upon and inure to the benefit of the parties and their respective heirs, representatives, successors, and assigns.

b. This Settlement Agreement contains the entire agreement between the parties and supersedes any and all prior agreements, arrangements, or understandings between the parties relating to the subject matter. No oral understandings, statements, promises, or inducements contrary to the terms of this Settlement Agreement exist. This Settlement Agreement cannot be changed or terminated orally.

c. The parties hereto covenant and agree that they will execute such other and further documents and instruments, if any, as are or may become

necessary or convenient to effectuate and carry out the provisions of this Settlement Agreement.

d. This Settlement Agreement shall be governed by, construed and enforced in accordance with, and subject to, the laws of the State of Texas and performance hereunder shall be in Nueces County, Texas.

e. This Settlement Agreement and all other copies of this Settlement Agreement, insofar as they relate to the rights, duties, and remedies of the parties, shall be deemed to be one Settlement Agreement. This Settlement Agreement may be executed concurrently in one or more counterparts, each of which shall be deemed an original, but all of which together shall constitute one and the same instrument. Such counterparts may be executed in facsimile.

f. To the extent that this Settlement Agreement contains obligations performable after execution hereof, such covenants shall survive the closing.

g. Any notice provided for under the terms of this Settlement Agreement by either party to the other shall be in writing and may be effected by personal delivery in writing, registered or certified mail, return receipt requested, or by facsimile to the fax numbers identified below the signatures of the parties hereto. Notice by either party to the other shall be sufficient if made or addressed to the address set forth beneath the parties' signatures hereto. Each party may change the address at which notice may be sent to that party by giving notice of such change to the other party in accordance with the provisions of this paragraph.

10. Each party acknowledges that he or she has carefully read this instrument, including all documents or exhibits to which it refers; that this instrument expresses the entire agreement between the parties concerning the subjects it purports to cover; and that each party has executed this instrument freely and of his or her own accord.

Effective Date

11. The effective date of this agreement ("Effective Date") and the closing hereof shall be deemed to be the date on which this Settlement Agreement has been executed by all of the parties.

Signed as of shown on the acknowledgments executed below.

(Signatures and acknowledgments follow)

SAN PATRICIO COUNTY MUNICIPAL
WATER DISTRICT

ATTEST:

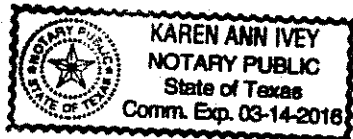
By Rebecca Krumnow By Brian Williams
Rebecca Krumnow Brian Williams
Secretary/Treasurer District Manager
San Patricio Municipal Water District P. O. Box 940
Ingleside, Texas 78362
Tel: 361-643-6521
Fax: 361-643-9093

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
§
COUNTY OF SAN PATRICIO §

This instrument was acknowledged before me on the 13th day of August, 2013, by Brian Williams, Manager, of the San Patricio Municipal Water District, a political subdivision of the State of Texas, on behalf of said District.

Karen Ann Ivey
Name: Karen Ann Ivey
Notary Public, State of Texas
My Commission Expires: 3-14-2016



SOUTH TEXAS WATER AUTHORITY

ATTEST:

By Rudy Galvan Jr
Name: Rudy Galvan Jr
Secretary
South Texas Water Authority

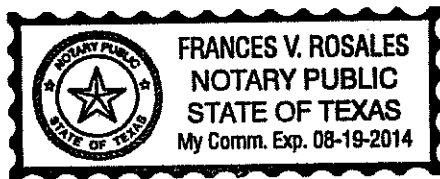
By Carola G Serrato
Carola G. Serrato
Executive Director
P. O. Box 1701
Kingsville, Texas 78364-1701
361-592-9323 Ext 12 Tel
361-692-0337 (C.C. Tel Line)
361.592-5965 Fax
361-692-0338 (C.C. Fax Line)

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
 §
COUNTY OF KLEBERG §

This instrument was acknowledged before me on the 30th day of July, 2013, by Carola G. Serrato, Executive Director of the South Texas Water Authority, a political subdivision of the State of Texas, on behalf of said Authority.

Frances V. Rosales
Name: Frances V. Rosales
Notary Public, State of Texas
My Commission Expires: 08-19-2014



CITY OF CORPUS CHRISTI

ATTEST:

By: [Signature]
Ronald Olson
City Manager

By: [Signature]

Name: Armundo Chapa

APPROVED:

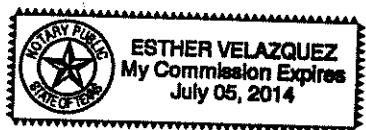
July 24, 2013

By: [Signature]
Carlos Valdez, City Attorney

ACKNOWLEDGEMENT

THE STATE OF TEXAS §
 §
COUNTY OF NUECES §

This instrument was acknowledged before me on the 24th day of July, 2013, by Ronald Olson, Manager of the City of Corpus Christi, a political subdivision of the State of Texas, on behalf of said City.



[Signature]
Name: ESTHER VELAZQUEZ
Notary Public, State of Texas
My Commission Expires: July 5, 2014

5. Price of Treated Water.

a. The price to be charged for treated water sold by the City to the District is the published rate for water service established by City ordinance, including the public agency for resale treated water volume rates for water delivered through City-owned facilities. The published rate at the origination of this agreement will be calculated utilizing the format developed by the rate consultant for the City and the rate consultant used by the District. The rate model is set forth on a disk approved by the City Manager for the City and the District Manager for the District, and is attached hereto as Exhibit "B" and made a part hereof as if set forth in full. The rate model is a full cost of service rate model and is the same model used and approved by the parties to this contract for the 2009-2010 fiscal year for the City. The raw water cost adjustment ("RWCA") will be calculated on an annual basis, and determined by dividing budgeted costs of raw water and required debt service coverage and reserves, including, but not limited to, reserves for capital equipment repairs and replacement and for acquisition related to new or additional water supplies, by the projected sales of the system. The reserves included in the RWCA for debt service coverage and/or capital equipment repair and replacement will be subject to the same limitations and provisions as the reserves included within the treated water rate model. Further, the reserves for the acquisition related to new or additional water supplies will be accounted for by the City in a separate and distinct City General Ledger interest bearing account, and all interest earnings will inure solely to the benefit of the reserve account. The RWCA will be adjusted on a yearly basis to account for differences in volumes used in the prior calculation and the actual volume of water sales for that year, and for difference in budget to actual costs. Changes in the raw water cost adjustment will be calculated automatically and billed to the District and all other raw water customers in a consistent and uniform manner by the City.

City and the District agree that City shall have the right to change its method of billing or the rate model set forth on Exhibit "B", but only if the new rate model adheres to the general principles underlying the methodology previously agreed to by both parties for calculating Wholesale Water Rates, and in particular the calculation of Wholesale Water Rates shall incorporate the following principles:

- Calculated using the cash basis of revenue requirement determination;
- Industry standards, as promulgated by the American Water Works Association ("AWWA") and codified in the AWWA M1 Manual, will be used in calculating rates;
- No costs associated with the City's storm water utility will be included in the Wholesale Water Rate and recovered from the District, including any funds needed to meet storm water debt service coverage requirements;
- The City will be permitted to establish and maintain an operating reserve with a target amount of 25% (i.e., 3 months) of annual operating expense for the fiscal year of rate determination;
- The City will be permitted to establish and maintain a capital replacement reserve for the water utility equivalent to 2% of the current Capital Improvements Program;

- The City will be permitted to recover sufficient funds within the rates to generate debt service coverage equal to 1.35 times the then current annual debt service requirement;
- Water loss at the individual service function levels (i.e., raw, treatment, network, distribution, etc.) will be recognized in calculating rates, and the District will not be charged for any water loss attributable to customers taking service at the distribution level;
- Debt service and debt service coverage will be recognized and calculated at the individual water utility service function levels (i.e., raw, treatment, network, distribution, etc.);
- To calculate the billing determinant volumes to be used in the calculation of wholesale water rates, the City will use a three-year average of billed water consumption per connection, adjusted for known and measureable changes, applied to the anticipated number of connections for the fiscal year; and,
- To determine system loss for rate calculation purposes, the City will use a three-year rolling average of actual loss on the city's distribution system to calculate loss from the distribution system. 0.5%, 2.0%, and 1.5% will be used for diversion loss, treatment loss, and network loss, respectively, until such time as the City develops sufficient data to quantify the actual losses experienced at these functional levels.

b. The actual methods for computing the untreated raw water cost adjustment is established in a written policy filed with the City Secretary. A copy of the current policy is attached as Exhibit "C". The City's Director of Water Operations will provide the District's Representative with a copy of any modifications to the policy, which will then be attached to this Contract as the new Exhibit "D".

c. When the City intends to change the rate, the City shall give the District notice of the proposed change, and any information necessary to evaluate the proposed rate thirty (30) days before the change is to take effect. The District shall give good faith consideration to the proposed new rate and shall attempt to provide the City with its comments on the proposed change not later than fifteen (15) days before the proposed change is to take effect. The City shall give good faith consideration to the District's comments, and may institute the new rate on the date the change is scheduled to take effect.

5. Price of Treated Water.

a. The price to be charged for treated water sold by the City to the District is the published rate for water service established by City ordinance, including the public agency for resale treated water volume rates for water delivered through City-owned facilities. The published rate at the origination of this agreement will be calculated utilizing the format developed by the rate consultant for the City and the rate consultant used by the District. The rate model is set forth on a disk approved by the City Manager for the City and the District Manager for the District, and is attached hereto as Exhibit "B" and made a part hereof as if set forth in full. The rate model is a full cost of service rate model and is the same model used and approved by the parties to this contract for the 2009-2010 fiscal year for the City. The raw water cost adjustment ("RWCA") will be calculated on an annual basis, and determined by dividing budgeted costs of raw water and required debt service coverage and reserves, including, but not limited to, reserves for capital equipment repairs and replacement and for acquisition related to new or additional water supplies, by the projected sales of the system. The reserves included in the RWCA for debt service coverage and/or capital equipment repair and replacement will be subject to the same limitations and provisions as the reserves included within the treated water rate model. Further, the reserves for the acquisition related to new or additional water supplies will be accounted for by the City in a separate and distinct City General Ledger interest bearing account, and all interest earnings will inure solely to the benefit of the reserve account. The RWCA will be adjusted on a yearly basis to account for differences in volumes used in the prior calculation and the actual volume of water sales for that year, and for difference in budget to actual costs. Changes in the raw water cost adjustment will be calculated automatically and billed to the District and all other raw water customers in a consistent and uniform manner by the City.

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- Debt service and debt service coverage will be recognized and calculated at the individual water utility service function levels (i.e., raw, treatment, network, distribution, etc.);
- To calculate the billing determinant volumes to be used in the calculation of wholesale water rates, the City will use a three-year average of billed water consumption per connection, adjusted for known and measureable changes, applied to the anticipated number of connections for the fiscal year; and,
- To determine system loss for rate calculation purposes, the City will use a three-year rolling average of actual loss on the city's distribution system to calculate loss from the distribution system. 0.5%, 2.0%, and 1.5% will be used for diversion loss, treatment loss, and network loss, respectively, until such time as the City develops sufficient data to quantify the actual losses experienced at these functional levels.

b. The actual methods for computing the untreated raw water cost adjustment is established in a written policy filed with the City Secretary. A copy of the current policy is attached as Exhibit "C". The City's Director of Water Operations will provide the District's Representative with a copy of any modifications to the policy, which will then be attached to this Contract as the new Exhibit "D".

c. When the City intends to change the rate, the City shall give the District notice of the proposed change, and any information necessary to evaluate the proposed rate thirty (30) days before the change is to take effect. The District shall give good faith consideration to the proposed new rate and shall attempt to provide the City with its comments on the proposed change not later than fifteen (15) days before the proposed change is to take effect. The City shall give good faith consideration to the District's comments, and may institute the new rate on the date the change is scheduled to take effect.